



Closing the Revolving Door:

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Closing the Revolving Door: What If Board Political Connections Are Permanently Broken?

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Abstract:	<p>Politically connected firms critically rely on their sociopolitical capital to compete; however, a policy-induced loss of board political connections may pose a serious challenge for focal firms and prompt them to develop compensatory moves. Drawing upon resource dependence theory and the nonmarket strategy literature, we examine if and how focal firms may address this challenge through intensifying their bribery activities. Following a year-2013 policy shock that closed the revolving door between former government officials and connected firms in China, we identify a substantial increase of bribery expenditure in a sample of public corporations whose political independent directors were forced by the central government to resign in the subsequent years. Furthermore, we investigate how the strength of this response varies with a host of firm-level contingencies that capture dependence scope and dependence asymmetry in the business-government dyad at the time of the policy announcement. Our study contributes to strategy and governance literatures by demonstrating how firms restructure power relationships after the loss of board political capital. It also sheds light on the regulation of revolving doors under weak institutions by revealing the irony of a well-intentioned "anticorruption" government policy.</p>

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Closing the Revolving Door: What If Board Political Connections Are Permanently Broken?

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Closing the Revolving Door:

What If Board Political Connections Are Permanently Broken?

Abstract

Politically connected firms critically rely on their sociopolitical capital to compete; however, a policy-induced loss of board political connections may pose a serious challenge for focal firms and prompt them to develop compensatory moves. Drawing upon resource dependence theory and the nonmarket strategy literature, we examine if and how focal firms may address this challenge through intensifying their bribery activities. Following a year-2013 policy shock that closed the revolving door between former government officials and connected firms in China, we identify a substantial increase of bribery expenditure in a sample of public corporations whose political independent directors were forced by the central government to resign in the subsequent years. Furthermore, we investigate how the strength of this response varies with a host of firm-level contingencies that capture dependence scope and dependence asymmetry in the business-government dyad at the time of the policy announcement. Our study contributes to strategy and governance literatures by demonstrating how firms restructure power relationships after the loss of board political capital. It also sheds light on the regulation of revolving doors under weak institutions by revealing the irony of a well-intentioned “anticorruption” government policy.

Keywords: anticorruption; revolving door; board of directors; bribery; political connections; resource dependence theory

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3 Appointing politicians and former government officials as outside directors is a classic
4 corporate political strategy (El Nayal, van Oosterhout, & van Essen, 2021; Lester, Hillman,
5 Zardkoohi, & Cannella, 2008; Tihanyi et al., 2019; Wei, Jia, & Bonardi, 2022). It also
6 represents a key form of the “revolving door” phenomenon — the movement of political actors
7 into the business sector after completing their government service terms (Blanes i Vidal, Draca,
8 & Fons-Rosen, 2012; Etzion & Davis, 2008; Faccio, 2006; Palmer & Schmeer, 2016, 2019).

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17 According to resource dependence theory (RDT), firms rely on the external environment
18 for critical resources (Pfeffer & Salancik, 1978). To reduce uncertainty and obtain policy
19 resources, firms may seek to co-opt the government by inviting political actors to serve as
20 outside directors. In consequence, potentially hostile elements of the environment can be
21 absorbed into focal firms. The resultant connections embody political directors’ human capital
22 in terms of government knowledge/experience and their social capital embedded in their
23 connections (Hillman, 2005; Sun, Hu, & Hillman, 2016). Additionally, performance benefits
24 tend to accrue to firms with such co-optive linkages with the political environment (Amore &
25 Bennedsen, 2013; Hillman, Withers, & Collins, 2009; Lux, Crook, & Woehr, 2011; Ridge,
26 Ingram, & Hill, 2017).

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Prior research, however, has yet to offer an adequate account of how firms respond to the potential loss of such connections. Admittedly, previous studies have documented the contingency of corporate political ties, which suggests that connected firms are likely to suffer a substantial valuation loss upon shocks that weaken/remove such ties (e.g., Faccio & Parsley, 2009; Fisman, 2001; Sun, Mellahi, & Wright, 2012). Yet, less is known about the strategic adjustments, if any, that focal firms may undertake in response to such shocks. Examining this potential response is critical to a deeper understanding of the resource dependence view of corporate political activity, for “problems arise not merely because organizations are dependent

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3 on their environment, but because this environment is *not dependable*” (Pfeffer & Salancik,
4 1978: 3, italics added). For instance, when regulatory environments change, “organizations
5 face the prospect ... of changing their activities in response to these environmental factors”
6 (Pfeffer & Salancik, 1978: 3).
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12 Motivated by the above concern from RDT and the scant attention paid to post-shock
13 strategic actions in the extant nonmarket strategy literature (Mellahi, Frynas, Sun, & Siegel,
14 2016; Sun, Doh, Rajwani, & Siegel, 2021), our study aims to examine if and how a revolving-
15 door-closing government mandate, which indicates an irreversible loss of board political
16 connections, prompts connected firms to develop strategic responses to compensate for this
17 loss. Specifically, we focus on bribery that aims to facilitate the business-government
18 favor/resource exchanges and strengthen firms’ alternative, informal linkages to political actors
19 (Cuervo-Cazurra, 2016; Jung & Lee, 2023; Krammer, 2019; Xu, Zhou, & Du, 2019).
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30 Bribery of public officials under weak institutions has long been under the academic
31 spotlight (e.g., Martin, Cullen, Johnson, & Parboteeah, 2007; Svensson, 2003; Ufere, Perelli,
32 Boland, & Carlsson, 2012). Prior research suggests that corporate bribery is a crucial form of
33 nonmarket actions to survive and navigate the deficient institutional framework in emerging
34 and frontier economies, where abundant policy rents are created and controlled by the state and
35 its agents (Birhanu, Gambardella, & Valentini, 2016; Iriyama, Kishore, & Talukdar, 2016).
36 Ranging from one-shot deals between firms and government agents to the buildup of long-term
37 political relationships, bribery activities are widely used to manage the dependence of business
38 firms on the government (Cuervo-Cazurra, 2016; Jung & Lee, 2023; Zhang, Sun, & Qiao,
39 2020). As such, both the placement of former government officials and bribing public sector
40 agents help serve the general goal of managing the uncertainty and resource exchanges from
41 the political sphere, despite the fact that the two types of practices differ in their transparency,
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3 legality, and the political actors they target, among others.
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6 Following the resource-dependence-based theorization, we posit an urgent need for
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8 politically connected firms to maintain existing business-government resource exchanges after
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10 the shock of a revolving-door-closing policy. In other words, firms that have lost their political
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12 directors in emerging economies may resort to other dependence-management strategies,
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14 notably bribing public sector agents, to stabilize the flow of resources from the government.
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16 Moreover, we predict that the strength of this “compensatory” bribery critically hinges on the
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18 heterogeneous nature of the dyadic interdependence between focal firms and the government
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20 upon the policy shock.
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24 Our research setting concerns a new regulation issued by the Chinese Communist Party
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26 in October 2013 mandating former government officials to resign from their independent
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28 director positions in Chinese publicly listed companies. Different from political shocks (e.g.,
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30 political campaigns/scandals and regime changes through elections and coups) in which a
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32 broken board political tie could potentially be *reconstituted* in future by removing old and
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34 appointing new political actors (Jiang, Jia, Bai, & Bruton, 2021; Nalick, Kuban, Hill, & Ridge,
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36 2020; Siegel, 2007; Westphal, Boivie, & Chng, 2006), this regulatory change indicated a
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38 *permanent* loss of the opportunity, in the eyes of the Chinese listed firms, to establish co-optive
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40 ties through independent director positions.
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45 Our empirical analysis shows that connected firms made more investments in bribery
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47 activities after this policy-induced loss of board political capital. Furthermore, the rise in
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49 bribery expenditure varies with a set of key organizational contingencies characterizing the
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51 business-government interdependence at the time of the policy shock. The contingencies
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53 involve the scope of a focal firm’s dependence upon the political environment
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55 (Abdurakhmonov, Ridge, & Hill, 2021) and the degree of dependence asymmetry in the firm-
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3 government dyad (Gulati & Sytch, 2007). The latter concerns the flow of resources from the
4 government to a firm (indicating the government's dependence/power advantage over the firm)
5 and the magnitude and timeliness of a firm's contribution to the government (signaling the
6 firm's bargaining power over the government).
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12 Several contributions emerge from this study. First, while RDT has long emphasized the
13 use of board cooptation as a dependence-management strategy, it is silent on how firms
14 restructure their power relationships in the event that the co-optive ties are broken, a scenario
15 that is common in the un dependable sociopolitical arena. We draw on the resource dependence
16 logic to theorize firms' strategic behaviors after the policy shock that severs the institutional
17 linkage between former government officials and corporate boards. Addressing this omission
18 is crucial, because managing the consequences of broken ties to sociopolitical actors should be
19 no less important than the activities of developing these ties in the first place.
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30 Second, our study enriches RDT-based strategy research by examining the interactive and
31 substitution patterns of multiple co-optive tactics in response to changes in the external
32 nonmarket environment. Following the call for more research on how these different
33 dependence-restructuring strategies may interact and influence one another (Hillman et al.,
34 2009: 1107-1108), we situate the research question in the policy shock context to uncover the
35 manner in which firms substitute bribery investment for board political connections in line with
36 various patterns of the business-government interdependence in China.
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47 Finally, this study highlights an ironical consequence of a well-intentioned policy
48 initiative — cutting a formal link between firms and politicians to develop a healthier business-
49 government relation. Indeed, this general revolving door practice is a controversial issue
50 globally, with the absence of any legal restrictions on appointing former politicians in the
51 Anglo-American system (Eggers & Hainmueller, 2009; Palmer & Schneer, 2016). While “you
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3 can't outlaw people from working" (*Bloomberg*, 2016) in the U.S., an authoritarian regime can
4 have the luxury of undertaking such a radical social experiment. Our study suggests that
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6 have the luxury of undertaking such a radical social experiment. Our study suggests that
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8 prohibiting companies from appointing political directors risks encouraging more
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10 covert/corrupt activities to maintain the de facto exchange relationships with sociopolitical
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12 actors. This is a particular concern in the presence of a weak institutional environment in which
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14 firms may have stronger incentives to engage in dubious political maneuvers, which are even
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16 less subject to public scrutiny than the case of revolving doors.
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22 **Conceptual Background**

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24 RDT provides crucial insights into the development and use of board political connections.
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26 Boards of directors have long been perceived as an important vehicle for firms to manage their
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28 power-dependence and resource-exchange relationships with the external environment
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30 (Hillman & Dalziel, 2003). Because business organizations are open systems relying on
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32 transacting with powerful external parties for survival and growth, the formation of
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34 interorganizational arrangements (e.g., board interlocks) can serve to mitigate external resource
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36 dependences by co-opting important resource providers (Drees & Heugens, 2013). As the
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38 government is among the most challenging external parties to manage (Hillman et al., 2009;
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40 Pfeffer & Salancik, 1978), interlocking political actors at the board level is a strategic option
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42 when firms rely on resources controlled by the government (Hillman, 2005; Lester et al., 2008).
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47
48 Concretely, board political connections involve the appointments of politicians or former
49
50 government officials to corporate boards (El Nayal et al., 2021; Sun et al., 2016). Conducive
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52 to stabilizing resource exchanges between the two parties, these connections can provide focal
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54 firms with access to key political actors, enhanced legitimacy, information about the policy
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56 process, and a host of regulatory and financial resources (e.g., Goldman, Rocholl, & So, 2013;
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3 Ridge et al., 2017; Zheng, Singh, & Mitchell, 2015).

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Meanwhile, politically connected companies also are exposed to considerable hazards in the sociopolitical environment. Given ubiquitous sociopolitical pluralism and volatility, various interest groups compete for political and economic benefits (Darendeli & Hill, 2016; Henisz & Zelner, 2010; Zhu & Chung, 2014). When political rivalry leads opponents to seize control in the political arena, connected firms face “negative cascades of discrimination, resource exclusion, and even expropriation and sabotage” (Siegel, 2007: 625). In short, previous studies have well noted that the value of corporate political connections largely has to do with the contingency and stability of the sociopolitical institutions in which focal firms are embedded (Fisman, 2001; Jiang et al., 2021; Nalick et al., 2020; Sun et al., 2012).

This burgeoning stream of research, however, falls short of developing a comprehensive account of political connection loss in the face of sociopolitical volatility. While it has elaborated on the adverse effects of a wide range of political shocks on companies connected to ousted political groups (Coulomb & Sangneir, 2014; Goldman, Rocholl, & So, 2009; Jayachandran, 2006; Knight, 2007; Leuz & Oberholzer-Gee, 2006; Siegel, 2007; Sun, Mellahi, Wright, & Xu, 2015) or to political actors’ demises (Faccio & Parsley, 2009; Roberts, 1990), it does not offer many insights into if and how firms undertake strategic actions to manage the loss following these shocks.

Equally curious is the fact that the restructuring of post-shock power-dependence relations is absent in the existing RDT-based discourse of corporate political strategy research. If an environmental shock damages an organization’s co-optive linkages with the powerful party in a dyad, it stands to reason that the organization may need to take remedial action to restructure its power-dependence relations with the same party. Notwithstanding a rare study on the reconstitution of broken CEO friendship ties from the RDT lens (Westphal et al., 2006), the

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3 paucity of such research in the setting of business-government dyads is echoed by the recent
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5 observation that environmental uncertainty is yet to be organically integrated into resource
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7 dependence theorizing and empirical inquiries (Sutton, Devine, Lamont, & Holmes, 2021).
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10 Indeed, firms do not normally rely on a single strategy to manage their interdependence
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12 with the external political environment. In the U.S. context, firms may employ a myriad of
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14 political tactics, such as lobbying, campaign contributions, and the placement of political actors
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16 on corporate boards, to influence the regulatory environment (Ridge et al., 2017). Previous
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18 studies have recognized that firms can make nonmarket-based adjustments such as lobbying
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20 expenditure to tackle environmental changes and organizational fit (Nalick et al., 2023; Rudy
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22 & Johnson, 2016); however, we are aware of little research on how firms may possibly adjust
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24 the “portfolio” of their political tactics when one key tactic is made less effective or legitimate.
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28 When it comes to emerging economies, where transparent and institutionalized lobbying
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30 and campaign contributions are an exception rather than the rule, bribery is a common
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32 nonmarket tactic to manage the power-dependence relationship with government officials
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34 (Birhanu et al., 2016; Jung & Lee, 2023). Echoing Hillman and Hitt’s (1999) transactional-
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36 versus-relational typology of corporate political strategy, bribery activities have both
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38 transactional and relational elements. In the former case, a firm chooses to bribe government
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40 agents only when it has specific business/policy issues for government approval/endorsement.
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42 The length of the transactions is short and the two parties (the firm and government agents) do
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44 not engage in long-term relationship building.
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49 The relational approach, on the other hand, refers to the nurturing of long-term and
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51 reciprocal relations between firms and political actors. For instance, Ufere and colleagues
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53 (2012) provide a wealth of evidence documenting a deliberate process of graft-giving, which
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55 is inconsistent with the notion that firms are passive victims of predatory officials. Instead, the
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3 process is characterized by recursive interdependence between entrepreneurial agency and the
4 state. Further, firms are found to exhibit a significant variation in bribing payments when facing
5 the same set of country-level institutional frameworks (Svensson, 2003). This implies an
6 implicit bargaining process linking the intensity of a firm's bribery activities to its power-
7 dependence relations with the government (Wang & Clegg, 2018; Zhang et al., 2020). As such,
8 we examine whether the level of bribery is adjusted to address environmental shocks that
9 weaken/sever existing business-government linkages. Below, we introduce the research setting
10 and then integrate it with our theory development to derive concrete, testable hypotheses.
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25 **Research Setting**

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27 China introduced the requirement of appointing non-executive independent directors in
28 its public corporations in 2001. Specifically, the China Securities Regulatory Commission, the
29 counterpart of the U.S. Securities and Exchange Commission, mandated that at least one-third
30 of board members be independent directors by the end of June 2003. In response, most listed
31 companies chose to meet this minimum (one-third) requirement of board independence, in the
32 sense that the mean ratio of the independent directors to the total number of directors has
33 remained below 40% since then (Xie, Shen, & Zajac, 2021). Moreover, different from the norm
34 in the U.S. corporate sector, the board chair positions are held by executive directors rather
35 than independence ones (Jiang & Kim, 2015). While independent directors' minority position
36 makes it difficult for them to effectively monitor large shareholders and management, these
37 directors represent key stakeholders to be "co-opted" and perform their resource provision
38 function (Jiang & Kim, 2015; Peng, 2004).
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54 Although acting government officials and Party cadres are not allowed to be outside
55 directors in Chinese public corporations, inviting former/retired government officials to serve
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3 as independent directors is a widespread practice in private-sector listed companies (Shi,
4 Markoczy, & Stan, 2014; Sun et al., 2016). Most of these directors have passed the mandatory
5 retirement age and aimed to capitalize on their political capital by receiving remuneration and
6 fringe benefits from the focal companies. Given the absence of U.S.-style lobbying
7 arrangements (where former politicians and bureaucrats can become professional lobbyists) in
8 the Chinese political system, politically connected independent directors represent the primary
9 form of “revolving doors” in the Chinese context.

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19 This reciprocal arrangement went unchallenged until October 2013, when the
20 Organization Department of Chinese Communist Party Central Committee issued Rule No. 18
21 — *Opinions on Further Regulating Party and Government Officials’ Part-time (and Full-time)*
22 *Positions in Enterprises*. This new regulation essentially prohibited recently retired
23 government officials from holding posts in the business sector and ordered politically
24 connected independent directors to resign (Hope, Yue, & Zhong, 2020; Shi, Xu, & Zhang,
25 2018). This policy initiative was not anticipated by the public and triggered a wave of
26 resignations of political independent directors, starting in 2014.

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38 For example, Qunsheng Zhang had been in the senior Party/government leadership team
39 in Hebei province and was vice director of the standing committee of the provincial People’s
40 Congress before retirement. In July 2013, only three months before the policy announcement,
41 he became an independent director for Dongxu Optoelectronic Technology Co. Ltd. (stock
42 code: 000413), which was controlled by a wealthy entrepreneur named Zhaoting Li. On April
43 29, 2014, however, the company announced, “We just received the formal resignation letter
44 from Mr. Qunsheng Zhang. In accordance with the Rule No. 18, Mr. Zhang applies to resign
45 from his director post.” He was replaced by a university accounting professor the following
46 month.

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3 Different from the aforementioned political shocks whereafter board-level connections to
4 political groups can potentially be recovered (Jiang et al., 2021), this policy-induced shock
5 indicates that finding political replacements at the board level is no longer feasible.
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7 Consequently, it is of interest to investigate connected companies' other remedial reactions, if
8 any. Because China is a *guanxi*-oriented society (Xin & Pearce, 1996), firms may rely more on
9 networking activities to strengthen their *de facto* bribery relations with political actors (Cai,
10 Fang, & Xu, 2011; Xu et al., 2019; Zhang et al., 2020).
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22 **Hypotheses Development**

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24 Former government officials who sit on corporate boards represent a formal, visible
25 linkage established between focal companies and the government, ensuring the former's access
26 to critical resources such as legitimacy, information, and financial/regulatory resources. The
27 policy shock requiring the resignations of these political actors poses serious challenges for
28 focal companies, as it is a permanent policy change such that companies are no longer allowed
29 to co-opt political stakeholders through outside director appointments. This is different from
30 the previously examined scenarios in which the severance of board political ties results from
31 the removal of politicians' power bases to which the ties were initially attached because of
32 deaths, scandals, or regime changes. Under such circumstances, focal companies do not
33 necessarily embark on other compensatory moves if they can find suitable replacements in the
34 political arena to repair the broken linkages in due course.
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49 In contrast, we expect that the inability to directly repair the broken political ties will
50 trigger strategic actions to restructure the post-shock power-dependence relationships with the
51 government. In accordance with the resource dependence logic of power restructuring
52 operations (Casciaro & Piskorski, 2005), the focal organization needs to adjust power
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3 dependences by directly aiming at the other party of the dyad. Specifically, we postulate that
4 focal companies have strong incentives to reinforce alternative channels to and maintain their
5 exchange relationships with political actors through informal/covert activities (Werner, 2017;
6 Zhang et al., 2020).
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12 Theoretically, Westphal and colleagues (2006) contend that the informal, social, and
13 friendship ties nurtured between corporate leaders in a dyadic relationship can be a functional
14 equivalent to board cooptation. Similarly, when co-optive board political connections are
15 involuntarily severed, a more intensive use of informal activities featuring bribery may serve
16 as a substitute for the broken, formal channel. This is especially the case when institutionalized
17 channels, such as lobbying and campaign contributions, are lacking or underdeveloped in many
18 emerging economies (Hoang, 2018).
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28 Specifically, “active bribery involves firms engaging public officials using the temptation
29 of payments as a method of influence ...” (Martin et al., 2007: 1403). In emerging economies
30 featuring deficient legal/regulatory systems, bribery activities can help mitigate
31 political/transactional hazards by “greasing the wheels of change” (Cai et al., 2011; Krammer,
32 2019), and they capture influence rents (Ahuja & Yayavaram, 2011; Hoang, 2018) as a result
33 of the favorable rules of the game (laws, regulations, and informal rules) that constitute the
34 “created” environment (Pfeffer & Salancik, 1978). Regarding the transactional and relational
35 aspects of bribery mentioned earlier, both should exist before a policy shock, although we
36 believe the relational aspect plays a more crucial role in navigating a weak institutional
37 environment. This is consistent with Hillman and Hitt’s (1999) argument that a relational
38 approach to political action is more likely to be used by firms in a society with strong
39 government involvement, while a transactional approach is more prevalent in pluralist political
40 systems.
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3 While bribery activity was clearly coexistent with board political connections in our focal
4 companies before the policy announcement, the severing of these connections can prompt them
5 to boost their bribing expenditures to retain their exchange relationships with key political
6 actors. Had these companies not hired former government officials as independent directors,
7 this revolving-door-closing policy would not have had any direct impact on them. Although
8 this policy makes it impossible for all companies to appoint political directors in future, there
9 does not seem to be any obvious reason to expect an immediate escalation of commitment to
10 bribery by this particular group of focal companies. After all, the absence of politically
11 connected outside directors in a company may suggest its limited need and/or ability to achieve
12 board political cooptation; thus, this board-level policy shock is unlikely to trigger its swift and
13 robust response. Having explicated the resource dependence logic of the post-shock power
14 dependence restructuring and considered the conceptual counterfactual of the focal companies,
15 we hypothesize the following:
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33 *Hypothesis 1 (H1): After a permanent loss of board political connections, focal firms will*
34 *exhibit an increase in bribery expenditure.*
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38 Based on the dyadic focus of RDT on the business-government interdependence, the
39 magnitude of the adjustment across the dependence-management strategies described in the
40 above main hypothesis should vary with the heterogeneous nature of power dependence
41 relationships between the two parties (Casciaro & Piskorski, 2005). Here, we focus on two key
42 elements featuring this business-government dyad — dependence scope and dependence
43 asymmetry — at the time of the policy shock. First, a firm's *dependence scope* — “the spread
44 of dependence throughout the focal firm with which the external dependence relationship
45 resides” (Abdurakhmonov et al., 2021: 327) — is likely to be heterogeneous.
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56 Specifically, this heterogeneity can reside in the geographical diversification of firms'
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3 business operations. That is, the propensity and intensity of a firm's international operations
4 clearly affect the extent to which the firm depends on home country political actors. It is evident
5 that the reach of domestic government agencies and officials has geographical/jurisdictional
6 limits. Consequently, compared with those without any international operations, highly
7 internationalized companies will have a more diversified channel to procure needed resources.
8 Indeed, prior research that drew on RDT to examine firm internationalization highlighted this
9 diversification logic: Power-disadvantaged parties in emerging economies may elect to
10 generate more global cash flows with the aim of reducing the influence of the constraints by
11 powerful home country actors (Choudhury & Khanna, 2014; Xia, Ma, Lu, & Yiu, 2014).
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24 When the shutting of the revolving door leads to a loss of board political capital in focal
25 companies, the urgency of boosting bribery expenditure may vary with different levels of
26 internationalization in these companies. It is the companies with negligible international
27 operations that are most susceptible to this policy shock, because the resources provided by
28 domestic political actors constitute their primary basis of survival and growth. In response, they
29 have a strong desire to maintain the existing resource-exchange relationships with the
30 government through bribery. In contrast, the adverse effect of the shock will be less damaging
31 in highly internationalized companies, which have a more diverse range of resource exchange
32 relations that transcend the home base. Thus, the buffering provided by more diversified
33 revenue sources implies a weaker incentive and necessity to initiate a rapid and robust response
34 through bribery.
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49 *Hypothesis 2: The bribery response upon the policy shock specified in H1 is more pronounced*
50 *in firms with a lower degree of internationalization than in those with a*
51 *higher one.*
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3 The second key element — *dependence asymmetry* — concerns dependence or power
4 differentials between two actors in a dyad (Gulati & Sytch, 2007). According to Emerson
5 (1962), the power of actor A over actor B is the inverse of A's dependence on B. In turn, A's
6 dependence on B is an increasing function of A's need for resources that B can provide, and
7 vice versa. In the context of firm-government dyads, it is reasonable to assume that individual
8 firms' dependence on or power (dis)advantage over the government varies depending on
9 numerous contextual factors. Here, we examine some crucial organizational contingencies that
10 shape the dependence asymmetry between the two parties. Theoretically, we posit that the
11 bribery response upon the policy shock is more pronounced in power-disadvantaged companies
12 that have a strong dependence on the government, but less so in those holding crucial
13 bargaining power over the government.
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28 Starting with a firm's dependence on the government, financial subsidies offered by the
29 state constitute an important source of the firm's political dependence. Prior research has
30 documented the pervasiveness of government subsidies in the corporate sector across the world,
31 which represent a key policy tool of the state in fostering industrial development, aiding firms
32 in distress, and pursuing wider social welfare goals (Claro, 2006; Schwartz & Clements, 1999).
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40 Furthermore, the allocation of government subsidies is at the discretion of government
41 officials and fraught with subjectivity, and the financial impacts of the government subsidies
42 are considerable at the firm level (Allen, Qian, & Qian, 2005; Lee, Walker, & Zeng, 2014). For
43 instance, Lin and colleagues (2015: 330-331) cited an estimation by an authoritative journalist
44 source: Among the Chinese listed companies that turned from accounting losses to profits in
45 year 2012, approximately 30% could attribute this result to government subsidies. Therefore,
46 some connected firms can have a heavier reliance on government financial aid than others and
47 thus are in a more disadvantaged power position vis-à-vis the government.
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3 With the arrival of the policy shock shutting the revolving door, the magnitude of the
4 existing government subsidies can make a difference in the connected firms' bribery responses.
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6 For those that have been supported by large amounts of subsidies from the state, maintaining
7 the existing flow of resources from the government is of paramount importance (Xiang, Jia, &
8 Zhang, 2022). The loss of the board-level political linkages may leave them in a vulnerable
9 position by generating a serious concern about the potential reduction in financial resource
10 inflows from the government; this in turn should lead them to mobilize more resources into
11 bribery activities as a stabilizing move. By contrast, in the case of focal companies having
12 received no or small amounts of government subsidies, they do not expect to face a significant
13 loss of such resources associated with political connectedness; thus, all else being equal, the
14 strength of their bribery response should be much more limited.
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28 *Hypothesis 3: The bribery response upon the policy shock specified in H1 is more pronounced*
29 *in firms receiving larger government subsidies than in those receiving*
30 *smaller subsidies.*
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35 The other direction of the dependence asymmetry concerns government agencies and
36 politicians relying on firms to achieve certain policy goals; other things being equal, this
37 reliance can lead to firms' bargaining power advantages over the government. Here, we focus
38 on two key factors that determine the government's dependence on individual firms: tax
39 contribution and labor employment. Politicians need fiscal revenues to provide public goods,
40 stimulate economic growth, and generate employment, all of which ensure social stability
41 and/or the success of being reelected. Thus, firms that can help politicians achieve these goals
42 have more bargaining power over the government than those that make limited tax and
43 employment contributions. This is especially the case if the government has to address
44 problems about fiscal deficits and high unemployment within its jurisdiction.
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3 In the case of corporate tax contributions to the government, prior research suggests that
4 tax revenues collected from the Chinese corporate sector play a crucial role in expanding fiscal
5 expenditures on infrastructure and other investment projects (Chen, Tang, Wu, & Yang, 2021b).
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7 Since investment projects are conducive to regional GDP growth, the ability to accomplish
8 these projects represents an important contribution to local government officials' career
9 prospects within the Communist Party cadre evaluation system, which places great emphasis
10 on economic growth records under their jurisdictions (Xu, 2011).
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19 Upon the policy shock shutting the revolving door, a firm's tax contribution and the fiscal
20 condition of its local government at that time are relevant to the strength of the firm's bribery
21 response. We posit a considerable bargaining power advantage on the part of a firm over the
22 government when the local government has considerable fiscal deficits and the firm can help
23 ease this fiscal pressure by contributing large tax revenues. Consequently, firms that have made
24 strong fiscal contributions to their financially constrained local governments may not be highly
25 sensitive to this shock. This is because the government's fiscal dependence can serve to
26 facilitate the continued post-shock exchange relationships between the two parties.
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38 In contrast, this bribery response should be more significant in the other scenarios, which
39 involve (1) firms making small tax contributions to their local government, irrespective of its
40 fiscal condition, and (2) those submitting considerable tax to provinces in good fiscal
41 conditions. The reduced power advantages over the government should make these firms more
42 nervous about the potential adverse effects from the shock; hence more ensuing bribery
43 maneuvers to maintain their exchange relations with the government.
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51 *Hypothesis 4: The bribery response upon the policy shock specified in H1 is less pronounced*
52 *in firms contributing large tax revenues to fiscally constrained provincial*
53 *governments than in other firm-province combinations.*
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3 Regarding labor employment, its political role in business-government interactions has
4 long been recognized in prior research. In democratic regimes, the employment of a large or
5 redundant workforce serves as an important part of the favor exchanges between firms and
6 politicians, particularly during election years (Bertrand, Kramarz, Schoar, & Thesmar, 2018;
7 Inoue, 2020). The generation and maintenance of a high employment level are essential for
8 politicians' election goals; thus, a firm with strong job creation capabilities enjoys substantial
9 dependence/power advantages over its local government, especially when the jurisdiction
10 experiences a severe unemployment problem. In the Chinese context where elections are not
11 competitive in nature, government officials also care about job creation by the business sector
12 because maintaining social stability (ensured by a low unemployment rate under officials'
13 jurisdiction) is an important factor in the cadre evaluation system (Gu, Tang, & Wu, 2020;
14 Wang & Luo, 2019).

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16 Similar to the logic leading to the preceding hypothesis, we expect the post-shock bribery
17 response to be rather limited in firms with a strong bargaining power based on labor
18 employment. We posit that this type of power advantage over the government is greatest when
19 firms have a large (or even redundant) workforce in provinces suffering severe unemployment
20 problems. Under such circumstances, the urgency of engaging in post-shock compensatory
21 bribery activities may not be as strong as in cases in which (1) firms hire a smaller workforce
22 and (2) large firms are located in provinces with low unemployment levels. Given the presence
23 of job creation capabilities in regions plagued by high unemployment rates, these firms
24 understand that, after the policy shock, it is not in the politicians' own interest to cut off the
25 recourse flow to their important business partners that can help address the regions' social
26 stability problems.

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3 *Hypothesis 5: The bribery response upon the policy shock specified in H1 is less pronounced*
4 *in firms employing a large workforce in provinces with high unemployment*
5 *rates than in other firm-province combinations.*
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10 11 12 13 **Methods**

14 15 16 *Data*

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18 We use firms listed on China's Shanghai and Shenzhen stock exchanges between 2011
19 and 2016 to examine the impacts of the policy change initiated in October 2013. The choice of
20 three years before (2011–2013) and three years after (2014–2016) the policy change aims to
21 facilitate the difference-in-differences (DID) analytical approach that will shortly be detailed.
22 To accurately assess the influence of board political connections, we focus on companies
23 whose controlling shareholders are private rather than state entities. This is because state-
24 controlled listed firms have strong government ownership linkages and may not be responsive
25 to this policy change.
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36 Firm-level information was collected from the China Stock Market and Accounting
37 Research (CSMAR) database, which provides comprehensive financial and operational
38 information on Chinese publicly listed companies and has been used by many previous studies
39 in the Chinese context (e.g., Hu & Xu, 2022; Zhang & Greve, 2018). Regarding director-level
40 information, Chinese public corporations are required to disclose their directors' biographical
41 information, such as age, gender, and working experience. Based on this disclosure, the
42 CSMAR database has developed a specific dataset on senior executives and board directors.
43 We first used career information retrieved from the dataset to identify the political backgrounds
44 of independent directors, CEOs, and board chairs. The coding results for these individuals were
45 then manually cleaned and verified by one author.
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Analytical Approach

As mentioned before, closing the revolving door was not anticipated by the public and only directly impacted firms with politically connected independent directors in October 2013. Thus, our aim is to identify if and how these affected firms make significant adjustments in their bribery expenditure before and after the board political capital loss. We adopt the DID research design (Imbens & Wooldridge, 2009; Lechner, 2011) to evaluate the policy impact on connected firms' bribery response and filter out other potential factors in bribery expenditure. Our treatment group includes firms that had at least one politically connected independent director in late 2013. An independent director is classified as politically connected if s/he once worked as an official in local or central government agencies before being appointed as the director. Following this approach, we identified a total of 292 listed firms.

Theoretically, the validity of the DID research design relies on the "exogeneity" assumption, which requires that the treatment and control groups be randomly assigned (Atanasov & Black, 2016; Hill, Johnson, Greco, O'Boyle, & Walter, 2021). If the treatment and control groups are close to randomization, unobservable firm-level factors are unlikely to be correlated with the treatment assignments and bribery expenditures. Unfortunately, however, full randomization is rare in empirical research using archival data (Atanasov & Black, 2016), and our case is no exception.

Admittedly, the presence of politically connected independent directors was not randomly assigned in Chinese listed firms. To address this concern, we draw upon prior similar studies (Chen & Feldman, 2018; Chen, Meyer-Doyle, & Shi, 2021a; DesJardine, Shi, & Sun, 2022) to complement the DID design using coarsened exact matching (CEM).¹ In addition, we apply a recent econometric technique that allows us to statistically assess the extent of potential

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3 endogeneity (Altonji, Elder, & Taber, 2005; Oster, 2019), the results of which are detailed in
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5 the supplementary analyses subsection.
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9 We first constructed a control group with characteristics similar to those of our treatment
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11 group based on the one-to-one CEM method (Blackwell, Iacus, King, & Porro, 2009; Iacus,
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13 King, & Porro, 2012). CEM uses a data-driven approach to coarsen the observed covariates
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15 into a finite number of strata and match a treated firm with a control firm in the same stratum.
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17 The variables used for coarsening our data include return on assets (*ROA*), *firm size*, *book-to-*
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19 *market ratio*, *firm leverage ratio*, *Chair/CEO political capital*, and *industry categories*. *ROA*
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21 is included to control for the potential difference in firm performance as it may be easier for
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23 better performing firms to hire political directors. We also control for *firm size* as larger firms
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25 may have more resources to build board political capital. *Book-to-market ratio* considers the
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27 market value of firms. *Firm leverage ratio* is defined as the ratio of total liabilities to total
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29 assets. Board chairs or CEOs with political capital have a higher propensity to appoint
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31 politically connected directors (Kramarz & Thesmar, 2013); that is why we control for this
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33 variable in the matching process.² It equals 1 if a board chair or CEO is a former government
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35 official or a current member of in China's legislative bodies (i.e., the National People's
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37 Congress and the Chinese People's Political Consultative Conference), and 0 otherwise (Zhang,
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39 Marquis, & Qiao, 2016). Finally, we use *industry categories* to control for potential industry
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41 differences in appointing political independent directors.
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49 This method has the advantage of soaking up *ex ante* differences between the treatment
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51 and control groups except for independent directors' political connectedness.³ Eventually, we
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53 managed to generate 167 pairs of matched firms from 2011 to 2016, which are equivalent to
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55 334 sample companies and 2,004 firm-year observations for the subsequent regression analyses.
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57 Concretely, we employ the following DID model specification:⁴
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$$y_{it} = \beta_0 + \beta_1 Treat_i + \beta_2 Post_t + \beta_3 Treat_i * Post_t + \gamma X_{it-1} + \gamma_i + \mu_t + \varepsilon_{it}$$

y_{it} is the dependent variable measured by bribery expenditures for firm i in year t . $Treat_i$ stands for the treatment group firms; $Post_t$ equals to 1 if a year is after the policy change, i.e., years 2014, 2015, and 2016. Therefore, the coefficient, β_3 , is the DID estimate, which we expect to be positive. This is because the regulatory shock is supposed to elicit more bribery expenditures for treatment group companies in subsequent years.

X_{it-1} represents a range of control variables. γ_i and μ_t refer to firm- and year-fixed effects, respectively. The former control for unobservable firm-level heterogeneity, while the latter control for general macroeconomic factors that may affect firms over time. ε_{it} is the error term. Following prior studies (e.g., Wang, Zhao, & He, 2016), we winsorized all continuous variables at one percent at both tails to alleviate the influence of outliers. Finally, following prior DID studies (Armanios & Eesley, 2021; Chen, Hung, & Wang, 2018; Shi & Connelly, 2018), we test the moderating effects by conducting split-sample analyses. How the subsamples are constituted is detailed in the subsection on moderating variables.

Dependent Variables

To capture investment in bribery activities, we resort to information about a firm's entertainment and travel expenses, which are a standard accounting item in China's financial statements. Prior research in accounting (Tang, 2023; Zeng, Lee, & Zhang, 2016), economics (Cai et al., 2011), and management (Xu et al., 2019) fields suggest that Chinese managers typically use this accounting item to process the reimbursement of expenses related to bribing government officials. Given that some entertainment and travel expenses have legitimate purposes, we distinguish between abnormal and normal expenses by following the approach detailed in Xu et al. (2019). Specifically, we first estimate a regression model in which the

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3 dependent variable is the industry-adjusted entertainment and travel expenses divided by sales
4 revenues. The predictor variables in the model include total sales, total assets, marketing
5 expenses scaled by total sales, capital intensity, and the average compensation of the three
6 highest paid executives. We then use the residual from this regression model as a proxy for
7 abnormal entertainment expenses, which reflects a firm's *bribery* expenditure.
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15 In addition to the CEM approach used to address the nonrandom selection based on
16 observable characteristics, our measure of the dependent variable accounts for considerable
17 unobservable characteristics that may drive the selection process. This is because *bribery* is
18 constructed as the residual from the "normal" level of corporate bribery expenditure. Although
19 we cannot capture all of the unobservable factors, our method echoes Chen and Feldman's
20 (2018: 2735) claim that measuring a dependent variable in excess of some "normal" level data
21 should "get us as close as possible to a true estimate relationship."
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34 *Moderating Variables*

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37 We use four moderating variables to capture the heterogeneous nature of firm-government
38 interdependence. The first variable, *internationalization*, captures a firm's dependence scope.
39 Research shows that the establishment of foreign subsidiaries reflects a firm's outward foreign
40 direct investment activities (Huang, Xie, & Wu, 2021; Lu, Liu, Wright, & Filatotchev, 2014).
41 We use the number of foreign subsidiaries (disclosed in companies' annual reports) as a proxy
42 for the degree of internationalization. A higher degree of *internationalization* suggests a greater
43 dependence scope. We split our sample based on this measure in 2013. For our 334 sample
44 companies, the median of the number of foreign subsidiaries is 0: the number in 139 firms is
45 equal to or greater than 1, but it equals zero in 195 companies. When the sample is divided into
46 high- and low-internationalization groups, the former are in the high-internationalization group
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3 and the latter in the low-internationalization group. As our sample spans the period 2011–2016,
4 we have 834 (139*6) firm-year observations in the high-internationalization group and 1,170
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6 (195*6) firm-year observations in the low-internationalization group.
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10 The remaining three variables capture the dependence asymmetry between firms and the
11 government. Regarding firms' power dependence on the government, those receiving more
12 government subsidies reflect a greater reliance on the government. Firms disclose the amounts
13 of government subsidies they received in their financial reports. *Subsidy* is measured by the
14 amount of subsidies that a firm receives in a given year scaled by total assets (Lee et al., 2014;
15 Lin et al., 2015; Luo, Huang, & Zhu, 2021). Based on the median of this variable in 2013, we
16 have 167 firms and 1,002 (167*6) firm-year observations in the high-subsidy group and the
17 same numbers in the low-subsidy group.
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21 With respect to the government's dependence on business firms, China is characterized
22 by a decentralized system in which local governments are in charge of provincial fiscal budgets
23 and social stability. We adopt a nuanced approach to measure this interdependent relationship.
24 In the case of fiscal needs, we use information on provincial *fiscal deficit* and a firm's *tax*
25 *contribution* to measure *government fiscal dependence*. *Fiscal deficit* is defined as the
26 difference between fiscal revenue and fiscal expenditure in the province where a firm is
27 registered. Information on fiscal revenue and expenditure is collected from *China Statistical*
28 *Yearbooks*. *Tax contribution* is measured by the total cash tax paid to the government, disclosed
29 in a firm's cash flow statement (Chen et al., 2021b). It includes income, property, business, and
30 stamp taxes, etc., which capture a firm's overall contributions to the government (Tang, 2023).
31 When we divide the sample in the DID regression model, a firm is assigned to the *high*
32 *government fiscal dependence* group if it is located in a province with a fiscal deficit that
33 exceeds the sample median in 2013 and the focal firm's tax contribution is also more than the
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3 sample median in 2013, with the rest of the firms in the *low government fiscal dependence*
4 group (i.e., firms with below-median tax contributions and those located in provinces with
5 better fiscal conditions). Specifically, this process assigns 86 firms (516 firm-year observations)
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7 to the former group and 248 firms (1,488 firm-year observations) to the latter one.
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12 Regarding local governments' social stability needs, we construct the *government social*
13 *dependence* variable. While *worker* is measured by the number of employees in a focal firm,
14 *unemployment rate* measures the degree of labor unemployment in the corresponding province
15 where the firm resides. Similarly, a firm is assigned to the *high government social dependence*
16 group if it is located in a province with an unemployment rate that exceeds the sample median
17 in 2013 and hired more workers than the sample median in 2013. The rest of the firms are in
18 the *low government social dependence* group (i.e., firms with below-median levels of
19 workforce and those located in provinces with lower levels of unemployment). Specifically,
20 this process assigns 75 firms (450 firm-year observations) to the former group and 259 firms
21 (1,554 firm-year observations) to the latter one.
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38 *Control Variables*

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40 In addition to the *ROA*, *firm size*, and *Chair/CEO political capital* that were detailed above,
41 we also control for the following factors that may affect a firm's bribery expenditure: *Firm age*
42 is the number of years since a focal firm was established. *Board size* is the number of directors
43 on a corporate board. *Board independence* is the ratio of the number of independent directors
44 to the total number of board directors. *Ownership concentration* refers to the percentage of
45 shareholding held by the largest shareholder in a sample company. *Institutional quality* is
46 measured by the National Economic Research Institute index of marketization in the Chinese
47 provinces where sample companies are headquartered (Wang, Fan, & Yu, 2016). This yearly
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3 index evaluates the quality of market-supporting institutions through various dimensions, such
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5 as the relationship between the government and the market and the development of the private
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7 sector.
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10 11 12 **Results**

13 14 15 *Pre-tests Assessing Methodological and Theoretical Assumptions*

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19 In this subsection, we validate our research design in the following steps. First, to assess
20
21 the quality of our matching, we conduct *t*-tests between our treatment- and control-group firms
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23 before and after matching in Table 1. Before the matching, the treatment group tends to have a
24
25 higher ROA, a larger size, and a greater incidence of politically connected board chairs or
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27 CEOs. After the CEM, no statistically significant differences exist between the two groups in
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29 respect of these key firm-level characteristics; this suggests the removal of many potential
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31 confounding factors that may lead to different bribery expenditures across the two groups.
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38 <Insert Table 1 here>
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41 Second, we examine whether our treatment and control groups exhibit parallel trends
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43 (Bertrand & Mullainathan, 2003) in terms of bribery expenditures prior to the policy
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45 announcement in October 2013. To assess the parallel trend assumption, we generate figures
46
47 that plot the trend lines for both the treatment- and control-group firms' bribery expenditures.
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49 Figure 1A shows that, prior to the regulatory change, bribery expenditures in the treated and
50
51 control firms did not exhibit significantly different trends, which is consistent with the parallel
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53 trend hypothesis. By contrast, in the post-shock years, the treated firms exhibit a significant
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55 increase in bribery expenditures compared with the control group. Similar patterns are also
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3 found by our examination of the entertainment and travel expenses in non-residual forms.
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5 Figures 1B and 1C plot the respective time trends for entertainment and travel expenses in
6
7 logarithm form (Ent. Expense1) and for entertainment and travel expenses scaled by sales
8
9 revenues (Ent. Expense2). It is clear that the two figures reveal no significant differences
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11 between treated and control groups prior to 2013 either.
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15 <Insert Figures 1A-1C here>
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18 Third, we statistically examine the parallel trend assumption by replacing the *post* variable
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20 with five dummy variables, *Year₂₀₁₂*, *Year₂₀₁₃*, *Year₂₀₁₄*, *Year₂₀₁₅*, and *Year₂₀₁₆*, each of which
21
22 equals one if an observation is in one of these years. Meanwhile, observations in year 2011 are
23
24 treated as the benchmark group. We include the firm- and year-fixed effects and other control
25
26 variables in our regression models, with the results shown in Table 2. The insignificant
27
28 coefficients of *treat*Year₂₀₁₂* and *treat*Year₂₀₁₃* indicate an absence of systemically different
29
30 trends in bribery expenditures between treated and control firms before the policy change.
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32 Because the treated and control firms exhibited similar trends of bribery expenditures by 2014,
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34 our results are consistent with the parallel trend assumption, which requires negligible pre-
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36 treatment differences. However, most of the estimated coefficients of *treat*Year₂₀₁₄*,
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38 *treat*Year₂₀₁₅*, and *treat*Year₂₀₁₆* are significantly positive, suggesting that treated firms
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40 experienced a significant increase in bribery expenditure after the loss of board political capital.
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45 <Insert Table 2 here>
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48 Theoretically, a central assumption in our hypotheses development is that politically
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50 connected firms received preferential treatments/resources before the policy change occurred.
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52 Focusing on all of the Chinese listed companies controlled by private entities in the pre-shock
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54 period (2011–2013), we conduct regression analyses examining whether having political
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56 independent directors makes a difference in receiving government subsidies and bank loans
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3 and paying corporate tax, and the results are reported in Table 3. We find that those that hired
4 such directors received more government subsidies and bank financing but paid a lower level
5 of tax than their unconnected peers. These results lay a solid foundation for the subsequent
6 formal testing of the hypotheses.
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12 <Insert Table 3 here>
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17 *Main Results*

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19 Table 4 presents the descriptive statistics and correlation coefficients in our matched
20 sample. The average variance inflation factor is 1.66, ruling out a multicollinearity concern.
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28 Table 5 reports the primary results of our regression models. H1 concerns the change in
29 bribery expenditures associated with the policy shock. Regarding Model 1 in this table, the
30 estimated coefficient of *treat*post* is 0.002 (p -value = 0.001), indicating a significant increase
31 in bribery expenditure relative to that of the control group after the policy change. In terms of
32 economic significance, compared with control firms, treated firms experience an increase in
33 bribery expenses by 0.002, which is equivalent to an increase of 20% (0.002/0.01) of one
34 standard deviation of bribery expenses (= 0.01). Thus, H1 is strongly supported.
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48 H2 predicts that the increase in bribery expenditure is more pronounced for firms with
49 low levels of internationalization. In the split-sample analysis, Model 2 in Table 5 shows that
50 the coefficient of *treat*post* is positive but insignificant (coefficient = 0.001, p -value = 0.705)
51 in the subsample with a high degree of internationalization. In contrast, the coefficient is
52 significant for firms without overseas subsidiaries (coefficient = 0.003, p -value = 0.001) in
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3 Model 3. Further, we test the equality of the subgroup coefficients by using the “suest”
4 command in Stata. Because Chi-squared (1) equals 16.12 (p -value = 0.001), a statistically
5 significant difference between the estimated coefficients is present in the two subsamples.
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7 Overall, we find strong support for H2.
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13 H3 posits that the increase in bribery expenditure is more salient in firms receiving large
14 amounts of government subsidies upon the policy shock. Model 4 in Table 5 shows that the
15 coefficient of *treat*post* is significantly positive (coefficient = 0.004, p -value = 0.001) in the
16 subsample with more government subsidies, but it is insignificant in the subsample of firms
17 that received fewer subsidies (coefficient = 0.001, p -value = 0.608). The coefficients exhibit
18 statistical differences across the two subsamples (Chi-squared (1) = 19.92, p -value = 0.001).
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20 Overall, these results demonstrate strong support for H3.
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30 H4 suggests that the increase in bribery expenditure is less pronounced in firms
31 characterized by higher government fiscal dependence. Model 6 in Table 5 shows that the
32 coefficient of *treat*post* is insignificant (coefficient = 0.001, p -value = 0.552) for those firms
33 with greater tax contributions and residing in provinces with higher levels of fiscal deficits.
34 Model 7 reports that the coefficient is significantly positive (coefficient = 0.003, p -value =
35 0.001) for the rest of the sample firms. Because Chi-squared (1) = 7.38 (p -value = 0.007), there
36 is a significant difference between the estimated coefficients in the two subsamples. Thus, H4
37 receives strong support from the empirical results.
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49 H5 concerns the moderating effect of government social dependence. Models 8 and 9 in
50 Table 5 report that the coefficient is insignificant for firms that had higher levels of labor
51 employment and were located in provinces with higher unemployment rates (coefficient =
52 0.001, p -value = 0.914); however, it is significantly positive for the rest of the sample firms
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3 (coefficient = 0.003, p -value = 0.001). We test the equality of the coefficients and find that Chi-
4 squared (1) = 8.24 (p -value = 0.004). This suggests a significant difference between the
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estimated coefficients in the two subsamples. Overall, we find strong support for H5.

Finally, we follow the approach used in Li and colleagues (2022) to visualize these moderating effects (H2–H5). Figures 2A and 2B illustrate the moderating effect of internationalization on the changes in bribery expenditure across the treatment- and control-group firms after the policy change. Similarly, Figures 3A and 3B concern the moderating effect of government subsidies, Figures 4A and 4B refer to the moderating effect of government fiscal dependence, and Figures 5A and 5B show the moderating effect of government social dependence. In the interest of space, we use Figures 2A and 2B as an illustrative example to discuss the moderating effect regarding H2; other moderating hypotheses can similarly be discussed. Figure 2A indicates that among highly internationalized firms, the treated and control firms exhibit similar patterns in both pre- and post-shock periods. By contrast, Figure 2B reveals that among less internationalized (or domestic) firms, treated firms were more aggressive in undertaking bribery activities than those in the control group after the shock. This suggests that domestic market concentration results in a heightened bribery-based response to the policy shock.

<Insert Figures 2A-5B here>

Supplementary Analyses

In this subsection, we report findings from several additional analyses, which serve to ensure the robustness of the results and to enrich our empirical findings. First, the validity of our DID estimate could be potentially challenged by unobservable self-selection and omitted variable issues. Here, we formally test whether these potential issues undermine the validity of

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3 our estimates. To accomplish this, we check the sensitivity of our estimated coefficients to
4 selection on unobservables using a technique proposed by Altonji et al. (2005) and extended
5 by Oster (2019). This method relies on the assumption that selection on observables provides
6 information about selection on unobservables; thus, we can infer the extent of selection on
7 unobservables from the changes in the coefficient of interest and the R^2 of the main regression
8 in response to the inclusion of additional observable controls. If including controls enhances
9 the explanatory power of the model while not significantly affecting the coefficient of interest,
10 we can be relatively confident that the estimated coefficient is probably robust to selection on
11 unobservables. This method has been widely adopted in economics (Cheng & Smyth, 2021;
12 Starr, Prescott, & Bishara, 2020) and management research (Lee, 2022; Starr, Frake, &
13 Agarwal, 2019).

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Oster (2019) suggests two related approaches of using selection on observables to assess
potential bias from unobservables. The first approach is to capture how the inclusion of
additional control variables will impact the coefficient of interest. She assesses this by
computing a test statistic δ (Oster's Delta) (which represents the degree of selection on
unobservables relative to observable controls) that would be required to drive the treatment
effect to zero. If δ is greater than one, unobservable factors are unlikely to invalidate the
estimated coefficient of interest to zero.

The second approach is to examine the stability of the estimated coefficient (the DID
estimate in our case) by deriving a bounded set (Oster, 2019). Specifically, one can calculate
the bounded set $[\tilde{\beta}, \beta^*]$, where $\tilde{\beta}$ is the coefficient of the variable of interest from the baseline
model (the DID estimate in Model 1 of Table 5 in our case) and β^* is the bias-adjusted
coefficient approximated by the formula in Oster (2019).⁵ If zero does not lie in the bounded

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3 set, the estimated coefficient is said to be robust to omitted variable bias. In practice, the Stata
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5 PSACALC module can be used to compute δ and β^* .
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9 Following this approach, we estimate δ based on (1) a full set of controls and (2) a value
10 of R_{\max} that stands for the maximum R^2 that could be obtained from a fully-specified regression
11 model that predicts bribery expenditure. Similar to prior studies (e.g., Lee, 2022), we use all
12 fixed effects and controls in our baseline model as our full set of controls. To be conservative,
13 we set the value of R_{\max} to 1, which is the most stringent value.⁶ Based on Model 1 in Table 5,
14 our results show that the absolute value of δ is 10.85, well above the critical value of one. This
15 suggests that unobservables must be at least 10.85 times larger than observables to nullify the
16 estimated DID coefficient. However, the existence of such a large unobservable factor in the
17 current regression model seems unlikely given that we have included an extensive set of
18 important controls and fixed effects in the regression model (which yields an R^2 as high as
19 more than 80%). Hence, it seems implausible that the estimated coefficient is driven by
20 selection on unobservables (Starr et al., 2020).
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36 Second, we calculate the bounded set for the estimated DID coefficient. As suggested by
37 Oster (2019), we set the value of R_{\max} to 1 and that of δ to 1;⁷ consequently, $\beta^* = 0.004$. As
38 zero falls outside the bounded set $[\tilde{\beta}, \beta^*] = [0.002, 0.004]$, the likelihood that our DID estimate
39 is primarily driven by omitted variables is negligible. In sum, the consistency of our diagnostic
40 tests indicates that unobservable factors are highly unlikely to drive our estimated coefficients.
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48 In addition to the endogeneity issue, another intriguing question that arises from H1 is
49 whether the predicted relationship is merely a mirror image of the effect of political tie creation.
50 In other words, is the rise in bribery expenditure after the ties are broken symmetrical to a
51 possible reduction in this expenditure after the ties are formed? In theory, since board-level
52 cooptation and bribery are both dependence-management strategies, they can be complements
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3 or substitutes under varying conditions, which are understudied in the extant literature (Hillman
4 et al., 2009). While the substitution effect is salient when a tie is involuntarily and permanently
5 severed, whether a firm is expected to adjust its bribery expenditures after a tie is voluntarily
6 established by the two parties remains a moot point. This is particularly if bribery activities are
7 more than one-off transactions between firms and political actors.
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11 To examine this question, we focus on listed companies controlled by private-sector
12 entities in a pre-shock period (2008–2013). Our analysis starts in 2008 because the disclosure
13 of entertainment and travel expenses had not been widely available until then. To enable a
14 staggered DID research design that allows for a before/after comparison of bribery
15 expenditures, a political tie creation event occurred if a company appointed a new politically
16 connected independent director between 2009 and 2012. In other words, we do not include
17 political tie creation events in 2008 and 2013, because of the unavailability of pre- or post-
18 shock bribery data. We use two variants of DID models to examine the impact of tie creation
19 on subsequent bribery expenditures. Model 1 of Table 6 reports the full sample analysis. In this
20 regression, *Treat* is a dummy variable equal to 1 if a firm ever experienced political tie creation
21 over the period 2009–2012, and 0 otherwise. *Post* is a dummy variable that equals 1 for those
22 firm-year observations after a firm experienced a tie creation event in a given year, and 0
23 otherwise. The results in Model 1 show that the coefficient of *Treat*Post* is not significant,
24 suggesting that bribery activities were not reduced after the creation of board political ties.
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47 Our second DID regression model employs the one-to-one CEM method. Specifically, we
48 match one firm that experienced such a tie creation event with another one that never
49 experienced tie creation during the entire sample period. As with our main analysis, we include
50 the following variables in the matching process: *ROA*, *firm size*, *book-to-market ratio*, *firm*
51 *leverage ratio*, *Chair/CEO political capital*, and industry categories. In this DID regression,
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3 the definitions of *Treat* and *Post* are the same as those in the full sample analysis. As shown in
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5 Model 2, the coefficient of *Treat*Post* is again insignificant. Overall, these results suggest the
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7 asymmetric nature of the relationship between board political capital gain/loss and corporate
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9 bribery, thus warranting the present research design and empirical analyses.
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12 <Insert Table 6 here>
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14 The final set of analyses employs alternative measures of moderating variables to assess
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16 the robustness of our findings regarding the moderating hypotheses. In the case of H2, we use
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18 the ratio of foreign sales (including both exporting and revenues achieved in host country
19
20 markets) to total sales as an alternative measure of *internationalization* (Liu, Luo, & Cui, 2018).
21
22 Firms that generate more sales from the international market have a lower dependence on the
23
24 domestic market and government. In Models 1–2 of Table 7, the coefficients of *treat*post* are
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26 significantly positive both for firms with high levels of foreign sales (coefficient = 0.001, *p*-
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28 value = 0.022) and those with lower ones (coefficient = 0.003, *p*-value = 0.001). Further, the
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30 coefficient in the latter subsample is significantly greater than that in the former one (Chi-
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32 squared (1) = 5.43, *p*-value = 0.020).
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37 <Insert Table 7 here>
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39 Regarding H3, we use the unscaled government subsidy as an alternative measure to
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41 address the potential methodological challenge of using ratio-based variables (Certo,
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43 Busenbark, Kalm, & LePine, 2020). In Models 3–4 of Table 7, the coefficients of *treat*post*
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45 are both significantly positive for firms with higher levels of subsidy (coefficient = 0.003, *p*-
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47 value = 0.001) and for those with lower ones (coefficient = 0.001, *p*-value = 0.039). Moreover,
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49 the coefficient in the former subsample is significantly greater than that in the latter (Chi-
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51 squared (1) = 3.57, *p*-value = 0.059).
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3 Regarding H4, we use a firm's income tax as a proxy for *tax contribution* (Tang, 2023).
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5 In Models 5–6 of Table 7, the coefficient of *treat*post* is significantly positive (coefficient =
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7 0.003, p -value = 0.001) in the subsample with low government fiscal dependency; however, it
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9 is insignificant for firms characterized by high government fiscal dependency (coefficient =
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11 0.001, p -value = 0.185). The difference between the two estimates is statistically significant,
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13 with Chi-squared (1) reaching 6.76 (p -value = 0.009).
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17 Regarding H5, we use excess workers as an alternative measure based on the economics
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19 literature (Johansson, Luo, Rickne, & Zheng, 2017). Specifically, we estimate a regression
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21 model in which the dependent variable is the ratio of the number of employees to total sales
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23 and the predictors include firm size (i.e., the logarithm of total assets), tangibility (i.e., fixed
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25 assets over total assets), and sales growth (i.e., the sales growth rate). All the predictors are
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27 lagged by one year. In the second step, having derived the predicted value from this regression,
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29 we define excess worker as the difference between the actual employment level and the
30
31 predicted one. Consistent with our main analysis, a firm is in the high government social-
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33 dependence group if the firm is located in a province with a high unemployment rate and has
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35 workers in excess of the sample median, and the rest of the firms are in the low government
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37 social-dependence group. In Models 7–8 of Table 7, the coefficient of *treat*post* is not
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39 significant for firms in the high government social-dependence group (coefficient = 0.001, p -
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41 value = 0.385) but is significant for those in the low dependence group (coefficient = 0.002, p -
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43 value = 0.001). Moreover, the coefficient in the latter subsample is significantly greater than
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45 that in the former (Chi-squared (1) = 3.68, p -value = 0.055).
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54 Discussion

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56 Politicians on corporate boards are prevalent across the world and have been widely
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3 studied in the extant literature (El Nayal et al., 2021; Hillman, 2005; Lester et al., 2008; Sun et
4 al., 2016, Tihanyi et al., 2019; Wei et al., 2022). However, scant attention has been paid to
5 understanding concrete remedial actions that focal firms may take to manage the loss of such
6 political capital. This omission in the current discourse necessitates further scholarly inquiries,
7 not least because the vicissitudes of the sociopolitical environment facing firms in
8 emerging/developing economies make their political ties easy to break and difficult to
9 reconstitute (Jiang et al., 2021; Siegel, 2007).

19 Explicitly addressing this omission by examining a regulatory shock that led to the
20 mandated departure of former government officials from their independent director roles, we
21 find that connected companies opted to compensate for the loss of political resources through
22 increased bribery activities. The underlying logic of restructuring the post-shock power
23 dependence relation with the government is further bolstered by empirical analyses of
24 organizational contingencies associated with varying degrees of dependence scope and
25 dependence asymmetry. Concretely, the strength of the bribery-based reaction hinges on a host
26 of firm-level factors that characterize the heterogeneous nature of the dyadic business-
27 government interdependence at the time of the policy announcement.

42 *Theoretical Implications*

45 RDT is a primary perspective to understand the antecedents and outcomes of corporate
46 political strategy (Hillman et al., 2009; Mellahi et al., 2016). While board political connections
47 through a revolving door is a crucial channel to co-opt external political forces, how to manage
48 the loss of such co-optive linkages has been overlooked in the current RDT-based account. Our
49 study deepens the conceptual link between dependence on political actors and corporate actions
50 by examining how firms restructure their power dependence relationships when the erstwhile
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3 political environment is no longer dependable.
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6 Specifically, we apply the resource dependence logic to theorize power restructuring
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8 actions in the face of the broken ties. Bilaterally, the power-disadvantaged party may strive to
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10 maintain the *de facto* exchange relationship with the more powerful party by establishing and
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12 strengthening other types of linkages. Given our research setting that features a deficient
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14 institutional environment, we identify corporate bribery activities as our analytical focus and
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16 examine the ways in which they adjust to the policy shock. Clearly, bribery is ubiquitous under
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18 weak institutions irrespective of the formal presence of politicians on corporate boards. Our
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20 contribution lies in the revelation of the interactive patterns involving multiple dependence-
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22 management strategies subsequent to environmental change.
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26 Indeed, more than a decade ago, Hillman and colleagues (2009: 1415) called for “an
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28 integrated, interactional approach” in their review of the RDT literature, as “research has rarely
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30 considered multiple simultaneous strategies for reducing interdependences.” Consistent with
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32 this observation, research on corporate political strategy has yet to fully capitalize on this
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34 opportunity by investigating how firms manage a portfolio of political activities (Ridge et al.,
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36 2017; Tihanyi et al., 2019). Our study provides a new lens to examine the
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38 complementarity/substitutability between multiple strategies: The loss of feasibility/legitimacy
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40 in one dependence-management strategy results in the intensification of another strategy to
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42 stabilize the resource exchanges with the key external party. Interestingly, our post-hoc
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44 analysis of the interaction between political tie creation and the subsequent bribery expenditure
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46 does not identify a perfect symmetry of the broken tie scenario — the focus of our current
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48 study. This highlights the dense social relationships embedded in bribery activities and implies
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50 the need to integrate social embeddedness and RDT perspectives for a better understanding of
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52 the interactive patterns of multiple cooptation tactics in future research.
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3 Moreover, we unravel the contingency mechanisms that regulate the strength of this
4 substitution effect. The contingencies identified by our empirical study help specify the key
5 aspects (i.e., dependence scope and dependence asymmetry) in the firm-government dyad, thus
6 generating an in-depth and fine-grained understanding of the boundary conditions for such a
7 strategic substitution. There is no denying that the choice of the contingent factors is and must
8 be context-specific and cannot exhaust all facets of dyadic interdependence; however, our
9 approach goes a long way toward informing future research design that can delve deeper into
10 the heterogeneous nature of the business-government interdependence. Therefore, more
11 precise theoretical predictions can be made to help shape RDT in a manner that extends beyond
12 organizational truism (Pfeffer, 2003).
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26 At a broader level, we believe our conceptual development is not confined to studies of
27 board political connections; rather, it can inspire a wider range of research concerning the
28 weakening/loss of resource supply from other key external parties, such as important business
29 partners and societal stakeholders. Future research can explore how organizations use various
30 tactics to restructure their broken/damaged ties to important resource providers such as key
31 suppliers and joint venture partners and how these restructuring tactics are moderated by dyadic,
32 (inter)organizational contingencies. The analytical shift from conventional dependence-
33 reducing strategies to power-restructuring actions in line with changing dependence relations
34 echoes the call for fully realizing RDT's potential to understand the management of
35 environmental complexity (Sutton et al., 2021; Wry, Cobb, & Aldrich, 2013).
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51 *Policy Implications*

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54 The pros and cons of placing politicians on corporate boards are a matter of ongoing public
55 debate in developed and emerging economies alike (e.g., Cavendish, 2021; Tahmincioglu &
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3 Wenger, 2019). While the public is justifiably concerned about the potential negative effects
4 of the revolving door arrangements, outright prohibition of such arrangements through
5 statutory provisions may not seem feasible or desirable. A common way to justify the revolving
6 door practice is to emphasize the knowledge exchange and associated cross-fertilization
7 between private and public sectors. Our study reveals another previously unnoticed dynamic:
8 In emerging economies that lack transparent and well-functioning institutional frameworks,
9 corruption can be deeply embedded in their social fabrics. Although the policy of shutting the
10 revolving door intends to address the problem by eliminating the conflict of interests between
11 politicians and firms, it falls short of disrupting the deeper institutional infrastructures that have
12 bred the corruption (Rothstein, 2011). In the case of China, the latest empirical study (Griffin,
13 Liu, & Shu, 2022) portrays a rather mixed picture regarding the efficacy of the campaign-style
14 anticorruption between 2012 and 2019.

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16 In consequence, it is crucial for policymakers to take into account potential corporate
17 reactions when they formulate policies. It would be naïve to expect that economic and political
18 agents do not search for creative solutions to bypass policy restrictions. Indeed, increased
19 bribery activities may act as functional equivalents to the political ties that are painstakingly
20 broken by these well-intentioned policy mandates. This poses an irony that the shutting of the
21 revolving door under weak institutions may invite perverse responses: more covert and dubious
22 nonmarket operations.

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24 When it comes to politically connected firms, changes in government regulation and
25 political regimes frequently occur in emerging markets, which poses significant risks to firms'
26 operations. Certainly, increased engagement in bribery activities may exacerbate future
27 political/regulatory hazards in a volatile environment. To buffer the turbulence, our study
28 informs firms of potential ways to maintain a broader dependence scope (a more international
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3 operation with diversified revenue streams) and possess a stronger power position relative to
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5 the government via fiscal and labor channels.
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10 *Limitations and Future Research*

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12 As with any study, our study has several notable limitations that suggest avenues for future
13 research. First, in line with the overarching resource dependence logic, our study primarily
14 investigates bribery activities as the outcome variable. Nonetheless, this does not preclude the
15 possibility that other strategic reactions can be employed by focal firms subsequent to the
16 policy change, although it may not be straightforward to predict and theorize these actions
17 purely through the RDT lens. As a matter of fact, apart from bribery, we have empirically
18 explored a variety of other possible corporate actions in our sample companies using the same
19 methodology. While we fail to identify any subsequent changes in the level of outward foreign
20 direct investment (Xia et al., 2014), the incidence of industry diversification (Zhu & Chung,
21 2014), the frequency of mergers and acquisitions (Casciaro & Piskorski, 2005), or the intensity
22 of corporate social responsibility (CSR) activities,⁸ we do find a significant rise in research and
23 development (R&D) investment in companies that lost their politically connected independent
24 directors.
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43 We reckon that this R&D-based dynamic is not entirely driven by our resource
44 dependence logic that concentrates on the restructuring of post-shock power dependence
45 relations, nor is it necessarily amenable to the moderating mechanisms on which we have
46 elaborated with reference to bribery. Instead, as a crucial firm-level search behavior, the
47 examination of the R&D investment dynamics may require a theoretical framing from the
48 threat response perspective (Semadeni, Chin, & Kruse, 2022) and behavioral theory of the firm
49 (Rudy & Johnson, 2016; Xu et al., 2019). When firms face such a threat from the external
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3 policy environment, their market-based search behaviors warrant future research.
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6 Second, how concrete exchange relationships between companies and politicians are
7 developed at the board level may vary depending on country-specific contexts. Thus, the
8 implications of a loss of board political connections can differ across countries. While we
9 believe that the mechanisms examined in the Chinese context may still be relevant to many
10 other emerging economies, future studies can investigate how a loss of different types of
11 political capital affects the deployment of nonmarket tactics in other contexts.
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20 Third, our identification of political connections is limited to former government
21 experience and current membership in legislative bodies. This is subject to an underestimation
22 of these firm leaders' political capital because it may not be reflected in their biographies but
23 may reside in family and friendship ties (e.g., Amore & Bennedsen, 2013; Coulomb & Sangnier,
24 2014). In addition, other forms of political influence activities, such as participating in
25 congressional hearings (Ridge, Ingram, Abdurakhmonov, & Hasija, 2019) and hosting visits
26 by high-ranking government officials (Schuler, Shi, Hoskisson, & Chen, 2017), may signal
27 strong political connectedness. Future studies of subtler forms of business-political relations in
28 conjunction with formal board connections require datasets containing more granular measures
29 of these connections.
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43 Finally, on the methodology front, we acknowledge that we cannot completely rule out
44 the potential bias arising from the nonrandom assignment of treatment and control groups,
45 which is a classic issue in DID-based studies relying on non-experimental data. Owing to our
46 research purpose of evaluating a specific policy impact, a general longitudinal regression
47 practice may not be appropriate. While great care has been taken to minimize the potential bias
48 through the DID-CEM analyses and diagnostic tests in the supplementary analyses, we call for
49 future methodological advances that can minimize this concern.
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Conclusion

Conventional wisdom holds that board political connections are of crucial strategic relevance to focal firms, but it is silent on how firms will respond if the connections are permanently broken. This relates to a broader research agenda on how firms respond to unexpected weakening/loss of resources arising from key external dependence relations. Under a unique research setting in which the Chinese government closed the revolving door between former government officials and the business sector, we draw on RDT and nonmarket strategy literature to understand if and when connected firms tend to intensify their bribery activities as a way to restructure their resource exchange relationships with the government. We hope our study stimulates future research that can unravel more nuances of the interplay between politicians and corporate upper echelons and the corresponding regulatory issues across different institutional contexts.

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Notes

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53 1. For example, in examining the impact of shareholder activism on corporate strategic choices,
54 DesJardine et al. (2022) adopt a combined matching and DID regression approach to address the
55 issue of nonrandom selection regarding shareholder activism.
56 2. While the matching practice may not rule out the possibility that politically connected board chairs
57 or CEOs in the treated and control groups serve different purposes, which in turn affect post-shock
58 bribery levels in the two groups, removing sample companies with politically connected board
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chairs or CEOs from our empirical analysis will cause a presumably more serious data-truncation problem and the associated sample selection bias (Certo, Busenbark, Woo, & Semadeni, 2016). Data are truncated because politically connected independent directors are identified only if *Chair/CEO political capital* equals zero. Consequently, sample-selection bias can “arise if selection into a sample is not random” (Hill et al., 2021: 112), and this selection process is performed “through choices of the researcher” (Hill et al., 2021: 129).

3. We use the *cem* command in Stata to execute the CEM analysis (Blackwell et al., 2009).
4. Within the matched sample, 1,890 of our 2,004 firm-year observations reported non-zero values; thus, there is little concern about the left-censored issue. We thus estimate the regression model using ordinary least squares (OLS) with robust standard errors (Wooldridge, 2003).
5. Oster (2019) uses the changes in the R^2 and coefficient of interest from an uncontrolled regression (i.e., regression without controls) to a controlled one (i.e., regression with full controls) to compute the bias-adjusted coefficient, β^* .
6. Indeed, Oster (2019) suggests R_{\max} be set equal to $\text{Min}\{1.3 \cdot R^2, 1\}$, where R^2 is obtained from the regression including all controls. In our case, the R^2 in our analysis is 0.8 based on Model 1 of Table 5; thus, we set the value of R_{\max} to 1 ($=\text{Min}\{1.3 \cdot R^2, 1\} = \text{Min}\{1.04, 1\} = 1$).
7. $\delta = 1$ and $R_{\max} = 1$ are relatively conservative values, as Oster (2019: 200) noted that “only about 9% to 16% of results would survive $R_{\max} = 1$ ” (and $\delta = 1$).
8. Inspired by the idea that CSR activities can be used to buffer political hazards (Darendeli & Hill, 2016), we use data on corporate social-performance ratings and philanthropic donation values to examine if connected companies intensified their CSR activities in these two aspects after the policy shock.

Table 1

Summary Statistics for the Treatment and Control Groups before and after Matching

Variable		Mean		Difference between (1) and (2)		
		Treated(1)	Control(2)	Diff. (absolute)	t-stat	p-value
ROA	Unmatched	0.052	0.046	-0.006	-1.829	0.068
	Matched	0.049	0.049	0.000	-0.137	0.891
Firm size	Unmatched	21.213	21.097	-0.115	-1.819	0.069
	Matched	21.101	21.060	-0.041	-0.550	0.583
Book-to-market ratio	Unmatched	0.831	0.803	-0.028	-0.685	0.494
	Matched	0.752	0.759	0.007	0.163	0.871
Firm leverage ratio	Unmatched	0.359	0.404	0.045	1.101	0.271
	Matched	0.330	0.304	-0.026	-1.239	0.216
Chair/CEO political capital	Unmatched	0.366	0.297	-0.069	-2.206	0.028
	Matched	0.311	0.317	0.006	0.118	0.907

Notes: For the unmatched sample, the numbers of treatment and control firms are 292 and 843, respectively, in year 2013. For the matched sample, both treatment and control firms total 167 in year 2013.

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Table 2
Tests Examining the Parallel Trend Assumption

	Model 1		Model 2		Model 3	
	Bribery		Ent. Expense1		Ent. Expense2	
Year ₂₀₁₂	-0.001	[0.583]	0.423	[0.103]	0.001	[0.396]
Year ₂₀₁₃	-0.001	[0.587]	0.488	[0.333]	-0.001	[0.992]
Year ₂₀₁₄	-0.002	[0.226]	0.162	[0.839]	-0.001	[0.485]
Year ₂₀₁₅	-0.003	[0.171]	0.154	[0.890]	-0.002	[0.476]
Year ₂₀₁₆	-0.004	[0.140]	0.145	[0.918]	-0.003	[0.403]
Treat*Year ₂₀₁₂	0.001	[0.587]	0.324	[0.447]	-0.001	[0.968]
Treat*Year ₂₀₁₃	0.001	[0.786]	0.508	[0.220]	-0.001	[0.629]
Treat*Year ₂₀₁₄	0.002	[0.015]	1.015	[0.015]	0.001	[0.140]
Treat*Year ₂₀₁₅	0.002	[0.008]	1.166	[0.008]	0.001	[0.115]
Treat*Year ₂₀₁₆	0.003	[0.000]	1.431	[0.002]	0.003	[0.005]
Internationalization	0.001	[0.222]	0.048	[0.154]	0.001	[0.153]
Subsidy	0.042	[0.176]	9.384	[0.144]	0.040	[0.184]
Chair/CEO political capital	0.001	[0.486]	0.385	[0.127]	0.001	[0.560]
ROA	-0.004	[0.499]	2.210	[0.205]	-0.009	[0.195]
Firm size	-0.001	[0.292]	0.573	[0.008]	-0.001	[0.090]
Firm age	0.001	[0.426]	-0.088	[0.781]	0.0011	[0.785]
Board size	-0.001	[0.193]	0.003	[0.960]	-0.001	[0.122]

Board independence	-0.001	[0.777]	0.463	[0.644]	-0.001	[0.779]
Ownership concentration	-0.001	[0.035]	-0.032	[0.009]	-0.001	[0.051]
Institutional quality	0.001	[0.581]	0.059	[0.747]	0.001	[0.461]
Constant	0.013	[0.322]	3.266	[0.560]	0.032	[0.029]
Year fixed effects	Yes		Yes		Yes	
Firm fixed effects	Yes		Yes		Yes	
# of observations	2004		2004		2004	
Adj. R ²	0.757		0.686		0.780	

Notes: All tests are two tailed. Exact *p*-values are in square brackets.

Table 3
The Benefits of Board Political Connections

	Heckman 1 st stage		Heckman 2 nd stage					
	Model 1		Model 2		Model 3		Model 4	
	Political capital		Subsidy		Bank loan		Tax	
Political capital			0.472	[0.047]	0.450	[0.006]	-2.102	[0.033]
Average political	4.471	[0.001]						
ROA	-0.029	[0.955]	7.130	[0.001]	0.674	[0.415]	47.374	[0.001]
Firm size	-0.012	[0.685]	1.442	[0.001]	0.198	[0.001]	11.491	[0.001]
Firm age	-0.001	[0.786]	-0.154	[0.001]	0.017	[0.039]	0.439	[0.001]
Board size	0.134	[0.001]	-0.074	[0.118]	0.053	[0.102]	1.050	[0.001]
Board independence	0.127	[0.776]	-0.927	[0.374]	-1.169	[0.104]	10.814	[0.012]
Ownership concentration	-0.000	[0.899]	-0.002	[0.608]	0.003	[0.325]	0.067	[0.001]
IMR			0.085	[0.544]	-0.151	[0.118]	0.664	[0.254]
Constant	-4.135	[0.001]	-13.829	[0.001]	-4.704	[0.001]	-252.310	[0.001]
# of observations	3121		3121		3121		3121	
Adj. R ²			0.294		0.021		0.511	
Pseudo R ²	0.0796							

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3 Notes: Political capital is a dummy variable that equals 1 if a company had at least one independent
4 director with prior government working experience, and 0 otherwise. To account for the self-selection
5 issue, our study employs a Heckman treatment model (Hill et al., 2021). The first-stage model is a
6 Probit model that predicts the likelihood of a firm's appointment of independent directors with prior
7 government working experience. Following Hill and colleagues' (2021) suggestion that at least one
8 instrument needs to be added in the first-stage Probit model, we use the proportion of firms with political
9 directors in the same industry (average political) as the instrument. This is because the variable is likely
10 to influence a focal firm's decision to appoint political directors but unlikely to be correlated to the
11 second-stage outcome variables. We also include several firm-level controls in the Probit model. We
12 calculate the inverse Mills ratio (IMR) from the first-stage Probit model and include this as a control in
13 the second-stage regression. Exact p -values are in square brackets. Year- and industry-fixed effects are
14 included in the regressions.
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For Peer Review

Table 4
Descriptive Statistics and Correlations

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Bribery	0.003	0.01	1														
2. Post	0.5	0.5	0.006	1													
3. Treat*post	0.25	0.433	0.040	0.577	1												
4. Internationalization	1.115	2.438	0.047	-0.175	0.064	1											
5. Subsidy	0.008	0.014	0.091	-0.010	0.012	0.006	1										
6. High gov. fiscal dependence	0.257	0.437	-0.07	-0.003	0.032	0.060	-0.040	1									
7. High gov. social dependence	0.225	0.417	-0.100	-0.002	0.012	-0.001	0.032	0.356	1								
8. Chair/CEO political capital	0.316	0.465	-0.040	0.008	0.001	0.077	-0.010	0.088	0.084	1							
9. ROA	0.052	0.044	-0.070	-0.170	-0.120	0.036	-0.040	0.081	0.013	0.038	1						
10. Firm size	21.2	0.754	-0.140	0.217	0.158	0.281	-0.070	0.330	0.264	0.060	0.051	1					
11. Firm age	12.3	5.049	-0.010	0.289	0.156	0.091	0.049	0.039	0.097	0.022	-0.060	0.095	1				
12. Board size	8.407	1.514	-0.070	-0.110	0.009	0.009	-0.010	0.134	0.196	0.012	0.038	0.127	0.028	1			
13. Board independence	0.39	0.07	0.071	0.167	0.142	0.006	-0.010	0.036	-0.050	0.015	-0.002	-0.020	0.018	-0.380	1		
14. Ownership concentration	33.24	14.12	-0.080	-0.110	-0.130	-0.010	-0.050	0.061	0.032	0.094	0.095	0.043	-0.090	-0.120	0.037	1	
15. Institutional quality	7.915	1.589	0.029	0.268	0.153	0.165	-0.020	-0.400	-0.400	-0.030	-0.020	0.062	0.032	-0.180	0.112	-0.010	1

Notes: N = 2,004; All correlations above |.047| are significant at $p < 0.05$.

Table 5 Difference-In-Differences Estimations of Bribery Expenditures before and after the Policy Change

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
	Full sample	High inter.	Low inter.	High subsidy	Low subsidy	High gov. fiscal dep.	Low gov. fiscal dep.	High gov. social dep.	Low gov. social dep.
Post	-0.004 [0.184]	-0.001 [0.830]	-0.004 [0.229]	-0.007 [0.184]	-0.001 [0.790]	-0.002 [0.676]	-0.004 [0.229]	-0.002 [0.686]	-0.004 [0.207]
Treat*Post	0.002 [0.001]	0.001 [0.705]	0.003 [0.001]	0.004 [0.001]	0.001 [0.608]	0.001 [0.552]	0.003 [0.001]	0.001 [0.914]	0.003 [0.001]
Internationalization	0.001 [0.253]			0.001 [0.860]	0.001 [0.517]	-0.001 [0.637]	0.001 [0.253]	0.001 [0.944]	0.001 [0.330]
Subsidy	0.041 [0.188]	0.149 [0.014]	0.007 [0.318]			-0.008 [0.555]	0.044 [0.197]	0.051 [0.267]	0.013 [0.445]
Chair/CEO political capital	0.001 [0.483]	-0.001 [0.783]	0.002 [0.088]	0.003 [0.073]	-0.001 [0.808]	0.002 [0.070]	0.001 [0.740]	0.003 [0.250]	-0.001 [0.902]
ROA	-0.004 [0.506]	-0.007 [0.272]	0.001 [0.958]	-0.007 [0.486]	-0.001 [0.864]	0.007 [0.417]	-0.007 [0.348]	-0.016 [0.251]	0.001 [0.930]
Firm size	-0.001 [0.330]	0.001 [0.535]	-0.001 [0.130]	-0.002 [0.061]	0.001 [0.738]	0.001 [0.373]	-0.001 [0.209]	-0.001 [0.537]	-0.001 [0.248]
Firm age	0.001 [0.403]	-0.001 [0.901]	0.001 [0.373]	0.001 [0.266]	-0.001 [0.911]	0.001 [0.976]	0.001 [0.413]	0.001 [0.805]	0.001 [0.561]
Board size	-0.001 [0.194]	-0.001 [0.655]	-0.001 [0.240]	-0.001 [0.656]	-0.001 [0.296]	-0.001 [0.364]	-0.001 [0.236]	-0.001 [0.527]	-0.001 [0.274]
Board independence	-0.001 [0.742]	-0.002 [0.440]	0.001 [0.776]	-0.002 [0.530]	-0.001 [1.000]	0.004 [0.475]	-0.002 [0.424]	-0.005 [0.358]	0.001 [0.900]
Ownership concentration	-0.001 [0.043]	-0.001 [0.229]	-0.001 [0.050]	-0.001 [0.001]	-0.001 [0.729]	-0.001 [0.167]	-0.001 [0.102]	-0.001 [0.124]	-0.001 [0.064]
Institutional quality	0.001 [0.621]	0.001 [0.159]	-0.001 [0.814]	-0.001 [0.355]	0.001 [0.280]	0.001 [0.442]	-0.001 [0.964]	0.001 [0.527]	0.001 [0.229]
Constant	0.012 [0.362]	-0.007 [0.680]	0.028 [0.151]	0.035 [0.097]	-0.005 [0.790]	-0.015 [0.431]	0.023 [0.185]	0.009 [0.606]	0.018 [0.318]
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
# of observations	2004	834	1170	1002	1002	516	1488	450	1554
Coefficient test:									
Chi-squared (1)		16.12[0.001]		19.92[0.001]		7.38[0.007]		8.24[0.004]	
Adj. R ²	0.757	0.832	0.712	0.748	0.772	0.706	0.766	0.526	0.780

Notes: All tests are two tailed. Exact p-values are in square brackets.

Table 6
Difference-In-Differences Estimations Examining Bribery Expenditures in Response to
the Creation of Board Political Connections

	Model 1		Model 2	
	Full sample		CEM sample	
Post	0.001	[0.180]	-0.002	[0.076]
Treat*Post	-0.001	[0.395]	-0.001	[0.684]
ROA	0.003	[0.341]	-0.002	[0.692]
Firm size	-0.003	[0.001]	-0.005	[0.001]
Firm age	0.001	[0.090]	0.003	[0.002]
Board size	0.001	[0.475]	0.001	[0.033]
Board independence	0.003	[0.542]	0.008	[0.309]
Ownership concentration	-0.001	[0.046]	-0.001	[0.189]
Institutional quality	-0.001	[0.412]	-0.001	[0.714]
Constant	0.062	[0.001]	0.087	[0.001]
# of observations	2340		786	
Year fixed effects	Yes		Yes	
Firm fixed effects	Yes		Yes	
Adj. R ²	0.616		0.690	

Note: Exact *p*-values are in square brackets.

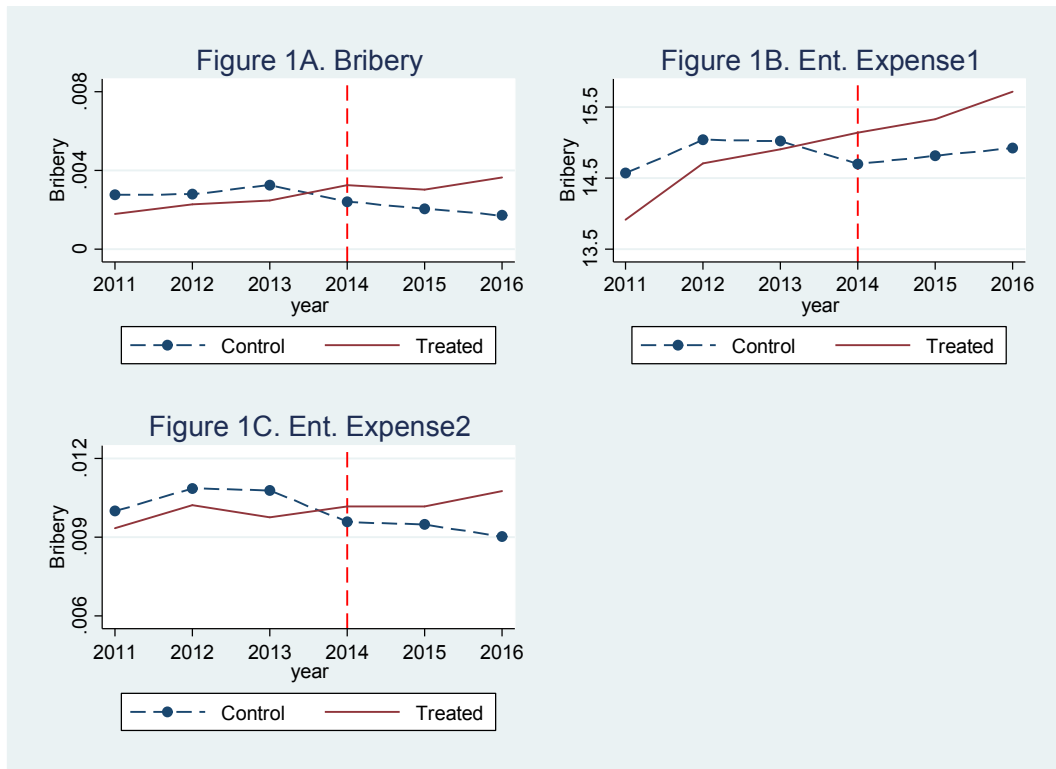
Table 7
Difference-In-Differences Estimations of Bribery Expenditures: Robustness Checks for H2–H5

	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6		Model 7		Model 8	
	High intl.		Low intl.		High subsidy		Low subsidy		High gov. fiscal dep.		Low gov. fiscal dep.		High gov. social dep.		Low gov. social dep.	
Post	0.003	[0.294]	-0.010	[0.062]	-0.007	[0.187]	-0.002	[0.488]	-0.004	[0.213]	-0.004	[0.340]	0.002	[0.683]	-0.004	[0.176]
Treat*Post	0.001	[0.022]	0.003	[0.001]	0.003	[0.001]	0.001	[0.039]	0.001	[0.185]	0.003	[0.001]	0.001	[0.385]	0.002	[0.001]
Internationalization					0.001	[0.082]	0.000	[0.618]	-0.000	[0.310]	0.001	[0.179]	-0.001	[0.068]	0.001	[0.195]
Subsidy	0.062	[0.215]	-0.006	[0.672]					0.010	[0.499]	0.040	[0.223]	0.126	[0.062]	0.008	[0.368]
Chair/CEO political capital	-0.001	[0.741]	0.002	[0.160]	0.002	[0.106]	-0.001	[0.743]	0.001	[0.151]	0.001	[0.518]	0.004	[0.317]	-0.001	[0.978]
ROA	-0.008	[0.380]	-0.002	[0.784]	-0.003	[0.795]	-0.009	[0.366]	0.007	[0.343]	-0.009	[0.278]	-0.019	[0.152]	0.001	[0.832]
Firm size	0.001	[0.303]	-0.002	[0.153]	-0.001	[0.296]	-0.001	[0.607]	0.001	[0.123]	-0.002	[0.084]	0.001	[0.719]	-0.001	[0.173]
Firm age	-0.001	[0.125]	0.002	[0.109]	0.001	[0.267]	0.001	[0.831]	0.001	[0.751]	0.001	[0.433]	-0.001	[0.582]	0.001	[0.308]
Board size	0.000	[0.248]	-0.001	[0.051]	0.001	[0.947]	-0.001	[0.111]	-0.001	[0.011]	-0.001	[0.949]	-0.001	[0.048]	-0.001	[0.479]
Board independence	-0.004	[0.103]	0.003	[0.503]	-0.001	[0.704]	-0.001	[0.821]	0.002	[0.745]	-0.002	[0.604]	-0.008	[0.142]	0.001	[0.829]
Ownership concentration	-0.000	[0.251]	-0.000	[0.015]	-0.001	[0.017]	-0.001	[0.308]	-0.001	[0.035]	-0.001	[0.095]	-0.001	[0.087]	-0.001	[0.155]
Institutional quality	0.000	[0.755]	0.001	[0.429]	-0.001	[0.507]	0.001	[0.315]	0.001	[0.058]	-0.001	[0.582]	-0.001	[0.865]	0.001	[0.389]
Constant	-0.002	[0.892]	0.023	[0.384]	0.010	[0.568]	0.015	[0.521]	-0.017	[0.098]	0.034	[0.096]	0.015	[0.443]	0.016	[0.333]
Year fixed effects	Yes		Yes		Yes		Yes		Yes		Yes		Yes		Yes	
Firm fixed effects	Yes		Yes		Yes		Yes		Yes		Yes		Yes		Yes	
# of observations	1002		1002		1002		1002		648		1356		444		1560	
Coefficient test:	5.43[0.020]				3.57[0.059]				6.76[0.009]				3.68[0.055]			
Chi-squared (1)	5.43[0.020]				3.57[0.059]				6.76[0.009]				3.68[0.055]			
Adj. R ²	0.720		0.775		0.786		0.723		0.731		0.760		0.639		0.778	

Note: All tests are two tailed. Exact *p*-values are in square brackets.

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Figures 1A-1C
Time Trends of Bribery Expenditures (in Various Forms) for Treatment- and Control-Group Companies before and after the Policy Change



Figures 2A-5B The Illustration of Moderating Effects

