ARE COLLECTIVE POLITICAL ACTIONS AND PRIVATE POLITICAL ACTIONS SUBSTITUTES OR COMPLEMENTS? EMPIRICAL EVIDENCE FROM CHINA’S PRIVATE SECTOR

NAN JIA*

Department of Management and Organization, Marshall School of Business, University of Southern California, Los Angeles, California, U.S.A.

This paper examines the circumstances under which collective and private corporate political actions are more likely to be substitutes or complements. Using data based on a series of nationwide surveys conducted on privately owned firms in China, I find that firms that are engaged in collective political actions are more likely to pursue private political actions. This positive relationship is stronger in less economically developed provinces and when there are greater opportunities for the state to redistribute economic resources in product and capital markets. Meanwhile, this relationship is weaker in the presence of heavier regulatory burdens and for firms in which the state has some equity or owned by individuals who had prior political careers. These findings contribute to the corporate political action literature.

INTRODUCTION

Corporate political actions (CPAs) are activities undertaken by firms that target the political system to influence political decisions and public policies for private ends, thereby contributing to firms’ overall performance (e.g., Baysinger, 1984; Bonardi et al., 2006; Hillman et al., 1999; Peng and Luo, 2000). A key decision for firms in pursuing CPAs is the type of political action that is involved; that is, whether the firm should pursue political actions collectively with other firms or individually (Hillman and Hitt, 1999). In the CPA literature, there is an ongoing debate between whether collective and private CPAs are substitutes or complements. On the one hand, many studies show that collective and private CPAs are substitutes in that the decision to pursue one obviates the need for the other. Based on this assumption, prior studies have examined the factors that may shift a firm’s preferences toward private political actions instead of collective political actions, or vice versa (e.g., Hansen et al., 2005; Hillman and Hitt, 1999). On the other hand, other studies have found that firms tend to combine the use of different types of CPAs because collective political actions facilitate a firm’s pursuit of private political actions by helping it gain greater access to politicians and legislators. Based on this reasoning, collective and private CPAs are complementary (e.g., Hansen and Mitchell, 2000; Hansen et al., 2004; Schuler et al., 2002).

This paper aims to reconcile these two views by drawing on theories of collective action, institutional economics, and political economy to identify the contingencies under which collective and private CPAs are more likely to be substitutes or complements. Specifically, I examine whether
and when firms that are already engaged in collective political actions are more (or less) likely to further pursue private political actions. I focus on two sets of moderating conditions that may alter this relationship. The first set of factors relates to how institutional environments affect the political benefits achievable through different types of political actions, and the second set of factors relates to alternative opportunities for individual firms to gain access to state actors to pursue private political actions. Integrating insights from other bodies of theories enables me to generate testable and observable predictions about the relationship between collective and private political actions, which helps to address the criticism that CPA research generally suffers from the difficulties of empirically testing many of the insights and propositions that have emerged from conceptual work.

In addition to addressing this theoretical tension, this paper also intends to broaden our current understanding of CPAs in the context of the Chinese private sector. Given the immense influence of the state in the establishment and development of virtually all markets in China, managing business-government relationships and undertaking political activities have become essential components of firms’ core strategies that few Chinese firms can avoid (e.g., Bai, Lu, and Tao, 2006; Chen and Dickson, 2010; Cull and Xu, 2005; Dickson, 2003; Kennedy, 2005; Li and Zhang, 2007; Luo, 2003; Peng and Luo, 2000). Understanding how firms from a wide range of locations and industries organize their political activities in China is of great interest to both academics and practitioners who intend to do business there.

This paper tests its hypotheses by employing novel firm-level surveys conducted on nationwide samples of privately owned enterprises (POEs) in China in 1995, 1997, 2000, 2002, 2004, and 2006, as well as province-level institutional indices for each of the years listed above. The results indicate that, on average, the firms that participate in the most prominent collective political organization, known as the All-China Federation of Industry & Commerce (ACFIC), have a greater propensity to seek individual participation in the People’s Congress (the Congress) or the People’s Consultative Conference (the Conference), a type of private political action that is of the utmost importance to private entrepreneurs in China (Li et al., 2006). More importantly, ACFIC members are more likely to seek private political participation than non-ACFIC members in provinces that are less economically developed and possess governments with greater redistribution powers in product and capital markets. Finally, state ownership, prior political connections, and an environment with heavier regulatory burdens weaken the greater tendency to seek private political participation that ACFIC members display relative to non-ACFIC members.

As noted above, this paper contributes to the CPA literature by deepening our understanding of the relationship between collective and private CPAs as substitutes or complements (e.g., Hansen et al., 2005; Hillman and Hitt, 1999; Gray and Lowery, 1997; Schuler et al., 2002). Going beyond a direct “horse race” between the two contrasting predictions of the nature of this relationship, this paper delineates the circumstances under which the strength of the theoretical mechanisms that drive a substitutive or complementary relationship vary, thereby providing comprehensive, nuanced, and contingent perspectives regarding firms’ decisions to pursue either collective or individual CPAs.

Moreover, this paper also contributes to the emerging body of research that examines firms’ political strategies in the context of developing countries. Although firms have been found to more actively pursue political actions in locations where markets and market-supporting institutions are less developed (e.g., Henisz, 2000; Henisz and Zelner, 2003; Li and Zhang, 2007; Li et al., 2006; Luo, 2003), little is known about the influence of market-supporting institutions on how firms pursue political actions, such as their incentives to pursue collective and/or private CPAs. To address this gap, this paper examines two different aspects of the development of the institutional environment. An institutional environment characterized by underdeveloped infrastructure creates a need for a range of public policies that are likely to be agreed upon by firms as Pareto improving, thus leading to greater marginal returns of collective political actions relative to private political actions. Meanwhile, an institutional environment fraught with opportunities for wealth redistribution generates greater chances of pursuing political benefits that are deemed to be of a zero-sum nature—a condition that encourages private political actions. These aspects have different implications for the value of private political actions versus the value of collective political actions and, thus, have...
distinctly different impacts on firms’ inclinations to use different types of CPAs.

In this paper, I first develop the theoretical framework and hypotheses and then introduce the institutional context and empirical methods. Next, I present the results of the empirical analysis and the robustness checks, and conclude with a discussion of theoretical and managerial implications and future research directions.

THEORY AND HYPOTHESES

The relationship between collective and private CPAs

In examining CPAs, scholars have questioned a standard approach of only examining a single type of CPA, emphasizing the importance of a comprehensive view of different types of CPAs because the relationship between them can be multifaceted (e.g., Hansen and Mitchell, 2000). One fundamental dimension that distinguishes CPA types is the distinction between private and collective CPAs, as described by Olson (1965). Many studies regard collective and private CPAs as alternative means to achieving the same political goals; by this logic, the use of one type of CPA will obviate the need to employ the other. For example, Hillman and Hitt (1999) proposed that collective actions pool firms’ resources and thereby produce a lower per-firm cost of political action; thus, they concluded that collective political actions constitute a less costly alternative to private political actions. Based on a review of the political science literature that addresses the relationship between collective and private CPAs, Hansen et al. (2004) proposed that firms’ reliance on collective associations to pursue political activities serves as a substitute for their individual political activities. Similarly, Harstad and Svensson (2011) argued that if collective lobbying is successful in changing a rule, then the efforts of an individual firm to bend the rule through bribery will become redundant. Therefore, when collective and private CPAs can be used to achieve the same political goals, they become substitutes. A substitution effect means that engaging in collective political actions lowers the need to further pursue private political actions. When some collective political actions are undertaken, the marginal benefits of pursuing private political actions are lower than when collective political actions are not undertaken because collective political actions have achieved at least some of the goals that private political actions intend to achieve. This conclusion implies that firms that are engaged in collective political actions are less likely to pursue private political actions than firms that are not engaged in collective political actions.

However, collective political actions can also be complementary to private political actions. Schuler et al. (2002) found that firms combine different types of political actions to achieve the highest competitive advantage because a firm’s successful engagement in one type of political action helps it establish favorable relationships with and access to politicians and officials, thus allowing the company to effectively implement other types of political actions. In a study by Hansen et al. (2004), the authors found that, contrary to the theoretical proposition that collective and private political actions are substitutes, most U.S. firms used collective activities in business associations as complements to their individual political activities, such as political contributions. To the extent that political experience and connections accumulated through collective political actions increase a firm’s success in its private political undertakings, the two types of CPAs are complementary. A complementary effect means that collective political actions facilitate the pursuit of private political actions. If collective political actions are performed, the marginal benefits of private political actions tend to be higher than they would be if collective political actions were not performed because collective actions assist firms in becoming more effective in their private actions. This conclusion suggests that firms that are engaged in collective political actions are more likely to pursue private political actions than firms that are not engaged in collective political actions.1

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1Theoretically speaking, to examine the relationship between the two types of political actions, we could also analyze the use of collective political actions conditional on private political actions. I use collective political actions as the starting point of the analysis for the following reasons. For many firms, collective political actions are less costly than private political actions because firms can pool resources and share the costs of collective political actions (Hansen et al., 2004; Hillman and Hitt, 1999). Therefore, for many firms, an opportunity to pursue a collective political action, such as joining a collective association, could emerge before they engage in private political actions on their own. Although the difference of the costs of the two types of political actions may constitute an additional moderator of
Moderating effects

Despite the competing arguments on the relationship between collective and private CPAs, these arguments may not be contradictory because they rely upon distinct theoretical mechanisms that are constructed from different assumptions. This difference means that a change in circumstances that affects either theoretical mechanism may produce a change in the relationship between the two types of political actions. For example, Schuler et al. (2002) examined industry conditions and firm size, which may strengthen the complementary relationship among different types of political actions. In this paper, I focus on several institutional environment and firm factors that affect the conditions under which firms’ collective political actions increase or decrease their likelihood of engaging in private political actions.

When market-supporting institutions are less developed, which is the case in many emerging economies, significant hazards are generated for firms; therefore, an important goal of CPAs is to alleviate these hazards (e.g., Henisz and Zelner, 2003; Li and Zhang, 2007; Li et al., 2006). The countries with weak market-supporting institutions are also likely to be less economically developed and to possess insufficient or lower-quality infrastructure (e.g., Acemoglu and Johnson, 2005). In this case, deficiencies in infrastructure refer to both shortages of “hard” physical infrastructure and underdeveloped institutional infrastructure, such as weak checks and balances on regulatory power (e.g., North and Weingast, 1989). Policies aimed at strengthening a nation’s infrastructure often possess the important feature of being Pareto improving because these policies typically conform to the broader interest of the business community and society as a whole. For example, a broad range of businesses will benefit from improvement in the quality of physical public infrastructure in sectors such as transport, water and sanitation, power, telecommunication, and irrigation, as well as from more-developed institutions that protect firms from expropriation, including a well-functioning legal system, anticorruption initiatives, and the regulation and provision of basic societal needs, such as food, safety, and health care. Well-developed infrastructure constitutes a solid foundation for business growth and economic development (e.g., Kessides, 1993), an outcome of common interests to most firms.

Deficiencies in these public goods provide greater opportunities for achieving consensus among firms regarding the need for their collective provision. Given the common goals and potential need for coordination in achieving them, the marginal returns of collective political actions in these instances are relatively large compared with those of private political actions. In other words, collective political actions tend to be more effective in serving these common interests of improving infrastructure than private political actions because all firms stand to benefit from improved infrastructure. This point suggests that, when facing a greater need to improve infrastructure, collective political actions constitute a stronger substitute for private political actions; that is, taking collective political actions may serve as a more attractive alternative option compared to taking private political actions. Given that the substitution effect indicates that firms that have taken collective political actions will have lower incentives to pursue private political actions than firms that do not engage in any collective political actions (the first competing effect discussed above), a need to improve the infrastructure should make this negative relationship more pronounced.

Hypothesis 1 (H1): In an institutional environment with less-developed infrastructure, firms that are engaged in collective political actions are less likely to pursue private political actions than firms that are not engaged in collective political actions.

Although environmental factors, such as the need for improved infrastructure, increase the common benefits achievable by collective political actions, thereby rendering collective political actions stronger substitutes for private political actions in general ceteris paribus, firm-level factors affect how political actions are undertaken. The first consideration is that a commonly shared interest in improving infrastructure may not equally increase every firm’s participation in collective political actions. Olson (1965) highlighted
that the free-rider problem thwarts an individual member’s incentives to participate in collective actions and showed that to overcome the free-rider problem, an individual member’s valuation of the public good should be sufficiently large to cover the cost of providing it. Based on this theory, firm size is shown to indicate an individual firm’s valuation of collective goods (e.g., Grier et al., 1994; Lenway and Rehbein, 1991), and larger firms are found to be more capable of overcoming the free-rider problem (e.g., Salamon and Siegfried, 1977). Therefore, although the increased common interests in improving infrastructure raises the possibility for an average firm to participate in collective political actions ceteris paribus, it may not increase participation in collective political actions to the same extent for all types of firms because larger firms are more likely to pursue collective political actions when opportunities of collectively seeking common interests emerge. Therefore, for larger firms, greater chances of pursuing the common interests by improving infrastructure are more likely to translate into a higher likelihood of participating in collective political actions, thereby producing a stronger effect of substitution for private political actions.

Hypothesis 1a (H1a): The moderating effect in H1 is stronger for larger firms than it is for smaller firms.

In improving infrastructure, certain institutional contexts permit another possibility. We have argued that most firms will benefit from more-developed infrastructure. In the process of achieving this end, however, some institutional factors allow large elite firms to pursue their narrow private interests, often at the expense of society (Bayliss, 2002; Campbell-White and Bhatia, 1998). For example, during the privatization of the development of hard infrastructure, such as electricity and telecommunications systems, in Latin America in the 1990s, powerful domestic elites influenced the process to disproportionately benefit themselves (for a review of privatization, see Megginson and Netter, 2001). Whether large elite firms are able to “hijack” the process of constructing and privatizing infrastructure critically depends on the presence of poorly designed contracts, opaque processes with heavy involvement of the state, lack of reregulation, and a poor governance framework (Chong and Lopez-de-Silanes, 2003). These factors do not universally exist in all contexts, and individual firms are not always able to hijack the process of infrastructure privatization. However, when these factors are present, large elite firms can reap greater marginal benefits from private political actions and, for these firms, collective political actions become weaker substitutes for private political actions. This means that in the presence of poorly designed contracts, opaque processes with heavy state involvement, lack of reregulation, and a poor governance framework during privatization of infrastructure:

Hypothesis 1b (H1b): The moderating effect in H1 is weaker for larger firms than it is for smaller firms.

H1a and H1b have hypothesized countervailing effects regarding how the relationship in H1 varies between larger firms and smaller firms. In essence, H1a and H1b together address the alternative options available to larger firms in improving infrastructure: compared to smaller firms, larger firms have both greater advantages in leading collective political actions, and more opportunities to use private political actions to “hijack” privatization. As the data does not provide sufficient information of the conditions under which “hijacking” could occur, which would otherwise offer an opportunity to further distinguish H1b from H1a, I let the empirical analysis dictate the race between the two competing hypotheses. Both H1a and H1b, however, have enriched the insights of H1, as they investigate how the environmental effect of H1 may be more (or less) pronounced among certain types of firms.

However, not all political decisions and public policies that support markets are Pareto improving in an environment containing underdeveloped institutions. Political decisions and public policies involving the redistribution of resources and wealth often represent “zero-sum” games in which one firm’s gain is another firm’s loss. For instance, if the state has substantial control over
a pool of essential economic resources, such as bank credit, as is the case in China (e.g., Bai et al., 2006), then allocating more resources to one firm can only be accomplished by decreasing the resources allocated to other firms.

When market failures are coupled with government control of resources, a situation that is prevalent in many transitional economies, firms are motivated to use political actions to acquire valuable resources from the government because underdeveloped markets do not supply these resources in sufficient quantities. For instance, Chinese private entrepreneurs are active in using political capital to obtain bank loans because the financial markets in China are heavily influenced by the state (Bai et al., 2006; Cull and Xu, 2005).

In pursuit of the political benefits generated by the redistribution of wealth (a process known as “political rent-seeking” in public choice theory, as noted by Bhagwati, 1982, and others), different firms may engage in antagonistic CPAs as they “compete” for a fixed pool of resources. Moreover, the resources acquired through governmental actions may only exclusively benefit a limited set of firms, making it more difficult for groups of companies to coordinate collective political actions. Thus, the relative value of private political actions is greater in this redistributive scenario. This observation implies that collective political actions should be more valuable in terms of providing access because when firms that are already engaged in collective political actions have easier access to key state actors, their pursuit of private political actions are facilitated. Thus, as distribution opportunities increase, the inclination to pursue private political actions increases more substantially for firms that have undertaken collective political actions than for those that have not.

Hypothesis 2 (H2): In an institutional environment in which the state has greater power to allocate resources, firms that are engaged in collective political actions are more likely to pursue private political actions than firms that are not engaged in collective political actions.

A comparison of the reasoning underlying H1 and H2 can be summarized as follows: seeking to improve basic infrastructure through political actions essentially changes the rules of the game for everyone, whereas seeking the redistribution of wealth frequently entails bending the rules for an individual firm or a limited number of firms, often at the expense of other firms. Therefore, collective political actions tend to be a better fit for the former situation, whereas private political actions are more suitable for the latter scenario. For firms that are already engaged in collective political actions, the two situations have different effects on the incentives for continuing to pursue private political actions.

Finally, firm-level heterogeneity can also affect the relationship between collective and private CPAs. Although undertaking collective political actions can facilitate a firm’s pursuit of private political actions by expanding the firm’s access to key politicians and bureaucrats, this effect will be less valuable to the firms that already enjoy alternative methods of accessing state actors. For instance, firms with public ownership may have a greater opportunity to become acquainted with politicians and regulators, and firms that have formed political connections with key state actors through other means may also have better chances of achieving success when undertaking private political actions. Therefore, the positive effect of collective political actions on the propensity to undertake private political actions is weaker for firms that have alternative access to state actors, and these alternative channels weaken the complementary relationship between collective and private CPAs.

Hypothesis 3 (H3): Firms that are engaged in collective political actions and have alternative access to state actors are less likely to pursue private political actions than firms that are engaged in collective political actions but do not have alternative access to state actors.

EMPIRICAL METHODS

Institutional background: corporate political actions in the Chinese private sector

In the Chinese private sector, POEs can achieve the political goal of alleviating the risks of governmental expropriation through various political actions. One of the most important types of private political actions is participation in the Congress or the Conference, and one of the most
prominent collective political actions is participation in a quasi-governmental organization called the ACFIC.

The Congress and the Conference are two key bodies of the Chinese political structure. The Congress plays an important role in the political system; it not only drafts and approves laws and policies but also oversees their enforcement, monitors administrative entities, appoints and impeaches government officials, and makes decisions regarding the major issues within its jurisdiction (Li et al., 2006; Manion, 2008; Potter, 1999; Shi, 1999). Since the reforms of the mid-1990s, the characterization of a congress as a mere "rubber stamp" is no longer accurate; instead, at the local level, certain congresses have asserted themselves in their relationships with the government and the local chapter of the Chinese Communist Party (the Party), and people actively contact congressional deputies, who are deemed to be legitimate channels for the voicing of opinions (Cho, 2003; Manion, 2008). The Conference provides opinions that influence the Congress’ decisions and monitors and advises governments at every level through regular meetings with the Party and government officials. The government is committed to responding to the issues raised by the Conference (Li et al., 2006; Ma and Parish, 2006).

Both the Congress and the Conference exist at the following four different administrative levels: the nation, the province, the prefecture, and the county/township. For instance, below the National People’s Congress, each province has its own provincial congress and conference, as do prefectures and counties/townships. The costs of serving as a deputy in a congress include the investments required to win the populist support and governmental endorsement required to obtain a seat and, subsequently, the legal obligations of the position, such as attending meetings and voting on major issues. Congressional deputies are elected by ordinary citizens at the township and county levels, whereas higher-level congressional bodies are elected by deputies of the lower congresses. Conference deputies are selected by standing committees based on nominations from various social and economic organizations. The Conference is considered to be more independent from the influence of the Party and the government than the Congress (Li et al., 2006; Ma and Parish, 2006).

Joining either the Congress or the Conference as a deputy represents a type of private political action for private entrepreneurs because deputies act individually to benefit their own interests. Although deputies theoretically represent the views and interest of their constituents, they participate in political decision making of their own accord and are not required to act as spokespersons for any collective group. For example, deputies can prepare and propose bills individually without consulting or obtaining approval from any collective groups.

A firm owner with a seat in the Congress or the Conference is in an advantageous position to obtain various types of private political benefits. For example, deputies of the Congress or the Conference can better cope with expropriation hazards by drawing special attention and priority treatment to expropriation cases, and the legal protection against expropriations in these "special" cases of more politically influential firms is stronger than it would usually be (Dickson, 2008; Li et al., 2006). The following examples illustrate the political power gained by firms participating in the Congress or the Conference. Regulatory agencies are reported to be “afraid of PC [i.e., the Congress]/CCPCC [i.e., the Conference] members because they could raise issues of overcharging to higher levels of government officials at regular meetings,” and thus they are hesitant to levy illicit charges on the firms owned by Congress or Conference members (Li et al., 2006: 565, footnote 14, citing an article in the China News Week. I added the contents in brackets). According to the owner of a privately owned firm I interviewed in Shandong province who obtained a seat in the People’s Congress of his city, “harassment” by officials from many local government bureaus significantly decreased after he obtained the seat because his deputyship position in the city’s Congress was perceived to confer greater access to higher-level officials. In fact, deputy positions provide not only formal access to more and higher-level government and Party officials but also many opportunities for private entrepreneurs to cultivate and strengthen their personal political connections with these officials (Dickson, 2008; Li et al., 2006). In addition, Congress and Conference deputies also enjoy an

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3 Once elected, deputies of the Congress and Conference are legally required to engage in the part-time work of maintaining contact with their precinct (although they do receive subsidies and travel opportunities for this purpose) and attending plenary sessions each year.

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information advantage—they have superior access to both first-hand information from their direct involvement in political processes and insider information from their personal relationships with officials. Finally, deputyships also help firms to acquire valuable resources, such as easier access to bank loans (Bai et al., 2006; Cull and Xu, 2005) and other resources to help their businesses expand (Lu, 2011).

Although deputies of the Congress and Conference may have opportunities to pursue collective benefits, many private firm owners are not more active in doing so than in pursuing their own individual benefits. This issue has become controversial in China as more and more private firm owners seek to enter the Congress and the Conference because people increasingly complain that these private firm owners intend to use their positions to advance their own private interests rather than those of their constituents. Joining the Congress or the Conference is therefore a common measure of firms’ private political actions in China (Li et al., 2006; Lu, 2011).

The ACFIC is a quasi-governmental collective organization that represents the interests of industrial and commercial businesses in China. The ACFIC plays an important role in organizing private entrepreneurs in China (International Finance Corporation, 2000) and greatly emphasizes its function as a “bridge” that allows business people to obtain access to the government, promoting cooperation between the state and private businesses (Dickson, 2003, 2008; Pearson, 1997; Unger, 1996). The ACFIC regularly participates in policymaking initiatives that affect the private sector at the national and local levels (Kennedy, 2005). Specifically, the ACFIC participates in the Conference; proposes bills to the Congress; utilizes its direct access to governmental representatives to facilitate communication between governments and firms; lobbies on behalf of private businesses, and publicly advocates policies that favor private businesses (Asian Development Bank, 2003; Deng and Kennedy, 2010; Guo, 2007; Unger, 1996). The ACFIC is the dominant organization representing nonstate interests for policy matters in China (Asian Development Bank, 2003; Dickson, 2003; International Finance Corporation, 2000; Kennedy, 2005; Unger, 1996). It is headquartered in Beijing and has local chapters throughout the country. The costs (i.e., a standard membership fee and obligations involved in becoming a member of the ACFIC are much lower than the expenses and responsibilities that are required for becoming a deputy of the Congress or the Conference.

Joining the ACFIC as a deputy represents a collective political action for private entrepreneurs because it is an association; as an entity, the association, and not its individual members, takes actions on behalf of all of its members. These actions include pursuing favorable policies and legislation, such as generally strengthening the institutions that support businesses and circulating information about legal policies among its members, because one of the primary tasks of the ACFIC is to facilitate communication between governments and members regarding regulatory and policy matters.

The ACFIC provides an important venue for achieving collective benefits. It is generally found to be more influential in lobbying for public policies than for individual firms because it has amassed substantial economic clout and has natural and close connections with government and Party officials (Deng and Kennedy, 2010; Pearson, 1997). Moreover, extensive field research in prior studies found that the ACFIC and its local chapters strongly identify themselves as channels that connect governments and businesses at the local level and actively promote the common interests of local businesses (Pearson, 1997). For example, in response to the request of a group of local private business owners to help fight the public biases against privately owned firms in the 1990s, the ACFIC’s chapter in Beijing managed to persuade key state-controlled newspapers such as the People’s Daily to publish a series of articles that lauded the private sector (Unger, 1996). The ACFIC also advocated for the amendment of the Constitution to strengthen the protection of private property rights and actively pushed through a full-fledged Property Rights Law at the National People’s Congress (Kennedy, 2011; Tsai, 2007). Meanwhile, as is the case for many other collective organizations, it is possible for

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5 Each local chapter of the ACFIC determines its membership fees, which may be nominal. Government funding is an important source of financing for the ACFIC (Asian Development Bank, 2003).

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4 For example, see China Youth News, October 30, 2007, and Northeast Net, October 31, 2007.
an individual member of the ACFIC to use its collective resources to pursue individual benefits, a point to which I return after presenting the study’s main results.

Data and sample

The data used in the empirical analysis are obtained from two sources. The primary source of the firm-level data is a series of surveys of Chinese POEs conducted by the Privately Owned Enterprises Research Project Team (POERPT) in 1995, 1997, 2000, 2002, 2004, and 2006. For each of the surveys, the research team first generated a nationwide random sample of POEs using multi-stage stratified sampling across all provinces and industries and then used a questionnaire to conduct direct interviews with the majority owner of each POE represented in the sample. The POERPT consists of scholars from an array of governmental and nongovernmental organizations, and the surveys are part of an ongoing national project that collects information from representatives of the Chinese private sector to facilitate the central government’s policymaking processes.

Additional province-level data are obtained from the National Economic Research Institute’s (NERI) Index of Market Development of Chinese Provinces (Fan and Wang, 2000, 2001, 2004, 2006) and from editions of the China Statistical Yearbook. A province is a meaningful unit for analyzing the institutional environment because provinces in China vary significantly in their development of market-supporting institutions (Bai et al., 2006; Cull and Xu, 2005; International Finance Corporation, 2000; Tsai, 2007). Such regional disparities originated in China’s economic reforms; in particular, “decentralized experimentation” allows provinces to develop their own variants of new institutions and involves the central government conducting trial reforms in a limited number of localities (Brandt and Rawski, 2007; Li, 2003). In addition, the fiscal decentralization of the 1990s allowed significant levels of revenue from local industries to flow to local governments, particularly provincial governments; this revenue flow led to varying abilities of provincial governments to influence the economies and institutions within their purviews (Jin et al., 2005). Finally, the legal and regulatory arrangements in China favor provinces in certain regions, particularly the coastal regions, over others (Heston and Siculer, 2007).

Variables

I use two dependent variables. The dependent variable in the main analysis is Intention of Participation, which is a dichotomous variable indicating whether the firm’s owner regards participation in the Congress or the Conference to be of great importance to the firm and thus expresses a strong interest in pursuing membership in either of these organizations. The dependent variable in a robustness check is Actual Participation. Because various levels of government also influence the election of Congress deputies (Ma and Parish, 2006; Shi, 1999), I use two dependent variables to better isolate firm owners’ incentives to pursue participation in the Congress or the Conference from governmental preferences on deputy election outcomes. Moreover, I draw on the statistical method developed by Przeworski and Vreeland (2002) to further address the joint effects of the firm and the government on the actual participation in the Congress or the Conference. The key explanatory variable is Collective Action, which indicates if the firm or its owner participates in the ACFIC.

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8 The Handbook of Survey Instructions indicates that the selected interviewee of a sampled firm should be its majority owner. In the sample, 51 percent of the firms had only one owner and 93 percent of the majority owners were also the CEOs of their own firms, so the majority owners’ political activities very likely represented the firm’s political actions. In the case of multowner firms, it is possible that we are misclassifying a firm as 0 on the dependent variable if one of its nonmajority owners is a deputy of the Congress or Conference. However, given the resources necessary to gain election to the Congress and the personal benefits and status associated with deputyships, it is unlikely that anyone other than the CEO and majority owner would represent the firm as a deputy. This point was also confirmed during my interviews with private firm owners in China.

9 An owner’s individual participation in the ACFIC also represents its firm’s participation in collective political actions.
In the Chinese private sector, a private entrepreneur faces a limited set of political actions; for instance, formal lobbying is rare, although it has become increasingly more common in recent years as institutional reforms continue (e.g., Kennedy, 2005), and campaign contributions are forbidden (Li et al., 2006; Ma and Parish, 2006). Admittedly, informal personal connections with government officials are viable and important drivers of political influence (e.g., Bai et al., 2006; Peng, 2004). However, in the empirical analysis, I focus on membership in formal political organizations for two reasons. First, given the prominent political status of the Congress, the Conference, and the ACFIC, their memberships constitute highly salient and observable examples of private and collective CPAs. In addition, it is difficult to obtain accurate measures of informal political networks; for instance, Xin and Pearce (1996) reported that firms are reluctant to share information about their connections to political actors with researchers. It is therefore unsurprising that the surveys used in this study do not contain questions that directly asked about firms’ informal political connections. However, I include certain controls in this study, such as firm owners’ prior political jobs and Party membership, which help to capture the extent of firm owners’ informal networks.

The following firm-level explanatory variables are also included in this study: Firm Age, which is the age of the firm; Employee Size(log), which is the logarithm of the number of employees of the firm; Sales(log), which is the logarithm of the firm’s annual sales; and Gov/SOE Equity, which indicates whether governments or state-owned enterprises (SOE) own any equity in the firm. The following variables related to the owner’s personal characteristics are included in the study as well: Owner Age, which indicates the business owner’s age; Party Member, which indicates whether the owner is a member of the Chinese Communist Party; Prior Political Job, which indicates whether the owner used to work for either the government or the Party before founding the firm; and Years of Education, which measures the amount of formal education received by the firm’s owner. The following additional explanatory variables will be used in robustness checks and are addressed in detail during the discussion of the checks: ACFIC Density, which is the proportion of ACFIC members among the firms in the same province; Tax(log), which is the logarithm of the annual taxes paid by the firm in the previous year; and ACFIC Executive Members, which indicates whether the firm is an executive member of the ACFIC. Finally, we designate a firm as a “larger firm” if its number of employees or level of sales exceeds the median value; otherwise, the firm is designated as a “smaller firm.”

I use information from China Statistical Yearbooks and NERI institutional indices to evaluate the quality of the market-supporting institutional environment at the provincial level. To serve as proxies for the quality of the physical and institutional infrastructure in a province, I use two variables. First, Province GDP, which is obtained from the China Statistical Yearbook, captures the level of economic development in the province. More-developed economies are more likely to have better infrastructure, such as higher-quality systems for transportation, water and sanitation, power, telecommunications, and irrigation (e.g., Kessides, 1993). Second, Reduction of Regulatory Burden is an index constructed in the NERI database based upon the average percentage of senior management time that is spent dealing with government officials and regulatory agencies in the province as determined by a nationwide survey of Chinese firms. The firm-level responses were then aggregated to the provincial level to generate the province index.

because, as stated in the previous footnote, in most firms, the interviewed majority owners were closely involved in business operations. In addition, because the ACFIC aims to serve as a “bridge” between the state and the private sector, it is unlikely that joining the ACFIC represents a business owner’s personal initiative that is disconnected from the interests of his or her firm. Therefore, in the rest of the paper, I refer to “Collective Action = 1” to indicate a firm participating in the ACFIC.

10 Lobbying has become an increasingly accessible and important activity for firms in China. The process is facilitated by certain institutional reform initiatives, including the recently passed Legislation Law, which seeks to promote a more open and consultative legislative process that involves a greater degree of citizen participation (Paler, 2005).

11 Fan and Wang (2000, 2001, 2004, 2006) standardize these indices as follows. Let $V_i$ denote the value of the $i$th province for a certain variable. Let $V_{\text{min}}$ and $V_{\text{max}}$ denote, respectively, the minimum and maximum values of the variable. The index value that the $i$th province receives for the variable is then calculated as $(V_i - V_{\text{min}})/(V_{\text{max}} - V_{\text{min}}) \times 10$.

12 Note that this is a different national survey from the one used in this paper. Based on private conversations with researchers familiar with the research team that constructed the NERI province indices, the survey from which the index of Reduction of Regulatory Burden was constructed was conducted as part of a project called the “Chinese Enterprise Survey System,” which was operated by a nongovernmental data and research institute.
for this variable. The time and resources that Chinese firms expend in governmental interactions are typically devoted to overcoming bureaucratic red tape (e.g., obtaining permits, registering the business, and other regulatory issues) and responding to the bribe-seeking tendencies of government officials (Fan and Wang, 2000, 2001, 2004, 2006; Li et al., 2006). A higher value of \textit{Reduction of Regulatory Burden} for a province indicates a lower level of bureaucratic red tape and thus stronger institutional infrastructure in that province.

I use two NERI indices as proxies for the government’s discretion in redistributing key economic resources. The \textit{Constraints on Redistribution (Product Market)} index is based on the percentage of products whose prices are determined by the market instead of by the state. During the past decades of China’s transition from a highly controlled central planning system, in which resource flows and prices were all dictated by the state, to a more market-oriented economy, the country adopted a “dual track price system,” which included a “plan track” in which goods were transferred at a price and quantity fixed by the state and a “market track” in which economic agents participated in market exchanges at free-market prices (e.g., Lau et al., 2000). The plan track generated opportunities for firms to seek favorable treatment and for state actors to seek political rents (e.g., Li, 1999). Thus, the lower the proportion of prices determined by the state for a province, the better developed that province’s market allocation mechanisms in product markets are and the higher its value of \textit{Constraints on Redistribution (Product Market)} will be. Second, \textit{Constraints on Redistribution (Capital Market)} acts as a proxy for the state’s redistribution power in capital markets and is measured as a composite index composed of two subindices. The first subindex is the province’s percentage of deposits in nonstate-owned financial institutions, and the other subindex is its percentage of bank credits offered to nonstate-owned firms. Because banks in China are dominated by administrative quotas and government policies that explicitly favor state-owned firms, the greater access of privately owned firms to bank loans is typically regarded as a proxy for less influence of the state on the issuance of bank credit and thus the existence of more-developed market mechanisms to allocate financial resources (e.g., Allen, Qian, and Qian, 2007; Bai et al., 2006; Cull and Xu, 2005). A province’s higher value of \textit{Constraints on Redistribution (Capital Market)} indicates that the state has less redistributionary power in that province’s capital market.

In Table 1, I summarize the variables for the subsample of firms whose owners do not have memberships in the Congress or the Conference (Actual Participation = 0), which is the sample used for the main analysis, as well as for the subsample of firms whose owners participate in the Congress or the Conference (Actual Participation = 1). Among the firms whose owners were not members of the Congress or the Conference, 31 percent reported being willing to pursue such memberships. Comparing the two subsamples, the percentage of ACFIC members is almost twice as high among the firms whose owners participate in the Congress or the Conference than among the firms whose owners do not participate in these political bodies. In addition, firms whose owners participate in the Congress or the Conference tend to be somewhat older and larger and contribute more taxes. The mean values of the other variables are not significantly different for the two samples. Table 2 provides the correlations between the variables.

\textbf{Methodology}

In the main analysis, I use probit models to predict the probability of \textit{Intention of Participation} among firms whose owners are not members of the Congress or the Conference based on \textit{Collective Action}, other firm-level measures, and the institutional indices, as well as on fixed effects for the industry, province, and year. The moderating effects are examined following the simulation-based approach developed in King et al. (2000) and Zelner (2009) because the interaction term in probit models may not represent the true interaction effect (Norton et al., 2004).\textsuperscript{13}

\footnotesize

13 The simulation-based approach represents the correct interaction effects because the interaction term in a nonlinear model does \textit{not} equal the interaction effect. Norton et al. (2004) show that, in nonlinear models, (1) the sign of the true interaction effect may be different for different observations, and thus cannot be inferred from the coefficient of the interaction term alone; (2) the true statistical significance of the interaction effect cannot be determined from the z-statistic reported in the regression output of the interaction term; and (3) the marginal effect of a change in both interacting variables does not equal the marginal effect of changing the interaction term.
provide extensive discussion in the Appendix S1. I report robust standard errors throughout.

As a robustness check, I use Actual Participation as the dependent variable and analyze the full sample of firms. To address the concern that membership in the Congress or the Conference is jointly determined by a firm’s active pursuit of membership and governmental endorsement, I follow the method of Przeworski and Vreeland (2002) to analyze a bivariate probit model to simultaneously estimate two regressions, of which one models a firm’s choice to pursue membership and the other models the government’s decision to endorse a firm’s pursuit. To identify the model of firm choice, the second regression includes one variable of relevance to the government that does not directly relate to a firm’s decisions (other than through its influence on governmental endorsement). In considering what drives the government’s decision to support certain firms but not others, prior studies have found that the state is more likely to be attracted to and supportive of the political actions of the private firms that are best positioned to contribute directly to local gross domestic product (GDP) through taxes and employment (e.g., Cull and Xu, 2005; Dickson, 2003). Thus, the variable I chose for the second regression of the bivariate probit model is Tax(log), which measures a firm’s tax expenditures. Tax contributions are an important consideration to the state, whereas when firm size is already accounted for in terms of employees and sales, taxes do not typically have a direct impact on a firm’s incentive to pursue seats in the Congress or the Conference, aside from changing the firm’s expectations of state support for this pursuit.14

RESULTS

Table 3 reports the results of the analysis predicting the intention of participating in the Congress or the Conference among the firms whose owners are not yet members of these organizations. Model (i) demonstrates that firms that participate in the ACFIC collective organization are more likely

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14 One might be concerned that firms may intend to pursue memberships in the Congress or the Conference to reduce their taxes. By law, only the central government in China can set tax policies (International Finance Corporation, 2000). Although local governments cannot determine taxes, they keep a portion of tax revenues (Montinola et al., 1996) and are allowed to collect various fees (International Finance Corporation, 2000). In our sample, less than 1 percent of the firms participated in the national-level Congress or Conference, with the remaining firms participating at the lower administrative levels of the province, prefecture, or county/township, which cannot influence taxes. The results are robust to the exclusion of the firms that participated at the national level. Therefore, this concern may not pose a serious issue in the context of this particular study and does not undermine the feasibility of the method described above.
Table 2. Correlations

<table>
<thead>
<tr>
<th>Variable name/number</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
<th>16</th>
<th>17</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Intention of participation</td>
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<td></td>
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</tr>
<tr>
<td>2 Collective action</td>
<td>0.04</td>
<td>1.00</td>
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</tr>
<tr>
<td>3 Province GDP</td>
<td>−0.02</td>
<td>0.12</td>
<td>1.00</td>
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<tr>
<td>4 Reduction of regulatory burden</td>
<td>0.03</td>
<td>−0.03</td>
<td>0.03</td>
<td>1.00</td>
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<tr>
<td>5 Constraints on redistribution (Prod Mkt)</td>
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<td>0.11</td>
<td>0.11</td>
<td>0.22</td>
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<tr>
<td>6 Constraints on redistribution (Cap Mkt)</td>
<td>0.02</td>
<td>−0.13</td>
<td>0.13</td>
<td>0.44</td>
<td>0.47</td>
<td>1.00</td>
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</tr>
<tr>
<td>7 Firm age</td>
<td>0.02</td>
<td>0.19</td>
<td>0.02</td>
<td>0.05</td>
<td>0.06</td>
<td>0.06</td>
<td>1.00</td>
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<tr>
<td>8 Employee size(log)</td>
<td>0.03</td>
<td>0.25</td>
<td>0.14</td>
<td>−0.02</td>
<td>0.12</td>
<td>0.07</td>
<td>0.15</td>
<td>1.00</td>
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<tr>
<td>9 Sales(log)</td>
<td>−0.04</td>
<td>−0.17</td>
<td>−0.48</td>
<td>−0.02</td>
<td>−0.10</td>
<td>0.11</td>
<td>0.01</td>
<td>0.04</td>
<td>1.00</td>
<td></td>
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</tr>
<tr>
<td>10 Gov/SOE equity</td>
<td>0.01</td>
<td>−0.03</td>
<td>−0.02</td>
<td>−0.07</td>
<td>−0.01</td>
<td>−0.01</td>
<td>0.00</td>
<td>−0.01</td>
<td>1.00</td>
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</tr>
<tr>
<td>11 Owner age</td>
<td>−0.08</td>
<td>−0.02</td>
<td>0.13</td>
<td>0.08</td>
<td>−0.16</td>
<td>0.01</td>
<td>0.09</td>
<td>−0.03</td>
<td>−0.18</td>
<td>−0.03</td>
<td>1.00</td>
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</tr>
<tr>
<td>12 Party member</td>
<td>−0.04</td>
<td>0.08</td>
<td>0.08</td>
<td>−0.04</td>
<td>0.03</td>
<td>0.02</td>
<td>0.03</td>
<td>0.15</td>
<td>−0.04</td>
<td>0.01</td>
<td>0.12</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>13 Prior political job</td>
<td>0.03</td>
<td>0.04</td>
<td>−0.04</td>
<td>0.02</td>
<td>0.03</td>
<td>0.00</td>
<td>−0.06</td>
<td>0.04</td>
<td>−0.09</td>
<td>−0.01</td>
<td>0.06</td>
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<td>1.00</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>14 Years of education</td>
<td>0.08</td>
<td>0.14</td>
<td>0.07</td>
<td>0.00</td>
<td>0.12</td>
<td>0.00</td>
<td>−0.08</td>
<td>0.18</td>
<td>−0.17</td>
<td>0.03</td>
<td>−0.15</td>
<td>0.12</td>
<td>0.35</td>
<td>1.00</td>
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<tr>
<td>15 ACFIC density</td>
<td>0.03</td>
<td>0.49</td>
<td>0.25</td>
<td>−0.10</td>
<td>0.22</td>
<td>−0.26</td>
<td>0.12</td>
<td>0.23</td>
<td>−0.36</td>
<td>−0.03</td>
<td>−0.15</td>
<td>0.09</td>
<td>0.07</td>
<td>0.22</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16 Tax(log)</td>
<td>−0.02</td>
<td>−0.17</td>
<td>−0.47</td>
<td>0.00</td>
<td>−0.09</td>
<td>0.09</td>
<td>0.00</td>
<td>0.03</td>
<td>0.86</td>
<td>−0.01</td>
<td>−0.19</td>
<td>−0.04</td>
<td>−0.07</td>
<td>−0.15</td>
<td>−0.34</td>
<td>1.00</td>
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<tr>
<td>17 Executive members of ACFIC</td>
<td>0.16</td>
<td>0.71</td>
<td>0.05</td>
<td>−0.06</td>
<td>0.06</td>
<td>−0.16</td>
<td>0.15</td>
<td>0.22</td>
<td>−0.12</td>
<td>−0.04</td>
<td>−0.01</td>
<td>0.08</td>
<td>0.04</td>
<td>0.12</td>
<td>0.37</td>
<td>−0.12</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Correlations calculated in the same sample as in Table 3.
Collective & Private Political Actions: Substitutes or Complements?

Table 3. Effect on intention of participating in the Congress or the Conference

<table>
<thead>
<tr>
<th>Probit models</th>
<th>(i)</th>
<th>(ii)</th>
<th>(iii)</th>
<th>(iv)</th>
<th>(v)</th>
<th>(vi)</th>
<th>(vii)</th>
<th>(viii)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collective action</td>
<td>0.083*</td>
<td>0.211**</td>
<td>0.260**</td>
<td>0.595**</td>
<td>0.593**</td>
<td>0.093*</td>
<td>0.138**</td>
<td>0.849**</td>
</tr>
<tr>
<td>Collective action × Province GDP</td>
<td>(0.039)</td>
<td>(0.070)</td>
<td>(0.089)</td>
<td>(0.143)</td>
<td>(0.112)</td>
<td>(0.039)</td>
<td>(0.051)</td>
<td>(0.162)</td>
</tr>
<tr>
<td>Collective action × Reduction of regulatory burden</td>
<td>−0.000*</td>
<td>(0.000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collective action × Constraints on redistribution (Prod Mkt)</td>
<td>−0.028**</td>
<td>(0.013)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Collective action × Constraints on redistribution (Cap Mkt)</td>
<td>−0.069**</td>
<td>(0.018)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Collective action × Gov/SOE equity</td>
<td></td>
<td></td>
<td>−0.073**</td>
<td>(0.015)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collective action × Prior political job</td>
<td>−0.416+</td>
<td>(0.223)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Firm age</td>
<td>0.006</td>
<td>0.006</td>
<td>0.006</td>
<td>0.006</td>
<td>0.006</td>
<td>0.006</td>
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<td>0.006</td>
</tr>
<tr>
<td>Employee size(log)</td>
<td>0.002</td>
<td>0.003</td>
<td>0.002</td>
<td>0.004</td>
<td>0.002</td>
<td>0.003</td>
<td>0.002</td>
<td>0.004</td>
</tr>
<tr>
<td>Sales(log)</td>
<td>−0.003</td>
<td>−0.003</td>
<td>−0.003</td>
<td>−0.004</td>
<td>−0.003</td>
<td>−0.003</td>
<td>−0.003</td>
<td>−0.003</td>
</tr>
<tr>
<td>Gov/SOE equity</td>
<td>−0.117</td>
<td>−0.114</td>
<td>−0.119</td>
<td>−0.108</td>
<td>−0.122</td>
<td>0.035</td>
<td>−0.117</td>
<td>0.047</td>
</tr>
<tr>
<td>Owner age</td>
<td>−0.004*</td>
<td>−0.004*</td>
<td>−0.004+</td>
<td>−0.004+</td>
<td>−0.004+</td>
<td>−0.004*</td>
<td>−0.004*</td>
<td>−0.004*</td>
</tr>
<tr>
<td>Party member</td>
<td>−0.176**</td>
<td>−0.175**</td>
<td>−0.179**</td>
<td>−0.182**</td>
<td>−0.180**</td>
<td>−0.175**</td>
<td>−0.177**</td>
<td>−0.180**</td>
</tr>
<tr>
<td>Prior political job</td>
<td>−0.037</td>
<td>−0.036</td>
<td>−0.036</td>
<td>−0.036</td>
<td>−0.036</td>
<td>−0.038</td>
<td>0.019</td>
<td>0.018</td>
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<tr>
<td>Years of education</td>
<td>0.018**</td>
<td>0.018**</td>
<td>0.018**</td>
<td>0.019**</td>
<td>0.018**</td>
<td>0.018**</td>
<td>0.019**</td>
<td>0.019**</td>
</tr>
<tr>
<td>Province GDP</td>
<td>−0.000</td>
<td>0.000</td>
<td>−0.000</td>
<td>−0.000</td>
<td>−0.000</td>
<td>−0.000</td>
<td>−0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Reduction of regulatory burden</td>
<td>0.028*</td>
<td>0.028*</td>
<td>0.040**</td>
<td>0.030**</td>
<td>0.029*</td>
<td>0.029*</td>
<td>0.029*</td>
<td>0.030*</td>
</tr>
<tr>
<td>Constraints on redistribution (Prod Mkt)</td>
<td>−0.042*</td>
<td>−0.044*</td>
<td>−0.043*</td>
<td>−0.010</td>
<td>−0.047**</td>
<td>−0.041*</td>
<td>−0.043*</td>
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<td>−0.260</td>
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Robust standard errors in parentheses. 
+significant at 10%; *significant at 5%; **significant at 1%.

To be willing to participate in the Congress or the Conference. Although this overall effect cannot refute the existence of a substitutive relationship between collective and private CPAs, the result suggests that the complementary effect dominates the substitutive effect. Therefore, for Chinese private firms, collective political actions do not render private political actions redundant; instead, taking collective political actions appears to strengthen a firm’s incentives to pursue private political actions. Next, we focus on the results of the moderating conditions.

Models (ii) to (v) include the interaction terms of Collective Action with proxies for basic physical and institutional infrastructure, Province GDP and Reduction of Regulatory Burden, and proxies.
for the constraints on redistribution opportunities in product and capital markets, *Constraints on Redistribution (Product Market)* and *Constraints on Redistribution (Capital Market)*. Due to the concerns over using the interaction terms alone to interpret interaction effects in probit models (Norton et al., 2004), I follow the simulation-based approach developed by King et al. (2000) and Zellner (2009) and graphically present the interaction effects involving at least one continuous variable to test H1, H1a, H1b, and H2; these results will be discussed next. Finally, as the simulation-based method cannot be used to graphically present the interaction effect of two binary indicators, I report that Models (vi) and (vii) show negative interactions between collective political action and Gov/ SOE Equity, the indicator of government or SOE equity in the firm, as well as between collective political action and Prior Political Job, the indicator of firm owners’ prior political jobs. The interaction terms are negative. The results suggest that the positive relationship between a firm’s collective political actions and its private political actions is mitigated when the firm has other channels to access state actors, which is consistent with the predictions of H3. Model (viii) presents the fully specified model with all interaction terms.15

Figure 1(a, b) present the interaction effects of Province GDP and collective political action based on the fully specified Model (viii) of Table 3. Figure 1(a) plots the predicted probability that a firm will show an interest in pursuing memberships in the Congress or the Conference (y axis) against the GDP of the province where the firm is located (x axis), both for firms that participate in the ACFIC (dotted line) and for firms that do not participate in the ACFIC (solid line), holding all other variables at their mean values. The bars and dots surrounding the two lines indicate 95 percent confidence intervals. As can be observed, Figure 1(a) illustrates that, in provinces with lower GDP, firms that have engaged in collective political actions are more likely to be interested in private political actions than firms that do not engage in collective political actions; however, in provinces with higher GDPs, this gap narrows. To further highlight this difference between ACFIC members and nonmembers, Figure 1(b) plots the difference of the predicted incentives for pursuing private political actions for ACFIC members and nonmembers (y axis) against the province’s GDP (x axis). The dotted region indicates a statistical significance level of 95 percent. Figure 1(b) shows that higher incentives for ACFIC members to pursue seats in the Congress or the Conference relative to nonmembers decrease as provinces become more economically developed; this decrease is statistically significant at the 95 percent level.

Figure 2(a, b) are generated based on Model (viii) of Table 3 to represent the interaction effects between collective political actions and *Reduction of Regulatory Burden*. Figure 2(a) illustrates that ACFIC members have a higher propensity to evince interest in Congress or Conference seats than nonmembers and that this difference is less substantial in provinces with higher regulatory burdens (lower values of *Reduction of Regulatory Burden*). Figure 2(b) confirms that this difference is indeed lower in provinces with less-developed institutional infrastructure, at a statistically significance level of 95 percent.

Recall that H1 argues that, when infrastructure is less developed, the incremental returns to collective political actions are greater than those of private political actions because all firms stand to benefit from the improved infrastructure; thus, collective political actions become a stronger substitute for private political actions, i.e., firms already participating in collective political actions have even less interest in private political actions. The results shown in Figure 2(a, b) indicating that firms undertaking collective political actions are less willing to pursue private political actions in provinces with weaker institutional infrastructure as manifested by a heavier regulatory burden are consistent with H1. Figure 1(a, b), however, present a contrasting empirical pattern in which firms that undertake collective political actions are more willing to pursue private political actions in low-GDP provinces, failing to support H1. I offer more discussion on these divergent results in the Conclusion section.

To test whether the moderating effect of infrastructure is more (H1a) or less (H1b) pronounced among larger firms, I present the moderating effect of Province GDP from Figure 1(b) in the subsamples of larger (Figure 1c) and smaller

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15 Although the interaction terms with province GDP, reduction of regulatory power, and constraints on redistribution in the product market fail to be statistically significant in the probit model (viii), these results alone do not indicate the absence of a statistically significant true interaction effects because Norton et al. (2004) proved that the true statistical significance of true interaction effects may be determined by the z-statistic reported in the nonlinear regression output of the interaction terms.
Figure 1. Graphic presentations of the interaction effect between Province GDP & Collective Action. (a, b) Full sample. (c) Subsample of larger firms. (d) Subsample of smaller firms.

Notes:
- Figures 1(a) plots the predicted probability of Intention of Participation between firms that are members of the ACFIC and those that are not, while all other explanatory variables are held at their mean values in the probit model (viii) in Table 3. The bars and scattered dots denote the 95% confidence intervals of the two predicted probabilities.
- The y-axis in Figures 1(b) represents the difference in the predicted probability of Intention of Participation between firms that are members of the ACFIC and those that are not, while all other explanatory variables are held at their mean values in the probit model (viii) in Table 3. The symbols denote the regions in which the difference of the predicted probability differs from zero at the 95% level.
- The subsample used in 1(c) consists of ‘larger firms’ whose number of employees or sales level exceeds the median value; otherwise, the firm is designated as a ‘smaller firm’ in the subsamples used in 1(d).

firms (Figure 1d), and then present the moderating effect of Reduction of Regulatory Burden from Figure 2(b) in the subsample of larger (Figure 2c) and smaller firms (Figure 2d). Larger and smaller firms, however, exhibit highly similar patterns of political actions, and the lack of divergence failed to refute either H1a or H1b.

Recall that H2 proposes that, when the state has greater power to allocate resources, firms that participate in collective political actions are more likely to pursue private political actions. To investigate the effect of redistribution opportunities in product markets, I generate Figure 3(a, b) based on Model (viii) of Table 3. Figure 3(a) illustrates that the propensity to seek seats in the Congress or the Conference declines at a greater rate among ACFIC members than among nonmembers in the presence of fewer redistribution opportunities in the product market. Figure 3(b) further confirms that the magnitude of this difference is statistically significant at the 95 percent level. These results suggest that firms undertaking collective political actions are more likely to pursue private political actions when greater opportunities to seek political benefits through the redistribution of economic resources in product markets are available, lending support to H3.

Finally, Figure 4(a, b) are generated based on Model (viii) of Table 3 to present the effect of redistribution opportunities in capital markets.
Figure 2. Graphic presentations of the interaction effect between Reduction of Regulatory Burden & Collective Action.
(a, b) Full sample. (c) Subsample of larger firms. (d) Subsample of smaller firms.

Notes:
• Figures 2(a) plots the predicted probability of Intention of Participation between firms that are members of the ACFIC and those that are not, while all other explanatory variables are held at their mean values in the probit model (viii) in Table 3. The bars and scattered dots denote the 95% confidence intervals of the two predicted probabilities.
• The y-axis in Figures 2(b) represents the difference in the predicted probability of Intention of Participation between firms that are members of the ACFIC and those that are not, while all other explanatory variables are held at their mean values in the probit model (viii) in Table 3. The symbols denote the regions in which the difference of the predicted probability differs from zero at the 95% level.
• The subsample used in 2(c) consists of ‘larger firms’ whose number of employees or sales level exceeds the median value; otherwise, the firm is designated as a ‘smaller firm’ in the subsamples used in 2(d).

Figure 4(a) illustrates that when the state has greater power to redistribute financial resources (i.e., lower levels of Constraints on Redistribution (Capital Market)), ACFIC members have a much higher propensity to pursue private political actions than nonmembers; as redistribution opportunities decrease (i.e., the value of Constraints on Redistribution (Capital Market) rises), the magnitude of the difference in this propensity between members and nonmembers declines. Figure 4(b) confirms the decline of this difference in propensities and shows that it is statistically significant at the 95 percent level, thus lending further support to H3.16

Robustness tests

First, I use a two-stage model to address the concern of self-selection into the ACFIC, as exemplified by the notion that the positive relationship between collective political actions and the pursuit of private political actions simply reflects certain firms’ innate tendencies toward being more politically active than other firms. I specify a first-stage model to predict firms’ likelihood of joining the ACFIC in the full sample (regardless of a firm

16 When using the full model (viii) of Table 3 to graphically present each interaction effect, all other variables, including other interaction terms, were held at their mean values. Admittedly, this approach essentially examines each interaction effect separately and independently; however, no statistical methods or codes have been developed to simultaneously represent multiple interaction effects in graphs.
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Figure 3. Graphic presentations of the interaction effect between Constraints on Redistribution (Product Markets) & Collective Action. (a, b) Full sample.

Notes:
- Figures 3(a) plots the predicted probability of Intention of Participation between firms that are members of the ACFIC and those that are not, while all other explanatory variables are held at their mean values in the probit model (viii) in Table 3. The bars and scattered dots denote the 95% confidence intervals of the two predicted probabilities.
- The y-axis in Figures 3(b) represents the difference in the predicted probability of Intention of Participation between firms that are members of the ACFIC and those that are not, while all other explanatory variables are held at their mean values in the probit model (viii) in Table 3. The symbols denote the regions in which the difference of the predicted probability differs from zero at the 95% level.

Figure 4. (a, b) Graphic presentations of the interaction effect between Constraints on Redistribution (Capital Markets) & Collective Action

Notes:
- Figures 4(a) plots the predicted probability of Intention of Participation between firms that are members of the ACFIC and those that are not, while all other explanatory variables are held at their mean values in the probit model (viii) in Table 3. The bars and scattered dots denote the 95% confidence intervals of the two predicted probabilities.
- The y-axis in Figures 4(b) represents the difference in the predicted probability of Intention of Participation between firms that are members of the ACFIC and those that are not, while all other explanatory variables are held at their mean values in the probit model (viii) in Table 3. The symbols denote the regions in which the difference of the predicted probability differs from zero at the 95% level.

owner’s membership in the Congress or the Conference), and then reestimate Model (i) of Table 3 in the subsample of firms that do not participate in the Congress or the Conference by replacing the measure of ACFIC membership with the residuals generated by the first-stage model. The first-stage model captures a great deal of heterogeneity among the firms that become politically active as they join the ACFIC; this model contains all of the explanatory variables used in the second stage and adds ACFIC Density as an exclusion restriction variable that should affect only
the decision of joining the ACFIC but not the propensity to pursue seats in the Congress or the Conference, thus alleviating the concern of solely relying on the functional form for identification (e.g., Hamilton and Nickerson, 2003). ACFIC Density is constructed by dividing the number of ACFIC members (excluding the focal firm if it is a member) sampled in each province and each year by the total number of firms sampled in that province and that year less one. ACFIC Density is expected to be a positive predictor of the focal firm’s decision to join the ACFIC because firms in the same province may adopt each other’s tendencies to join the organization due to the effects of perceived organizational legitimacy, as institutional theory would predict (e.g., DiMaggio and Powell, 1983); thus, it is expected that firms in provinces where the ACFIC is more prevalent are more likely to join the organization.

In Table S1, Model (i) reports the results of both stages. The second column presents the first-stage model, in which ACFIC Density is indeed a statistically significant ($p < 0.01$) positive predictor of the probability of joining the ACFIC. The first column presents the results of the second-stage model, which are very similar to the main results illustrated in Model (i) of Table 3: the coefficient of collective political action is also positive and statistically significant at the 95 percent level, and its magnitude is similar to that of Model (i) of Table 3. The robustness test of the two-stage model helps alleviate concerns about the influence of unobserved selection biases on the inferences we are able to draw about firms’ collective political activities based on empirical findings.

The second set of robustness tests examines Actual Participation, an indicator of whether the firm is indeed a member of the Congress or the Conference, in the full sample. Compared with the analysis of the stated desire to participate in the Congress or the Conference among nonmembers of these two organizations, actual participation has the benefit of more directly measuring the outcome of firms’ pursuits of seats in the Congress or the Conference; however, it may incorporate the confounding effects of the influence of the government and the Party on the election of Congress members and the nomination and selection of Conference members. As introduced in the methodology section, I follow the method developed by Przeworski and Vreeland (2002) to examine the outcomes determined by bilateral decisions and analyze a bivariate probit model where the Tax(log) variable is only included in the second model, which represents government decisions, but not in the first model, which represents firm decisions.

Table S1 reports the results of eight sets of bivariate probit models that include the main effect of collective political actions and its interaction with six potential moderators. Model (viii) reports the fully specified models. In the “firm model” of Model (viii), having accounted for the government’s influence on a firm’s entry into the Congress or the Conference, ACFIC membership is a persistently positive predictor of a firm’s actual participation in these organizations. The interaction terms of ACFIC membership with the institutional variables of province GDP and the constraints of redistribution in capital markets are negative and statistically significant at conventional levels, and the interaction term with reduction of regulatory burden is positive and statistically significant at conventional levels. Both of these results are consistent with the results of the main analysis. However, the interaction terms with constraints of redistribution in product markets, state ownership, and prior political jobs fail to be statistically significant.17

In addition, to address the concern that the sample used to analyze Intention of Participation—firms that are not members of the Congress or the Conference—is not independent from, but overlaps with, the full sample used to analyze Actual Participation, I employ a seemingly unrelated estimation to associate the variance and covariance matrices generated by the models in Table 3 and Table S1. The results are qualitatively similar to those in Table 3 and Table S1 and are available upon request.

Finally, one might wonder whether individual members are able to use the ACFIC’s collective resources to pursue individual interests. If this conjecture were true, joining the ACFIC might, in fact, be a private political action in disguise. Experts in the field find that the ACFIC and its local chapters actively promote the common interests of member organizations (Kennedy, 2011; Tsai, 2007; Unger, 1996). However, less evidence has been found that the ACFIC promotes the specific needs of its individual members if these

17 No statistical methods or codes have been developed to graphically represent interactions in bivariate probit models.
needs are not commonly shared by a significant portion of the membership.

If certain members of the ACFIC indeed managed to use the ACFIC as a vehicle to pursue their private interests, then ACFIC membership would represent a de facto private political action. Under these circumstances, we should expect the substitutive effect between the two types of political actions to be strengthened, as this situation would imply that ACFIC membership could achieve the same goals as memberships in the Congress or the Conference and that ACFIC membership reduces the need for a firm to continue to pursue official political roles in the Congress or the Conference. However, because the relationship between ACFIC membership and the pursuit of seats in the Congress or the Conference is positive, significant, and persistent across the models, the concern that joining the ACFIC constitutes a de facto private political action does not appear to be a predominant issue within this study.

I also offer an additional test of this prediction. Each ACFIC branch has an executive committee to represent all of its members, and executive members serving on these committees are required to devote a substantial amount of time to the ACFIC but also have the potential to exert a significantly stronger influence on collective decisions than regular members. Therefore, compared with regular members, these executive members might have more opportunities to leverage their positions within the ACFIC to pursue their individual interests. Thus, if the above concerns hold, then executive members of the ACFIC should be less likely to pursue seats in the Congress or the Conference than both regular ACFIC members and firms that are not members of the ACFIC. Information regarding whether a firm is an executive ACFIC member is available in the surveys collected in 1995, 1997, 2000, and 2002. Therefore, I use this information to examine and assess the validity of the need for a firm to continue to pursue official political roles in the Congress or the Conference. These results are not consistent with the concern that joining the ACFIC would constitute a de facto private political action.

DISCUSSION AND CONCLUSION

This paper focuses on the relationship between firms’ collective and private CPAs. It examines not only the direct relationship between the two types of CPAs but, more importantly, how the theoretical mechanisms that drive a substitutive or complementary relationship between collective and private political actions are altered by several conditions. Using firm-level data based on a series of nationwide surveys conducted on random samples of Chinese POEs from all provinces and industries in six years (1995, 1997, 2000, 2002, 2004, and 2006), the paper reports that firms that are already members of the ACFIC, a key collective political association, are more likely to demonstrate an interest in pursuing the important private political action of becoming members of the Congress or the Conference. Moreover, this positive relationship is stronger in provinces that are less economically developed and in provinces that have greater opportunities for state redistribution of valuable economic resources. The positive relationship is weaker in provinces where regulatory burdens for firms are more cumbersome and for firms that have alternative access to governmental actors, such as those with some state ownership or whose owners have accumulated political connections during a prior political career.

This paper contributes to the CPA literature by advancing our understanding of how firms utilize different types of political actions. In addressing the ongoing debate about whether firms utilize collective and private CPAs as substitutes or complements (e.g., Hansen and Mitchell, 2000; Hansen et al., 2005; Hillman and Hitt, 1999; Schuler et al., 2002), this paper generates new insights regarding the institutional and firm-level conditions that could alter the relationship between the two types of CPAs. I draw upon theoretical insights from multiple theories of institutional economics, political economy, and collective action to inform our understanding of the core issue. The institutional context of emerging economies provides an excellent opportunity to advance new conceptual frameworks and incorporate different
theoretical perspectives into the study of CPAs (Hoskisson et al., 2000).

More generally, although institutional economics has established that institutions play an important role in shaping organizational strategies (e.g., North, 1990), very limited attention has been paid to how the market-supporting institutional environment could differentially impact the effectiveness of different types of CPAs. This study distinguishes between two distinctive pathways that firms use in attempting to influence the institutional environment: the development of basic Pareto-improving infrastructure that conforms to common interests and the pursuit of the redistribution of resources that often represents a zero-sum game. These paths have different implications for the relationship between collective and private CPAs.

These findings also have important managerial implications. They help us to better understand how firms, particularly private entrepreneurial ventures in China, organize their political actions (i.e., whether they act alone or collectively with other firms). It thus provides information regarding how we might further predict the structure and development of collective political organizations, such as trade and industry associations and collective political action committees, that will be formed in similar settings in the future.

A limitation of this study is that collective and private political actions are measured by memberships in political organizations that best utilize collective or private actions. Although this approach has been adopted by many previous studies, it would nonetheless be ideal to have information at the level of activity. The study of de Figueiredo and Tiller (2001) is an excellent example of this because its investigation includes a dataset of how firms organized each of the 900 lobbying events related to the 101 issues addressed by the U.S. Federal Communications Commission. An investigation of fine-grained information at the activity level instead of at the firm level would produce more accurate measurements of firms’ collective and private actions and would also confer greater efficiency to the empirical analysis by generating more precise estimates of the variables that may vary at the activity level.

When discussing the contingent effects of different institutional factors on CPAs, I assume that the state is equally responsive to both collective CPAs that seek to improve the basic infrastructure of a nation and private CPAs that promote the rent-seeking behaviors of individual firms. However, one may wonder if the state and its actors are only responsive to monetary rewards offered by an individual organization but not to collective lobbying for better infrastructure, or vice versa. This consideration stems from government incentives, which typically balance opportunistic short-term incentives of seeking benefits only for itself or its favored firms with the longer-term incentives that arise from the need of its constituents and its prospects of reelection or continued reign. China is a prominent example of a country in which government entities have dual incentives both to develop quality infrastructure to promote business growth and to seek revenues for the narrow interest of individual officials or agencies (e.g., Ang, 2010). However, I recognize that the nature of governmental institutions and their leaders in other emerging economies may differ from the Chinese context examined in this study. Nonetheless, I observe that, in practice, most governments act upon a mixture of collective and private incentives, and very few extreme examples exist in which governments completely ignore the broader interests of society in favor of their own narrow self-interest. Even governments that are very predatory in nature cannot completely ignore development or their long-term prospects of staying in power may begin to fade, which is consistent with the riots that took place in Egypt and across the Middle East and Northern Africa in 2011.

The paper also opens up new avenues for future research. The divergent results of Province GDP and Reduction of Regulatory Burden raise the question of whether the construction of physical infrastructure may be more susceptible to private influence than reforms in institutional infrastructure. Past studies have observed private influence during the reforms of physical infrastructure in some countries (e.g., Hensiz and Zelner, 2006). In this study, low-GDP provinces are underdeveloped in both physical and institutional infrastructure; to the extent that the measure of GDP shows an empirical pattern that is consistent with the private influence argument, whereas the measure of just institutional infrastructure does not, it highlights an interesting question for future research to explore: the differences between physical infrastructure and institutional infrastructure.
The complementary relationship between collective and private political actions can result in a “Matthew effect” (for a canonical application, see Merton, 1968): this phenomenon occurs if the firms already pursuing one political action enjoy a greater advantage in pursuing other political actions, leading to the establishment of higher political status for a group of elite firms relative to average firms, and subsequent concerns regarding the long-term influence that these elite firms have on a society. Because one of the main goals that Chinese firms seek to achieve by undertaking political actions is to address the hazards generated in the underdeveloped market-supporting institutional environment, would these elite firms become leaders and trailblazers that advance the interests of the entire private sector and promote the development of market-supporting institutions (and other initiatives) that would produce a more democratic and civilized society? Or, as several political scientists have lamented (e.g., Chen and Dickson, 2010; Pearson, 1994; Tsai, 2007), would these elite firms fail to achieve these expectations because they would be content to safeguard their own narrow private interests and maintain their cozy relationships with the state? An even more pessimistic perspective is that these elites might actually use their superior political positions to primarily pursue unproductive, rent-seeking activities, deterring progress towards the development of a market-supporting business environment.

These types of questions resonate within the broader debate in political science regarding whether private entrepreneurs can effectively form a politically influential class that profoundly impacts the progress of society (Tsai, 2007). Accordingly, these questions may have implications for determining whether the economic prominence of the rapidly growing private sector and the development of market-supporting institutions are mutually reinforcing or whether private political actions have little impact on or even undermine productive institutional development in favor of rent-seeking behaviors. These are important and fascinating topics that merit the attention of future research.

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REFERENCES


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SUPPORTING INFORMATION

Additional supporting information may be found in the online version of this article:

Appendix S1. Explanation of the choice of the simulation-based method.

Table S1. Robustness tests.

Table S2. Alternative dependent variable: actual participation in the Congress or the Conference.