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**DEPEND ON WHOM? THE INTERPLAY BETWEEN
POLITICAL NETWORKS AND CEO CORE SELF-EVALUATION
(CSE) ON FIRM PRODUCT INNOVATION**

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CEO Core Self-evaluation (CSE) on firm product innovation**

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degree of Master of Philosophy**

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ABSTRACT

Political networking has been suggested as an effective non-market strategy frequently adopted by firms in emergent economics to achieve competitive advantage. Effective political networks help firms gain more novel information and institutional support thus reducing the uncertainties and ambiguities associated with product innovation. However, the effects of political networking can also be affected by CEOs' psychological characteristics. This study investigates how a CEO's hyper-level of Core Self-evaluation (CSE) affect the effects of political networks on new product innovation. Drawing upon upper echelons perspective and the resource-dependence Theory (RDT), I propose that the effects of political networking on firm product innovation would be bounded by CEO CSE. Partial predications are supported based on a survey of 381 Chinese firms conducted in 2014.

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INTRODUCTION

Firm innovation in the form of products and processes is an important activity for companies to achieve and maintain competitive advantages, especially for firms in emerging economies (Franko,1989). The fast-technological revolution and intensive competition in international market drive firms to participate actively in product innovation activities (Hitt, Keats, & DeMarie, 1998). Although product innovation is one essential value-creation activity, it is also one high-risk and resource-consuming activity (Li & Atuahene-Gima, 2001) which demands a significant amount of investment. In particular, product innovation seems to be more difficult to conduct for firms in emerging economies compared with firms in developed economies. Because emerging economies are usually characterized such as under-developed market-supporting institutions for economic change, weak laws, and poor formal legal institutions (Khanna & Palepu, 1997). Firms in emerging economies will confront power from the redistributive mechanism (i.e., resource allocation by governmental agencies) in addition to the market mechanism (i.e., the allocation of resources by market force) (Nee, 1989; Zhou, 2000). Nevertheless, previous studies have suggested, political networking, known as managers' ties with government officials, can function as substitutes for the insufficient formal infrastructure in transitional economies to help firms generate institutional support and novel information for promoting firm performance according to social network theory and resource-based view (Xin & Pearce, 1996; Luo,2003). In fact, political networking has been regarded as an effective non-market strategy frequently adopted by firms in emerging economies to

achieve competitive advantage (Li & Atuahene-Gima, 2001; Li & Zhang, 2007; Shen et al., 2011). Through political networking, firms are expected to obtain and leverage resources embedded in redistributive mechanism more effectively, thus supporting corporation activities.

Previous research in this stream indicated that political ties/networking are effective to generate social capital and thus promote organizational performance (Acquaah, 2007), especially for new venture performance in emerging economies (Li & Zhang, 2007). Further, scholars also evidenced that various macro-level factors such as firm size, ownership structure, and environment uncertainty moderate the positive relationship between political networking and firm financial performance (Peng & Luo, 2000; Shen et al., 2011). Nevertheless, studies also showed that the costs of maintaining political ties and potential intervention from government may can attenuate even exceed the benefits brought by them (Li & Atuahene-Gima, 2001; Wu, 2011; Shu et al., 2012). Current literature has made limited efforts to examine whether and how political networking affect one important performance indicator- firm product innovation and the existing research showed mixed findings. This study aims to further push on this stream and disclosed the effects of political networking on product innovation by integrating CEO personality factor.

Political ties enable firms in transitional economies to gain better access to finance channels such as subsidies, tax rebates and research funding from government (Faccis, Masulis & McConnell, 2006), yet the establishment and maintenances of political ties

also consume great amount of energy and time of top managers. According to a survey of 12000 Chinese firms across 30 provinces conducted by World Bank in 2005, every firm on average needed to spend 58 days to deal with the government annually; firms in top 5% of the sample approximately spend 170 days with the government (Nie, 2015). A set of following questions could be (1) why political networking are so important for firms in emerging economies? (2) Whether the positive effects of political networking can be substituted by other resource thus, managers do not need to invest so much on this activity? These questions are important to answer and motivate me to conduct this study to explore how political networking can help firms to improve product innovation.

In this study, I argue that the effect of political networking on innovation could also work through CEO cognitive decision-making mechanism (Chatterjee & Hambrick, 2007; Hiller & Hambrick, 2005) in the sense that political networking can decrease CEOs' perceived uncertainties and ambiguities associated with innovation thus enhance their confidence to launch new product innovation and generate better results. This is to say, the effect of political networking on innovation will also be affected by the personal characteristics of the CEO, which may influence the way information is collected, processed, and interpreted (Chatterjee & Hambrick, 2007; Hiller & Hambrick, 2005). Hence, it is implied that micro-level factors may also influence the relationship between political networking and firm performance. In this regard, we highlight the role of core self-evaluation (CSE) as a comprehensive predictive indicator of the CEO's personality (Erez & Judge, 2001; Judge et al., 2003). CSE is

conceptualized as a higher order construct which is composed of wider evaluative traits, influencing individuals' perceptions and behaviors (Chang et al., 2012). Hiller and Hambrick (2005)'s conceptual paper suggests that a CEO's CSE may influence his or her strategic decision processes, choices, leading to extreme organizational performance. Specifically, a CEO with higher CSE tend to strongly believe in his or her own ability in achieving goals and be less dependent on resources brought by social ties.

This study hopes to make contributions to organizational learning literature on new product innovation. While prior studies have suggested that political ties help firms in transitional economies to secure valuable resources for innovation activities and improve the environment fit (Hillman &Hitt,1999; Wu, 2011); some studies also stated that political ties may negatively influence organization's innovation capacity through political interference and managerial disincentives (Wu, 2011). The mixed findings suggest that the effects of political networking on firm innovation need to be further examined. In this study, we founded our theoretical model resource dependence theory (RDT) by looking upon how political networking impact firm innovation in a nuanced view. We investigate new product innovation from input orientation, i.e. exploration vs. exploitation, which have distinctive characteristics and ask for different kinds of skill sets of firms.

Second, this study contributes to strategic leadership research on CEO decision-making by introducing theories of personality. Although previous research has investigated how firm- and environmental-level factors (Peng & Luo, 2000; Li &

Zhang, 2007) constrain the relationship between political network/ties and firm performance, I put on eyes on CEO personality as a contingency factor of the political networking strategy, contributing to micro-foundations of strategic management research. Besides, I tested predictions in a transitional and fast-developing economy-China which serves as a suitable context to examine political networks and product innovation considering both factors are highly prominent in this business context.

The role of political networks as important resources channels in transitional economy has been verified many a time. From upper echelon perspective, this study aims to explore the psychological insurance-like role of political networks in initiating innovation activities and its actual effectiveness in achieving innovation outcomes, therefore enhancing our understanding of strategic leadership in the context of political networking strategy and new product innovation. By integrating one CEO fundamental personality- CSE-, this study discloses that CEO cognitive mechanism constrain the relationship between firm strategies and firm product innovation, contributing to upper echelon perspective.

This study is organized as following: firstly, past literatures regarding product innovation, political networking, core self-evaluation will be reviewed and summarized, especially for studies which explored the connections between them; second, theories and hypothesis will be presented after the research gap; then, methods and results of the study will be described; before talking about the limitation and future research direction, discussion will be addressed at first. The overall theoretical model presented in Figure one and each of the expected relationships will be explained in the

hypothesis part.

----Insert Figure 1 about here---

LITERATURE REVIEW

3.1 Firm Product Innovation

Innovation is one intensively researched topic in strategic management field. Brown and Eisenhardt (1995) recognized that innovation research can be divided into two main streams: one is an economic-oriented tradition which focuses at a macro level regarding the differences of innovation patterns among countries, industries, and organizations. In this regard, innovation is treated as technology, strategy or practice that is adopted for the first time (Li & Atuahene-Gima, 2001); the other stream is an organization-oriented tradition, talking about microlevel innovation related to specific product development by firms. This stream mainly investigated how organizational structures, processes, and individuals influence the new product development. Product innovation is defined as firms' creation of new product or the commercialization of an invention (Myer & Marquis, 1969). In this study, I will mainly focus on the second stream of innovation literature and examine organization-level factors that affect the process and results of product innovation.

Product innovation is vital to firms' survival and prosperity. Firms which introduce successful product are more likely to win profits and gain competitive advantages. In the contrast, firms that spend a great amount of resources to create an unpopular product are easily to lose their market share. Besides creating revenues, product

innovation is also one critical means of firm members to diversify, update and reinvest their knowledge to match evolving market and technology (Brown & Eisenhardt, 1995). The importance of product innovation has attracted scholars and practitioners to examine and reflect a lot on this issue. In this section, I will review related categorizations and definitions of product innovation, especially for exploratory innovation and exploitative innovation; then, past research examining antecedents that lead to firms' exploratory and exploitative innovation will be briefly summarized.

3.1.1 Definitions

Developing new products has been treated as one essential means of firms to transform and to adapt in changing environments (Eisenhardt & Tabrizi, 1995). Research focused on product innovation, or product development has discussed topics such as the categorization of product innovation, the process of product development and factors determining the success of product innovation (Henderson and Clark, 1990; Eisenhardt & Tabrizi, 1995; Danneels, 2002). There are various ways to categorize product innovation. Based on the outcomes, scholars have divided it into incremental innovation and radical innovation (Nelson & Winter, 1982; Tushman & Anderson, 1986; Dess & Beard, 1984). Incremental innovations are relatively minor improvements to the existing product, emphasizing the exploitation and reinforcement of existing products. Incremental innovations are built on firm's existing competencies and knowledge; thus, they usually play the role of enhancement or reinforcement of competitive position. On the contrast, radical innovations refer to technologic breakthroughs based on different set of scientific principles, which can open a new

market or redefine the whole industry. Radical innovations emphasize the destruction of firms' current competences, challenging the established routines, and calling for the cultivation of new capabilities. Later, Henderson and Clark (1990) pointed out that, if we take the product-development as unit of analysis, each product has its components and core design concept; product innovations happen whenever any of the composed components evolves or the way in which the components of a product are linked together changes. Framed in this way, incremental innovation is regarded as the refinements of the established design-the components make individual improvements while the underlying core design doesn't change, and the links between components are the same. Radical innovation establishes a totally new design; both the core design concepts and the way the components are linked changes. Following this logic, successful product development requires two types of knowledge: one is the knowledge about each component of the core design concepts, and the other is the knowledge about the ways in which the components are integrated together in one system. Besides incremental innovation and radical innovation, a new type of innovation called- "architectural innovation" comes up with this framework. If the basic knowledge underlying the components, or say, the core design concepts remain the same while the way in which the components are connected changes, this kind of changes is the architectural innovation. In other words, architectural innovation is the reconfiguration of current components embedded in the existing system.

The above discussion is about the categorization of product innovation based on outcomes. In other perspective, product innovation is one adaptive process of firms to

the dynamic environment. Eisenhardt and Tabrizi (1995) explored the process of product innovation and discussed a series of factors that may quicken the pace of product development. In this study, authors assumed that product development process could be two possible situations: one is certain, predictable and can be routinized or planned; the other is unpredictable, intractable and cannot be planned. With respect to two situations, firms can quicken the pace of product development by applying strategies accordingly. If the situation is certain and the development process can be routinized as a series of steps, firms can compress the steps through planning in advance, encouraging suppliers' involvement and motivating the designers to shorten the time. On the other hand, if the situation is uncertain and firms lack information to plan the process because of the changing markets and technologies, firms can only accelerate the product development process through intuition and experiments. In the end, the field data suggested that firms need to use improvisational tactics in the product development process since the process is unclear and changing rapidly with the market (Eisenhardt and Tabrizi, 1995).

Firms need to renew themselves persistently to reinforce their competitive advantage, and product innovation is one primary way to achieve this goal (Dougherty, 1992). A strategic renewal requires the firm to be aware that maintaining adaptiveness needs to explore new competencies and exploit existing ones simultaneously (Floyd & Lane, 2000). In this way, product innovation is regarded as effective learning strategy for firms to explore and exploit organizational competencies. Based on March (1991) organizational learning theory, Danneels (2002) advanced that product innovation can

be categorized into two board learning domains- exploration and exploitation.

Exploitative product innovation aims to use the existing firm resources to enhance the current competencies and support firm viability. Instead, exploratory product innovation utilizes additional firm resources to pursue new competencies and the outcomes are usually for future needs. In general, exploratory product innovation embedded much more risks than exploitative innovation because exploration drive firms to go out of their comfort zone and to experiment something they are not familiar with. In addition, the returns from exploratory innovation are uncertain, remote in time and distant while returns from exploitation are relatively certain, near and short-term. Although exploitative product innovation may generate more certain rewards for firms, the competencies developed from exploratory product innovation give firms more flexibility to be adaptive to changes, increasing the variance of firm activities thus preparing firms for future viability. Various literatures have suggested that successful organizations need to be ambidextrous (Gibson & Birkinshaw 2004, He & Wong 2004) and build up exploratory and exploitative competence at the same time. In the following section, I will review literatures concerning the antecedents of firm explorative and exploitative product innovation.

3.1.2 Exploratory and Exploitative product innovation

According to Danneels (2002), successful product innovation requires firms to possess two essential capabilities- technological competence and market competence. Basically, launching a new product needs the firm to manufacture one type of product which is allowed by its technological competence first and to sell that product to

certain customers successfully, which calls for the firms' market competence. The process of new product development is to connect technology and customer (Dougherty,1992). Founded on this conception, Jansen et al. (2006) pointed out that product innovation has two domains: (1) the proximity to existing technologies, products, and services and (2) the proximity to existing customer or segments. In this framework, exploratory product innovations require firms to apply new technologies to invent new designs, create new markets to meet the needs of emerging markets; exploitative product innovation broaden existing knowledge and skills to improve current designs and focus on the needs of customers. These two kinds of product innovation activities ask for different skill sets and will have different impacts on firms' competence, but both are recognized as crucial tasks for firms' development. One long-lasting issue is about the relationship between exploration and exploitation. Whether they are in two ends of a continuum or just two different and orthogonal aspects of organizational activities? March (1991) suggested that exploration and exploitation are incompatible with each other and they should be viewed as two ends of a continuum. Although both exploration and exploitation bring certain benefits to the company and organizations are advised to be ambidextrous, it's undeniable that two activities compete for limited organizational resources and more resources devoted to one imply fewer left for the other. Besides, as mentioned before, the skill sets and organization routines needed for exploration are so different from those needed for exploitation that it is almost impossible for firms to achieve both at the same time (Gupta et al., 2006). Hence, in this view, it appears that organization

implicitly have different preferences or orientation between exploration and exploitation. Nevertheless, some other scholars pointed out the relationship may depend on the level of analysis; while mastering exploration and exploitation simultaneously may be difficult for individuals, one group, organization or sub-system could handle it successfully. The organization is composed of loosely coupled domains and thus exploration and exploitation can be conducted by different domains. Thus the relationship is orthogonal in this way. It appears that the relationship between exploration and exploitation relies on the unit of analysis and various contexts. Given the importance of product innovation, in the past, researchers have tried to investigate the antecedents that lead to different firms' product innovation orientation. However, empirical findings only provided limited evidence on the causes of exploration and exploitation (Lavie et al.,2010). In a review of exploration and exploitation literature, Lavie et al. (2010) concluded environmental factors (external), organizational and managerial factors (internal) impact on firms' innovation orientation.

With respect to environmental factors, organizations across industries may hold different tendencies to exploration and exploitation. For instance, environmental dynamism, defined as the extent of unpredictable changes in organizational environment such as technologies and market demands, often drives more exploration than exploitation since the dynamic environment quicken the speeds of existing product obsolesce and firms need to consistently bring new products to gain competitive advantage (Jansen et al.,2005). Similarly, competitive intensity, representing the extent to which firms within an industry put pressure on one another

and limit each other's profit potential, pushes firms to continuously improve existing products, services, and processes. Hence, intensive competitive pressures require firms to do exploration that can bring new competitive advantage (Levinthal & March 1993).

In terms of organizational factors, absorptive capacity, regarded as firms' ability to absorb and apply the value of external knowledge (Cohen & Levinthal, 1990), enables exploratory innovation since it represents solid knowledge base which enhances organizational learning efficiency; strong organizational culture facilitate exploitative innovation but constrain exploratory innovation because organizational members are bounded by a set of strongly norms and values(Sorensen, 2002); research by Jansen et al. (2006) showed that firms' coordination system affect firms' innovation orientation in a way that centralization negatively influence exploratory innovation since it discourages nonroutine problem solving and reduces the chances for employees to seek creative solutions; formalization positively affect exploitative innovation because well-established rules and explicit procedures facilitate the diffusion of best practices within organization; besides, compared to formal coordination mechanisms, informal communication channel inside the firm- measured as "connectedness" (which means the density of social networks among organization members) are more effective at supporting both exploratory and exploitative innovation.

Managerial factors such as the cognitive and behavioral patterns of organizational top management team also impact the organization's innovation orientation. Firms with top managers who are risk-averse decision makers will do more exploitation since

the rewards from exploration are remote and uncertain. The past experiences of top managers regarding the resource allocation have self-reinforcing nature, thereby guiding their trade-off between exploration and exploitation. In addition, the top management team may also depend on performance feedback to make decisions. If the organizational performance drops below aspirations after exploitation efforts, disappointing results could drive managers to commit in exploration (March, 1991). Study by Alexiev et al. (2010) indicated that both internal and external advice-seeking behaviors of top management team are positively associated with exploratory innovation. In brief, current literatures investigating the relationships between strategic leadership and innovation orientation mainly focus on the behavioral aspects but limited in personality studies.

3.2 Political Networking/Ties

According to social network theory, top executives with stronger social ties are more likely to be promoted frequently, earn more income, and enjoy a more successful career than their counterparts (Burt, 1997). One behind reasoning is that top executives' social ties, contacts, and networks have important impact on firms' strategic choices and performance (Geletkanyca & Hambrick, 1997); those top executives holding better social ties can help firms to obtain more useful information, resources and make wiser decisions, thereby generating better organizational performance. Through networking activities and interpersonal interactions, executives can build up business ties and political ties ("guanxi" in Chinese). Based on Sheng et al. (2011), business ties refer to executives' informal social connections with business organizations, such

as suppliers, customers, and competitors; political ties are a firm's informal social connections with government officials from various level of administration, including central and local government, and officials in regulatory agencies, such as tax or stock market administrative bureaus. Both forms of networks are established through executives' personal interactions, rather than formal contracts or transactions of firms, to gain beneficial resources to smooth cooperation. The importance of establishing and maintaining social ties for conducting business have been widely recognized in the literature, especially in transition economies, where the under-developed institutional environment intensifies the market competition. In fact, political networking is one important non-market strategy for firms all over the world to gain regulatory and financial resource controlled by political institutions. In this section, I will mainly review past research which investigated the outcomes or consequences of political networking activity/ties.

The embedded uncertainty in the business-government interface brings great transaction costs for corporations (Williamson, 1991). As mentioned by Hillman et al. (1999), business-government interaction mainly happen in three board areas: (1) antitrust regulation, which aims to ensure competitive market, including merger and acquisitions, exclusive dealings, price discrimination and so on; (2) economic regulation like industry-specific regulations dealing with prices, output, etc., (3) social regulation which influence all industries covering such issues as environmental law and occupation safety. Besides, governmental consumption accounts for a great portion of corporate sales. Considering the size of the government and the scope of its

regulatory policies, firms must learn to cope with the uncertainty in the political process. In this vein, firms under different cultural context utilize different methods to interact with government to facilitate operation and reduce uncertainties, improving firm performance.

In U.S context, corporations often adopt corporate political activities (CPA), defined as corporate attempts to shape government policy in ways favorable to the firm (Hillman et al., 2004), such as lobbying, testifying at government hearings and personal service of directors, trying to influence policy outcomes indirectly or directly. Ultimately, the goal of political behavior is to influence government processes so that the outcomes benefit the goals of given organization (Basinger, 1984). The outcomes of political behaviors in U.S context can be divided into two broad categories: (1) public policy outcomes; (2) firm performance outcomes (Hillman et al., 2004). Nevertheless, the benefits come with public policy outcomes are usually collective in the sense that the outcomes would accrue to many parties, not only the ones that take the action. The example could be trade barriers, standard setting or any regulation which affects the whole industry (Hillman et al.,1999). The studies on selective outcomes of political behaviors in U.S context (the benefits are exclusive to firms which do political activities) are comparatively limited due to the difficulty in measuring CPA and isolating the effect of CPA on performance. One study done by Shaffer et al. (2000) empirically tested the outcomes of political activities for firm performance. They investigated the impact of market and CPA actions of airlines on firm performance such as profit margin and changes in market share and found that

CPA action significantly affected firm performance while market action does not. Hillman et al. (1999) observed that firms whose top management or directors are elected or appointed to federal office would enjoy experience abnormal returns to shareholders. In general, the difficulty to measuring CPA and isolating the CPA effects on specific firms restrain the outcomes of political behaviors research in US.

In Chinese context, the importance of maintaining political ties (*guanxi*) for conducting business has been emphasized many a time. Research also proved that political ties positively impact on firm financial performance (Peng & Luo, 2000; Zhang et al., 2015; Li & Zhang, 2007; Shen et al., 2011 and Zheng et al., 2015). Theoretically, scholars usually build up their arguments on resource dependence theory and resource-based view, suggesting that firms can generate both tangible and intangible benefits from the government. Empirically, different from studies in U.S context where political behaviors are measured through observing firm's reaction to government legislations, studies of China often adopt construct like "interlocking political ties", which are calculated when current top management team member hold or previously held senior position in key government or political organizations or when current senior politicians or government officials hold or previously held top management position in firms; or "political networking", which is an survey measurement that directly gauge the efforts or time the top management team members invested to maintain the relationship with governmental officials. By using "political ties" and "political networking" measurements, we can clearly examine the effects of political networking on specific firms. Peng and Luo (2000) advanced that

top managers' personal ties with governmental officials can enhance firm financial performance. Moreover, they argued that this positive relationship will be stronger when firms is not state-owned, service-type, small-sized or in low-growth industry since those firms face more environmental uncertainties and are more in need of resources. Later, Li and Zhang (2007) also pointed out that political networking of top managers would promote new venture performance and the relationship will be stronger for non-state-owned ventures and firms in higher level of competition. Shen et al. (2011) distinguished the differential roles of business versus political ties for firms in China and testified the contingent effects of institutional and market environment. However, in their study, they did not find there exists the significant effect between political ties and firm performance. Recent research further evaluated the differing impact of political ties at local and central levels of government organization (Zheng et al.,2015). The inner differences between local and central government in the scope of authority, responsibility, and expenditures create heterogeneity in ties and outcomes for connected firms (Nee,1992). The results indicated that political ties with local government can buffer firms to their survival, especially for firms with weaker previous performance, promoted sales growth but only for firms with stronger performance. Nevertheless, they did not find the same effects from political ties with central government. The results imply that building ties with local government may be more beneficial to firms because compared to the central government, the authority of local government may more direct and greater impact on firms' performance.

In brief, past research in political networks/ties have indicated that political connections can benefit firms through resource provision and uncertainties reduction. However, the results may not be exclusively positive since the costs associated with political networks are also substantial and the benefits brought by political networks would be attenuated. In addition, the relationship between political networks and firm performance is dependent on several environmental factors such as industrial competition intensity, firms' ownership type and technological turbulence.

3.2.1 Political Networking/Ties and Product innovation

As mentioned above, research showed mixed findings regarding the effects of political ties on firm performance. Product innovation, as an essential driver of sustained competitive advantage and important indicator of firms' performance, has been associated with social ties in the literature.

The social network theory has suggested that firm can utilize the resource embedded in social networks in form of alliances, joint ventures, or managerial ties to boost firm innovation (Burt, 1997). As one important type of social ties, political ties are also regarded as one crucial source for firms to support their innovation. Shu et al. (2011) integrated the social network theory and the knowledge-based view to argue that managerial ties gain network benefits through social interactions of top managers with officials in the government and bureaus, and firms can internalize these benefits through organizational knowledge creation processes into product innovation process. More clearly, they advanced that political ties can exert indirect positive effects on product innovation through knowledge exchange of senior managers. Nevertheless, in

this study, they did not differentiate the types of product innovation and did not explain clearly the mechanism how political ties impact on the knowledge exchange inside firms. In another study by Zhang et al (2015), they applied a task-contingency approach to argue that value of investing managerial time to cultivate political ties with local government officials will vary when firms engage in different types of product innovation. Particularly, they pointed that, the exploratory innovation is embedded with more uncertainties, to prevent the innovation from regulatory intervention and interruption, managers need to spend more time with government officials to decrease the risks. Therefore, when firms are conducting the exploratory innovation, the political ties will improve the firm performance. On the other hand, the degree of uncertainty is much less in exploitative innovation since the exploitative product development is most likely to remain in existing regulatory approvals. Hence, the investment spent on political ties cannot be maximized on exploitative innovation activity and would be better to put on other alternatives. By this logic, when firms are conducting exploitative innovation, more time investment in building and maintaining political ties will negatively impact on firm performance.

In terms of firm innovation, absorptive capacity has been always suggested as one crucial factor for firms to achieve superior innovative results (Cohen & Levinthal, 1990). Scholars investigated whether firms in emerging-market can acquire resources through political networking to complement their absorptive capacity to support incremental and radical innovation (Kotabe et al., 2017). Their results showed that firms' absorptive capacity itself without investing in political networking is

sufficient to develop incremental innovation since incremental innovations only involve improving and exploiting existing knowledge and do not require huge support from the government. Nevertheless, firms' political networking would interact with absorptive capacity to improve radical innovation. Different from incremental innovation, radical innovation involves the disruption of existing technologies and ask for large capital investment. Because the benefits generated from political networking can help firms to overcome the institutional voids and enhance the efficiency of enforcement mechanism, the joint effects of political networking and absorptive capacity will be reflected on radical innovation.

Wu (2011) directly tested the relationship between political ties and product innovation and stated that there exists an inverted-U shape connection. He argued that, political ties can increase the environmental fit of firm to external institutions, thus helping firms to gain legitimacy and improve product innovation at the initial stage; however, as the political ties become stronger, the interventions from government will disturb organizational internal routines, which means the costs of political ties would outweigh the benefits, thus diminishing the product innovation. Noticeably, in this study, he measured the political ties not by "the time investment of top managers on building connections with governmental officials", rather by "the corporate shares held by government". Here, the political connection is more likely to reflect the control from government on firms instead of one kind of social ties.

Interestingly, one recent study by Gao et al (2017) argued that political ties have a curvilinear (U-shaped) relationship with product innovation. They thought that,

though the political ties can benefit firm product innovation by providing informational benefits, intellectual benefits (provide firm with connections to research institutions), financial support or favorable policies; at the same time, Chinese government officials hold superior institutional power which cause power imbalance between the officials and the manager, to build up the connections and gain trust from the government officials, managers need to make short-term sacrifices and receive unequal returns at the beginning. Hence, at the beginning, the costs of establishing and strengthening political ties may exceed the benefits brought by political ties and it takes time to obtain the benefits of political ties. Once the firm has built relatively strong political ties and gained the trust of the government, the cultivation and maintenance costs of political ties decrease and firms may enjoy more opportunities such as grant favor to support their innovation. In addition, they further suggested that the institutional environment would moderate the relationship between political ties and product innovation in a way that, if firm operates in underdeveloped regions, the political ties will have a stronger influence on product innovation. Because in the developed region, the relatively mature and transparent political institutions may limit the institutional power of the government thereby reducing the influence of political ties.

In general, numerous studies have explored the relationship between political ties, firm performance, or innovation but the results are mixed, and it is still unclear under what conditions firm can maximize the benefits from political networks to invest on product innovation.

3.3 Core Self-Evaluation (CSE)

The concept of core self-evaluation was firstly introduced by Judge et al. (1997), and they described it as a broad personality trait which is “basic conclusion” or “bottom-line evaluation” representing one’s appraisal of people, events, and things in relation to oneself. CSE reflects a person’s perceptions of the way he or she is treated by world thus the way he or she treats world. CSE can be regarded as one kind of stable dispositional characteristic, affecting his or her thoughts and behaviors. Later, Judge (2001) further validated this construct and proposed that CSE was a higher order construct that is composed of four evaluative traits: self-esteem, generalized self-efficacy, locus of control, and neuroticism (emotional stability). First, self-esteem is defined as the overall value that one places on oneself as a person and is also considered as the most fundamental manifestation of CSE (Judge, 2005). Second, generalized self-efficacy is one’s appraisal of his or her ability to cope with life difficulties. Third, locus of control is regarding one’s beliefs about whether one can control the events in their life- if individual believes outcomes are dependent on their own behavior, his or her locus control is internal (Rotter,1966). Finally, neuroticism is the tendency to focus on negative aspects of the self. Individuals holding low neuroticism (who enjoy high emotional stability tend to be confident, secure, and steady about life events. Compared to single personality trait, CSE is one more advanced and comprehensive construct to predicate individuals’ cognition and behaviors.

Since then, CSE has been widely applied in organizational behavior research to

predicate various outcomes such as life and job satisfaction, work commitment, motivation, job performance and employee's perceptions of work environment like job fairness. In addition, Judge et al. (1997) also proposed the approach/avoidance framework to illustrate how core self-evaluation influence those outcomes. Based on the review from Chang et al. (2012), CSE can influence outcomes through four processes: (1) CSE would impact on the positive self-views and these views may spill over to influence other outcomes; (2) CSE will influence the cognitions people possess and evaluations they made about different things; (3) CSE can impact outcomes by influencing the actions people would take; (4) finally, CSE will influence people's reviews and reactions to events.

Considering the popularity and effectiveness of CSE, strategy scholars started to borrow this construct to predicate the self-concepts of executives, especially in the strategic leadership research (Hiller & Hambrick, 2005; Simsek, 2010; Chng, 2012). The fundamental assumption in strategic leadership stream is that the characteristics of executive will be reflected in the strategic choices they made, because senior executives, particularly CEOs, confront so much ambiguity and many uncertainties every day, that their personalities, experiences, and demographic characteristics would enter their interpretations of situations and decisions they made (Hambrick, 2007).

CSE, as one psychometrically grounded and evaluative trait of people, will influence the way executives observe, interpret situations thus the decisions made. Hiller & Hambrick (2005) proposed one theoretical review of CSE; they stated that hyper-CSE captures the "extreme self-confidence" in executives and is equal to

“hubris”, which refers to exaggerated self-confidence or pride (Hayward & Hambrick, 1997). Based on this understanding, they indicated that “hyper-CSE executives are exceedingly confident and full of self-regard and self-worth. They are sure of their abilities, and they believe deeply that the application of their ability will bring positive outcomes. They are free of anxiety and have little concern about negative outcomes because they possess a core conviction that they can surmount adversity and repair all problems.” Then, founded on this interpretation of CSE, they further developed an integrated set of propositions to anticipate the effects of executives’ CSE on decision-making. In the strategic decision-making process, hyper-CSE executives are filled with confidence and believe that they have treasured personal insights of situations. Hence they will not tend to exhaustively gather comprehensive data, rely on others’ opinions, or take more time to consider the choices. As a result, hyper-CSE CEOs could make quick, centralized, and non-comprehensive decisions. Besides, executive CSE will also have effects on strategic choices, or resource deployments. Highly confident CEOs are likely to engage in large-scale, quantum initiatives since they are sure of the wisdom of their decisions and their ability to successfully execute the plans. Compared to moderate-CSE CEOs, hyper-CSE executives hold larger tolerance of risks and feel no need to follow industry peers to validate their course of action. Therefore, they may pursue strategies that will deviate from the central tendencies of the industry and are more persistent to implement strategies that launched by them. In sum, high-CSE executives commit in large-scale, risky strategic initiatives and they make quick decisions without thorough

analysis. Therefore, Hiller & Hambrick (2005) finally anticipated that hyper-CSE CEOs would lead to extreme organizational performance- either extraordinary success or big losses. This study exhaustively discussed theoretical effects of CEO CSE on firm strategies and outcomes but lacked empirical validation to support their anticipations.

Later, Simsek (2010) used survey-based study to indicate that CEO CSE is positively associated with firm's entrepreneurial orientation because hyper-CSE CEOs possess positive self-views about their own ability and think that they can master environmental uncertainties, lead to positive outcomes. In addition, he also showed that, if firm faces higher environmental dynamism, leading to higher means-ends ambiguity in decision-making thus affording CEOs greater discretion to make choices, the association between CEO CSE and firm entrepreneurial orientation will be stronger. Another empirical study by Chng et al. (2011) showed that under organizational declines, hyper-CSE CEOs reacted to incentive compensation with more perseverance, competitive strategic focus, and risk-taking compared to those with lower CSE. This study suggested that CEOs with higher CEO are more positively to respond to the challenges of organizational decline and the uncertainties inherent in incentive compensation.

In brief, empirical studies about core self-evaluation in strategy field are still limited. Previous research has suggested that CSE is one reliable and comprehensive indicator of executives' personality and can be used to predicate CEO behaviors and its impact on firm strategic choices.

THEORY AND HYPOTHESIS

4.1 Political Networks and Product Innovation

Social ties are perceived as underlying stocks of firm resources or knowledge for organizational learning and innovation (Powell et al., 1996). In view of social network perspective, external ties facilitate firm innovation by developing firm capabilities for interacting other firms (Ang, 2008), compensating for a lack of internal skills (Ahuja, 2000) and risk sharing (Kogut, 1989). Previous research highlighted the importance of social capital embodied in social ties and networks for firm growth (Burt, 1997; Granovetter, 1985). Especially in emerging economies such as China, where economic and institutional environments are turbulent, social ties secure valuable resources for the firm, such as novel and diverse information to cope with environmental uncertainty (Ambler & Witzel, 2004; Peng, 2003). Political networks, defined as firm's informal social ties with government officials at various levels of administration, serves as a crucial channel for the firm to gain financial, informational, and technological support from the government (Li & Atuahene-Gima, 2001; Li et al., 2009; Peng & Luo, 2000). As suggested by Atuahene-Gima and Li (2002), the underdevelopment of regulatory environment in transition economies increases uncertainties and risks in business environment, thus lowering trust among market participants. Consequently,

firms are more likely to rely on external ties, i.e. business ties and political ties, to capture “trustworthy” information for making better decisions (Luo, 2003). Different from mature market-based economy of U.S, in Chinese market, the government still takes great control of the authority to make and revise industrial legislation, give tax breaks, consumer goods for governmental use and sell land for commercial use, which are all tightly associated with corporations’ benefits. Through building political ties with government officials, firms are in advantageous position to cope with uncertainties and turbulence embedded in external regulatory environments. In fact, current research considers political networking as a potential substitute for the under-developed institutional infrastructure in China (Xin & Pearce, 1996). Without support from the government, firms tend to face larger information asymmetry and lose competitive advantages. Previous literature also demonstrated that effective political networking can improve organizational performance while this positive relationship may be constrained by conditions such as ownership structure, the intensity of market competition, and technological turbulence (Li & Zhang, 2007; Peng & Luo, 2000).

In terms of product innovation, Li and Atuachene-Gima (2001) suggested that political networking did not enhance the effectiveness of a new technology venture’s product innovation strategy on firm financial performance. One possible reason given by them is that the transaction costs associated with political networking attenuate the benefits brought by product innovation. with the aim to cultivate personal relationships with governmental officials, managers may lavish entertainment to the officials and even give free shares to them; these activities may hamper firms’ finances, thus

decrease firms' profitability. Nevertheless, Zhang et al. (2015) found that different types of innovation will moderate the relationship between political ties and firm performance differently. Particularly, they argued that firms conducting a high level of performance differently. Particularly, they argued that firms conducting a high level of exploratory innovation are encouraged to spend more time on political networking since the political ties can help firms to solve the high institutional uncertainty involved in the exploratory innovation. On the other hand, for firms pursue higher level of exploitative innovation with low uncertainty, investing much time in political networking could be wasteful and even harm firm performance. Thereby, the relationship between political networking and firm innovation is still puzzling in current literature. Information and resources generated from political networks can support firms' innovation, but the transaction costs associated with networking activities and the regulatory pressure from the government may also harm firms' ability to innovate. To reconcile different views, Wu (2011) stated that political ties, measured as the total government ownership percentage, have an inverted- U relationship with firm innovation since political ties will enhance firms' fit to the institutional environment but too much control from the government may interfere with firms' internal innovation competence and disincentive managers. Although Wu's study disclosed the black box between political networking and innovation in some degree, in his study, he took the government as one principal role, instead of a partner, and examined the influence of government control on innovation. Rather than regarding political party as one shareholder of firm, this study specifically treats political networking as one important non-market strategy of firms in emerging

economy, and examine how this strategy can affect firm different product innovation. Given the prominent role of political networking in transitional economies and the significance of firm product innovation in creating competitive advantage, solving this research question can greatly help firms to configure their resources.

Product innovation, regarded as one important stream of firm innovation research, refers to firms' created a new product for the market or the commercialization of an invention (Myers & Marquis, 1969). March (1991) categorized firm innovation into the exploration of new possibilities as well as the exploitation of existing means. Consistent with March's definition, new products also take two forms: the introduction of brand new product and the modifications or extension of existing products; both are new to the firm and the market (Li & Atuachene-Gima, 2011; Zhou & Wu, 2010). In terms of the classification of innovation, exploratory innovation, and exploitative innovation highlight firms' orientations in the process of innovation while radical innovation and incremental innovation are used to describe innovation outcomes or evaluate innovation performance (Atuachene-Gima, 2005).

Due to differences in nature, exploration and exploitation require different set of capabilities from firms. While exploration is typically associated with "search, experimentation, and variation," exploitation spotlights the refinements of current productivity and efficiency through "choice, execution, and variance reduction" (Lavie et al., 2010:110). Exploratory innovations require firms to depart from existing knowledge, designing new products to meet the needs of emerging customers or markets (Benner & Tushman, 2003; Levinthal & March 2003). Accordingly,

explorative innovation is usually radical breakthrough which requires large amount of investment and take great risks. In contrast, exploitative innovation is one kind of incremental innovation and is designed to meet the demands of existing customers. Exploitative innovations are built on existing knowledge and skills, emphasizing the improvement of production efficiency (Levinthal & March, 2003). The rewards from investment on exploitative innovation are more certain compared to exploratory innovation. Since the two types of innovation require distinctive resources and skills and they may contribute to competitive advantage in different manners (He & Wong, 2004; Raisch et al., 2009; Auh & Menguc, 2005), at the same time, managers may have different considerations for them when deciding firms' direction. Thus, we treat the exploratory innovation and the exploitative innovation differently.

4.2 Political Networking and Exploratory Innovation

According to March (1991), exploration is associated with risk-taking and high uncertainty since it requires firms to depart from their existing knowledge base to discover new technologies and markets. Compared to exploitation, returns from exploration are less certain, more remote in time while the amount of initial investments usually is larger. Therefore, firms need to face greater risk and deal with more uncertainties in exploratory innovation. In addition, the underdevelopment of the institutional environment in transition economies engenders more turbulence where there is a low level of trust among market participants (Atuahene-Gima & Li, 2002). Especially in context like China, government officials often have considerable

authority to approve projects and allocate resources, allowing arbitrary governmental interventions (Peng & Luo, 2000). In this kind of resource-constraint environment, organizational prosperity hinges more on the ability to build effective connections with external parties (Preffer & Salancik, 1978). However, in face of the same resource-constraint environment, top managers may have different interpretations and perceptions of their surroundings. These perceptions reflect their psychological bias which reflect their psychological traits or personalities.

To alleviate the resource-constraint situations, top executives with stronger social ties with government officials through political networking may gain more low-cost resources from governmental such as land, low-interest loans, and tax breaks, which can enhance production capability and reduce certain costs but cannot directly improve firms' technological innovation ability. A firm's innovation ability mainly depends on its knowledge and absorptive capacity, which require heavy investment on its R&D activities that consumes substantial managerial input (Cohen & Levinthal, 1990). Especially for exploratory innovation, since it requires firms to depart from existing knowledge base to unfamiliar area, it demands high level of investment on R&D. Simultaneously, political networking is also one resource-consuming activity since managers need to leverage firms' assets to lavish officials. Those activities may hamper firms' financial ability and effective management (Tsang, 1996). Thus, when firms are involved in intensive political networking activities, they may be lack of attention and resources to put on exploratory innovation, which requires intensive discussion and continuous efforts.

Second, when a firm can capitalize on relatively low-cost regulatory resources such as loans and land, they may feel less threatened by the market competition. Lack of sense of emergency and high level of dependence on government may demotivate managers to commit high-risk exploratory innovation. Third, the dependence on regulatory resources may also harm firms' innovation culture. As indicated by Tan (2001), managers with more political resources are less innovative and tolerate of risks. Therefore, although political networking may reduce the level of institutional uncertainty inherent in exploratory innovation, the transaction costs associated with political networks, the high-dependence on government and low tolerance of risks would damage firms' exploratory innovation. Hence, we predict that:

Hypothesis 1: Firm political networking is negatively related to explorative product innovation.

4.3 Political Networking and Exploitative Innovation

Exploratory innovation is embedded with high level of risks and demand lots of efforts from firms. Distinct from exploration, exploitation emphasizes the refinement, efficiency, selection, and implementation of existing knowledge and skills (Cheng & Van de Ven, 1996; March 1991). Exploitation can harvest short-term efficiency gains and ensure immediate returns. Because exploitative innovation deals much less with uncertainty and require less attention from the managers, political networking may provide sufficient resources to encourage exploitative innovation instead of competing

with it for firms' energy.

Exploitative product innovation such as incremental product developments may enhance production efficiency and increase the amount of production output. To achieve this goal, executives need to maintain the current market share and/or develop new regional markets (Zhang et al., 2015). The penetration and expansion of the existing market call for investments intangible resources such as capital, human resources, and land. As mentioned above, Chinese government currently still controls substantial resources including land, bank loans, subsidies, research funding and tax breaks, political networking can offer firms easier access to these resources, thus support exploitative innovation activities (Faccio, 2006; Khwaja & Mian, 2005). Withholding political networks, CEOs can expect to gain easier approval from government for exploitative product innovation. These strong political ties become psychological dependence pillar of CEOs in consideration of bringing firms approvals of business-use land and loans from government or state-owned banks. Therefore, political networking may enhance access to more tangible and intangible resources and provide incentives to conduct exploitative innovation. Thus, we predict:

***Hypothesis 2:** Political networking is positively related to firm exploitative innovation.*

In brief, since firms in transitional economy encounter more uncertainties when dealing with government officials who take control of great amount of resources, we argue that political networks can effectively comfort CEOs psychological anxieties when making decisions concerning product innovations. Exploratory innovation needs

intensive support and attention from the top managers, which may contend with political networking activities. In addition, with the connection from the government, managers may feel less necessary to engage in exploratory innovation. On the other hand, the potential resources and support expected from political networks increase CEOs' expected rate of success of innovation projects, encouraging their commitment to exploitative innovation. Nonetheless, in the next, I argued that the psychological characteristics of CEOs-Core self-evaluation- that would substitute the function of political networks to affect their cognitive processes thus impact firm product innovation (Hiller & Hambrick, 2005).

4.4 The Moderating Effect of CEO Core Self-evaluation

Core self-evaluation (CSE) is a recently validated construct in social psychology for use in strategic leadership research focused on how top executive psychological characteristics influence strategic decision-making (Hiller & Hambrick, 2005; Chang et al., 2012). CSE is composed of four constructs: self-esteem, generalized self-efficacy, locus of control and neuroticism (Judge et al., 1998; Judge et al., 2002). All of four traits have been fundamental subjects in tons of psychology studies and share conceptual similarities (Bono& Judge, 2003). Self-esteem and self-efficacy are highly interrelated because both of them reflect one's own assessment about his or her capability, worthiness and significance. Locus of control is one's belief about whether he or she can control the environment. This construct is obviously overlapped with self-efficacy since one with higher self-efficacy would judge themselves to be more

capable of controlling the environment. Finally, neurosis is considered to be a sign of low self-esteem (Rosenberge, 1965). These four traits are interrelated and are considered to be highly correlated with one fundamental trait-CSE. CSE is conceived as an ingrained trait that influences how people fundamentally assess their own worthiness, competence, and capability (Judge, 1997; Judge et al., 2005). People with high CSE hold an overall self-belief that includes high self-confidence, self-worth, and self-potency. A higher-order CSE is more predictive than the component traits used in isolation when examining the relationship between executive characteristics and firm decisions and performance (Hiller & Hambrick, 2005).

A person with higher CSE measure will be more positive about outcomes, more self-confident and fully believes in own capabilities (Judge et al., 2003). CEO with higher CSE are more confident in mastering uncertain environment and believe that their action would lead to promising outcomes, CEOs of higher core self-evaluation tend to take more risks thus favoring entrepreneurially oriented strategic choices (Simsek et al., 2010). Holding a more positive belief about future, a CEO with higher CSE can preserve his or her incentivized performance goals during organization declines (Chng et al., 2012). In general, a CEO with higher CSE is more certain with strategic choices he/she made would generate results desired and is more independent in decision-making.

Decisions made by executives are reflective of their personal characteristics including values, experience, personalities, especially in resources constraint and urgent situations (Hambrick & Mason, 1984; Hambrick, 2007). CSE measures the

self-conceptualization of executives and links to strategy processes and outcomes. When a CEO with hyper-CSE traits, he or she will display extremely positive self-regard full of self-worth and a strong belief in own abilities to deal with all problems (Hiller & Hambrick, 2005). As mentioned earlier, in transitional economy where firms encounter more ambiguities, firms become more resource dependent on the external environment. Thus, CEOs tend to psychologically rely on their political networks to reduce feelings of disturbance when making decisions. However, when confronting volatile environments, high CSE-CEOs are calm and convinced that he can handle all the uncertainties by himself/herself since they believe their firms are less dependent on other governmental resources, thus may not fully consider resources generated from political networks when making decisions regarding product innovation. Specifically, in production innovation activities, high CSE-CEOs are more likely to utilize his/her firms' internal capacity and slack resources, e.g., increase research expenditures or recruit new industrial experts, to solve problems instead of depending on external political networking. In this vein, hyper-CSE CEOs may not think that their connections with governmental officials could be an excuse for them to not invest in exploratory innovation since they are eager to prove his and firms' ability in the market. Similarly, they also tend not to rely on political networking to develop exploitative innovation because they certainly believe they can achieve goals by themselves. Therefore, CEOs with a higher level of CSE perceived less uncertainties and tend to rely more on themselves in coping with environmental disturbances, thus utilizing less resources generated from political networking compared with the low

CSE counterparts. In other words, they obtain psychological confidence by themselves and are brave to initiate innovation projects. Therefore, we predicted:

***Hypothesis 3a:** CEO core self-evaluation (CSE) weakens the negative relationship between political networking and explorative innovation.*

***Hypothesis 3b:** CEO core self-evaluation (CSE) weakens the positive relationship between political networking and exploitative innovation.*

METHODS

Sampling and Data Collection

China, a highly dynamic and complex transitional economy, provides a suitable context to test our predictions because the rapid changes of the market require firms to continuously introduce new product (Zhou & Wu, 2009), and the top managers need to frequently deal with the governmental officials to improve firms' environment fit. With the intent of better understanding the problems firms encounter when they face intense market competition and technological innovation during China's transition towards a market-driven economy, a government-funded Entrepreneurs Survey System has regularly surveyed Chinese CEOs. We use this database for sampled firms located in Jiangsu province, China. Most sampled firms are based in high-tech sectors, including electronics, computer manufacturing, and

telecommunications. These firms were selected based on their willingness to participate in the study, including firms of different size, ownership, and industry. We use data from the survey conducted in 2014, and initial sample size included 401 firms. After deleting firms with a significant portion of missing values, the final sample comprised 381 firms. A comparison of deleted and sampled firms indicates no significant differences in terms of size, sales, and age.

Of the 381 firms, 42% are small or medium in size with 500 or fewer employees; 20% are middle to large sized firm with 500-2000 employees and the rest have more than 2000 employees. 23% are state-owned firms, 68% are private-owned firms, and 9% are joint-ventures of Chinese and foreign firms. In terms of industrial sector, 30% are in electric industry, 22% are in the electronic information industry (telecommunications, computer manufacturing and instruments manufacturing); 16% are in pharmaceutical and chemical engineering and others are from other manufacturing industry such as metal and stationary.

The primary participants of the study were CEOs in Chinese firms. Data on CEO personality were reported themselves, which more directly reflect executive psychological characteristics than proxies. China is a setting that allows greater managerial discretion, increasing the likelihood that the CEO's personal traits matter (Hambrick, 2007). Two waves of data collection were performed in order to reduce the potential common method bias (Podsakoff & MacKenzie et al., 2003). In the first-wave survey (T1), CEOs were asked to fill in the survey on their political networking activities and personalities. The basic information such as firm age, size, prior

performance, ownership, industry came from archival data provided by firms. The procedure split the source of information and eliminates common method bias. In the second-wave survey (T2), which was conducted 3 months after T1, CEOs were asked to provide information about their product innovation.

Measures

Political Networking. Four items were adapted from Xin & Pearce (1996) and Li & Zhang (2007) to measure political networking on a five-point scale, indicating the extent to which the CEO over the past three years has: 1) spent much effort in cultivating personal connections with officials of government and its agencies; 2) maintained good relationships with officials of state banks and other governmental agencies, 3) devoted substantial resources to maintain good relationships with official of administrative agencies, and 4) spent a lot of money on building relations with the top officials in government. The scale demonstrated acceptable internal consistency with a coefficient alpha of 0.9.

Explorative and Exploitative innovation. Explorative innovation and exploitative innovation reflect the extent to which the firm uses existing or explores new knowledge/technology in the product development process (Zhou & Wu, 2010). We measure both types of innovation by 5 items in a seven-point scale adapted from Atuahene-Gima (2005). Sample items for explorative innovation captures “Acquired manufacturing technologies and skills entirely new to the firm” while exploitative innovation reflects “Strengthened knowledge and skills to improve the efficiency of existing innovation activities”. The coefficient alpha of explorative innovation is

0.90 and exploitative innovation is 0.93.

Core Self-Evaluation. Following Simsek (2010), we assess the CEO's core self-evaluation through the 12-item measure developed and validated by Judge and his colleagues (2003) on a five-point scale, ranging from 1 ('very strongly disagree') to 5 ('very strongly agree'). Examples of items include: 'I am confident I get the success I deserve in life', 'When I try, I generally succeed', 'sometimes when I fail, I feel worthless', 'I rarely have doubts about my competence', 'overall I am satisfied with myself', and 'I always feel in control of success in my career.' The final measure demonstrates a satisfactory internal consistency with a coefficient alpha of 0.73.

Control variables Consistent with prior studies, we control firm size, firm age, firm performance, industry type, ownership structure, R&D expenditures, the ratio of R&D staff and the proportion of college degree of employees and R&D staff education background. Firm age equals the number of years the firm has been in operation, which has been log-transformed because the distribution departs from normality; firm size was adapted as the logarithm of the number of employees; objective indicator measured firm performance- return of sales (ROS); Firm ownership structure was operationalized as two dummy variables: private-owned and joint ventures, using state-owned firms as the baseline. Since this study focus on innovation, which is highly related to firm R&D capability and investment, we also put R&D intensity (the ratio of R&D expenditures on total sales), R&D staff (the

ratio of the number of R&D staff on total number of employees) and employee education background into consideration.

Common Method Bias

Because the same respondent provided information on the key study variables, common method bias is possible. We took several steps to minimize its effects. First, in designing the survey instrument, we followed Feldman and Lynch's (1988) recommendations to counter "self-generated validity" through careful placement of survey questions, pretesting with the subject population, and using linguistic terms and phrases that would be used naturally by the respondents. The focal constructs never appeared in the hypothesized order. In addition, we performed a Harman one-factor test that loads all the variables into a principal component factor analysis (Podsakoff et al., 2003). According to this test, if either a single or several factors emerge where the first factor accounts for the majority of the variances, common method bias is a concern. In our data, the solution accounts for 66.37% of the total variance, and factor 1 explains 27.10% of the variance. Because a single factor did not emerge and factor 1 did not explain most of the variance, common method bias is considered not to be an issue in this study.

ANALYSIS AND RESULTS

Table 1 displays means, standard deviations, Max and Min value and correlations for each of the measures. Since no inter-factor correlation is above the recommended level of 0.70 (Tabachnick & Fidell, 1996), multicollinearity, created by a lack of discriminant validity, is not likely to bias data. Besides, variance inflation factors

(VIF) of each predictor are also examined, and all of them are less than 10, suggesting the absence of multicollinearity. To test our hypothesis, we use linear regression model. In model 1, we entered political networking and other control variables as independent variables while exploration innovation is dependent variable. Prior to the creation of interaction terms, both independent and moderator variables were mean-centered to reduce the potential problem of multicollinearity (Aiken & West, 1991). In model 2 we add CSE and the interaction terms of political networking and CSE as independent variables. In model 3, we just change explorative innovation to exploitative innovation. In model 4, we also add CSE and the interaction terms of CSE and political networking.

Table 2 presents the OLS estimates based on the empirical analyses. As shown in Table 2 (model 1), hypotheses 1 which predicates there is a negative relationship between political networking and explorative innovation was not supported since the result suggested there is significant positive relationship between political networks and exploratory innovation ($\beta = 0.304, p < 0.005$). In discussion session, I will further discuss the reasons of positive outcome. Our prediction that political networking has positive impact on exploitative innovation was supported in model 3 ($\beta = 0.390, p < 0.005$). Hypothesis 3a (model 2) proposed that CEO CSE moderates the relationship between political networking and exploratory innovation, such that it weakens the relationship between firm political networking and product exploration innovation. The coefficient on the interaction between political networking and Core Self-Evaluation in Model 2 of Table 2 is not statistically

significant, thus failing to support Hypothesis 3a. In Hypothesis 3b, we argued that high Core Self-Evaluation reduce the positive impact of political networking on exploitation innovation. The coefficient on the interaction between political networking and CSE in Model 4 of Table 2 is negative and statistically significant ($\beta = -0.301, p < 0.05$), supporting Hypothesis 3b. The addition of the interaction terms (model 4) increased the Adjusted R squared correlation coefficients by 1.3 percent, compared to model 3, indicating the existence of moderating effects. To facilitate interpretation, I plot the interaction effect in Figure 2, and it indicates that, when CEO core self-evaluation is higher, the positive relationship between political networking and exploitative innovation is weakened.

-----Insert Tables 1-2 here-----

-----Insert Figure 2 here-----

DISCUSSION

Conclusion and Implications

Top executives of firms in transitional economy spend considerable time to do political networking activities. The behind reason is that, similar with other type social

ties; political ties provide crucial information and material support for conducting business. Surrounded by poor institutional infrastructure and pre-mature market mechanism, Chinese firms conducting more political networking activities can grasp more resources for innovation. However, previous studies indicated that political networks can also be burdensome for firms because it asks for time and financial investment from firms and firms may also face potential intervention. Especially for product innovation, previous studies show inconsistent findings about its relationship with political networks. Hence, I propose that political networks may impact differently in term of different kinds of product innovation. This study examined how political networking can hamper or contribute to firm product innovation-exploration and exploitation in transition economic respectively. In addition, I also investigate the contingent role of CEO Core Self-evaluation in the relationship. Different from the initial prediction that political networking would negatively impact exploratory innovation, the result suggests that firms' political networking indeed facilitates firms in both new product explorative and exploitative innovation. In terms of the opposite result of hypothesis one, I think there could be two reasons accounting for this result. First, given undeveloped institutional infrastructure and powerful role of Chinese government, support from regulatory institutions plays vital role in boosting explorative and exploitative innovation. The tangible and intangible resources generated from the political networking can help firms to better conduct both types of innovation. Although top managers make tremendous investments in the politic networking, the benefits the firm obtain from this connection outweigh the costs.

Second, because the majority of the sample is private firms (67%), the effects of political networks are more salient to them. Private firms are in more need of government resources to do innovation. Thus, political networking can help them to improve explorative innovation.

To answer the call of Simsek et al. (2010), I further look upon how top executive personality can influence firms' strategic activists. Although previous research has indicated the positive effect of CSE on individual job satisfaction and better goal attainment (Judge et al.,2000; Judge et al.,2005), this study suggests the potential substitute effect of CSE on CEO's utilization of political resources. my study provides evidence that, with higher CSE, CEO tend to rely on less on political networking in product exploitative innovation since higher CSE CEOs are more convinced about their own ability and that their decision will generate desired results without less external help.

However, my proposed interaction effect of political networking and CSE on explorative innovation was not verified by the data analysis results. One reason could be, given more uncertainties and risks embedded in explorative innovation, even with higher CSE, CEO may also need to depend on external resources for reliable information to do strategic decisions. Besides, since explorative innovation demands larger amount of investment, one unsuccessful trial will harm firm performance and CEO self-evaluation more seriously. Therefore, CEO become more cautious regarding explorative innovation decisions, and they tend to collect as much information as possible. Those considerations lead to them to do more political networking and then

nullify the weakening moderation effect of CSE.

My theory and findings made several contributions to current literature. Firstly, my study contributes to organizational learning literature though taking the first step to empirically articulate the relationship between political networking activities and different types of product innovation in transitional economy. Past literature has indicated that political networking improves new ventures financial performance (Li and Zhang, 2010), positively moderate the relationship between product innovation and firm performance (Li and Atuahene-Gima, 2001). To push the field further, we look upon the impact of political networking on product explorative innovation and exploitative innovation respectively.

Second, my study can contribute to strategic leadership literature and resource dependence theory by displaying how CEO personality substitute the positive effects brought by political networking, especially adding to Core self-evaluation literature. Previous studies in organization behaviors suggests high CSE employees are likely to enjoy higher job satisfaction and goal-setting attainment. Our study extends CSE study to top executives, critical decision makers of firms, to see how CSE would impact their cognitive processes, further reflecting on firm strategies. Moreover, we discussed the substitutive role of CEO CSE of political networking on firm innovation. We highlight that, in addition to information and resources, political networking also provides psychological insurance for CEOs to initiate innovation projects. However, if the CEO has high CSE, he or she tend to be less psychological dependent on political network thus less use it. In brief, although political networking is considered as crucial

resources in firm innovation activities, CEO personality may influence the way the firm leverage those resources.

Moreover, my study contributes to Micro-foundation of strategic management. CEO with higher CSE would depend on less on external ties for resources thus substitute the positive impact from political networking on innovation. However, greater risks and uncertainties embedded in explorative innovation invalid this mechanism.

LIMITATION AND FUTURE RESEARCH

This study has several limitations that also shed lights on future research. Since my study is mainly driven from Marco firm-strategy level consideration, I mainly explain the relationship between networking and innovation from firm strategy level. There could be alternative explanations for the same mechanism by adopting micro level theory. First, I only examine exploration and exploitation in the domain of product development. Future studies should extend the scope to other domains and examine the effects of political networking on other kinds of innovation such as process innovation or innovation outcomes(patents). Second, although the adaption of subjective measures of political networking, exploration, and exploitation in this study clearly demonstrate the psychological mechanism, these perceptions may not be identical with the reality, and we encourage further studies to use more objective measures of innovation outcome, i.e., new products sales, patents, to affirm the results. It is hoped that future research can test this relationship more directly. Thirdly, the use of self-reported data may bring potential problems as biased perceptions of past realities and common method biases. However, my later examination and validation analysis indicated no serious common method problems. In addition, the nonrandom sampling data selection limits the generality of findings. Future research could replicate and extend this study in other transitional economies or compare it with market economies.

In brief, my study serves as a preliminary study to examine moderating effect of CSE Core Self-evaluation on firm strategy. The significant role played by CEO allows

that their personality may have large impact on firm strategic decisions. Further studies are encouraged to research more on how CEO personalities may influence CEOs' strategic decision-making processes and reveal the mechanism in longitudinal study.

Table 1 Descriptive Statistics and Correlations^a

Variables	Mean	S.D.	Min.	Max.	1	2	3	4	5	6
1 Exploration innovation	4.25	1.07	1	6.6						
2 Exploitation innovation	3.87	1.33	1	7	0.61***					
3 Firm age	21.33	13.72	3	77	0.02	-0.03				
4 Firm size	6.5	0.85	4.19	8.6	-0.01	-0.07	0.19***			
5 Firm Performance	0.12	0.15	-1.83	1	-0.007	-0.02	-0.06	0.04		
6 R&D intensity	4.63	3.66	0.07	33.09	0.08	0.04	-0.04	-0.11*	-0.05	
7 Employee Education	27.9	14.24	2.83	100	0.012	0.08	-0.04	-0.44***	-0.06	0.14**
8 Research Staff Education	17.9	10.97	1.96	84.85	0.07	0.09	-0.07	-0.56***	-0.09	0.19***
9 Ownership ^b	0.68	0.47	0	1	0.08	0.03	-0.26***	-0.17***	0	0.08
10 Ownership ^c	0.09	0.28	0	1	-0.08	-0.08	-0.12*	0.08	0.01	-0.03
11 Core Self-Evaluation	2.93	0.53	1.86	5	0.13***	0.18**	0.05	-0.01	-0.02	-0.05
12 Political Networking	4	1.04	1	5	0.28***	0.28***	-0.01	-0.03	-0.08	-0.03
Variables	7	8	9	10	11	12				
8 Research Staff Education	0.79***									
9 Ownership ^b	0.04	0.14**								
10 Ownership ^c	-0.02	-0.08	-0.45***							
11 Core Self-Evaluation	-0.04	0	0.01	-0.03						
12 Political Networking	0	0.04	0	0	0.01					

a.N=381 subjects; * p<0.05,** p<0.01,*** p<0.001

b.For ownership. 0=state owned; 1=private owned.

c.0=state owned; 1=joint venture;

Table 2**The OLS Estimates of Firm Explorative and Exploitative Innovation**

Variable	Explorative innovation		Exploitative innovation	
	Model 1	Model 2	Model 3	Model 4
Firm age	0.001	0.001	-0.004	-0.004
	0.004	0.004	0.006	0.006
Firm size	0.028	0.028	-0.052	-0.045
	0.084	0.084	0.106	0.104
Firm performance	0.336	0.336	0.159	0.14
	0.35	0.35	0.443	0.439
R&D intensity	0.012	0.014	-0.016	-0.009
	0.019	0.019	0.024	0.024
Employee Education Level	-0.005	-0.005	0.004	0.003
	0.006	0.006	0.008	0.008
R&D Staff Proportion	0.008	0.008	0.002	-0.001
	0.009	0.009	-0.011	0.011
If Private firms	0.116	0.116	-0.112	-0.115
	0.143	0.143	0.181	0.18
If Joint venture	-0.108	-0.11	-0.171	-0.174
	0.229	0.229	0.289	0.287
Core Self-Evaluation	0.214 *	0.203 *	0.411 ***	0.379 ***
	0.102	0.102	0.129	0.129
Political networking	0.304 ***	0.306 ***	0.39 ***	0.397 ***
	0.052	0.052	0.066	0.065
CSE × Political networking		-0.107		-0.301 *
		0.097		0.121
Constant	1.779	1.779	2.252	2.279
	1.24	1.24	1.56	1.55
Industry dummies	Yes	Yes	Yes	Yes
F-value	1.73 **	1.72 **	1.78 **	1.9 ***
Adjusted R Square	0.085	0.085	0.09	0.103

N=381, *** $p < .001$, ** $p < .01$, * $p < .05$, two-tailed test

FIGURE 1
CONCEPTUAL FRAMEWORK

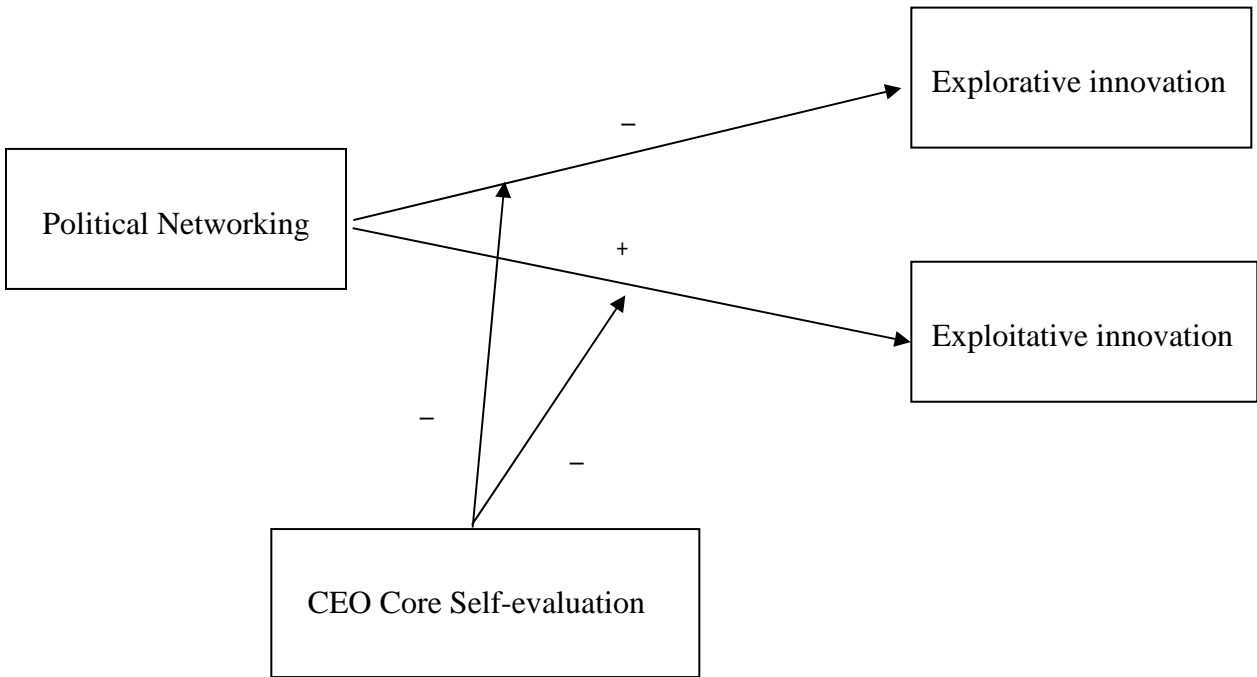
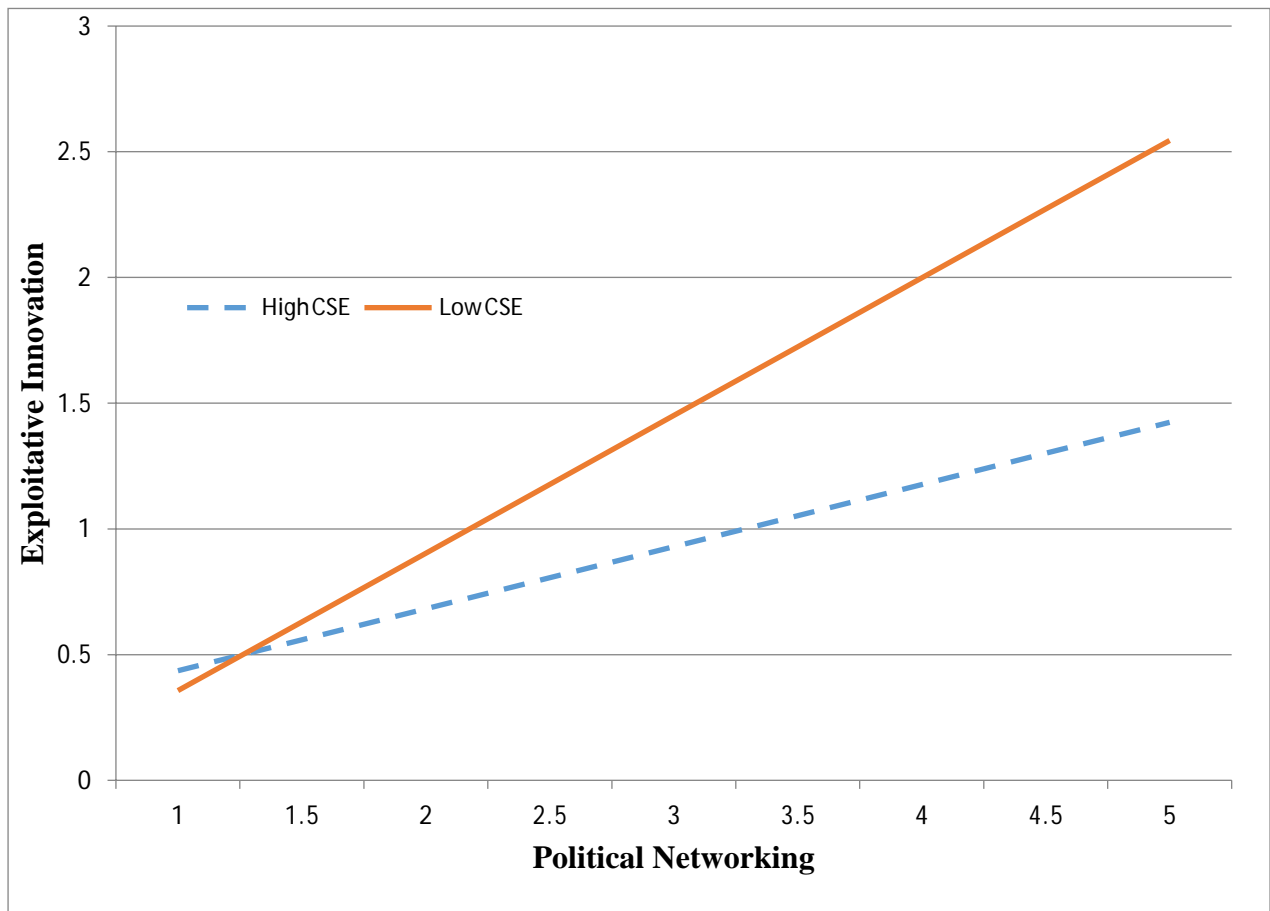


FIGURE 2

Moderating Role of Core-Self Evaluation



APPENDIX

Measurement Scale

1. Political Networking (Indicate your agreement or disagreement with each item : 1=strongly disagree 5=strongly agree; Xin & Pearce, 1996; Li & Zhang 2007)

Over the past three years:

- a. I spent much effort in cultivating personal connections with officials of government and its agencies.
- b. I maintained good relationship with officials of state banks and other governmental agencies.
- c. I devoted substantial resources to maintain good relationships with officials of administrative agencies.
- d. I spent a lot of money on building relations with the top officials in government.

2. Core Self-Evaluation (Indicate your agreement or disagreement with each item : 1=strongly disagree 5=strongly agree; Simsek, 2010; Judge et al., 2003)

- a. I am confident I get the success I deserve in life.
- b. Sometimes I feel depressed. R
- c. When I try, I generally succeed.
- d. Sometimes when I fail, I feel worthless. R
- e. I complete tasks successfully.
- f. Sometimes, I do not feel in control of my work. R
- g. Overall, I am satisfied with myself.
- h. I am filled with doubts about my competence. R
- i. I determine what will happen in my life.
- j. I do not feel in control of my success in my career. R
- K. I am capable of coping with most of my problems.
- l. There are times when things look pretty bleak and hopeless to me. R

R=reverse coded

3. Exploratory Innovation (1=very low; 7=very high; Zhou & Wu, 2010; Atuahene-Gima, 2005)

In the new product development processes, to what extent has your firm:

- a. Acquired manufacturing technologies and skills entirely new to the firm.
 - b. Learned product development skills and processes entirely new to the industry.
 - C. Acquired entirely new managerial and organizational skills that are important for innovation.
 - d. Learned totally new skills in funding new technology and training R&D personnel.
-

e. Strengthened innovation skills in areas where it has no prior experience.

4. Exploitative Innovation (1=very low;7=very high; Zhou & Wu, 2010; Atuahene-Gima,2005)

In the new product development processes, to what extent has your firm:

a. Upgraded current knowledge for familiar products.

b. Invested in exploiting mature technologies that improve the productivity of current innovation operation.

c. Enhanced abilities in searching for solutions to customers problems that are near to existing solutions.

d. Upgraded skills in product development processed in which the firm already possess rich experience.

e. Strengthened the knowledge and skills to improve the efficiency of existing innovation activities.

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