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## Firm Survival and Innovation in Emerging Markets -- The Case of China

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## Chapter 6

### Discussion and Conclusion

This dissertation studies the drivers of firm survival and innovation by using data from one of the most important emerging markets, China. It undertakes the study through four empirical chapters which examine four critical but under-explored topics on combined internal resources, B-G ties, government affiliation, and institutional transition concerning their value for Chinese high-tech startups' survival and Chinese manufacturing firms' product innovation. The theoretical reasoning and empirical testing indicate that:

- 1) The synergetic effects of combining internal resources amplify high-tech start-ups' chances to survive.
- 2) The innovation motivating effects of B-G ties continue regardless of the development of institutions over time. Particularly, B-G ties get more valuable as financial institutions develop. It implies that the substitute relationship between formal institutions and B-G ties, as posited by IBV, may not fully apply to China's institutional environments.
- 3) Firms affiliated with higher-level government have relatively high innovation performance, and this influence largely depends on the dynamic institutional environments in place.
- 4) The scope and speed of institutional transition determine firms' propensities on exploratory innovation and exploitative innovation through differentiated mechanisms.

This final chapter summarizes the main findings of Chapter 2-5 and discusses the theoretical and practical implications, research limitations, and possible future research avenues.

#### 6.1 Main research findings for each study

The previous chapters described the research questions and findings from four individual studies, which focus on exploring the drivers of firm survival and innovation in transitional China. This section provides an overview of these studies in Table 6-1.

**Table 6-1** Overview of the research questions and main findings of each topic

Chapter	Research question	Main findings
2	Does the combined use of internal resources matter for high-tech start-up firm survival?	<ul style="list-style-type: none"><li>• The combined internal resources are strategic assets for improving firm performance as well as survival rates.</li><li>• The synergetic effects of complementary resources can significantly prolong the survival duration of high-tech start-ups.</li><li>• The joint use of the R&amp;D resources and scientifically skilled employees has a positive influence on the survival chances of high-tech start-ups.</li></ul>

Chapter	Research question	Main findings
		<ul style="list-style-type: none"> <li>• The combination of internal financial resources and scientifically skilled employees is positively associated with high-tech start-ups' survival chances.</li> </ul>
3	Under what institutional environments do B-G ties contribute to manufacturing firms' product innovation?	<ul style="list-style-type: none"> <li>• In transitional China, the innovation facilitating effects of the B-G ties remain regardless of the institutional environments, and the stronger the B-G ties, the higher the firms' product innovation output.</li> <li>• As the legal institutions and infrastructural supporting systems become more developed, the positive effects of B-G ties on firms' product innovation decline.</li> <li>• However, the positive influence of B-G ties on firms' product innovation is amplified in provinces where financial institutions are more developed.</li> <li>• IBV predictions that stress the declining value of B-G ties in emerging markets may not fully apply to the Chinese context.</li> </ul>
4	When and through what mechanisms do government affiliations determine firms' product innovation in a dynamic institutional environment?	<ul style="list-style-type: none"> <li>• Government affiliations do benefit firms' product innovation, and the higher-level government that firms are affiliated with, the higher these firms' product innovation performance.</li> <li>• Institutional transition speed negatively moderates the positive 'government affiliations—product innovation' link. That is, innovation stimulating effects of government affiliations decline as institutional transition speed increases.</li> <li>• Synchronization of the transition speed of institutional components amplifies the positive effect of government affiliation on firms' product innovation. That is, firms with higher-level government affiliations have higher product innovation performance in provinces with a more synchronized institutional transition speed.</li> </ul>
5	How does institutional transition determine the firms' investment propensity in exploratory innovation and exploitative innovation?	<ul style="list-style-type: none"> <li>• Institutional transition scope has a positive influence on firms' exploratory and exploitative innovation.</li> <li>• Institutional transition speed is positively associated with firms' exploratory innovation. However, there is an inverted U-shaped relationship between the transition speed and exploitative innovation.</li> <li>• Firms' political network diversity may depress the innovation stimulating effect of transition scope.</li> <li>• With a (low-) high-level of political network diversity, transition speed has an (inverted) U-shaped influence on firms' exploratory innovation.</li> </ul>

These empirical results together indicate several interesting findings that contribute to theoretical expansion and have practical implications. First, these separate studies highlight consistent results. As shown in Table 6-1, the internal resources and external environments display their importance on shaping firm activities. For example, internal resources like R&D and political ties maintain their significant effects on firm operations under different conditions in transitional China. In addition, the relationship between political connections and institutional environments is generally substitutional, as the institutional based view predicted. For example, findings in Chapter 3 show that the innovation stimulating effects

of B-G ties decline as the legal institutions become fairer and more transparent; and Chapter 5 indicates that the diverse political ties depress the benefit from the institutional development.

Moreover, besides the consistent findings, this dissertation presents conflicts among chapters. For example, the dissertation provides three measures of political connections: strength (Chapter 3), level (Chapter 4), and diversity (Chapter 5), but their influence on firm innovation are not convergent. To be specific, the strength of B-G ties has a positive influence on firm innovation (Chapter 3), and a higher affiliation level also leads to higher innovation output (Chapter 4), while political ties diversity shows an insignificant direct effect on firm innovation (Chapter 5). These contrasted results indicate: although the role of political connections remains in an emerging market like China, the influence directions are ambiguous. These contradicted findings may be a starting point of future studies.

Lastly, the results in this dissertation are also complementary, which makes our theoretical responses robust. Chapter 3 explores the relationship between the interactions of political connections and institutional development and firm innovation, but all findings build on a static lens. That is, the results in Chapter 3 cannot be generalized to dynamic institutional conditions. Chapter 4 and 5 introduce a dynamic perspective and further examine when political connections support firm innovation in general and exploratory innovation in particular. Furthermore, this dissertation attempts to unlock the internal structure of institutional transition and explore its innovation stimulating effects (Chapter 3, 4, 5). The findings show that the developed institutional environments contain the positive value of political connections (Chapter 3, 5), however in environments with synchronized changes of institutional components the value of political connections would be enhanced (Chapter 4). Taken together, these findings complement each other and helps to depict a more generalized picture of the influence of political connections and institutional transition on firm innovation in China.

## **6.2 Theoretical implications**

The studies in Chapter 2-5 make several theoretical contributions to innovation management, RBV, and IBV, which will be discussed successively in this section.

### **6.2.1 Innovation management**

This thesis contributes to innovation management literature by further investigating the unique determinants of firm innovation in the Chinese economy i.e., political connections, institutional transition, and the interactions of political connections and institutional transition.

*Political connections as an innovation driver.* While existing literature has extensively confirmed the influence of political connections on firm innovation, performance, and strategic choice (Child & Tse, 2001; Gao et al., 2017; Schott & Jensen, 2016; Zhang et al.,

2017; Zheng et al., 2015), knowledge about their influence directions is inconsistent. Building on an ongoing debate of how political connections affect firm product innovation, this research specifically focused on two different kinds of political connections in China i.e., B-G ties (Chapter 3) and government affiliations (Chapter 4). The findings indicate that stronger B-G ties and higher-level government affiliations are clearly associated with higher firm innovation performance regardless of institutional environments. It provides further evidence that the innovation-motivating effects of political connections will continue in the current Chinese context and its further developing markets. Although the importance of B-G ties may decline as specific institutions develop, firms with stronger B-G ties still outperform their counterparts with weaker B-G ties in terms of product innovation (Chapter 3). In addition to the strength of political connections, the internal structure of political connections (i.e., government affiliations) may lead to improving innovation output at different extents (Chapter 4). Chapter 4's findings lay substantial foundations for the establishment of a relationship between the internal structure of political connections and the variation of firm innovation. In addition, this dissertation also uses a moderation view to explore how political network diversity indirectly influences firm innovation (Chapter 5). Taken together, this dissertation's research substantially deepens insights into innovation drivers at the firm-level in China by considering multiple dimensions of political connections, i.e. the strength (Chapter 3), level (Chapter 4), and diversity (Chapter 5) of political connections, which contribute to an understanding of the innovation driving effects of political connections in emerging markets.

*Institutional antecedents of firm innovation.* An increasing number of innovation studies show that micro-level drivers such as R&D investment, human capital, and social ties might not be able to fully explain when and how firms conduct innovation. For example, under what external conditions do firms adopt which innovation strategies? How is firm innovation induced by institutional environments and how do external institutional transitions constrain or induce firm innovation? Answers to these questions are relatively absent in existing literature (Lavie et al., 2010; Mueller et al., 2013; Wilden et al., 2018). To search for a possible solution to this limitation, this dissertation specifically focused on the institutional environment firms are located in, and examines the role of institutional transition in shaping firms' propensity of exploratory and exploitative innovation. Inspired by the IBV perspective, Chapter 5 considers the inter-provincial variations of institutional transition in China through static (i.e., transition scope) and dynamic perspectives (i.e, transition speed). It reveals relationships between the scope and speed of institutional transition and firms' exploratory and exploitative innovation. These empirical findings respond to and confirm the institutional antecedents of firm innovation. That is, the uneven distribution of firm innovation propensity can attribute to the variation of institutional transition at the provincial level. Thus, the IBV perspective is helpful to analyze and explain how institutional reforms in an emerging market shape firms' product innovation.

*Interactions between political connections and institutional transition as innovation drivers.* In addition to their separate influence, political connections and institutional transition may

jointly determine firms' innovation performance. For example, IBV scholars stress that the innovation stimulating effects would decrease as formal institutions develop in emerging economies (Peng, 2003). Nevertheless, existing literature shows inconsistent empirical evidence about the innovation driving effects of the interactions of political connections and institutional transition. For instance, Shi et al. (2014) indicate that the value of political connections remains, regardless of the institutional development in China; while Peng (2003) suggests that political connections would be devalued in more institution-developed environments. One possible reason for these inconsistencies might be that previous studies largely view political connections or institutional transition as a unitary construct (Arnoldi and Villadsen, 2015; Zhu and Chung, 2014). To address this limitation, the dissertation articulates theoretical constructs by capturing their own internal structures. That is, it describes the political connections through a strength (Chapter 3), levels (Chapter 4), and diversity lens (Chapter 5), and it depicts institutional transition by examining the development of institutional components (Chapter 3), institutional transition scope (Chapter 3, 5), institutional transition speed (Chapter 4, 5), and synchronization of transition speed of institutional components (Chapter 5). Then, it specifically explores their interacting effects on firm product innovation. This interaction view deepens an understanding of firm innovation in emerging markets by focusing on which political connections in what institutional environments can incent or constrain firm innovation. The empirical findings validate a joint influence. This means that the innovation stimulating effects of political connections depend on how institutional environments change, and the innovation supporting effects of institutional transition depend on how firms use their political connections. In addition, the findings in Chapter 3 and 4 indicate that firms with political connections remain advantageous in innovation performance regardless of the institutional environments. Thus, topics in this dissertation provide a useful lens to advance the research into innovation drivers of firms in emerging markets like China.

## **6.2.2 The resource-based view of the firm**

*Positive effects of combined internal resources on firm survival.* RBV scholars claim that internal resources are crucial determinants of firm competitive advantage, and this argument has been largely supported by empirical studies (e.g., Barney, 1991; Black and Boal, 1994; Galbreath, 2005; Newbert, 2007). RBV theorists view a firm as a bundle of resources (Grant, 2010; Hult and Ketchen, 2001). Accordingly, separate internal resources, as well as interconnected internal resources would contribute to firm performance, and internal resources used in combinations tend to be more valuable than when they are used in isolation (Denrell et al., 2003; Peteraf, 1993). That is, the performance stimulating effects of internal resources are embedded in a web of interconnected resources. However, there is nearly no empirical knowledge about whether this argument makes sense when it is applied to explain the survival variations of high-tech start-ups. Theoretically, this dissertation points out that internal resource combinations do contribute to improving high-tech start-ups' survival through three possible mechanisms: *synergy*—the synergy among internal resources leads to creating a unique asset, *interconnectedness* —the interconnectedness of assets makes the

process of resource accumulation more inimitable, and *complementarity*—the positive effects of an existing resource can be enhanced by the implementation of a related one. Empirical findings in Chapter 2 suggest that high-tech start-ups with a bundle of innovation-related internal resources have a significantly prolonged survival duration. Together with existing findings, it may be concluded that individual resources as well as their interconnectedness need to be considered when the survival variations among firms are being discussed (Hitt et al., 2001; Subramaniam and Youndt, 2005). Therefore, this dissertation provides a novel theoretical lens and fresh empirical evidence to support an assumed combined effect: resource combinations are strategically relevant resources to prolong the survival durations of high-tech start-ups (Denrell et al., 2003; Galbreath, 2005; Subramaniam and Youndt, 2005). Thus, this dissertation expands the RBV boundary by considering the role of the interconnections of internal resources in shaping high-tech start-ups' survival chances.

### **6.2.3 Institutions-based view of business strategy**

*A varying influence of institutional components.* Consistent with the IBV arguments, this dissertation confirms that institutions' development in general would weaken the positive value of political connections on firm innovation. Particularly, it deepens this understanding by considering the specific influences of institutional components on the “political connections—firm innovation” link, since the specific institutional environments are strongly associated with the provision of specific resources. The findings in Chapter 3 provide strong evidence that, considering the Chinese transitional context, the moderating effects of institutional components are not homogeneous. For example, the innovation motivating effects of B-G ties are more valued in provinces with more developed financial systems, which contradicts the IBV's theoretical predictions. Thus, focusing on components of institutions helps to better understand why firm innovation varies in sub-national regions even when they possess substantial political connections, and why firms' political connections work in certain institutional environments while failing in other institutional environments. Chapter 4 further looks inside the interconnection of institutional components. Specifically, it studies to what extent the synchronized speed of institutional components shapes the innovation stimulating effects of political connections. Since the institutional reforms are unevenly conducted across provinces in China and each province has its own reform priority, institutional components may develop with varying speeds and paces within or among provinces (Luo, 2007; Schlevogt, 2001; Xu and Meyer, 2013). Therefore, the uneven development of institutional components may induce specific environmental pressures that further shape the influence strength and direction of political connections on firm innovation. Considering this, Chapter 4 examines and confirms the positive influence of the synchronization of the transition speed of institutional components on ‘political connections—firm innovation’ links. It implies that a better insight into institutional transition may also deepen the understanding of why politically connected firms innovate differently in various locations. Findings in Chapter 3 and 4 contribute to institutional perspectives in management academia by revealing that the institutional components as well

as their interactions in studying why and when institutional development weakens or enhances the innovation motivating effects of political connections in emerging markets like China.

*Integration of dynamic perspectives into the institutions-based view.* While IBV stresses that institutional environments can determine firms' strategic choices and innovation performance by providing 'rules of the game' (North, 1990), a large number of previous studies focus on examining the influence of formal institutions by considering these as constant factors. These studies usually build on a static lens, which cannot fully capture when and how firms' innovation varies in changing institutional environments (Banalieva et al., 2015). To address this gap, this dissertation intends to expand the IBV boundary by introducing a dynamic lens, which contributes to a dynamic IBV perspective (Banalieva et al., 2015; Shi et al., 2017). Chapter 5 establishes a direct relationship between transition speed and firm innovation, and reveals that transition speed exerts a positive influence on firms' exploratory innovation and exerts an inverted U-shaped influence on firms' exploitative innovation. In addition, Chapter 4 reveals that dynamic institutional environments may shape firm innovation indirectly. That is, the synchronized transition speed of institutional components strengthens the innovation enhancing effect of government affiliations, but the transition speed lessens the positive influence of government affiliations on firms' product innovation. These results support the value of a dynamic IBV lens in developing an understanding of how and when institutional changes in emerging markets can explain variations of firm innovation.

### **6.3 Practical implications**

The findings in this dissertation concerning drivers of firm survival and innovation have important practical implications for managers and policymakers in China. First, based on validation of a combined use of internal resources in Chapter 2, high-tech firms should implement strategies that are tailored to take advantage of the synergetic influence of complementary resources. To be specific, high-tech start-ups should identify which resource combinations can lead to creating unique values for capability building, should execute versatile strategies to create synergistic effects by properly combining resources, should carefully evaluate and monitor how and when such effects change, and should rearrange these combinations when their complementary effects are declining. Policymakers usually use policy instruments to induce specific resource provision, for example, R&D subsidy policy may incent firms' innovation investment, and firms' talents support policy may attract more skilled employees. To cultivate a conducive environment to secure firm survival and growth, policymakers should pay more attention to a policy mix that can lead to complementary resource provision and generation. In other words, policymakers need to focus more on designing coordinated policies to stimulate the implementation of coherent portfolios of mutually enforcing internal resources.

Second, considering the significant direct influence of political connections on firm



innovation in Chapter 3 & 4, managers should deliberately make decisions on building and maintaining connections to governments. Chapter 3 indicates that more intensive B-G ties lead to higher innovation output, regardless of the institutional environments. Chapter 4 suggests that firms should maintain or strengthen their affiliations with governments. Higher-level government affiliation improves firms' ability to obtain innovation-related resources. Specifically, firms or managers should maintain appropriate political connections in order to gain access to regulatory information and resources in China. This means that searching, building, and maintaining effective connections with higher-level governments are pragmatic strategies for firms operating in transitional China. As a practical example, firms can establish an office to exclusively deal with government relationships such as facilitating government inspections, responding to government's calls, and lobbying. Another possible practice can be that managers have to update their personal relationships with government officials when they are appointed to a new position. Moreover, besides the strength of political connections, firms should recognize the value of the breadth of political connections i.e., connections to diverse political authorities. As Chapter 5 shows, high political network diversity may constrain firms' exploratory and exploitative innovation when the institutions become more developed. Accordingly, managers who operate a business in China should concentrate their energy more on strengthening the necessary political connections, and manage, restructure, and even drop unnecessary, redundant, and conflicting political connections.

Third, considering the established relationship between institutional transition and firm innovation, reform designers should deliberately consider the institutional transition scope, speed, and rhythm that may be induced by new economic policies and business regulations. Generally, the Chinese government intends to achieve a market-oriented and innovation-driven economy through performing institutional reforms. To this end, rules that governed the planned economy are gradually replaced by market rules. As presented in Chapter 5, a province's higher transition scope, which means the province is much closer to a market economy, would substantially incent firms' exploratory and exploitative innovation and is beneficial to the development of an innovation-driven economy. However, a much higher transition speed appears to be detrimental to firms' exploitative innovation and then constrains the development of the local economy. Thus, reform policymakers should balance the trade-off between transition scope and transition speed: high-speed reforms can shortly lead to a more developed market mechanism over a short time, but high-speed reform itself may demotivate firms' innovation involvement. In addition, results in Chapter 4 reveal that the synchronized transition rhythm of institutional components amplifies the innovation motivating effects of government affiliations. It implies that policymakers should invest more in designing coordinated reforms that make the institutional components (e.g., legal, finance, factor market, and product market institution, etc.) develop with more mutually balanced paces.

Finally, given that organizational political connections and external institutional environments can jointly influence firms' product innovation, firms should tailor their

political connection strategies to fit the changes of outside environments. Specifically, firms should not only use political connections to acquire external resources but also make such connections to co-evolve with institutional contexts. To benefit their product innovation, firms should observe the development of the status quo of the institutional environment carefully, and then decide what government bureaus to develop a relationship with, which government level to contact frequently, and when they should strengthen, loosen, drop, and build political connections. For example, firms may strengthen business-government ties to gain better access to bank loans or governmental funding support when the financial systems are becoming more developed in China. In transition settings, diverse political networking may constrain firm-level product innovation; firms should then invest their time and energy more in strengthening specific political connections that can help them to overcome specific institutional voids such as lacking financial support and intellectual property protection. In contrast, when institutional reforms are reverse, firms should reinforce their connections to various levels of the government to deal with unexpected risks. In addition, firms' political connection strategies also should fit the extent to which institutional environments change. For example, when the pro-market reform speed becomes much faster, it needs to build and strengthen a close relationship with local governments to better buffer unpredicted reform shocks; and when the institutional reforms develop with more synchronized paces, firms need to seek for opportunities of higher-level government connections.

#### **6.4 Limitations and avenues for future research**

First, all four empirical studies are situated in China, which would limit the insights derived from their empirical findings. Specifically, testing hypotheses using firm-level data from a single country may raise generalization issues. Although this dissertation validates the synergistic effect of combined internal resources on high-tech start-ups' survival, it is relatively unknown how these combinations influence start-ups' survival in other social-economic settings. For example, a combined use of R&D resources and internal financial resources has an insignificant influence on high-tech start-ups' survival in China, but it cannot be posed that this finding applies to other emerging markets such as Russia, India, and Brazil. In addition, in other countries political connections may exist in a different form due to cultural and institutional differences. For example, firms may connect to the government through ties to the ruling party or opposite party in Taiwan, China (Zhu and Chung, 2014), or through state ownership or manager-official's personal relations in China mainland (Zhou, 2014). Each type of political connection may influence firm innovation through its own unique country-specific mechanism. The studies in this dissertation are not able to provide a comprehensive picture of the political connection effects in other countries. Thus, it encourages future studies to further research political connections and examine the unique influence of specific political connections on firms' innovation in other emerging markets as well as in developed economies.

Moreover, the quantitative research in this dissertation helps to better understand why firms

survive longer and when firms tend to invest more in innovation. But, it does not shed further light on the internal processes of how combined internal resources precisely lead to generating unique assets, and how managers make decisions on innovation investments under different institutional conditions. Although this dissertation studied relationships between political connections, institutional transition, and firms' product innovation by analyzing empirical data of Chinese manufacturing firms, the complicated interaction mechanisms among these factors can still be researched more in-depth. In other words, the detailed processes that firms use to connect with the government to acquire crucial resources are waiting further research. The quantitative datasets that are central in this dissertation are not providing these insights. Quantitative research designs may be even inappropriate to develop these in-depth insights. To address this, qualitative research, such as case study research, field studies, and personal interviews can be conducted to further reveal the detailed internal mechanisms concerning firms' strategic choices, innovation decisions, reactions to environmental changes, and resource acquisitions during the institutional transition. Therefore, in future studies, qualitative research designs can further identify the detailed processes and specific mechanisms that compel the politically connected firms to conduct innovation in emerging markets. In addition, scholars may also combine quantitative and qualitative methods (e.g., mixed methods), which is expected to depict a more comprehensive picture of firm survival and innovation in China's institutional context.

Finally, although all studies in this dissertation are devoted to an investigation of the unique determinants of firm survival and innovation in the Chinese context, several untouched questions remain. First, it examines and tests the RBV by using high-tech start-ups data, but it fails to reveal which resource combinations are most unique in the Chinese setting and how such unique combinations of resources would determine firm survival. In China, some distinct factors, such as political support, business-government interactions, and business environment improvement, can make high-tech start-ups to have more advantages to gain access to government support and business funding. The potential effects of such factors that are characteristic for China need to be further explored in future studies, which may help to contribute to or integrate Chinese elements into the still Western countries-oriented RBV theory. Second, this dissertation argues that adding a dynamic perspective into the IBV conceptual framework may better explain the institutional drivers of Chinese firms' innovation; in addition to this, it also substantiates that the findings in Chapter 3-5 are a starting point in providing a robust theoretical framework of dynamic IBV. To enrich this dynamic IBV framework, future studies are needed to reveal alternative dynamic factors of institutional transition, such as institutional turbulence and stability, and examine their innovation stimulating effects. And, integrating the dynamic IBV with other theoretical perspectives, such as resource-dependence theory, social network theory, and the resource-based view of the firm, is a prospective direction to further understand the mechanisms through which external dynamic environments can determine firms' innovation propensity and innovation performance.

## 6.5 Conclusions

Overall, this dissertation is designed to explore the drivers of firm survival and innovation in the Chinese context by integrating several theoretical lenses from management academia. Using firm-level data from China, one of the most important emerging markets, this dissertation suggests that resource portfolios, political connections, and institutional transition have stimulating effects on firms' survival chances and innovation output. Specifically, an appropriate combination of internal resources may exert synergic effects that significantly prolongs high-tech start-ups' survival. Moreover, unique political connections that are represented by B-G ties and government affiliations have dominant facilitating effects on manufacturing firms' product innovation, regardless of the institutional environments in Chinese provinces. Furthermore, institutional transition not only directly influences firms' motivations on executing exploratory and exploitative innovation strategies, but also reshapes the strength and directions of innovation stimulating effects of political connections. All in all, research topics in this dissertation test and validate the proposed theoretical predictions as well as lay a foundation for future studies to explore determinants of firm survival and innovation in the Chinese institutional context.