The Political Root of Business Network Change

Nan Jia (USC Marshall School of Business)
T.J. Wong (USC Marshall School of Business)
Tianyu Zhang (Chinese University of Hong Kong Business School)

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Abstract

Business elites are connected through interpersonal networks, and prior research shows that those who occupy more central network positions generate greater advantages for their firms and themselves. But what determines the centrality of business elites among their peers? A large body of research, mostly conducted in developed economies such as the U.S., finds that the business elites who currently enjoy network advantages often had such advantages in the past, hence low turnover in central positions among them. However, frequent, swift and dramatic changes in business environments of many emerging economies such as China disrupt the value of the resources that business elites generate for their firms and peers, which in turn challenge the attractiveness of their worth of being connected to and pressure their network centrality to change. We argue that in China, because politics critically shape business, the access to politically controlled resources is highly coveted by businesses. Therefore, a businessperson's centrality in the network of business elites (i.e., business network) is to a significant extent determined by his/her centrality in the network of politicians (i.e., political network). Using data from China on all top managers and board of directors of publicly listed firms, and all politicians at the prefecture level and above in the period of 2000-2017, we demonstrate that for each business elite (i.e., within-person effect), an increase in his/her closeness (degree) centrality in the political network by the magnitude of one standard deviation leads to an increase in his/her closeness (degree) centrality in the business network by a magnitude that amounts to 15% (55%) of the mean value. Moreover, we find that this effect holds after we use the changes to the collective centrality of the political factions to which business elites belong—which is arguably more exogenous—as an instrument for business elites' individual political centrality. Furthermore, our findings are stronger in the years of the occurrence of the National Congress of the Communist Party of China which takes place every five years and reshuffles most political personnel in the central and local governments, than in other years. In conclusion, we find that in China, the importance of business elites to their peers is highly sensitive to their power in the network of politicians. As a result, the central positions in business network are prone to rapid and significant changes, which is surprising given that the relationship-based culture of the Chinese society traditionally values stability in social connections and social structure.