Key Drivers of Guanxi in China among Taiwanese

Small to Medium-Sized Firms

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Abstract

As China has emerged as one of the world's economic powerhouses, research on guanxi, or social/business ties in China, becomes more common. This study employs a theoretical framework of social embeddedness, in which the flows of information, resources, and opportunities occur across recognized members of a social network to create mutual benefits. With this framework, the authors empirically investigate impetuses for Taiwanese small to medium-sized firms (SMEs) to employ guanxi networks with their business community, local governments, and the central Chinese government. The study results indicate that the extent to which Tawanese firms use different types of guanxi differ by firm characteristics (i.e., resources, capabilities, and entry mode) and market factors (i.e., market stability and competition).

Keywords: Guanxi, SMEs, Foreign Investment

1. Introduction

Social capital theory suggests that a social network provides value to its members by granting them access to resources embedded within the network. Social capital in particular constitutes a resource available to actors as a reflection of their position within the structure of their social relations. Accordingly, information about new ideas and opportunities typically moves through the interpersonal ties that link people in separate social clusters (Granovetter, 1973). In this sense, social relations affect competition among firms by creating entrepreneurial opportunities for some firms and not for others. Guanxi, or the use of both social and business ties, effectively and critically supports such social capital purposes (Yang, 1994). The concept has existed in the Chinese social structure for eons; traditionally though, guanxi was a web of extended families, tied by sentiment and family obligations, that influenced the code of conduct of individual members of those families. In the modern business environment, it has come to refer to exchange networks of businesses that pursue mutual benefits, which makes it critical to facilitating modern business transactions. Chinese firms use their guanxi networks to mitigate their competitive and structural disadvantages and develop interdependent relationships with government authorities and competitors (Park & Luo, 2001). As Nahapiet and Ghoshal (1998, p. 252) put it, "Who you know affects what you know." The access to information and resources depends largely on existing social ties that link an actor to others who have some form of connection, for example, to a particular foreign market.

Recently, guanxi research in the context of foreign direct investment (FDI) has drawn increasing attention, especially from U.S. scholars as China has emerged as an economic force and an attractive target for FDI. The FDI inflows to China for 2006 reached approximately $60 billion (Ramat-Gan, 2006). As of 2003, Hong Kong was the largest foreign investor in China, followed by Japan and the United States (Frey, 2005**).** Thus, most existing guanxi research in the

context of FDI centers on Hong Kong businesses (e.g., Ho & Perry, 1996; Leung, Wong, & Wong, 1996; Yau, Chan, & Lau, 1999).

Guanxi studies in an FDI context mainly focus on its role in entry mode decisions. For example, several studies from a Western executive perspective note that guanxi distinguishes Western and Eastern concepts of relationship marketing (Ambler, 1994; Bjorkman & Kock, 1995; Brunner, Chen, Chao, & Zhao 1989; Yeung & Tung, 1996). Thus, existing literature argues that it is critical for foreign investors to form joint ventures with Chinese partners to obtain guanxi networks and thereby access to local knowledge and distribution channels (Teng, 2004).

As a part of this ongoing guanxi research, this study contributes to our body of knowledge on two fronts. First, we perform our investigation with Taiwanese companies, unlike existing studies that engage Hong Kong– and Singapore-based firms. Specifically, this study addresses Taiwanese small and medium-sized enterprises (SMEs) that invest in the Chinese market but generally lack certain firm capabilities. Second, we theorize and test potential impetuses for different types of guanxi (e.g., with Chinese firms, local governments, the central Chinese government) based on firm characteristics (e.g., resources, skills, entry mode) and market characteristics (e.g., market stability, competition). That is, rather than focusing on the outcome of the guanxi that foreign firms can develop in China, this study emphasizes major drivers for using these different types of guanxi networks among Taiwanese SMEs.

2. Literature Review

Coleman (1990) defines social capital as any aspect of a social structure that creates value and facilitates the actions of persons within that social structure. We posit that social capital theory is particularly well-suited to explaining foreign SMEs' entry into China, especially with regard to the concepts introduced in Lin's (1999) social resource theory, according to which advantages stem from the nature of the resources embedded within a network. The advantages conferred by an actor's position in a social network can be "converted" into economic or other advantages (Bourdieu, 1985). In addition, actors may compensate for the lack of other resources (e.g., financial, human) with their superior "connections." Social capital also may improve the efficiency of economic capital because it reduces transaction costs. In this sense, social capital helps explain the differential outcomes of rival firms, because some firms' actions will be greatly facilitated by their direct and indirect links to other actors in their social networks.

In the Chinese social structure, guanxi entails webs of social ties that feature sentiment-based obligations among persons, as well as a business exchange network for gaining resources, information, and opportunities. Tsang (1999) uses a resource-based analysis of guanxi to argue that the guanxi possessed by members of an organization become part of that organization's human capital. In China's relatively primitive legal infrastructure, guanxi also becomes a popular way to solicit favors from the authorities who have control over scarce resources (Tsang, 1999). The mere existence of a business relationship does not ensure the accumulation of social capital, but a deeper sense of the relationship gains affirmation through guanxi (Bell, 2000). That is, to explain why foreign SMEs continue to thrive in China, we should recognize their accumulation of social capital through guanxi, which grants them legitimacy and thus better survival chances.

However, sociologists and anthropologists define the nature of guanxi differently, depending on their emphasis on the network or networking. In the first case, some authors view guanxi as interpersonal connections (Leung et al., 1996; Xin & Pearce, 1996); tight, close-knit networks (Yeung & Tung, 1996); or strategically constructed networks of personal relationships (Yan, 1996). Departing from this network view though, others stress the role of guanxi: People exchange favors through guanxi based on trust, affect, or the friendship among persons (Jacobs, 1979; King, 1991; Pye 1982). This view evolves toward the idea of guanxi as social networking (Hwang, 1987; King, 1991; Yang, 1994), such that people interact within the network, engaging in an infinitely repeated game with a set of people they already know (Davies, Leung, Luk, & Wong, 1995) to obtain access to a gateway or passage (Yeung & Tung, 1996). The latter view highlights the use of guanxi; following this reasoning, we define guanxi as the extent to which a foreign investor employs guanxi networks to conduct business in China.

We also distinguish among three major types of guanxi in China: with Chinese business communities, local governments, or the central government. Traditionally, entry mode research suggests guanxi with business communities as a means for foreign companies to access country-specific experience, distribution channels, and so forth (Punnett & Yu, 1990; Tao, 1988). However, Luo (2001) argues that guanxi with a local government and/or China's central government also may be necessary, because a foreign investor and government entities can offer each other complementary resources: The government provides exclusive marketing rights and conflict resolution mechanisms with local suppliers and distributors; the foreign investor encourages economic growth in a region and provides tax revenues. Expanding Luo's work, we propose that guanxi with central versus local governments requires different approaches. The central government in China sets the national economic plan, but local governments decide how to implement that plan (Wiersema, 2006).

Many existing studies evaluate the benefits and pitfalls of guanxi for doing business in China (Abramson & Ai, 1999;

Ambler, Styles, & Wang, 1999; Davies et al, 1995; Leung et al., 1996; Neil & Ai, 1999). Specifically, existing studies show that guanxi improves foreign investors' financial outcomes (Luo & Chen, 1996), marketing effectiveness (Davies et al., 1995; Park & Luo, 2001), competitive advantages (Tsang, 1998; Yeung & Tung, 1996), and macro-organizational performance (Peng & Luo, 2000). Therefore, we posit that firms with limited resources should lean toward using their social networks, like guanxi, in China to identify market opportunities and/or obtain marketing support. Considering the lack of resources that generally mark foreign SMEs, such as gaps in management skills or distribution networks, entering China still poses substantial market and political hazards for them. In turn, resources embedded in guanxi may provide an important catalyst for foreign SMEs' success in the Chinese market. In summary, we theorize and test both firm characteristics (i.e., resources, skills, and entry mode) and market conditions (i.e., stability and competition) as potential drivers of guanxi with different networks (i.e., business communities, local government, and the central government).

3. Research Hypotheses

3.1. Resource Factors

Superior skills and resources together represent a firm's capability to compete better than its competitors (Day & Wensley, 1988). Because no organization can be completely self-sufficient, it must acquire deficient resources and information, which creates dependencies among organizations that function within a social network. Foreign investors in China require guanxi to compensate for their deficient capabilities and generate sufficient economic rents to cover the higher cost of servicing the Chinese market. Foreign investors also may offset their lack of capabilities, such as tangible resources, managerial skills, or technical skills, with the help of guanxi. First, with regard to firm resources, the cost of acquiring reliable information about foreign markets is significant (Davidson, 1980), particularly for SMEs (Dymsza, 1988). To compensate for their lack of information, SMEs may be more likely to cooperate with other firms in international markets (Shan & Hamilton, 1991). Furthermore, Gomes-Casseres (1989) reveals that relatively smaller firms tend to use network linkages with other firms to gain economies of scale. In this context, as the number of ties held by executives of a SME increases, the chances of survival should increase as well (Aldrich & Fiol, 1994; Singh, Tucker, & House, 1986). Thus, we propose:

H₁: Firm resources exhibit an inverse relationship with the use of guanxi networks in Chinese business communities.

Because foreign SMEs usually have insufficient internal resources to gain bargaining power over government entities, they are subject to frequent government intervention and hindrance (Perkins, 1994). Smaller foreign firms are less visible and receive less attention from political institutions than do large foreign firms; therefore, they tend to draw on network relationships to solve practical difficulties during the investment process. To overcome such bureaucratic red tape, foreign investors require guanxi with government officials. Because foreign SMEs in particular have limited resources, they cannot serve the national market nor rely on guanxi with the central government. In addition, Chinese local governments have the power to issue licenses and enforce business contracts in local markets, which is critical to foreign SMEs for running their day-to-day operations in local markets (Anonymous, 2004). It is thus reasonable to posit that firms' resource constraints encourage guanxi with local governments:

H₂: Firm resources exhibit an inverse relationship with the use of guanxi networks with local governments in China.

Foreign SMEs also tend to have executives with fewer ties to others, due to the liability of foreignness (Aldrich & Auster, 1986). Lack of ties is especially problematic in China, where the rule of law sometimes does not exist, and government control can be unreliable (Xin & Pearce, 1996). Luo (2001) proposes that relationships with government officials grant foreign investors a sense of trustworthiness as a local entity. Therefore, foreign SMEs typically need to establish guanxi networks rapidly to gain legitimacy as "Chinese" firms (Peng, 1997; Xin & Pearce, 1996; Yeung & Tung, 1996).

According to Kumar and Worm (2004), local governments in China decide how a law devised by the central government should be implemented in their provinces. Thus, the central and local governments of China do not always speak and act as one (Batson, 2005). In such circumstances, foreign SMEs must maintain guanxi with government officials to ensure interpretations of rules and regulations, by different agencies at varying levels, favorable to their interests.

Furthermore, the Chinese central government prefers foreign investors with abundant managerial skills, from which Chinese indigenous firms can learn. Thus, foreign SMEs that lack transferable skills should pursue strong ties with central government officials to bypass its strict approval procedures. In addition, foreign SMEs that lack effective managerial skills may be unable to deal with potential conflicts with suppliers and distributors, and local officials can offer a conflict resolution mechanism, especially when the rule of law fails. Both Nee (1992) and Walder (1995) propose that a network strategy linking firms and local officials may lead to better firm performance. In summary, guanxi with government officials—both at the central and local levels—appears essential for overcoming a lack of managerial skills. Thus,

H₃: Firm managerial skills exhibit an inverse relationship with the use of guanxi network with Chinese local governments.

H₄: Firm managerial skills exhibit an inverse relationship with the use of guanxi network with Chinese central government.

A lack of technical skills also may be problematic for foreign SMEs, especially during the initial stages of their direct investment in China. Traditionally, Chinese government officials have encouraged foreign investors to form joint ventures with Chinese firms to ensure rapid knowledge transfer, whereas foreign SMEs generally prefer to invest in an effort to exploit low production costs. Therefore, foreign SMEs that seek cost advantages but have little technology to transfer to Chinese firms should pursue guanxi with the central government, which approves FDI; local governments instead help facilitate the day-to-day operations of special economic zones such as Guangdong (Walder, 1995). Therefore, we hypothesize:

H₅: Firm technical skills exhibit an inverse relationship with the use of guanxi networks with the Chinese central government.

Finally, we suspect that a foreign investor's entry mode influences the guanxi it pursues in China. If a foreign SME enters the Chinese market as a wholly owned subsidiary, the initial investment approval from the central government represents a significant hurdle to overcome. However, if the SME forms a joint venture with an indigenous firm with strong ties to Chinese central government officials, it likely needs to cultivate stronger networking with Chinese business communities to identify trustworthy partners. We propose that

H₆: Market entry through a joint venture drives the use of guanxi networks with the Chinese business community.

H₇: Market entry through a wholly owned subsidiary drives the use of guanxi networks with the Chinese central government.

3.2. Market Factors:

While pursuing the promising market potential of China, foreign SMEs remain wary of the potential risks, which include but are not limited to investment risk (i.e., political stability) and market risk (i.e., unfair competition). We propose that foreign SMEs expect to alleviate such risks through the help of guanxi. First, the Chinese government's policies on FDI approval and profit remittance to foreign countries, as well as the general political instability, create investment risk (Kobrin, 1983; Root, 1987). In transition economies such as China, where market-supporting institutions such as transparent laws are lacking, guanxi cultivated by managers may be more important for facilitating transactions (i.e., government intervention), such that it significantly influences firm performance (Peng & Heath, 1996; Redding, 1996). In addition, institutional uncertainties and ambiguous property rights in China necessitate guanxi with various government agencies (Park & Luo, 2001; Xin & Pearce, 1996). Accordingly, some authors (e.g., Davies et al., 1995; Leung et al., 1996; Wu, 1994) find that guanxi has a positive impact by reducing transaction costs associated with market instability. China continues to work to establish its rule of law, so law enforcement often remains subject to government officials' personal interpretations. Guanxi may provide valuable intelligence about changes in government policies and their execution, so SMEs need to undertake guanxi with government officials, at both central and local levels.

H₈: Firm's perception of investment risk drives the use of guanxi network with Chinese local governments.

H₉: Firm's perception of investment risk drives the use of guanxi network with Chinese central government.

Second, China's open door policy attempts to encourage market competition between indigenous firms and foreign investors, yet competition in local markets remains generally unfair, in that local government officials tend to support local interest groups (Cohen, 2006). In particular, local officials limit fair market competition when it threatens their particular economic interests (Batson, 2005), which means Chinese businesses can routinely rely on local officials to provide a broad range of services, including access to credit from state-owned banks and bypasses of the central government's approval procedures (Anonymous, 2004). Moreover, local governments have access to various tools they can use to thwart unwanted competitors in the market, such as taxation, permits, government contracts, informal pressure, and so on (Batson, 2005). Recently, the section forbidding the abuse of government power to restrict competition disappeared from China's new antimonopoly law during a review by the State Council, the government's executive arm, before being sent to the National People's Congress for final approval (Cohen, 2006); that is, the central government's attempt to ensure local governments do not favor local firms at the expense of foreign competitors failed. Consequently, forming a guanxi network with local officials is not just an option but rather a necessity as a defensive posture when the intensity of market competition is low due to unfair competition. Accordingly,

H₁₀: Firm perception of competition intensity inversely drives the use of guanxi networks with Chinese local government.

4. Methodology

4.1. Sample

Taiwanese SMEs listed in the 2002 *Directory of Taiwanese Manufacturing Firms Investing in China*, published by the Ministry of Economic Affairs of Taiwan, constitute the potential sample. To minimize bias due to geographic locations (i.e., Guangdong, Fujian, Kiangsu, and Shanghai), we drew an average of 60% of the firms (58–62%) from each area, for a total random sample size of 1,870. After two mailing waves in 10 weeks, we received 276 usable questionnaires, for a 14.77% effective response rate. We tested these 276 usable responses for nonresponse bias by comparing early and late respondents; we find no evidence of nonresponse bias (Armstrong & Overton, 1977).

4.2. Measurement Scales

Most of the questionnaire measurement items come from existing literature, anchored on five-point Likert-type scales, with the exception of entry mode, a dummy variable (1 = joint venture, 0 = wholly owned subsidiary). We provide a brief description of the measurement items in Table 1; the correlations among the variables appear in Table 2. As dependent variables, we consider the need to use the three types of guanxi networks (G_B = business communities, G_{LG} = local governments, G_{CG} = central government).

Regarding the internal drivers of guanxi use, we measure firm resources (RESOURCE) as a composite of total assets (Kogut & Singh, 1988; Yu & Ito, 1988) and number of employees (Erramilli & Rao, 1993). The firm's managerial skills (MGMT) refer to managers' skills for handling international expansion and their international experience (Davidson, 1980). Technological skills (TECH) reflect the firm's R&D expenditures divided by sales (Yu & Ito, 1988) and its technological abilities compared with those of its direct competitors. Entry mode (ENTRY) equals 1 if the firm uses a joint venture and 0 if a wholly owned subsidiary. For the external drivers, we measure perceived investment risk (RISK) in terms of political instability, profit repatriation risk, and policy change risk (Agarwal & Ramaswami, 1992; Wheeler & Mody, 1992). Finally, the extent of competition (COMP) equals the intensity of rivalry in the industry and between competitors (Ambler et al., 1999). Both factor analysis (Hair, Anderson, & Tatham, 1998) and the internal reliability statistics—including bivariate correlations and Cronbach's alphas (Nunnally & Bernstein, 1994)—indicate a satisfactory level of content validity and reliability (see Tables 3 and 4, respectively).

4.3. Hypotheses Test

We use the average scores of the independent and dependent variables for the regression analysis:

$$G_i = \beta_0 + \beta_1\,\text{RESOURCE} + \beta_2\,\text{MGMT} + \beta_3\,\text{TECH} + \beta_4\,\text{ENTRY} + \beta_5\,\text{RISK} + \beta_6\,\text{COMP} + \varepsilon,$$

where G_i refers to G_B (guanxi with business community; Model 1), G_{LG} (guanxi with local government officials; Model 2), or G_{CG} (guanxi with central government officials; Model 3), and ε represents random error.

All the regression models (Models 1, 2, and 3) reach significant F values (6.39, 6.39, and 5.53, respectively) and the adjusted R-squares are .11, .11, and .09, respectively (Table 5). According to Model 1, a firm's lack of resource drives its guanxi with Chinese business communities (t = -2.96), in support of H_1. Taiwanese SMEs that formed joint ventures also exhibit strong intents to exploit their business communities. That is, joint venture as the market entry mode relates positively to guanxi with business communities (t = 2.43), in support of H_6.

From Model 2, we find that firm resources, management skills, and market competition are inversely related (t = -2.07, -2.67, and -2.27, respectively), whereas investment risk is positively related (t = 2.39), to Taiwanese SMEs' willingness to employ guanxi with local government officials. Therefore, we find support for H_2, H_3, H_8, and H_{10}. Finally, Model 3 indicates that investment risk and lack of management skills drive guanxi with the central government (t = 2.51 and -2.47, respectively), in support of H_4, and H_9. However, the firm's technological skills do not indicate a significant relationship with guanxi with the central government, and therefore, H_5 does not receive support. Also, we must reject H_7 because there is no significant relationship between a firm's entry mode and guanxi with the central government.

5. Discussion

Overall, our findings match those of previous studies. Taiwanese SMEs thrive in China by creating social capital, which they do by effectively using various institutional and social networks (i.e., guanxi) to induce entrepreneurial opportunities, maintain legitimacy, and ensure their survival. Managers who network with managers at other firms and with government officials help improve firm performance in the Chinese market (Peng & Luo 2000). The results also indicate that resource gaps and market competitiveness have different effects for the different types of ties. As we expected, a lack of firm resources and market competition prompts Taiwanese firms to turn to guanxi with local rather than the central government officials, because the former have the authority to intervene in their day-to-day operations by allocating government-owned resources, enforcing rules and regulations regarding market transactions, and restricting market competition in local markets. The lack of fair competition in the Chinese market also requires Taiwanese firms to utilize guanxi with local government officials; this state implies that local government officials prefer local businesses, which makes these local firms stronger competitors in the market and accordingly diminishes

the probability of survival by a new foreign entrant (Caves, 1974). Our findings also reinforce the recognition that the Chinese market remains in transition, from a planned to a free economy in which competitors are treated equally.

A lack of international management skills and a higher degree of investment risk motivate Taiwanese firms to pursue guanxi with government officials at both central and local levels. The Chinese government system is organized such that local governments can defy the rules and policies set by the central government. Therefore, strong ties with the central government do not automatically transfer into strong ties with local government officials or vice versa.

With regard to guanxi with central government officials, a lack of technological skills does not seem to motivate Taiwanese SMEs to engage in guanxi, perhaps because firms have trouble assessing their technological skills objectively, so a firm's self assessment of its skill level may not be critical for obtaining central government approval for FDI. Instead, this approval process may depend on the presentation of the firm's technological skill in the application. Furthermore, a wholly owned subsidiary as the market entry mode does not seem to influence Taiwanese SMEs' motivation toward guanxi with the central government. We posit that a potential cause may be China's recent membership in the World Trade Organization, which may have persuaded the central government to abandon its preference for joint ventures. In contrast with our prediction, perceived investment risk drives Taiwanese SMEs to engage in guanxi with business communities (t = .135). We suspect that because investment risk is such a critical threat for FDI, foreign SMEs try to avoid it completely by forming guanxi networks with not only government officials but also business communities.

6. Study Implications

The speed and prevalence of globalization these days makes the need to understand and employ complex guanxi networks especially relevant for both managers and academics. Our study results confirm that from a practical standpoint, a foreign SME in China likely should invest in the development of social ties to take advantage of the social resources embedded within guanxi networks. In addition, in many cases, though not always, it makes sense to invest selectively in strengthening the ties with higher levels of government. This research thus describes the significance of guanxi in China and explains the need for different types of guanxi with different stakeholders, depending on the foreign SME's characteristics and the market. In addition, our use of a unique sample of Taiwanese SMEs helps expand the scope of existing guanxi literature. Overall, our study results echo the findings of existing literature (e.g., Peng, 1997; Xin & Pearce 1996; Yeung & Tung 1996), namely, that firms with weak organizational capabilities or ambiguous environment tend to use guanxi networks.

Foreign SMEs often find the various interpretations of policies and regulations by different levels of Chinese government confusing, because they lack a clear understanding of the government structure, administration mechanisms, and political infighting among different levels of government. This study reveals, in the interest of foreign SME managers, that working with higher-level government officials (i.e., central government) cannot always solve problems. They may have the authority to approve projects and exercise controls over local governments in China, but working with lower-level, local government officials provides unique benefits, including favorable resource allocations and economic policy enforcement.

Finally, our use of a unique sample (i.e., Taiwanese SMEs) produces interesting findings but also limits their generalization. It would be beneficial for further research to compare and contrast the differences between large multinational investors and SMEs in different contexts. We also rely on practical evidence to support some of our arguments, because insufficient theoretical antecedent justifications exist. Thus, additional studies need to offer strong, theory-laden justifications for our findings. The two hypotheses that do not receive support from our findings (technological skills and market entry mode) also should prompt investigations designed to explain these apparent research gaps.

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Table 1. *Variables, Measurements, and Sources*

Guanxi Factors		
Business community	The need for guanxi with business community	Luo & Chen (1997), Park & Luo (2001)
	The need for guanxi with local government	
Local government		
Central government	The need for guanxi with central government authorities	
Firm-Specific Factors		
RESOURCE	1) Total assets	Erramilli & Rao (1993), Kogut & Singh (1988),
	2) Number of employees	Yu & Ito (1988)
MGMT	1) Perceived managerial capabilities to handle international expansion compared with direct competitors	Davidson (1980), Peng & Luo (2000)
	2) Executive managerial experience	
TECH	1) R&D expenditure over sales	Peng & Luo (2000), Yu & Ito (1988)
	2) Firm's technological skills and abilities compare to direct competitors	
ENTRY	1 if the mode of entry is a joint venture; 0 if a wholly owned subsidiary.	
Host Country Factors		
RISK	1) Political risk	Agarwal & Ramaswami (1992), Wheeler & Mody
	2) Risks of converting and repatriating income	(1992)
	3) Risks of change in Chinese government policies toward foreign investors	
COMP	1) Extent of price competition in the industry	Ambler Styles, & Wang (1999)
	2) Intensity of rivalry between competitors in a firm's industry in Taiwan	
	3) Intensity of rivalry between domestic competitors in the Chinese market	

Notes: Items use 1−5 scales, unless otherwise noted.

Table 2. *Correlation Matrix* {AU: need to mention explicitly in the text; where should this mention go?

	Bus. Ties	Local Govt. Ties	Central Govt. Ties	TA	Emp.	RND Exp.	Tech. Skills	Mgt. Skills	Mgt. Exper.	Pol. Risk	Repat. Risk	Policy Risk	Price Comp.	Taiwan Comp.	China Comp.	Entry
Bus. Ties	1	.500**	.103	-.205**	-.245**	-.140*	-.161**	-.117	-.111	.176**	.167**	.162**	-.132*	-.145*	-.048	.186**
Local Govt. Ties	.500**	1	.201**	-.171**	-.176**	-.122*	-.144*	-.157**	-.202**	.153*	.159**	.219**	-.163**	-.153*	-.192**	.005
Central Govt. Ties	.103	.201**	1	-.184**	-.250**	.018	.002	-.171**	-.128*	.185**	.068	.198**	.036	.101	-.015	.098
TA	-.205**	-.171**	-.184**	1	.689**	.078	.081	.059	.180**	-.191**	-.049	-.242**	-.010	.098	.100	-.153*
Emp.	-.245**	-.176**	-.250**	.689**	1	.140*	.099	.014	.186**	-.169**	-.028	-.213**	-.005	.153*	.128*	-.101
RND Exp.	-.140*	-.122*	.018	.078	.140*	1	.558**	.029	.190**	-.125*	-.133*	-.076	.129*	.314**	.182**	.035
Tech. Skills	-.161**	-.144*	.002	.081	.099	.558**	1	.127*	.208**	-.185**	-.192**	-.163**	.138*	.247**	.189**	-.066
Mgt. Skills	-.117	-.157**	-.171**	.059	.014	.029	.127*	1	.305**	-.057	-.103	-.081	.067	.056	.018	-.080
Mgt. Exper.	-.111	-.202**	-.128*	.180**	.186**	.190**	.208**	.305**	1	-.133*	-.131*	-.084	.123*	.141*	.152*	-.078
Pol. Risk	.176**	.153*	.185**	-.191**	-.169**	-.125*	-.185**	-.057	-.133*	1	.354**	.567**	-.135*	-.074	-.089	.071
Repat. Risk	.167**	.159**	.068	-.049	-.028	-.133*	-.192**	-.103	-.131*	.354**	1	.475**	-.179**	-.085	-.067	.096
Policy Risk	.162**	.219**	.198**	-.242**	-.213**	-.076	-.163**	-.081	-.084	.567**	.475**	1	-.146*	-.143*	-.188**	.082
Price comp.	-.132*	-.163**	.036	-.010	-.005	.129*	.138*	.067	.123*	-.135*	-.179**	-.146*	1	.524**	.424**	-.017
Taiwan Comp.	-.145*	-.153*	.101	.098	.153*	.314**	.247**	.056	.141*	-.074	-.085	-.143*	.524**	1	.581**	-.029
China Comp.	-.048	-.192**	-.015	.100	.128*	.182**	.189**	.018	.152*	-.089	-.067	-.188**	.424**	.581**	1	-.024
Entry	.186**	.005	.098	-.153*	-.101	.035	-.066	-.080	-.078	.071	.096	.082	-.017	-.029	-.024	1

** Correlation is significant at .01 level (two-tailed).
* Correlation is significant at the .05 level (two-tailed).

Table 3. *Rotated Component Matrix*

	Component				
	1	2	3	4	5
Total assets	.021	.102	.895	.009	.086
Number of employees	.060	.068	.904	.078	.035
RND expenditures/sales	.144	.046	.068	.878	.015
Technology skills	.104	.153	.016	.838	.134
Management skills	.004	.065	-.050	-.029	.857
Managerial experience	.109	.060	.190	.191	.725
Political risk	.022	.780	.154	.097	.013
Repatriation risk	.053	.756	-.129	.121	.116
Government policy change risk	.135	.843	.181	-.005	.022
Price competition intensity	.787	.137	-.114	-.006	.090
Taiwan company competition	.833	.009	.100	.226	.028
China company competition	.806	.055	.115	.086	.010

Notes: Extraction by principal component analysis. Rotation by Varimax with Kaiser Normalization. Rotation converged in 5 iterations. Extraction sums of squared loadings equal 72.27%.

Table 4. Internal Reliability Test

	Standard Alpha	Item-Total Correlation	Bivariate Correlation (2-item scale)	Significance
Firm Resource				
• Taiwan assets	N/A	N/A	.689	.01 level (two-tailed)
• Taiwan employees		N/A		
International Management Skills				
• Management skills	N/A	N/A	.305	.01 level (two-tailed)
• Managerial experience				
Technological Skills				
• RND expenditure	N/A	N/A	.558	.01 level (two-tailed)
• Technology skills				
Investment Risks				
• Political risk		.534	N/A	
• Repatriating risk	.723	.471		
• Risk of government policy changes		.629		
Market Competition				
• Price competition		.524	N/A	
• Overall rivalry in the industry		.656		
• Rivalry between Chinese domestic competitors	.757	.566		

Table 5. Regression Results

	(Mode 1) Business Community	(Model 2) Local Government	(Model 3) Central Government	VIF Collinearity Statistics
Constant	3.535***	4.424***	2.187***	
	8.273	*8.596*	*5.679*	
RESOURCES	-.117***	-.098**	-.116***	1.139
	-2.959	*-2.068*	*-3.242*	
MGMT	-.044	-.170***	-.118**	1.111
	-.840	*-2.673*	*-2.474*	
TECH	-.107	-.049	.070	1.088
	-1.615	*-.611*	*1.179*	
RISK	.135**	.189**	.149**	1.110
	2.051	*2.392*	*2.509*	
COMPETITION	-.061	-.208**	.108	1.080
	-.801	*-2.269*	*1.569*	
ENTRY	.258**	-.104	.073	1.031
	2.433	*-.813*	*.764*	
R^2	.125	.125	.110	
Adjusted R^2	.105	.105	.090	
F-value	6.393	6.385	5.533	
Durbin-Watson (Autocorrelation Statistics)	2.113	1.959	2.383	
N	276	276	276	

Note: t-values are below each coefficient in small italics.

*Significant at 0%.

**Significant at 5%.

***Significant at 1%.