Contingent Political Capital and International Alliances: Evidence from South Korea

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Though prior research has suggested that a company's ties to political networks have only a positive value or no value, this study examines whether political network ties can also be a significant liability for companies. Analyzing South Korea as a representative emerging economy, I find that being tied through elite sociopolitical networks to the regime in power significantly increased the rate at which South Korean companies formed cross-border strategic alliances, but also that being tied through elite sociopolitical networks to the political enemies of the regime in power significantly decreased that rate. Results show that an unexpected change in political regime could quickly change a political liability into an asset and that network ties continued to be important determinants of cross-border alliance activity as South Korea proceeded with liberalization. The present study sheds further light on the so-called dark side of embeddedness by focusing on who is negatively targeted by having the "wrong friends" at the wrong time. Just as positive ties can lead to favor exchange and other benefits for companies, negative ties can lead companies to be the victims of discrimination, resource exclusion, and even occasional expropriation and sabotage between rival sociopolitical networks.●

Prior authors have generated a rich set of results showing the positive benefits of interfirm network ties in the U.S. As defined by Podolny and Page (1998), network forms of organization are those involving two or more actors engaged in repeated exchange but that lack an organizational authority for arbitrating or resolving disputes. Interfirm networks and the social capital they generate can serve as valuable sources of information, help firms build capabilities through knowledge sharing and joint exploration, help ensure the fulfillment of promises in the absence of courts, serve as a credential signifying reliability and competence, help firms to manage resource dependencies, and reinforce identity and beliefs (i.e., Powell, 1990; Shan, Walker, and Kogut, 1994; Podolny and Page, 1998; N. Lin, 2001; Baum and Rowley, 2002; Stuart, 2003). Among the studies showing the benefits of network ties, some have focused on board interlocks as the sources of these benefits (for reviews, see Mizruchi, 1996; Mizruchi and Marquis, 2006), whereas others have focused on interfirm strategic alliances (for reviews, see Gulati, Dialdin, and Wang, 2002; Borgatti and Foster, 2003). There has been much less work on firms' network ties to the state, however, though existing work suggests that network ties in general are important in emerging and transition economies.

A number of authors have found that firms benefit from interfirm network ties in emerging and transition economies (i.e., Peng and Heath, 1996; Luo and Chung, 2005). As Granovetter (2005) noted, organizational theory had for decades focused on individual organizations at the exclusion of network-affiliated organizations, but the success of business groups in Japan and South Korea forced organizational theorists in the 1980s to focus increased attention on network forms of organization. Scholars focusing on transition economies have in turn noted how managers relied on networks to achieve centrally planned targets under communism

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(Boisot and Child, 1988; Burawoy and Krotov, 1992; Carroll, Goodstein, and Gyenes, 1988). Furthermore, as these formerly communist economies transitioned to capitalist democracy, the same informal networks were often reactivated to enable companies to do business and attain favorable corporate growth in a volatile and uncertain environment (Stark, 1992; Peng and Heath, 1996; McDermott, 2002). For other emerging economies, such as Taiwan, Brazil, South Korea, and Mexico, scholars have long noted how membership in a business group was a means of overcoming missing or weak market institutions. Luo and Chung (2005) found that family-network ties within business groups were associated with higher financial performance following Taiwan's political and economic transition. In an environment that lacked reliable consumer information or effective courts, those business groups that built up both internal capabilities and reputational assets enjoyed a competitive advantage (Khanna and Palepu, 2000). Yet again, this work has focused on inter-firm ties, rather than political ties to the government, which can also influence firms' welfare.

Most work that has investigated the impact of business-government ties has focused on developed economies (see notable exceptions by Talmud, 1999; Fisman, 2001; Faccio, 2006; Leuz and Oberholzer-Gee, 2006). A number of studies have examined the benefits of companies' ties to the state in the U.S. context. Roy (1981) found that certain firms had their interests vested in the U.S. State Department, which in turn worked to open export markets on their behalf in the early twentieth century. Organizational scholars have also shown that connections to the state, particularly when those connections involve state ownership, state contracts, or state provision of finance, are beneficial for firm survival and positive performance (Carroll, Delacroix, and Goodstein, 1988; Hannan and Freeman, 1977, 1989; Burt, 1992; Han, 1992; Getz, 1997; Pfeffer and Salancik, 2003; Hillman, 2005). But there are reasons to believe that the impact of business-government ties might be different in emerging economies.

Studies have shown the benefits of network ties to the state in emerging economies. Peng and Luo (2000) found that political connections were associated with higher market share and higher profitability. Politically connected firms have also been found to be more likely to receive preferential access to credit (Khwaja and Mian, 2005; Leuz and Oberholzer-Gee, 2006), preferential treatment by government-owned companies (Backman, 2001), and government bailouts if the politically connected firm ever becomes financially distressed (Faccio, Masulis, and McConnell, 2006). In Mexico in the late 1980s, for example, business interests strongly aligned with the ruling Institutional Revolutionary Party influenced President Salinas to design a privatization program in which assets were sold at a sizeable discount to preferred bidders (Schamis, 2002). Lopez-de-Silanes and Zamarripa (1995) provided empirical evidence that because the auctions were not fully competitive, winners in the privatization of Mexico's government-owned banks received an average discount of 20 percent on the book value of assets. Teichman (2001) showed that members of the Argentine

Business Council used their ties to President Carlos Menem to gain comparable benefits during that country's privatization program. In Chile, many of the business interests that enjoyed privileged access to resources by allying themselves firmly with General Pinochet during the 1970s (Silva, 1996) emerged from that decade as the largest business groups (Teichman, 2001). Despite their benefits, though, business-government ties are likely to be particularly sensitive to political change. In emerging economies, there are often two or more rival networks competing for political power. If one network gains political power, its members in government may use that power not only to bestow privileged resources on their friends but also to target for exclusion and punishment their enemies, including members of rival networks. And it is unclear what effect economic or political liberalization has on the value of ties to the state.

There have been opposing arguments but few empirical tests examining how economic and political liberalization influences the value of business-government ties. Some organizational scholars believe that liberalization reduces the impact of business-government ties (Nee, 1989; Guthrie, 1998). Others, though, have argued that the value of business-government ties remains high and even increases after economic liberalization (e.g., Peng, 1994). So this study aspires to add to the nascent literature on the value that business-government ties have for corporations, particularly in emerging economies, by allowing for the possibility that such ties can be either assets or liabilities and by examining how the value of business-government ties varies in the face of multiple regime changes and the onset of liberalization.

To accomplish this, I examined the impact that business-government ties in South Korea between 1987 and 2003 had on firms' access to cross-border alliances. South Korea is one of the more than 60 democracies born during the "third wave" of global democratization (Huntington, 1991) and is representative of a large number of emerging economies that have experienced extensive periods of political and economic liberalization in recent decades. Prior to 1992, South Korea had been ruled for decades by a succession of generals. Following a series of popular democracy demonstrations, opposition forces gained support in the 1985 legislative elections (Cho, 2000), which in turn led in June 1987 to the sudden opening of the country to presidential democracy, the election of civilian leader Kim Young Sam to the presidency in 1992, and the surprise election of former dissident Kim Dae Jung in December 1997.[1] Like most emerging economies, Korea has liberalized its economy by removing capital controls and permitting domestic firms to establish alliances with foreign partners. For example, Lee (1987) cited implementation of the 1984 Foreign Capital Inducement Act (FCIA) as an important step toward enabling Korean firms to share technology freely with foreign partners, and Cyhn (2002) described how the Chun Doo Hwan administration (1980–1988) broke with the past to make it easier for foreign firms to buy land and invest in Korea. I focused on cross-border alliances because firms' success often hinges on such relationships. Further, the state plays a role in determining

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Following standard practice, Korean elites' names are written in the text with the last name first.

who wins this competition for foreign partners because national economic development depends in no small part on the number and character of such alliances.

THE CONTINGENT VALUE OF POLITICAL CAPITAL

Theory and research suggests that the benefits of social ties are conditional on the environmental context (Burt, 1997; Gulati and Higgins, 2003). And there is even research that suggests that interfirm ties between owners and officers can lead to distrust under certain states of the world (Gulati and Westphal, 1999). Gulati and Higgins (2003) demonstrated that the value of a biotechnology start-up's prior ties to either prestigious venture capital firms or investment banks is greater or smaller depending on the contemporaneous economic conditions in the public equity markets. Gulati and Westphal (1999) showed that board interlock ties between officers or owners of two firms do not necessarily lead to increased cooperation. When the board holding the interlock tie also happens to be controlled by a majority of independent outside directors, the two interlocked firms tend to become distrustful of one another and show a reduced propensity to form strategic alliances. Each of these studies demonstrates that the positive value of embeddedness is not automatic but varies directly with environmental conditions. But these notions of the contingent value of embeddedness have been understudied in the context of business-government ties.

The impact of business-government ties can change in the face of state policy change. Talmud (1992, 1999) and Talmud and Mesch (1997) have shown for Israel that being connected to the government through state ownership gave certain Israeli firms privileged access to resources, but state-owned defense contractors, such as Ta'as, suffered when the defense budget was cut after 1985. More importantly, the impact of business-government ties can change in the face of regime change. Fisman (2001) showed empirically that political connections to former Indonesian dictator Suharto were worth a significant percentage of politically connected firms' market capitalization and that a sizeable portion of these firms' market capitalization was erased any time there was a legitimate rumor of Suharto's life-threatening illness or impending death.

Whereas past studies have documented how the positive value of political ties can be attenuated by changes in the environment, none has allowed for the possibility that political ties can quickly turn into a liability capable of seriously damaging the firm's prospects. Yet a series of anecdotes related by Henisz and Zelner (2003) illustrated how Suharto's successor, B. J. Habibie, found that the only way to establish popular legitimacy was to prosecute those favored by the Suharto regime. In the ensuing anti-corruption campaign, Indonesia's state audit agency exposed numerous cases of past corruption and sought to recover resources from a set of formerly connected firms. Similarly, Orrú, Biggart, and Hamilton (1997: 232) told the story of Hewlett-Packard, whose executives knew going into one of its Korean joint ventures that forming a partnership with a particular Korean

company meant that they would be forever excluded (based on social rivalry) from doing business with many other companies in Korea. Whereas Orrú, Biggart, and Hamilton's anecdote focused on historical rivalry between business groups, similar antagonisms exist between Korean sociopolitical networks and were difficult for these researchers to decompose in the absence of detailed data on social ties (Orrú, Biggart, and Hamilton, 1997: 231). When a firm has a network tie to the political enemies of those currently holding power, that firm can be the victim of retribution and direct government efforts at exclusion. Those in political power will often seek to penalize the friends of their political enemies with harsher enforcement of taxes, antitrust laws, and other policies. When a firm is targeted with such political retribution, it often has to bear higher costs of access to outside resources. As a result, the firm has little to offer new multinational partners. Thus logic and anecdotal evidence suggest that firms can be directly penalized for maintaining network ties to political elites who are opposed to those in power.

Furthermore, there is reason to believe that changes in political regimes can lead to positive cascades of favor exchange as well as negative cascades of discrimination, resource exclusion, and even expropriation and sabotage between rival networks. As economic historians of Latin America have shown, oftentimes throughout the nineteenth and twentieth centuries, political regimes that came into power attempted to expropriate the power of those they had displaced (Haber, Razo, and Maurer, 2003). Just as network embeddedness can lead to spreading chains of friendship and favor exchange in the corporate world, network embeddedness can also lead to spreading chains of negative discrimination and exclusion in the corporate world. Johnson and Mitton (2003) showed that a significant portion of Malaysian firms' market capitalization came from subsidies gained through political connections. But they did not consider that political connections could turn into political liabilities. They pointed out that Malaysian Prime Minister Mahathir Mohamad targeted his former deputy Anwar Ibrahim with politically motivated criminal charges of corruption and sodomy, but they did not examine the possibility that firms affiliated with Anwar Ibrahim were also punished for their network affiliation. If a firm is being systematically favored by the state because it has network ties to those in power, then a change in government that results in control by a rival network should lead a firm to become the victim of discrimination and possible retribution. The need to establish popular legitimacy will often lead the network that comes to power to try to expose corruption among the prior elite (Henisz and Zelner, 2003). It will already have members it needs to reward for their past cooperation and generally distrusts firms that are linked to those on the other side. So long as the available pool of firms in each industry is still large, an ascendant network can afford to pick and choose whom to help. As a result, a firm can go from having politically generated resources to share with potential multinational partners to being systematically excluded from such resources. Thus logic and anecdotal evidence suggest that firms will experience a reversal of fortune to their advantage when the political elites to which they are tied rise to

power and that firms will experience a reversal of fortune to their detriment when the political elites to which they are tied fall from power.

There is much written but no definitive empirical research on the impact that political and economic liberalization has on the value of business-government ties. Some organizational scholars believe that economic liberalization reduces the impact of business-government ties. Nee (1989) and Guthrie (1998) have suggested that in China, the value of political capital decreases as its market economy becomes more Westernized. Guthrie (1999) argued that China's enactment of better laws, rules, and regulations for its growing market economy compelled firms to bring their business practices in line with Western norms of transparent management. Because success, according to Guthrie (1998), is a function of adopting market-based management practices, exploiting political connectedness to bend the rules becomes increasingly dangerous as law enforcement is strengthened. Moreover, as liberalization deepens, firms no longer need to rely on government officials to steer resources in their direction or remove bottlenecks (Guthrie, 1999). Keister (2002) found that many Chinese managers are inclined to avoid political connections. Observing that government bureaucrats charged with redistributing wealth tend to lose power and autonomy, Nee (1989) suggested that political connectedness in China is an unproductive investment due to decreases in available rents and increased market rewards for productivity. But these arguments can be challenged for a number of reasons.

A series of empirical studies has demonstrated that there are increased resources to be distributed following liberalization and that state actors retain many levers for steering these resources toward connected firms (Yang, 1994; Ledeneva, 1998; Y.-M. Lin, 2001). Historically, the size of government has increased both in nominal terms and as a share of domestic product after liberalization (Cameron, 1978; La Porta et al., 1999). Even after liberalization, states continue to wield much direct and indirect power over resource allocation through control of military and other government spending, tax, industrial, and antitrust policy, and banking regulation (Vogel, 1989; Kroszner and Stratmann, 1998). Moreover, in many emerging economies, institutional uncertainties and the lack of strong property rights even after liberalization compel firms to seek political ties to promote growth (Peng and Heath, 1996; Park and Luo, 2001). Firm-level earnings in turbulent, changing environments can also be affected by politically connected elites' use of their networks as conduits for timely market information (Róna-Tas, 1994; Bian and Logan, 1996). In emerging and transition economies, obtaining information about rule changes following liberalization is often critical to a firm's success. Rettberg (2001) showed that after the Colombian economy was liberalized, increased government spending on public contracts and new accounting regulations made firms more dependent on the good graces of the government. Walder (2003) pointed out that as long as the state controls access to finance and technology and enforcement of banking regulations, tax laws, and other

laws, political connections will continue to be valuable. This argument is similar to that of Luo and Chung (2005), who argued that liberalization without the subsequent creation of a strong rule of law allows social ties to become, if anything, more valuable because of the institutional uncertainty. One might therefore expect that the benefits and risks associated with a company's ties to the state would remain evident even after the onset of political and economic liberalization.

Political and Cross-Border Alliances

Cross-border strategic alliances are a significant source of outside resources for firms in an emerging economy. Emerging economies are by definition late industrializers (Gerschenkron, 1962) and have had to contend with a challenging environment. Their main initial assets include cheap labor, but competing on cheap labor alone has all too typically led to a vicious cycle in which capital simply moves to the next country with even cheaper labor (Amsden and Hikino, 1993). As a result, few if any firms in emerging economies have successfully developed on the basis of low wages alone. Capital instead flows to the countries with strong knowledge bases, and knowledge is often tacit and spatially contained (Romer, 1994). Tacit knowledge is "difficult to articulate or can only be acquired through experience" (Hansen, Podolny, and Pfeffer, 2001: 26). To be successful, firms in emerging economies have invariably entered a variety of mid-tech and sometimes high-tech manufacturing industries in which success has required accessing and actively assimilating knowledge from abroad (Enos and Park, 1988; Lim, 1999; Peng, 2000). As Westphal (1990) described, the transformation of the South Korean economy involved a dramatic shift from reliance on agriculture and other natural-resource industries (as recently as 1960) to investment in such industrial activities as chemicals, electronics, automobiles, and heavy electrical equipment. Firms from the Northern Atlantic area and Japan typically had amassed technological and market capabilities over a series of decades in these manufacturing industries (Amsden, 2001), and the capabilities often existed in the form of tacit knowledge that could not simply be purchased off the shelf (Shenkar and Li, 1999).

Instead, firms from emerging economies often needed a foreign teacher that would partner with them and spend months (and years) in their plants helping them to assimilate the tacit knowledge required to become successful in that industry. Multinational firms were willing to carry out these "technological tutorials" (Cyhn, 2002: 270) only if they believed they would achieve lower manufacturing costs through alliances and long-term subcontracting than they would receive through foreign direct investment (Amsden and Chu, 2003). One way to convince the multinational firm of shared benefits is to provide it upfront with shared access to cheap factor inputs provided by political allies in the government. Factor inputs are anything that the firm procures in terms of capital, land, and labor to create a product or service. Whereas the foreign multinational can often teach the local firm how to turn cheap factor inputs into attractively priced final goods based on the sharing of tacit knowledge, the local firm has to do the job of gaining access to the cheap factor inputs. A

prime mechanism for doing so is to forge strong network ties to the state, because even after liberalization, the state continues to exercise influence over the allocation of factor inputs indirectly through its regulatory power and directly through its control over the national budget (i.e., Boddewyn and Brewer, 1994; Bonardi, Hillman, and Keim, 2005).

Importance of business-government network ties for cross-border alliances. Political ties are helpful for securing access to a key market resource, namely, cross-border strategic alliances with multinational firms. Prior studies have shown cross-border strategic alliances with foreign partners to be a valuable means for emerging-economy firms to secure scarce technology and finance (Gereffi and Evans, 1981; Dunning, 1994; Jensen, 2003; Gereffi, 2005). After forming these alliances, firms in emerging economies have been shown to assimilate foreign knowledge faster and more effectively and to gain a competitive advantage over their domestic rivals. A number of studies have shown that such strategic alliances have been critical to firms' successful performance (e.g., Hobday, 1995; Hooley et al., 1996; Luo, 1996; Lyles and Salk, 1996; Cyhn, 2002), as measured through improved profitability, efficiency, and technological and marketing capability formation.

Political networks take on importance, given the government's influence over which firms gain access to cross-border strategic alliances. Before South Korea began to liberalize its trade and investment rules in 1987, Korean firms were often told by the generals and their appointees which industries to enter and which foreign partner to select. The state was master, and companies obeyed (S. Kim, 1987; Nam, 1995; E. Kim, 1997; S.-J. Chang, 2003). Because General Park Jung Hee (1961–1979) and General Chun Doo Hwan (1979–1987), being deeply nationalistic, did not want foreign multinational firms to gain strong footholds in the Korean market, prior to 1987 alliances were usually short-term and transactional. Korean firms generally were allowed to purchase technology licenses but not to form interactive, knowledge-sharing relationships with foreign partners. All such restrictions had been removed by 1987, freeing Korean firms to choose partners freely and to build long-term, knowledge-sharing relationships.

Even with this newfound freedom, however, Korean firms negotiating with prospective foreign partners continued to benefit from government support. Government officials often used their power to steer resources toward firms with which they shared network connections. For example, Kang Kyung Sik, the deputy prime minister during President Kim Young Sam's administration, was found by the Seoul District Court in 1999 to have used his political position to influence Korean banks to loan money to insolvent firms affiliated with firms with which he had close social ties (*Chosun Daily Newspaper,* 1999). Also, during the Kim Young Sam administration, bureaucrats were accused of favoring Hansol PCS in its bid to acquire a wireless telecommunication license because of its social ties (K. Kim, 1998). Yet another entrepreneur from President Kim Dae Jung's home region of Jeolla, Lee Yong Ho, allegedly used his high school connections to influence

the Financial Supervisory Commission and National Intelligence Service and was sentenced to three years in prison after seeking to end an investigation into his alleged stock price manipulation and embezzlement (Jung, 2005). In 2006, two former heads of the National Intelligence Service (the Korean CIA) during the Kim Dae Jung administration were convicted of illegally wiretapping political enemies of the president (H.-S. Chang, 2003).

Among the more than 100 Korean and multinational executives I interviewed during 2000–2006, most acknowledged, off the record, that government influence-seeking with the help of network ties is a fact of Korean business life, albeit one that they never want to see their name or their firm's name associated with in print. One senior manager of a top-30 business-group affiliate remarked in a 2001 interview that his group had good social relations with the government during the 1970s, only to be targeted with indirect expropriation of business and land along with reduced access to finance during the time of Presidents Chun Doo Hwan and Roh Tae Woo during the 1980s and early 1990s. He noted that his firm's loss of political support had made it more difficult to form cross-border alliances because the firm had less in the form of cheap finance and other resources to offer for joint investment with prospective foreign partners.

Once a Korean firm secures access to these outside resources locally, it typically "shops" shared access to the particular resource in exchange for foreign technology and know-how. A senior manager who negotiated a strategic alliance in South Korea on behalf of a leading European multinational manufacturer told me, "The tax breaks and other benefits that our Korean partner brought were always a part of the discussion. It's always, 'Here's what we bring. What do you bring?' Our partner used everything it had to get better terms; [our partner] was a master at it." Prospective multinational partners then had to implement due diligence measures to ensure that the prospective Korean partner in fact had the cheap finance, favorable land site, or other resource that it was touting. But this due diligence did not require that the foreign firm had to interact with Korean politicians or senior bureaucrats; because the support was targeted toward the local partner, Korean politicians and senior bureaucrats often did not want to be seen as even indirectly providing aid to foreigners. As a result, the multinational firms' due diligence focused on verifying the particular bank loan or the particular real estate parcel. For example, Pyungchang was a start-up firm well known for its political connections; after it marketed itself to U.S. Internet firm AltaVista as a potential strategic partner in 1999, the American firm did its due diligence and decided not to go ahead with the alliance. AltaVista's country manager declared in a 2001 newspaper interview, "It turned out Pyungchang's business plans, manpower and other basic information were simply lies" (Yang, 2001: 9). Through due diligence, other multinational firms could also verify the existence of research and development (R&D) subsidies, favorable access to human capital through government programs, advantageous regulatory treatment, and timely market information through gov-

ernment sources. The Korean partner would then negotiate to share some of these rents in exchange for cheaper and more extensive access to the foreign partner's technology or finance. These partnerships typically involved the sharing of resources worth tens of millions of dollars and more over a period of at least a year, and typically several years. Usually, the more resources a Korean firm could be verified to have available for sharing with the multinational partner, the better the terms it was able to negotiate with the foreigner. Korean firms typically wish to retain maximum control and ownership over any joint assets created with the multinational partner, and the multinational partners in turn often want that same control. The final negotiated outcome was based on the value of the resources that the Korean firm brought to the negotiating table as well as the value of the technology and know-how the foreign firm was to share.

Recent alliances, both those that have succeeded and those that have led to scandal, confirm how foreign multinationals formed alliances with members of elite Korean political networks to gain shared access to local resources and privileged regulatory treatment. Among the alliances that have been successful is the alliance between LG and Dutch electronics manufacturer Philips. LG's political connections helped it to secure cheap land just outside Seoul and favorable tax treatment with government support, and the company used those resources to attract joint investment from Philips in a multibillion-dollar joint venture producing liquid crystal display (LCD) screens. In a 2006 press conference, Korean politician Sohn Hak Gyu boasted about his preferential support of the LG LCD plant, including having arranged for LG to begin construction even before receiving its legal land transfer (Lee, Kim, and Kim, 2006). Another alliance that has benefited from political connections involves POSCO E&C, LG CNS, and international real estate developer Gale International. Together they are constructing a new futuristic city less than 50 miles west of Seoul. The government gave the alliance reclaimed land off the western coast, and the alliance is also benefiting from government subsidies as well as exemptions on labor and tax laws for other companies that choose to reserve space in the development (J.-H. Kim, 2004; Yoh, 2006).

Although these alliances have thus far been treated as successes or potential successes in the popular press, other alliances have led to scandal. In 1996, IBM executives formed an alliance with LG Group and its elite sociopolitical network. In this particular alliance, LG sought IBM's expertise in computer manufacturing, and IBM sought to increase its market share in South Korea, with LG's support (Chin, 2004). Through the connections that came with its strategic alliance, IBM was able to share in LG's access to government contracts, along with LG's privileged access to cheap finance, real estate, and other regulatory treatment. Later, however, these political ties turned into a liability as 48 people, including senior managers from LG, senior managers from IBM Korea, and officials from the Supreme Public Prosecutors' Office and the National Tax Service, were indicted on bribery charges (Byun, 2004).

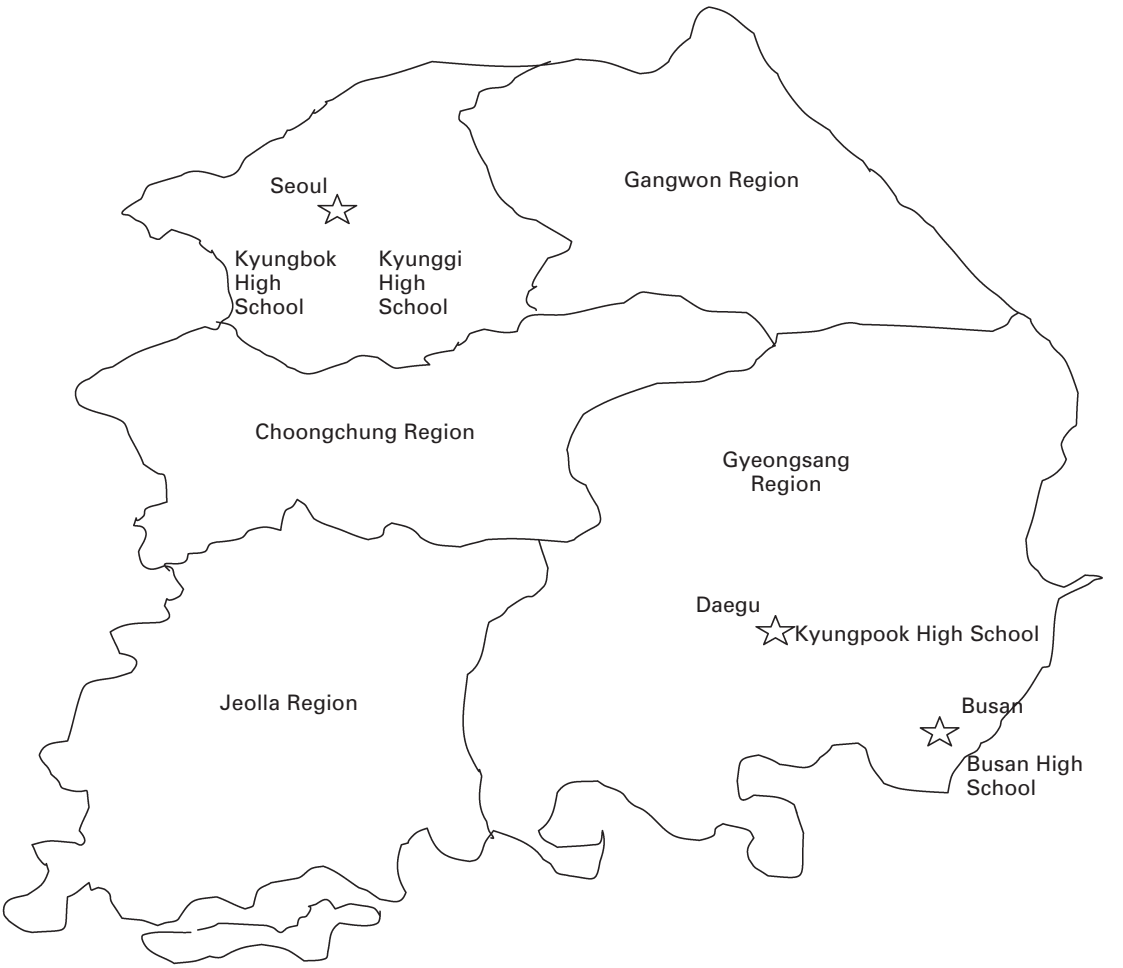
Multinational firms seeking local partners for their global supply chains often look for politically connected firms that they believe can offer valuable resources (Dunning, 1958; Hymer, 1976), whether finance, local technology, knowledge of the local market, or political connections. A multinational that fears government expropriation or negative future changes in government policy will find working with local partners to be one of the best ways to protect its interests (Aharoni, 1966; Evans, 1979; Wells, 1998). If a government suddenly changes policy and decides to tax or otherwise expropriate from certain foreign firms, it is the foreign firms without a local network connection that are the most vulnerable (Moran, 1974). Political ties help firms in emerging economies gain privileged access to such direct resources as cheap finance, attractive real estate, and favorable tax treatment. The firm that uses these direct resources both to invest in its own capabilities and to offer potential foreign partners shared access to these direct resources (in exchange for foreign technology and know-how) is likely to gain access to a larger number of cross-border alliances.

Basis of South Korean political networks. Like most of their peers in emerging economies, Korean firms face a challenging environment characterized by low trust. In terms of low overall trust levels in the World Values Survey, South Korea is on a par with Latin America and Latin Europe (Fukuyama, 2000: 328). Korea's multitiered system of obligation and commitment, analyzed by Chang (1991) in historical breadth, is similar to the Chinese business environment (Peng, 2004). Fukuyama (2000: 328–329) explained that strongly familistic societies such as South Korea tend to develop a "two-tier system of ethical values," in which standards of behavior for relationships within the affiliation network are higher than for relationships with other compatriots.

The basis of social networks in South Korea is regional, with strong ties that develop as a result of attending the same elite regional high school. There are five distinct regions: Gangwon in the northeast, Gyeongsang in the southeast, Jeolla in the southwest, Choongchung in the center, and the Seoul metropolitan region in the northwest, as shown in figure 1.[2] Seoul is the commercial, industrial, and political capital of the country, and the Seoul metropolitan region serves as a melting pot of inward migration from the other four regions. As Yu (1990) described, regionalism in Korea has its origins in the Three Kingdoms era (18 B.C.–668 A.D.), when the Korean peninsula was split among three rival kingdoms actively at war with one another. Through an alliance with China, the southeastern kingdom (Silla) was able to conquer the other two rival kingdoms. Regional tension was exacerbated when Wang Kon, the founder of Koryo Dynasty consolidated power after winning a war against the southwestern elite. Wang Kon, after starting the Koryo Dynasty, explicitly forbade the hiring of anyone from the southwestern region, whose territory he called "a perverse and rebellious land." The policy of open discrimination based on where one was born continued through the Koryo and Choson dynasties and then became deeply entrenched during the years of Korea's postwar independence (Yu, 1990). It is against this

2
These are transliterated names of Korean regions. Gangwon is alternatively spelled Kangwon or Kangwŏon, Gyeongsang is alternatively spelled Kyŏongsang, Jeolla is alternatively spelled Chŏolla, and Choongchung is alternatively spelled Chungcheong or Ch'ungch'ŏong.

Figure 1. Map of South Korea and elite high schools included in the study.



historical background that political networks in contemporary South Korea have been forged.

Portes and Sensenbrenner (1993) identified a set of mechanisms that support social network formation and sustenance, and each of these plays an integral role in supporting Korean networks. Value introjection, or the idea that closed networks learn value imperatives during the process of socialization, occurs when Korean people are taught from an early age that those born in their region are to be trusted while others are not. As Yu (1990) described, Koreans were taught from an early age about the history of warfare and discrimination that their regional compatriots had endured over the ages. This has led to modern practices such as blatant discrimination in the labor market (Yu, 1990; K.-J. Seo, 2002). Reciprocity transactions have helped to deepen these network loyalties, as people are more likely to hire others from the same network and then to expect and demand good-faith behavior in return (Yu, 1990). Either being the recipient of favored treatment by Korea's postwar leaders or being the target of government discrimination during the time of Korea's military rulers has led to bounded solidarity or a sense of common network identity based on shared experience. Finally, even

though there was mass migration from the regions of Korea into the capital of Seoul over the past decades, these regional networks continued to maintain a high degree of closure once they were transplanted (Chang, 1991; Park and Kim, 2003). As a result, in the capital city, migrants looked to earn status within the context of a relatively closed regionally affiliated network structure (Yu, 1990; Park and Kim, 2003). The empirical analysis here focuses in part on the Gangwon, Jeolla, and Choongchung regional social networks, which had relevance for business-government relations in the period I studied.

These same mechanisms are even more apparent within regional high school networks. Here, throughout much of the postwar era, students took double-blind exams and were admitted based solely on merit to the elite public high schools in their home region. Not only did these elite high school students receive the inculcation of regional loyalty, but also they were told at an early age that they had the highest human capital in their region. They received the best education in the country while continuing to be separated from other regional elites. Then, after seeking entrance to one of Seoul's most prestigious universities, these high school elites would move to Seoul and transplant their network. While in Seoul, these elites would encounter the foreign metropolis together while in the same educational program, and this experience further facilitated their bounded solidarity. In most Korean universities, informal clubs and organizations based on common regional high school background were numerous and widespread. Once these graduates entered the private sector, they not only depended on shared reciprocity with their immediate classmates but they also had access to numerous regional and regional high-school-based clubs and informal organizations within Korean companies. When I interviewed a senior human resources manager at a leading business group in 2002, he observed, "We often hired based on regional background and high school background. Once hired, we would frequently meet over dinner with those from the same high school. It became an informal club based on shared experiences." I found that for every elite high school there were literally hundreds of Web sites linking high school alumni to each other based on common hobbies and business interests. It was clear from the hundreds of Web sites linked to Busan High School that alumni used these sites to signal status and reputation with the network. The empirical analysis focused primarily on the Daegu-Kyungpook High School and Busan High School social networks, which reflect the intense rivalry even between the Daegu-based subregion and the Busan-based subregion of Gyeongsang and are significant for business-government relations.

Region-based social networks also find expression in important institutional affiliations. The Federation of Korean Industry (FKI) is South Korea's leading business interest group, and its membership and leadership have historically been drawn to a significant extent from the Busan region. Finally, all of the above described region-based social networks are distinct from a final region-based social network, which is composed of business leaders born in North Korea.

Political Capital and Regime Changes in South Korea

In 1961–1992, South Korea was ruled by three former generals (Park Jung Hee, Chun Doo Hwan, and Roh Tae Woo), all of whom came from the subregion around Daegu in the southeastern region. A rising democracy movement led to the fall of the generals in an open election in 1992. Then, during 1993–1997, Korea was ruled by its first civilian president, Kim Young Sam, from the rival Busan subregion. In December 1997, on the heels of the unexpected Asian financial crisis, Korean voters unexpectedly elected former dissident Kim Dae Jung president. The target of both an official death sentence and a series of assassination attempts by Generals Park Jung Hee and Chun Doo Hwan, Kim Dae Jung served as the political leader of a rival network from Jeolla (the southwestern region). Social enmity long existed between Koreans from the southwest and southeast regions, and even within the southeast Gyeongsang region, there was a longstanding subregional rivalry between elites from the part of Gyeongsang dominated by Daegu and the part dominated by Busan. Even in the presidential election in December 2002, Koreans voted largely along regional lines (S.-M. Seo, 2002).[3] As regimes changed, the value of political ties likely changed as well, being either an asset or a liability to a firm trying to form a cross-border alliance, depending on whether the current regime was bestowing favors on that firm's network or targeting it for discrimination.

Elites from the western Choongchung region were peripheral players, being neither systematically favored nor disfavored, during the time of generals Chun and Roh and during the administration of Kim Young Sam. Kim Dae Jung, to raise his chances of victory, cemented an "all-western" regional alliance with Kim Jung Pil, the leader of the Choongchung-based political faction, before the December 1997 election. As part of this alliance, Kim Jung Pil was promised the prime ministership, and his party was promised the construction and transportation ministry and the maritime affairs and fisheries ministry (E. Kim, 2004). Though this alliance eventually broke down due to regional rivalry, for much of Kim Dae Jung's term, elites from the Choongchung region should have at least modestly benefited from their new-found access to power. Moreover, at the very end of the study time period, Roh Moo Hyun (Kim Dae Jung's ally and successor) again forged an informal alliance with members of the Choongchung elite by promising to move the nation's administrative capital in the future to their region (Kang, 2006).

Hypothesis 1 (H1): Having a chief executive officer (CEO) or chairman from the Choongchung region will be a significant asset for forming cross-border alliances during the Kim Dae Jung administration.

Business elites from the Gangwon region went from being peripheral actors, usually taken for granted and marginalized by the generals and by Kim Young Sam, to being a valued part of Kim Dae Jung's coalition. The Gangwon region in northeastern Korea is a largely rural area with only a small percentage of the country's population. Gangwon is also notable because its regional territory was split between

3
As profiled by S.-M. Seo (2002) in the *Korea Times,* Roh Moo-Hyun won 95.1 percent of the vote in the city of Kwangju, the regional base for his and former President Kim Dae Jung's party. In contrast, Roh Moo-Hyun won only 21.65 percent of the vote in the Daegu metropolitan area, which is the former base of the military generals. Roh Moo Hyun still won the presidential election in December 2002, but he stated in a post-election news conference, "It is truly disappointing that we were unable to tear down the wall of regionalism during this election."

South Korea and North Korea as a result of the Korean War. During the times of the generals and of Kim Young Sam, Gangwon and its business elites were outside of the political center, taken for granted and even regularly excluded from receiving government rents. In contrast, under Kim Dae Jung's administration, a law was passed for the first time to spread government largesse and rents on the Gangwon region (Pak, 1999). In 2000, the government passed a special law specifically for the business development of the Gangwon region. Furthermore, Gangwon elites clearly benefited over many years from the Kim Dae Jung administration and its successor's large-scale investment in economic development projects on the border with North Korea (Goh and Choi, 2007).

Hypothesis 2a (H2a): Having a CEO or chairman from the Gangwon region will be a significant liability for forming cross-border alliances during the time of the generals and during the Kim Young Sam administration.

Hypothesis 2b (H2b): Having a CEO or chairman from the Gangwon region will be a significant asset for forming cross-border alliances during the Kim Dae Jung administration.

Another network that was often discriminated against because of its traditional position outside of Korean political power is the Jeolla network, which was associated with Kim Dae Jung. In the early 1980s, the military generals had engaged in violent efforts to put down democracy protests in their rival Jeolla region. The most famous incident, the Kwangju Massacre, resulted in numerous civilian deaths. Through the period of the military generals from 1961 to 1992, having a network connection to the Jeolla region was a liability in relation to the government (Hoon and Lee, 1998). Then, in 1997, Kim Dae Jung, from the Jeolla region, was elected. Because his home region had been discriminated against for several decades, the pool of Jeolla-affiliated businessmen was limited, and all but a few of the Jeolla-affiliated business groups were experiencing severe financial distress. Although elites from Jeolla were known to have received government support in creating new technology start-ups (Lee, Lee, and Soek, 2001; Gluck, 2002), the established firms from Jeolla, such as Halla, Nasan, Ssangbangwool, Keopyung, and Haitai, were often too weak to benefit (see, for example, Mufson, 1997). Therefore, for the established firms in this sample, the Jeolla connection was likely a significant liability for so long that it simply could not be turned into an asset.

Hypothesis 3 (H3): Having a CEO or chairman who was born in the Jeolla region will be a significant liability for forming cross-border alliances during the time of the generals.

One of the most important networks in recent decades has been the Daegu-Kyungpook High School network, which was closely affiliated with the military generals Roh and Chun, who nominated allies from the same city and often the same high school for key finance and law enforcement positions in the finance, trade, and construction ministries. Members of Daegu's Kyungpook High School network were favored

because, having been raised in the same subculture, they shared the common legitimacy of having attended the same elite regional high school, ties that could be used to keep their friends honest and loyal. In 1992, newly elected president Kim Young Sam came from the rival network and publicly proceeded with a thorough housecleaning of the government. He systematically purged members of Roh and Chun's network (Nam, 1995), and not a single member of this network ever held a senior-ranking position in the Kim Young Sam administration. But after Kim Dae Jung was elected, he realized that he had been elected with more of a plurality than a majority vote, so, to govern effectively, he reached out to members of the Daegu-Kyungpook network. At various times he gave Daegu-Kyungpook network members key positions in the following ministries: construction, transportation, commerce, industry and energy, and the finance and economy industries. Kim prominently pardoned former generals Roh and Chun, who had each been formally prosecuted during the prior Kim Young Sam administration (Hoon and Lee, 1998). These regime changes lead me to make the following hypotheses:

Hypothesis 4a (H4a): Having a CEO or chairman who attended Daegu's Kyungpook High School will be a significant asset in forming cross-border strategic alliances during the time of the generals and during the Kim Dae Jung administration.

Hypothesis 4b (H4b): Having a CEO or chairman who attended Daegu's Kyungpook High School will be a significant liability during the Kim Young Sam administration.

The Busan High School network is notable for its subregional rivalry with the elites from Daegu. During the time of the generals Chun and Roh, there was often fierce competition for resources between the Busan-based network and the Daegu-based network that held dominant political power. Then, during the administration of Kim Young Sam, this network gained political power, and when Kim Dae Jung was elected president, he also formed ad hoc coalitions with members of this network to govern effectively, despite his continued personal rivalry with Kim Young Sam (Hoon and Lee, 1998).

Hypothesis 5a (H5a): Having a CEO or chairman who attended Busan High School will be a significant asset in forming cross-border alliances during the Kim Young Sam and Kim Dae Jung administrations.

Hypothesis 5b (H5b): Having a CEO or chairman who attended Busan High School will be a significant liability in forming cross-border alliances during the time of the generals.

Many firms, a significant number of which had a Busan network connection, chose to become active in a leading business association called the Federation of Korean Industries (FKI). During the time of the military generals, firms whose CEO or chairman had served as an officer of the FKI were often rivals for resources with the Daegu-based network that held dominant political power. Following the election of Kim Young Sam, these elites gained new-found political domi-

nance from the new administration, which bestowed favors particularly on this subset of the Busan-based subregional network. Once in power, Kim Young Sam bestowed government positions and support on numerous elites from the same Busan subregional network (Park and Somanathan, 2001), but a demographic survey of his administration shows that these were often a subset of businessmen who had been active as officers of the FKI. Furthermore, the FKI was not the exclusive bastion of Busan regional elites, and Seoul-based elites such as those from Kyunggi High School gained a prominent position in this coalition within the FKI as well. In addition, Kim Young Sam shared many policy prescriptions in common with elite members of this business association, and they were active supporters of his political party. Whereas under Roh Tae Woo the FKI elites complained of being ignored and constrained by the government (*Korea Economic Weekly,* 1992), a powerful symbol of the cooperation that took place between elite FKI members and the Kim Young Sam administration is that the government actually entrusted the FKI with picking the winner of a licensing contest to manage South Korea's then-second mobile phone system (*Reuter News,* 1994). When Kim Dae Jung was elected with a plurality, he sought to form informal alliances with members of this network to govern effectively (such as to pass labor law reforms) (Len, 2000), and as a result, this FKI network continued to exercise considerable political influence.

Hypothesis 6a (H6a): Having a CEO or chairman who once served as an officer of the Federation of Korean Industries (FKI) will be a significant liability for forming cross-border alliances during the time of the generals.

Hypothesis 6b (H6b): Having a CEO or chairman who once served as an officer of the Federation of Korean Industries (FKI) will be a significant asset for forming cross-border alliances during the Kim Young Sam and Kim Dae Jung administrations.

There were a number of firms whose CEO or chairman had been born in North Korea and immigrated to the South with their parents or as orphans, usually during the 1950–1953 Korean War. While South Korea was ruled by military generals, a person born in North Korea simply was not part of the mainstream elite structure based on regional networks, and only some (such as the head of Hyundai) overcame this outsider status. This outsider status was also at least partially reinforced by the anti-communist campaigns that were so prominent during the time of the military generals as well as during the time of Kim Young Sam, who often spoke in defiant terms toward North Korea (Jordan, 1997; Jiji Press, 2003). For this network tie, the value of being born in North Korea may have changed to some extent during the administration of Kim Dae Jung, who actively sought rapprochement with North Korea and who allied himself with the Hyundai business group and others to invest financial capital for the first time in North Korea with South Korean government backing (Jung and Ryu, 2003). But even Kim Dae Jung's attempts to invest in North Korea were small, initial efforts, and thus one would not predict that this tie suddenly became of significant value.

Hypothesis 7 (H7): Having a CEO or chairman who was born in North Korea will be a significant liability for forming cross-border alliances during the time of the generals and during the Kim Young Sam administration.

Throughout the first two regimes, those seizing power often not only replaced but even punished numerous elites who had served in any prior administrations. Part of gaining legitimacy was for a new regime to prosecute alleged corruption in all past regimes. When generals Roh and Chun rose to power, they made an often-public effort to distance themselves from certain elites who had served under the prior general Park Jung Hee, who was most frequently remembered in the 1980s for his own repressive policies toward democracy activists and political enemies. When Roh came to power, he continued to defend his longtime friend Chun but, in seeking public legitimacy, supported the prosecution of a number of senior ministers who served under Chun (i.e., Associated Press, 1988). Then, during the administration of Kim Young Sam, there was often active retribution against former ministers and mid-ranking bureaucrats or higher who had served under the previous generals. Retribution during Kim Young Sam's administration meant not only the legal prosecution of Roh and Chun themselves but of numerous elites who had served with them (Nam, 1995). Such retribution did not occur during the administration of Kim Dae Jung, who himself pardoned the generals Roh and Chun and who sought informal alliances with members of the Daegu-based network.

Hypothesis 8 (H8): It will be a significant liability for firms to have a former minister or former mid-ranking bureaucrat or higher as CEO or chairman during the time of the generals and during the Kim Young Sam administration.

Table 1 summarizes the hypothesized assets and liabilities associated with ties to the state in the various regimes. Yet the public record also suggests that successive Korean regimes retained the power to reward friends even as the country moved toward an advanced state of economic and political liberalization with the country's entry into the Organization for Economic Co-operation and Development (OECD) and World Trade Organization (WTO) during the last part of the Kim Young Sam administration and with the December 1997 election of former dissident Kim Dae Jung. Even Kim Dae Jung was frequently criticized in the Korean press for allegedly using government financial resources and regulatory power to channel resources indirectly toward politically connected elites (Jung and Ryu, 2003). One of the central hypotheses to be tested in this paper is that the state retains considerable capacity for rewarding political allies even after economic and political liberalization.

Hypothesis 9 (H9): Political ties will continue to be highly positive and significant determinants of cross-border alliance formation during the two later regimes, when South Korea liberalizes.

Table 1

Predictions about Assets and Liabilities of Ties to the State in Different Regimes

Asset hypotheses	Liability hypotheses
Choongchung network tie during the Kim Dae Jung administration (H1)	Gangwon network tie during the time of the generals and during the Kim Young Sam administration (H2a)
Gangwon network tie during the Kim Dae Jung administration (H2b)	Jeolla network tie during the time of the generals (H3)
Daegu-Kyungpook High School network tie during the time of the generals and during the Kim Dae Jung administration (H4a)	Daegu-Kyungpook High School network tie during the Kim Young Sam administration (H4b)
Busan High School network tie during the Kim Young Sam and Kim Dae Jung administrations (H5a)	Busan High School network tie during the time of the generals (H5b)
FKI officer network tie during the Kim Young Sam and Kim Dae Jung administrations (H6b)	FKI officer network tie during the time of the generals (H6a)
	North Korea birth tie during the time of the generals and during the Kim Young Sam administration (H7)
	Former minister or former mid-ranking bureaucrat or higher during the time of the generals and during the Kim Young Sam administration (H8)

METHOD

Sample

The number of firms listed on the Korea Stock Exchange increased over the study's time period, 1987–2003, from 389 to 684, and the sample of 665 firms with comprehensive sociopolitical and financial data covers the majority of these firms, with both entry and exit data and information on them before they were publicly listed but were subject to public auditing based on asset size. Reliable financial data for the sample of 665 firms are available from the Korea Information Service (KIS). KIS is a leading credit rating agency in Korea, equivalent to Standard & Poor's or Moody's, and it collaborates with Moody's to supply information on the firms in this sample to an international audience.

Dependent Variable

The alliances studied here include equity joint ventures, joint production arrangements, joint sales and marketing arrangements, exclusive supply arrangements, joint R&D, and joint financial investment, including a foreign firm's purchase of a Korean firm's shares. Korean firms continue to report details of alliances involving any significant foreign sources of equity investment to the Ministry of Commerce, Industry and Energy. For purposes of the present study, pure technology purchasing agreements and other one-time transactions were excluded. Also excluded were cases of outward foreign direct investment (FDI) by Korean firms in other emerging economies, such as China, in which local partners are sometimes used to facilitate entry (Guillén, 2003). I focused on alliances during 1987–2003, inasmuch as only since the mid-1980s have Korean firms been free to create such alliances on their own and with few restrictions on the level of resource sharing with foreign partners. As a robustness check, however, I collected data on all 1970–1986 era cross-border alliances in which firms in the sample were involved. I cross-checked the data from the Korean Ministry of Commerce, Industry and Energy against data from the leading Korean business periodicals published in the years

Table 2

Sample Population and Cross-border Alliance Formation

Total firm-year observations (1987–2003)	6417
Number of firms	665
Number of total cross-border alliances	153
Number of firms with at least one alliance formed in 1987–2003	123
Number of firms with no alliances formed in 1987–2003	542
Number of firms with only one alliance formed in 1987–2003	99
Number of firms with two or more alliances formed in 1987–2003	24
Number of firms with at least once alliance formed in 1987–2003 that is also affiliated with a top-30 business group	45
Number of firms in total sample affiliated with a top-30 business group	156

1970–2003 and against company reports and local and foreign analyst reports. As shown in table 2, during the period 1987–2003, 99 of the 665 firms in the sample formed one cross-border alliance, 24 formed two or more, and 542 formed none.

Independent Variables

To capture the sources of network formation, I included measures of social ties between senior managers and government officials coded over time. I collected data on the regional background, high school, work history (including government work history), and business association involvement of all senior managers at the general manager level and above. Data on managerial demography came from three newspaper Web sites and the leading credit information agency, Korea Information Service.

I cast a wide net in measuring relevant political capital variables. First, I examined the value of having senior managers with either prior ministerial experience or experience as an officer of the leading business association, the Federation of Korean Industries (FKI). Each firm in the sample was coded for whether its CEO or chairman had such a connection for every year between 1987 and 2003. To understand when it is helpful to hire former senior bureaucrats, I also measured whether the CEO or chairman served as a mid-ranking bureaucrat or higher in the national government. Because the regime changes were sudden, largely unexpected, and caused by social forces largely exogenous to the firms in the sample, I interacted these and all other political capital variables with the dummies for each of the three political regimes. The regime changes thus serve effectively as exogenous sources of variation for cleanly identifying the changing role of these political capital variables over time. The first regime (1987–1992, Regime I) included the last year of General Chun Doo Hwan, together with the five-year presidency of General Roh Tae Woo. The second regime (1993–1997, Regime II), the first truly democratic transition, occurred during President Kim Young Sam's rule. The third regime (1998–2003, Regime III) emerged with the sudden ascendancy of President Kim Dae Jung.

I also focused on a comprehensive set of regional and regional high school variables. I tested for whether a company's CEO or chairman had been born in Jeolla. I then tested whether a company's CEO or chairman had been born in the central-western region of Choongchung and separately test-

ed whether a company's CEO or chairman had been born in the northeastern region of Gangwon. I also collected data for each year on whether a firm's CEO or chairman had attended Daegu's Kyungpook High School. For Busan High School, I collected data on whether a senior manager at the level of general manager or higher had attended Busan High School, because although large numbers of executive vice presidents and other senior managers had attended Busan High School, for some years only a small number of CEOs and chairmen had that social tie. Finally, I examined three other regional and regional high school variables that had historically been the basis for cohesive elite networks in postwar South Korea. I tested whether a company's CEO or chairman had been born in North Korea. I also examined two key elite networks within the capital city of Seoul, based on two highly selective public high schools, Kyunggi and Kyungbok, to see if a company's CEO or chairman had attended either of them. Because these two Seoul-based networks were not recorded in the public record as ever having been particularly central or peripheral to any particular government, I was not able to frame specific hypotheses about them. Still, because of their prominence in the capital of Seoul, it was important to control for their effects.

Control Variables

I controlled for differences in firm quality or access to domestic business resources through business groups. To assess the quality of a firm's overall productivity, I used a measure for employee value added (the difference between revenue from outputs and cost of inputs). To assess the quality of a firm's technological capabilities, I measured R&D intensity as proxied by annual R&D expenditure divided by annual sales. To assess the stock of investment in human resource training, I divided annual expenditure on human resource training by annual sales.

The other time-varying covariates focus on business group affiliation, size, leverage, export orientation, and industry. I controlled for business group affiliation, which is the primary means by which emerging-economy firms create domestic strategic alliances (Keister, 1998, 2000, 2001; Khanna and Palepu, 2000), with a dummy variable for whether a firm was affiliated with one of the top-30 business groups in South Korea. The Korean government maintains that the top-30 business groups are responsible for the majority of value added in the country's economy and holds them to higher disclosure and antitrust standards than other business groups. I generated dummies for each of these top business groups, although those that had no variation in the dependent or other fixed independent variables could not be included in the analysis. As a measure of firm size, I used the log of total assets, and to control for leverage, I divided total liabilities by total assets. Korea Information Service was the source of data on business group affiliation, firm quality, industry, and all other control variables.

The means, standard deviations, and correlations among variables are shown in table 3. It is rare to see a pairwise correlation coefficient above .10, and even when there is such a

correlation, it is not overly large and is logical based on the data. For example, there is a .16 pairwise correlation between having a CEO or chairman from Kyunggi High School and having a CEO or chairman who is a former official of the FKI during Regime II, but the roster of former FKI officials confirm that a nontrivial minority had once attended Seoul's Kyunggi High School. Yet overall there is very little

Table 3

Means, Standard Deviations, and Correlations among Variables*

Variable	Mean	S.D.	1	2	3	4	5	6
1. CEO or chair was officer of FKI × Dummy for Regime I	0.004	0.060						
2. CEO or chair was officer of FKI × Dummy for Regime II	0.006	0.076	.00					
3. CEO or chair was officer of FKI × Dummy for Regime III	0.019	0.137	–.01	–.01				
4. CEO or chair was a minister × Dummy for Regime I	0.000	0.021	.12	.00	.00			
5. CEO or chair was a minister × Dummy for Regime II	0.002	0.041	.00	.05	–.01	.00		
6. CEO or chair was a minister × Dummy for Regime II	0.006	0.076	.00	–.01	.05	.00	.00	
7. CEO or chair born in Gangwon × Dummy for Regime I	0.003	0.053	.00	.00	–.01	.00	.00	.00
8. CEO or chair born in Gangwon × Dummy for Regime II	0.005	0.070	.00	–.01	–.01	.00	.05	–.01
9. CEO or chair born in Gangwon × Dummy for Regime III	0.018	0.132	–.01	–.01	.05	.00	–.01	.01
10. CEO or chair born in Choongchung × Dummy for Regime I	0.014	0.118	–.01	–.01	–.02	.00	.00	–.01
11. CEO or chair born in Choongchung × Dummy for Regime II	0.028	0.165	–.01	.02	–.02	.00	–.01	–.01
12. CEO or chair born in Choongchung × Dummy for Regime III	0.063	0.242	–.02	–.02	.14	–.01	–.01	.04
13. CEO or chair attended Kyungbok High School × Dummy for Regime I	0.011	0.104	–.01	–.01	–.01	.00	.00	–.01
14. CEO or chair attended Kyungbok High School × Dummy for Regime II	0.016	0.127	–.01	–.01	–.02	.00	.02	–.01
15. CEO or chair attended Kyungbok High School × Dummy for Regime III	0.039	0.193	–.01	–.02	.01	.00	–.01	.09
16. CEO or chair born in North Korea × Dummy for Regime I	0.015	0.121	.12	–.01	–.02	.00	–.01	–.01
17. CEO or chair born in North Korea × Dummy for Regime II	0.017	0.128	–.01	.08	–.02	.00	–.01	–.01
18. CEO or chair born in North Korea × Dummy for Regime III	0.024	0.152	–.01	–.01	.07	.00	–.01	–.01
19. CEO or chair attended Kyungpook High School × Dummy for Regime I	0.007	0.085	–.01	–.01	–.01	.00	.00	–.01
20. CEO or chair attended Kyungpook High School × Dummy for Regime II	0.010	0.098	–.01	.05	–.01	.00	.11	–.01
21. CEO or chair attended Kyungpook High School × Dummy for Regime III	0.017	0.129	–.01	–.01	.08	.00	–.01	.08
22. CEO or chair born in Jeolla × Dummy for Regime I	0.010	0.099	.15	–.01	.01	.00	.00	–.01
23. CEO or chair born in Jeolla × Dummy for Regime II	0.023	0.151	–.01	.03	–.02	.00	.07	–.01
24. CEO or chair born in Jeolla × Dummy for Regime III	0.049	0.216	–.01	–.02	–.01	.00	–.01	.06
25. Senior manager attended Busan High School × Dummy for Regime I	0.004	0.061	.00	.00	–.01	.00	.00	.00
26. Senior manager attended Busan High School × Dummy for Regime II	0.019	0.138	–.01	.13	–.02	.00	.02	–.01
27. Senior manager attended Busan High School × Dummy for Regime III	0.065	0.247	–.02	–.02	.17	–.01	–.01	.09
28. CEO or chair attended Kyunggi High School × Dummy for Regime I	0.020	0.141	–.01	–.01	–.02	.00	–.01	–.01
29. CEO or chair attended Kyunggi High School × Dummy for Regime II	0.027	0.162	–.01	.05	–.02	.00	–.01	–.01
30. CEO or chair attended Kyunggi High School × Dummy for Regime III	0.063	0.242	–.02	–.02	.16	–.01	–.01	.02
31. CEO or chair was mid-ranking gov't. bureaucrat or higher × Dummy for Regime I	0.005	0.069	.36	–.01	–.01	.00	.00	–.01
32. CEO or chair was mid-ranking gov't. bureaucrat or higher × Dummy for Regime II	0.006	0.075	.00	.26	–.01	.00	.00	–.01
33. CEO or chair was mid-ranking gov't. bureaucrat or higher × Dummy for Regime III	0.012	0.109	–.01	–.01	.15	.00	.00	.03
34. Firm size	10.956	4.956	–.02	–.03	.12	–.01	–.01	.07
35. Leverage	0.657	0.604	.01	.01	–.01	.01	.01	.00
36. Export orientation	0.111	0.241	–.01	.01	.00	–.01	.00	–.01
37. Employee value added	268000000	15400000000	.00	.00	.00	.00	.00	.00
38. Training expenditure/Total sales	0.001	0.054	.00	.00	.00	.00	.00	.00
39. R&D expenditure/Total sales	0.002	0.008	.00	.02	.04	.00	.01	.00
40. Affiliated with a top-30 business group	0.208	0.406	.08	.09	.18	.01	.02	.09

(continued on next page)

correlation among political capital variables. Furthermore, there is little collinearity between the political capital variables and the control variables for size, leverage, and other observable measures of firm quality. This suggests that collinearity is not likely to affect the results.

To further confirm that access to domestic strategic alliances was not driving the process, I collected additional data on two sets of variables. The first set, although not available for the entire sample, measured an individual firm's access to resources within its own business group. This set of variables was used in Chang and Hong (2000), who generously

Table 3 *(continued)*

Means, Standard Deviations, and Correlations among Variables*

Variable	7	8	9	10	11	12	13	14	15	16	17
8. CEO or chair born in Gangwon × Dummy for Regime II	.00										
9. CEO or chair born in Gangwon × Dummy for Regime III	–.01	–.01									
10. CEO or chair born in Choongchung × Dummy for Regime I	–.01	–.01	–.02								
11. CEO or chair born in Choongchung × Dummy for Regime II	–.01	.01	–.02	–.02							
12. CEO or chair born in Choongchung × Dummy for Regime III	–.01	–.02	.02	–.03	–.04						
13. CEO or chair attended Kyungbok High School × Dummy for Regime I	.21	–.01	–.01	–.01	–.02	–.03					
14. CEO or chair attended Kyungbok High School × Dummy for Regime II	–.01	.31	–.02	–.02	.01	–.03	–.01				
15. CEO or chair attended Kyungbok High School × Dummy for Regime III	–.01	–.01	.24	–.02	–.03	.07	–.02	–.03			
16. CEO or chair born in North Korea × Dummy for Regime I	–.01	–.01	–.02	–.01	–.02	–.03	–.09	–.02	–.02		
17. CEO or chair born in North Korea × Dummy for Regime II	–.01	–.01	–.02	–.02	.01	–.03	–.01	.09	–.03	–.02	
18. CEO or chair born in North Korea × Dummy for Regime III	–.01	–.01	–.02	–.02	–.03	–.01	–.02	–.02	.07	–.02	–.02
19. CEO or chair attended Kyungpook High School × Dummy for Regime I	.00	–.01	–.01	–.01	–.01	–.02	–.01	–.01	–.02	–.01	–.01
20. CEO or chair attended Kyungpook High School × Dummy for Regime II	–.01	–.01	–.01	–.01	–.02	–.03	–.01	–.01	–.02	–.01	–.01
21. CEO or chair attended Kyungpook High School × Dummy for Regime III	–.01	–.01	–.02	–.02	–.02	.01	–.01	–.02	–.03	.02	–.02
22. CEO or chair born in Jeolla × Dummy for Regime I	–.01	–.01	–.01	–.01	–.02	–.03	–.01	–.01	–.02	–.01	–.01
23. CEO or chair born in Jeolla × Dummy for Regime II	–.01	.07	–.02	–.02	–.03	–.04	–.02	.03	–.03	–.02	–.02
24. CEO or chair born in Jeolla × Dummy for Regime III	–.01	–.02	.02	–.03	–.04	–.02	–.02	–.03	.03	–.03	–.03
25. Senior manager attended Busan High School × Dummy for Regime I	.04	.00	–.01	–.01	–.01	–.02	.02	–.01	–.01	–.01	–.01
26. Senior manager attended Busan High School × Dummy for Regime II	–.01	.10	–.02	–.02	.00	–.04	–.01	.08	–.03	–.02	.02
27. Senior manager attended Busan High School × Dummy for Regime III	–.01	–.02	.09	–.03	–.04	.07	–.03	–.03	.11	–.03	–.03
28. CEO or chair attended Kyunggi High School × Dummy for Regime I	.11	–.01	–.02	.06	–.02	–.04	.00	–.02	–.03	.04	–.02
29. CEO or chair attended Kyunggi High School × Dummy for Regime II	–.01	.11	–.02	–.02	.10	–.04	–.02	.05	–.03	–.02	.06
30. CEO or chair attended Kyunggi High School × Dummy for Regime III	–.01	–.02	.11	–.03	–.04	.07	–.03	–.03	.09	–.03	–.03
31. CEO or chair was mid-ranking gov't. bureaucrat or higher × Dummy for Regime I	.00	.00	–.01	–.01	–.01	–.02	–.01	–.01	–.01	.10	–.01
32. CEO or chair was mid-ranking gov't. bureaucrat or higher × Dummy for Regime II	.00	–.01	–.01	–.01	–.01	–.02	–.01	–.01	–.02	–.01	.07
33. CEO or chair was mid-ranking gov't. bureaucrat or higher × Dummy for Regime III	–.01	–.01	.07	–.01	–.02	.01	–.01	–.01	.04	–.01	–.01
34. Firm size	–.03	–.03	.09	–.08	–.10	.16	–.07	–.07	.13	–.08	–.08
35. Leverage	.01	.01	–.01	.02	.02	–.02	.00	.00	–.04	.00	.01
36. Export orientation	.00	.00	–.03	.02	.03	.01	.05	.02	–.03	.03	.03
37. Employee value added	.00	.00	.00	.00	.00	.03	.00	.00	.00	.00	.00
38. Training expenditure/Total sales	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
39. R&D expenditure/Total sales	–.01	–.01	.00	–.01	–.01	.01	–.01	–.01	–.01	–.02	.00
40. Affiliated with a top-30 business group	.06	.07	.11	.00	.03	.06	.03	.02	.07	–.03	–.01

(continued on next page)

Table 3 *(continued)*

Means, Standard Deviations, and Correlations among Variables*

Variable	18	19	20	21	22	23	24	25	26	27	28
19. CEO or chair attended Kyungpook High School × Dummy for Regime I	–.01										
20. CEO or chair attended Kyungpook High School × Dummy for Regime II	–.02	–.01									
21. CEO or chair attended Kyungpook High School × Dummy for Regime III	.01	–.01	–.01								
22. CEO or chair born in Jeolla × Dummy for Regime I	–.02	–.01	–.01	–.01							
23. CEO or chair born in Jeolla × Dummy for Regime II	–.02	–.01	–.02	–.02	–.02						
24. CEO or chair born in Jeolla × Dummy for Regime III	–.04	–.02	–.02	–.03	–.02	–.04					
25. Senior manager attended Busan High School × Dummy for Regime I	–.01	–.01	–.01	–.01	–.01	–.01	–.01				
26. Senior manager attended Busan High School × Dummy for Regime II	–.02	–.01	.12	–.02	–.01	.07	–.03	–.01			
27. Senior manager attended Busan High School × Dummy for Regime III	.02	–.02	–.03	.08	–.03	–.04	.08	–.02	–.04		
28. CEO or chair attended Kyunggi High School × Dummy for Regime I	–.02	.06	–.01	–.02	–.01	–.02	–.03	–.01	–.02	–.04	
29. CEO or chair attended Kyunggi High School × Dummy for Regime II	–.03	–.01	.06	–.02	–.02	.01	–.04	–.01	.04	–.04	–.02
30. CEO or chair attended Kyunggi High School × Dummy for Regime III	.05	–.02	–.03	.10	–.03	–.04	.05	–.02	–.04	.13	–.04
31. CEO or chair was mid-ranking gov't. bureaucrat or higher × Dummy for Regime I	–.01	–.01	–.01	–.01	.12	–.01	–.02	.00	–.01	–.02	.08
32. CEO or chair was mid-ranking gov't. bureaucrat or higher × Dummy for Regime II	–.01	–.01	.03	–.01	–.01	.06	–.02	.00	.06	–.02	–.01
33. CEO or chair was mid-ranking gov't. bureaucrat or higher × Dummy for Regime III	.04	–.01	–.01	.05	–.01	–.02	.05	–.01	–.02	.08	–.02
34. Firm size	.09	–.06	–.05	.09	–.06	–.09	.13	–.04	–.07	.22	–.09
35. Leverage	–.05	.01	.00	.00	.01	.01	.00	.00	.02	–.01	.01
36. Export orientation	–.02	.08	.04	–.01	.00	–.04	–.05	.02	.02	.01	.03
37. Employee value added	.00	.00	.00	.07	.00	.00	.00	.00	.00	.00	.00
38. Training expenditure/Total sales	.00	.00	.00	.00	.00	.00	.05	.00	.00	.00	.00
39. R&D expenditure/Total sales	.02	–.02	–.01	.03	–.02	.00	.07	–.02	.00	.03	–.03
40. Affiliated with a top-30 business group	–.03	–.04	–.01	.00	.02	.01	.04	.04	.13	.26	.02

Variable	29	30	31	32	33	34	35	36	37	38	39
30. CEO or chair attended Kyunggi High School × Dummy for Regime III	–.04										
31. CEO or chair was mid-ranking gov't. bureaucrat or higher × Dummy for Regime I	–.01	–.02									
32. CEO or chair was mid-ranking gov't. bureaucrat or higher × Dummy for Regime II	.05	–.02	–.01								
33. CEO or chair was mid-ranking gov't. bureaucrat or higher × Dummy for Regime III	–.02	.03	–.01	–.01							
34. Firm size	–.09	.19	–.04	–.04	.08						
35. Leverage	.01	–.01	.01	.00	–.01	–.11					
36. Export orientation	.01	–.01	–.01	.00	–.05	–.09	–.02				
37. Employee value added	.00	.00	.00	.00	.00	.03	–.01	–.01			
38. Training expenditure/Total sales	.00	.00	.00	.00	.00	.00	.00	.01	.00		
39. R&D expenditure/Total sales	–.01	.04	–.01	.00	.01	.13	–.04	–.02	–.01	.00	
40. Affiliated with a top-30 business group	.04	.13	.02	.01	.04	.13	.05	–.02	–.01	.02	.00

***** Coefficients equal to or greater than .10 are statistically significant at the .05 level (two-tailed test). Regime I = 1987–1992, Regime II = 1993–1997, and Regime III = 1998–2003.

shared their data for the present study. To my knowledge, this is the only business group resource-sharing data set available, and it is judged to be of sufficient reliability for use in an academic study. Depending on the specific variable measured, Chang and Hong's sample covered from one-half to two-thirds of the observations in my sample. Although this prevented me from including these variables in the full model, it still allowed me to perform a valid robustness check within the subsample.

In a further series of robustness checks, I collected data on domestic strategic alliances and any international alliances involving firms in my sample during 1970–1986. First, I collected an additional data set on all domestic strategic alliances announced in the Korean press during the period 1987–2003 through an exhaustive electronic and manual search of all leading Korean business periodicals for that period. These data are noisy, because some within-business-group alliances are never publicly announced, and some alliances across corporate boundaries are announced but are not easily verified as having come to fruition. Consequently, I did not include these data in my main model. I did perform additional robustness checks to determine whether including these variables makes the political capital variables lose their power.

Empirical Model

I used a Cox proportional hazard model, which incorporates a flexible framework for studying the time duration until each alliance's formation. I allowed for multiple alliance formation by each firm over time. In all models, robust standard errors are reported, corrected for clustering at the firm level. I checked whether it would be possible to include fixed effects for every firm in the sample. Allison and Christakis (2000) explained that fixed-effects Cox regression is not feasible when nearly all individuals (or in this study, firms) experience no more than one event, and among the Korean firms with alliances, the majority experienced only one alliance. Furthermore, this is a study of change in an emerging economy, and fixed effects do not control for unobservable firm-level characteristics that change over time. Therefore, though I was able to include fixed effects for the top-30 business groups as a precaution, my identification strategy relied on leveraging exogenous changes in the environment (Harrison and List, 2004). The unexpected changes in political regime were clearly caused by social movements and global financial crises exogenous to all the firms in my sample, but certain firms with political connections at the time of the exogenous change were affected very differently than others. The politically connected firms either immediately lost or gained access to certain key resources. This is reflected in the estimates, which show huge negative and positive swings in firms' rate of access to cross-border alliances specifically at the time of each environmental shock. Based on these principles of statistical identification and inference, the sudden swings identified at the time of exogenous shocks cannot be driven by quality differences. Even if there is some endogeneity in the sample, contingent political capital was identified at the time of the exogenous shock to the environment, and every estimate will be valid.

RESULTS

The full model's statistical results are presented in model 2 of table 4. Most, although not all of the asset hypotheses, which stated that having network ties to those currently in power would be positively and significantly associated with the rate at which Korean firms secure cross-border strategic alliances, were supported in the full model. As predicted by

Table 4

Cox Proportional Hazards Model Estimates of Alliance Formation, with All Connections Included*

Variable	Model 1	Model 2
CEO or chair was officer of FKI × Dummy for Regime I	–35.399•••	–36.202•••
	(.903)	(.971)
CEO or chair was an officer of FKI × Dummy for Regime II	1.117••	1.271•••
	(.476)	(.453)
CEO or chair was officer of FKI × Dummy for Regime III	.934•••	.898•••
	(.319)	(.306)
CEO or chair was a minister × Dummy for Regime I	–36.490•••	–37.531•••
	(1.156)	(1.167)
CEO or chair was a minister × Dummy for Regime II	–36.413•••	–37.549•••
	(.707)	(.726)
CEO or chair was a minister × Dummy for Regime III	.306	.295
	(.590)	(.581)
CEO or chair born in Gangwon × Dummy for Regime I	–35.744•••	–36.669•••
	(.846)	(.878)
CEO or chair born in Gangwon × Dummy for Regime II	–37.179•••	–38.191•••
	(.786)	(.808)
CEO or chair born in Gangwon × Dummy for Regime III	1.081•••	1.241•••
	(.384)	(.467)
CEO or chair born in Choongchung × Dummy for Regime I	–.213	–.161
	(1.032)	(1.037)
CEO or chair born in Choongchung × Dummy for Regime II	.374	.422
	(.533)	(.537)
CEO or chair was born in Choongchung × Dummy for Regime III	.397•	.446•
	(.240)	(.245)
CEO or chair attended Kyungbok High School × Dummy for Regime I	–36.482•••	–37.459•••
	(.441)	(.441)
CEO or chair attended Kyungbok High School × Dummy for Regime II	.534	.586
	(.699)	(.708)
CEO or chair attended Kyungbok High School × Dummy for Regime III	.313	.322
	(.298)	(.306)
CEO or chair born in North Korea × Dummy for Regime I	–36.448•••	–37.456•••
	(.387)	(.386)
CEO or chair born in North Korea × Dummy for Regime II	–36.637•••	–37.633•••
	(.323)	(.325)
CEO or chair born in North Korea × Dummy for Regime III	–.324	–.297
	(.645)	(.640)
CEO or chair attended Kyungpook High School × Dummy for Regime I	–.184	–.175
	(1.301)	(1.291)
CEO or chair attended Kyungpook High School × Dummy for Regime II	–36.603•••	–37.610•••
	(.484)	(.491)
CEO or chair attended Kyungpook High School × Dummy for Regime III	.499	.630•
	(.341)	(.326)
CEO or chair born in Jeolla × Dummy for Regime I	–36.356•••	–37.317•••
	(.435)	(.483)
CEO or chair born in Jeolla × Dummy for Regime II	.220	.166
	(.555)	(.577)
CEO or chair born in Jeolla × Dummy for Regime III	.115	.002
	(.282)	(.333)
Senior manager attended Busan High School × Dummy for Regime I	–36.753•••	–37.845•••
	(.588)	(.794)
Senior manager attended Busan High School × Dummy for Regime II	–.034	–.077
	(.747)	(.759)
Senior manager attended Busan High School × Dummy for Regime III	.579••	.583••
	(.237)	(.237)
CEO or chair attended Kyunggi High School × Dummy for Regime I	.055	.099
	(.872)	(.852)
CEO or chair attended Kyunggi High School × Dummy for Regime II	–.177	–.085
	(.742)	(.749)
CEO or chair attended Kyunggi High School × Dummy for Regime III	–.090	.035
	(.281)	(.296)
CEO or chair was mid-ranking or higher gov't. bureaucrat × Dummy for Regime I	–35.746•••	–36.787•••
	(.769)	(.755)
CEO or chair was mid-ranking or higher gov't. bureaucrat × Dummy for Regime II	–36.673•••	–37.712•••
	(.544)	(.555)

(continued on next page)

Table 4 *(continued)*

Cox Proportional Hazards Model Estimates of Alliance Formation, with All Connections Included*

Variable	Model 1	Model 2
CEO or chair was mid-ranking or higher gov't. bureaucrat × Dummy for Regime III	–.040	.084
	(.572)	(.560)
Firm size	–.002	–.002
	(.031)	(.031)
Leverage	–.545••	–.520••
	(.255)	(.253)
Export orientation	.333	.322
	(.307)	(.310)
Employee value added	.000	.000
	(.000)	(.000)
Training expenditure/Total sales	–.470	–.470
	(.289)	(.295)
R&D expenditure/Total sales	12.993•••	12.832•••
	(3.629)	(3.708)
Affiliated with a top-30 business group	.474••	.419•
	(.203)	(.215)
Time dummy for Regime II	.467	.505
	(.500)	(.496)
Time dummy for Regime III	.552	.657
	(.530)	(.531)
Business group fixed effects	No	Yes
Industry fixed effects	Yes	Yes
Number of observations	6417	6417
Number of firms	665	665
Number of alliances	153	153
Time at risk	6450	6450
Log pseudo-likelihood	–870.489	–862.320
Wald χ^2	53821.01	97784.48
Prob > χ^2	.000	.000

• $p < .10$; •• $p < .05$; ••• $p < .01$.

* Robust standard errors, connected for clustering at the firm level, are in parentheses. Regime I = 1987–1992, Regime II = 1993–1997, and Regime III = 1998–2003.

H1, having a CEO or chairman born in the Choongchung region is positively associated with access to alliances during the Kim Dae Jung administration (Regime III), although this connection is only weakly positive due to the fragile construction of the Jeolla-Choongchung coalition during 1998–2003. H2b, which predicted that having a CEO or chairman from the Gangwon would be a valuable asset during Regime III, receives strong support. Similarly, as predicted by H4a, having a CEO or chairman who attended Daegu's Kyungpook High School is positively associated with access to alliances during Regime III, although this variable is only marginally significant. Also, having the Kyungpook High School connection by itself was not positive and statistically significant during the time of the generals (Regime I), likely because, as Nam (1995) explained, the generals were known to demand bribes and to offer special privileges to a select few. In turn, as predicted by H5a, having a senior manager who attended Busan High School is both positively and significantly associated with access to cross-border alliances during Regime III. Also, as predicted by H6b, having a CEO or chairman who served as an officer of the FKI is positively and significantly associated with access to cross-border alliances during both Regime II and Regime III.

Table 4 also indicates strong statistical support for the liability hypotheses, namely, that being affiliated with the political

enemies of those in power significantly reduces the rate at which Korean firms secure cross-border alliances. As predicted by H2a, having a CEO or chairman from the Gangwon region is negatively and significantly associated with the rate at which Korean firms secure cross-border alliances during both Regime I and Regime II. In accordance with H3, having a CEO or chairman born in the Jeolla region is a significant liability during Regime I. Consistent with H4b, having a CEO or chairman from Daegu's Kyungpook High School is a significant liability during Regime II. Consistent with H5b, having a senior manager who attended Busan High School is also a significant liability during Regime I. In accordance with H6a, having a CEO or chairman who served as an officer of the FKI is also a significant liability during Regime I. As predicted by H7, having a CEO or chairman born in North Korea is a significant liability during both Regime I and Regime II. Supporting H8, having a former minister as the company's CEO or chairman is negatively and significantly associated with access to cross-border alliances during both Regime I and Regime II. Also, consistent with H8, having a CEO or chairman who served as a mid-ranking bureaucrat or higher in the national government was a significant liability during both of those regimes.

A logical corollary of the asset and liability hypotheses is that if a given tie is a liability in one regime and an asset in the subsequent regime, the change in magnitude of the coefficients associated with the tie between regimes will be statistically significant. The same should be true when a given tie is a liability in one regime and is an asset in the next regime. This corollary, while secondary in importance to the main asset and liability hypotheses, demonstrates the contingent character of the value of social ties in a dynamic way. For example, having a CEO or chairman who was an officer of the FKI went from being a liability during the time of the generals (Regime I) to being an asset during the Kim Young Sam (Regime II) and later Kim Dae Jung (Regime III) administrations. A Wald test showed that the shift from liability to asset was statistically significant ($p = .000$). Furthermore, having a CEO or chairman from the Gangwon region went from being a significant liability in Regime II, during the Kim Young Sam administration, to being a significant asset in Regime III, during the Kim Dae Jung administration. A Wald test showed that the shift from liability to asset was itself statistically significant ($p = .000$). Moreover, having a CEO or chairman who attended Daegu's Kyungpook High School went from being a significant liability in Regime II, during the Kim Young Sam administration, to a significant asset in Regime III, during the Kim Dae Jung administration. A Wald test showed that the shift from liability to asset was itself statistically significant ($p = .000$). The reverse corollary receives weaker statistical support, but for a reason that can be explained by the empirical context. The primary period of retribution was in Regime II, under Kim Young Sam, who had the power to target members of the Daegu-Kyungpook network. But most members of this network did not benefit during the time of General Roh, because it was only the privileged few who paid bribes to the generals who gained favors (Nam, 1995).

Finally, H9 received support from the finding that network ties continued to have a significant influence on access to cross-border alliances in Regime III, under Kim Dae Jung. If anything, there is a change in network dynamics, but the old network ties are still a valuable asset. Table 4 suggests a world in which an increasing number of networks gain access to government support under a democratically elected coalition government. Three network ties were significant assets at the .05 level or better, and another two network ties were significant assets at the .10 level or better, showing that network ties continued to be significant assets even after deep economic and political liberalization.

Several control variables were also important in explaining cross-border alliance formation. Having a CEO or chairman who attended Seoul's Kyungbok High School was a significant liability during Regime I. Although the public record did not lead me to predict this particular result, I found that members of this network were largely on the outside of political power during the time of the military generals. In contrast, the Kyunggi High School network was a statistically insignificant factor in all three regimes, and the Kyungbok High School network was a statistically insignificant factor during Regime II, under Kim Young Sam, and Regime III, under Kim Dae Jung. This is logical, given that these networks were usually present but not at the very center or the very periphery of political power. In addition, in the full model of table 4, R&D intensity was positively and significantly associated with cross-border alliance formation. Leverage was, in turn, negatively and significantly associated with cross-border alliance formation, and top-30 business group affiliation was positively associated with cross-border alliance formation, although the coefficient was only marginally significant.

The results on political capital could not reasonably be explained away by any alternative explanations. One possibility is that cross-border alliance formation might be simply an artifact of politicians funneling support to their home regions while in power, but there is strong evidence against this possibility. Even for alliances motivated by region-of-birth ties and regional high school ties, the majority of these same companies had their headquarters and their principal operations in the Seoul metropolitan area. As has been widely noted in prior literature on Korean economic development (i.e., Yu, 1990), Seoul is the melting pot to which Koreans from all regions have migrated over the past four decades. The majority of executives connected by regional and regional high school affiliations were doing work in the Seoul metropolitan area for companies with their main operations in the Seoul metropolitan area. The fact that South Korea's economic activity is highly concentrated in the metropolitan area of Seoul has been much analyzed (i.e., Yu, 1990). Over the past three decades, Koreans have often left their region of birth to study and work in Seoul. It is no accident, as the nation's major industrial and financial headquarters are located there, as are 40 percent of the nation's white-collar jobs (Yu, 1990). Three quarters of the nation's commercial transactions take

place in Seoul, a metropolitan area in which over 80 percent of the people were born in the outside regions.

Moreover, even in the minority of cases in which alliances were associated with regional investment, that fact should not be viewed as running contrary to the importance of networks. These alliances were typically formed by a company with operations throughout South Korea. Thus the entire company and its multiple operations stood to benefit. It is to be expected that some executives managing companies in Seoul eventually give back to their hometowns through investment, and it is natural that senior bureaucrats and politicians will be pleased if a company chooses to build a new plant close to the bureaucrats' place of birth. Still, because of the nature of economic and demographic agglomeration in Seoul, this is not the primary motivation for governmental support of these alliances. Rather, it is simply part of the exchange of favors within the elite sociopolitical network and a subcomponent of the kind of network effects examined in this study.

I did examine other alternative explanations and tested the importance of these variables for reduced subsamples when the alternative variables were available in limited form. First, I tested whether a firm's access to business group resources would explain away the political capital results. Using the data from Chang and Hong (2000), I tested the effect of various types of resource transfers within Korean business groups, including the extent to which a firm relies on its business group affiliates for its own sales, its own purchases, and its own debt guarantees or provides debt guarantees to its affiliates, owns equity in its affiliates, and is owned by its business group affiliates. Because these variables were available for only half my observations, I chose not to include them in the full model of table 4, but they are shown in model 7 of table 5, where their inclusion constitutes a useful robustness check. Because this is the subsample of business group affiliates for which domestic resource transfers ought to matter, it is of interest to test whether the political capital variables would lose their significance in this subsample. Model 7 reveals two of the domestic resource-sharing variables to be significant. Firms that rely on business group affiliates for their own sales are more likely than others to form cross-border alliances; firms that own large equity stakes in their affiliates are significantly less likely to do so. This is logical given that firms with captive buyers among their business group affiliates enjoy a clear domestic resource advantage in the form of guaranteed sales. Also, firms that own large amounts of equity in their affiliates in effect have their scarce resources diverted toward investment in other affiliates. Yet these group resource-sharing variables are largely uncorrelated with the political capital variables, and even in this subsample, the political capital variables retain their joint significance. Some variables changed in size and significance, but these changes resulted from the dramatically smaller size of the sample. Overall, the political capital variables continue to be significant even in the reduced sample.

To see whether access to domestic strategic alliances was driving the results, I performed a further test for which I col-

Table 5

Cox Proportional Hazards Model Estimates after Controlling Further for Intragroup Resource Transfers*

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Debt guarantee to other affiliates/ Equity base of focal firm	−.015 (.013)						−.004 (.009)
Debt guarantee from other business group affiliates/Equity base of focal firm		−.001 (.001)					.001 (.001)
Equity participation of focal firm in other business group affiliates/Equity base of focal firm			−.005 (.007)				−.425• (.219)
Equity participation of other group affiliates in focal firm/Equity base of focal firm				−3.129 (3.003)			−3.062 (4.187)
Amount of sales to affiliated group affiliates/Total sales of focal firm					.498 (.814)		1.721••• (.648)
Purchases from affiliated group companies/Total sales of the focal firm						.214 (1.114)	−.686 (1.403)
CEO or chair served as an officer of FKI × Dummy for Regime I	−19.814••• (.985)	−22.563••• (.989)	−19.061••• (.988)	−21.816••• (1.218)	−22.722••• (1.041)	−21.655••• (1.041)	−21.616••• (1.276)
CEO or chair was an officer of FKI × Dummy for Regime II	1.721••• (.527)	1.593••• (.504)	1.590••• (.503)	1.776••• (.576)	1.435•• (.583)	1.356•• (.565)	2.247••• (.676)
CEO or chair was an officer of FKI × Dummy for Regime III	.883••• (.292)	.882••• (.291)	.880••• (.291)	−.200 (.633)	.815••• (.289)	.803••• (.285)	.000 (.000)
CEO or chair was a minister × Dummy for Regime I	−21.025••• (1.200)	−23.702••• (1.203)	−20.200••• (1.202)	−24.191••• (1.190)	−23.114••• (1.203)	−22.104••• (1.201)	−22.974••• (1.175)
CEO or chair was a minister × Dummy for Regime II	−20.960••• (1.155)	−23.651••• (1.184)	−20.149••• (1.183)	−21.979••• (1.855)	−23.126••• (1.146)	−22.028••• (1.142)	−23.022••• (1.251)
CEO or chair was a minister × Dummy for Regime III	.408 (.554)	.422 (.546)	.419 (.545)	−23.735••• (.683)	.233 (.602)	.235 (.594)	−22.637••• (.731)
CEO or chair born in Gangwon × Dummy for Regime I	−19.472••• (1.488)	−22.328••• (1.483)	−18.826••• (1.481)	−23.057••• (1.855)	−21.913••• (1.521)	−20.811••• (1.525)	−22.263••• (1.824)
CEO or chair born in Gangwon × Dummy for Regime II	−20.226••• (.975)	−22.999••• (.967)	−19.495••• (.966)	−23.198••• (1.454)	−22.552••• (.986)	−21.550••• (.983)	−21.943••• (1.527)
CEO or chair born in Gangwon × Dummy for Regime III	1.132••• (.401)	1.122••• (.402)	1.122••• (.402)	.735 (1.440)	1.165••• (.390)	1.183••• (.391)	.708 (1.436)
CEO or chair born in Choongchung × Dummy for Regime I	−21.234••• (.459)	−23.938••• (.461)	−20.437••• (.461)	−23.769••• (.458)	−23.416••• (.468)	−22.418••• (.461)	−22.501••• (.482)
CEO or chair born in Choongchung × Dummy for Regime II	.646 (.516)	.667 (.514)	.666 (.514)	.777 (.512)	.715 (.512)	.735 (.516)	.704 (.490)
CEO or chair born in Choongchung × Dummy for Regime III	.349 (.252)	.356 (.251)	.357 (.252)	.628 (.557)	.433• (.253)	.430• (.256)	.631 (.569)
CEO or chair attended Kyungbok High School × Dummy for Regime I	−20.989••• (.515)	−23.680••• (.512)	−20.179••• (.512)	−23.574••• (.603)	−23.129••• (.525)	−22.145••• (.518)	−22.332••• (.607)
CEO or chair attended Kyungbok High School × Dummy for Regime II	−.018 (.991)	−.002 (.993)	−.004 (.994)	.045 (.930)	.041 (.999)	.017 (1.015)	.085 (.962)
CEO or chair attended Kyungbok High School × Dummy for Regime III	.361 (.296)	.366 (.297)	.368 (.297)	−.603 (1.459)	.387 (.291)	.370 (.290)	−.574 (1.463)
CEO or chair born in North Korea × Dummy for Regime I	−20.965••• (.406)	−23.664••• (.407)	−20.169••• (.407)	−23.661••• (.432)	−23.078••• (.428)	−22.084••• (.420)	−22.240••• (.451)
CEO or chair born in North Korea × Dummy for Regime II	−20.892••• (.426)	−23.600••• (.427)	−20.100••• (.426)	−23.737••• (.595)	−23.058••• (.432)	−22.077••• (.434)	−22.488••• (.558)
CEO or chair born in North Korea × Dummy for Regime III	−.353 (.559)	−.365 (.557)	−.365 (.558)	−24.130••• (.394)	−.259 (.550)	−.254 (.552)	−22.924••• (.401)
CEO or chair attended Kyungpook High School × Dummy for Regime I	−.263 (1.355)	−.260 (1.368)	−.258 (1.367)	.086 (1.226)	−.226 (1.404)	−.252 (1.401)	.140 (1.278)
CEO or chair attended Kyungpook High School × Dummy for Regime II	−20.699••• (.585)	−23.392••• (.571)	−19.890••• (.570)	−23.426••• (.517)	−23.075••• (.665)	−22.041••• (.645)	−22.589••• (.745)
CEO or chair attended Kyungpook High School × Dummy for Regime III	.532• (.304)	.530• (.304)	.531• (.304)	−.014 (.669)	.273 (.345)	.300 (.338)	−.121 (.715)
CEO or chair born in Jeolla × Dummy for Regime I	−20.806••• (.611)	−23.516••• (.612)	−20.014••• (.611)	−22.777••• (.593)	−22.995••• (.596)	−22.000••• (.597)	−21.415••• (.625)
CEO or chair born in Jeolla × Dummy for Regime II	−.159 (.677)	−.117 (.676)	−.117 (.676)	.124 (.670)	−.045 (.693)	−.018 (.702)	−.163 (.762)

(continued on next page)

Table 5 *(continued)*

Cox Proportional Hazards Model Estimates after Controlling Further for Intragroup Resource Transfers*

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
CEO or chair born in Jeolla × Dummy for Regime III	−.237 (.417)	−.234 (.414)	−.232 (.414)	−.303 (1.036)	−.209 (.414)	−.206 (.411)	−.262 (1.040)
Senior manager attended Busan High School × Dummy for Regime I	−21.352••• (.807)	−24.052••• (.811)	−20.550••• (.810)	−24.787••• (1.257)	−23.549••• (.861)	−22.561••• (.853)	−23.711••• (1.271)
Senior manager attended Busan High School × Dummy for Regime II	−.851 (1.105)	−.831 (1.090)	−.832 (1.089)	−1.118 (1.489)	−.911 (1.103)	−.830 (1.085)	−1.475 (1.497)
Senior manager attended Busan High School × Dummy for Regime III	.609•• (.240)	.607•• (.241)	.607•• (.241)	0.677 (.830)	.464 (.285)	.476• (.283)	−.895 (.931)
CEO or chair attended Kyunggi High School × Dummy for Regime I	.076 (.901)	.090 (.907)	.090 (.907)	.023 (.866)	.015 (.963)	−.001 (.958)	.107 (.862)
CEO or chair attended Kyunggi High School × Dummy for Regime II	−1.062 (1.075)	−1.045 (1.076)	−1.045 (1.076)	−0.974 (1.088)	−1.036 (1.085)	−1.073 (1.088)	−.963 (1.115)
CEO or chair attended Kyunggi High School × Dummy for Regime III	−.045 (.296)	−.052 (.295)	−.051 (.295)	.580 (.563)	−.098 (.279)	−.105 (.281)	.569 (.559)
CEO or chair was mid-ranking or higher gov't. bureaucrat × Dummy for Regime I	−19.787••• (1.076)	−22.702••• (1.096)	−19.198••• (1.095)	−22.737••• (.980)	−22.451••• (1.246)	−21.459••• (1.267)	−21.994••• (1.052)
CEO or chair was mid-ranking or higher gov't. bureaucrat × Dummy for Regime II	20.147••• (.666)	−22.878••• (.662)	−19.378••• (.662)	−23.343••• (.805)	−22.402••• (.654)	−21.433••• (.649)	−22.393••• (.879)
CEO or chair was mid-ranking or higher gov't. bureaucrat × Dummy for Regime III	.264 (.444)	.288 (.446)	.287 (.446)	−24.129••• (.632)	.398 (.436)	.369 (.450)	−23.028••• (.739)
Firm size	.095••• (.031)	.098••• (.032)	.098••• (.032)	−.119 (.264)	.097••• (.032)	.092••• (.031)	−.090 (.261)
Leverage	−.253 (.282)	−.248 (.283)	−.244 (.282)	.039 (.444)	−.158 (.302)	−.177 (.297)	.042 (.393)
Export orientation	.453 (.335)	.452 (.335)	.455 (.336)	.073 (.550)	.378 (.326)	.378 (.328)	.164 (.540)
Employee value added	.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)
Training expenditure/Total sales	77.489••• (12.340)	77.224••• (12.320)	77.204••• (12.315)	77.401 (55.335)	73.612••• (11.992)	73.852••• (12.149)	77.546 (50.854)
R&D expenditure/Total sales	15.297••• (4.240)	15.296••• (4.243)	15.300••• (4.245)	19.367••• (9.690)	14.458••• (4.322)	14.849••• (4.329)	18.892••• (9.346)
Affiliated with a top-30 business group	.115 (.232)	.095 (.230)	.096 (.230)	−.368 (.549)	−.060 (.313)	−.023 (.304)	−.210 (.487)
Time dummy for Regime II	.868 (1.031)	.875 (1.035)	.877 (1.035)	.758 (1.085)	.900 (1.056)	.854 (1.053)	.971 (1.097)
Time dummy for Regime III	−20.075••• (1.365)	−20.599••• (2.076)	−26.362••• (9.257)	−18.805•• (8.658)	−22.163••• (4.285)	−20.202••• (2.413)	−19.844 (13.215)
Business group fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	4663	4663	4663	2938	4663	4663	2938
Number of firms	614	614	614	385	614	614	385
Number of alliances	131	131	131	52	131	131	52
Time at risk	4668	4668	4668	2938	4668	4668	2938
Log pseudo-likelihood	−707.229	−707.425	−707.420	−256.125	−702.509	−702.756	−253.225
Wald χ^2	374030.22	1476148.03	26096.24	79132.78	46188.42	52399.11	249219.03
Prob > χ^2	.000	.000	.000	.000	.000	.000	.000

• $p < .10$; •• $p < .05$; ••• $p < .01$.

* Robust standard errors, connected for clustering at the firm level, are in parentheses. Regime I = 1987–1992, Regime II = 1993–1997, and Regime III = 1998–2003.

lected data on domestic alliance announcements in the Korean press during the period 1987–2003. As shown in model 4 of table 6, forming new domestic alliances was a statistically significant determinant of cross-border alliance formation, although including this variable did nothing to remove the joint significance of the political capital variables. Because the domestic alliance variable was both noisy and prone to

Table 6

Cox Proportional Hazards Model Estimates after Controlling Further for Pre-1987 Cross-border Alliances and Contemporaneous Domestic Alliances*

Variable	Model 1	Model 2	Model 3	Model 4
Count of cross-border alliances, 1970-1986	.074			.029
	(.058)			(.062)
Focal firm created at least one domestic strategic alliance outside I its business group (measured annually for new domestic alliances)		.812•••		.782•••
		(.274)		(.288)
Count of domestic strategic alliances focal firm created outside its business group (measured annually for new domestic alliances)			.049	
			(.030)	
CEO or chair was officer of FKI × Dummy for Regime I	–35.572•••	–36.535•••	–32.698•••	–36.376•••
	(1.013)	(.988)	(.962)	(1.042)
CEO or chair was officer of FKI × Dummy for Regime II	1.180••	1.269•••	1.289•••	1.237•••
	(.463)	(.475)	(.458)	(.477)
CEO or chair was officer of FKI × Dummy for Regime III	.761••	.686•	.876•••	.637•
	(.330)	(.351)	(.310)	(.357)
CEO or chair was a minister × Dummy for Regime I	–36.566•••	–37.408•••	–34.022•••	–37.456•••
	(1.166)	(1.169)	(1.166)	(1.170)
CEO or chair was a minister × Dummy for Regime II	–36.013•••	–37.737•••	–34.041•••	–37.322•••
	(.729)	(.693)	(.725)	(.675)
CEO or chair was a minister × Dummy for Regime III	.356	.187	.246	.210
	(.565)	(.536)	(.594)	(.539)
CEO or chair born in Gangwon × Dummy for Regime I	–35.673•••	–36.701•••	–33.186•••	–36.684•••
	(.895)	(.916)	(.886)	(.922)
CEO or chair born in Gangwon × Dummy for Regime II	–37.194•••	–38.164•••	–34.647•••	–38.086•••
	(.821)	(.800)	(.814)	(.808)
CEO or chair born in Gangwon × Dummy for Regime III	1.216••	1.220•••	1.257•••	1.209•••
	(.475)	(.459)	(.462)	(.465)
CEO or chair born in Choongchung × Dummy for Regime I	–.163	–.156	–.157	–.157
	(1.039)	(1.043)	(1.038)	(1.044)
CEO or chair born in Choongchung × Dummy for Regime II	.423	.405	.426	.407
	(.537)	(.543)	(.538)	(.542)
CEO or chair born in Choongchung × Dummy for Regime III	.474•	.406•	.442•	.420•
	(.245)	(.246)	(.243)	(.249)
CEO or chair attended Kyungbok High School × Dummy for Regime I	–36.447•••	–37.421•••	–33.938•••	–37.426•••
	(.442)	(.440)	(.440)	(.441)
CEO or chair attended Kyungbok High School × Dummy for Regime II	.606	.527	.589	.537
	(.708)	(.686)	(.704)	(.687)
CEO or chair attended Kyungbok High School × Dummy for Regime III	.280	.142	.286	.131
	(.310)	(.340)	(.312)	(.342)
CEO or chair born in North Korea × Dummy for Regime I	–36.467•••	–37.442•••	–33.939•••	–37.463•••
	(.387)	(.387)	(.386)	(.388)
CEO or chair born in North Korea × Dummy for Regime II	–36.676•••	–37.636•••	–34.135•••	–37.680•••
	(.326)	(.322)	(.325)	(.323)
CEO or chair born in North Korea × Dummy for Regime III	–.289	–.236	–.271	–.234
	(.627)	(.644)	(.645)	(.639)
CEO or chair attended Kyungpook High School × Dummy for Regime I	–.206	–.216	–.192	–.226
	(1.321)	(1.307)	(1.299)	(1.319)
CEO or chair attended Kyungpook High School × Dummy for Regime II	–36.212•••	–37.634•••	–34.065•••	–37.136•••
	(.523)	(.533)	(.497)	(.561)
CEO or chair attended Kyungpook High School × Dummy for Regime III	.410	.513	.606•	.422
	(.453)	(.342)	(.323)	(.459)
CEO or chair born in Jeolla × Dummy for Regime I	–36.331•••	–37.302•••	–33.799•••	–37.318•••
	(.483)	(.485)	(.480)	(.485)
CEO or chair born in Jeolla × Dummy for Regime II	.197	.173	.167	.185
	(.580)	(.581)	(.576)	(.582)
CEO or chair born in Jeolla × Dummy for Regime III	.022	.000	.010	.010
	(.333)	(.329)	(.332)	(.331)
Senior manager attended Busan High School × Dummy for Regime I	–36.823•••	–37.875•••	–34.322•••	–37.865•••
	(.816)	(.931)	(.807)	(.935)
Senior manager attended Busan High School × Dummy for Regime II	–.127	–.086	–.065	–.102
	(.770)	(.768)	(.759)	(.772)
Senior manager attended Busan High School × Dummy for Regime III	.514••	.535••	.602•••	.509••
	(.257)	(.242)	(.235)	(.256)
CEO or chair attended Kyunggi High School × Dummy for Regime I	.089	.084	.097	.080
	(.865)	(.857)	(.856)	(.862)

(continued on next page)

Table 6 *(continued)*

Cox Proportional Hazards Model Estimates after Controlling Further for Pre-1987 Cross-border Alliances and Contemporaneous Domestic Alliances*

Variable	Model 1	Model 2	Model 3	Model 4
CEO or chair attended Kyunggi High School × Dummy for Regime II	−.073	−.118	−.085	−.112
	(.748)	(.758)	(.749)	(.758)
CEO or chair attended Kyunggi High School × Dummy for Regime III	−.001	−.094	−.031	−.102
	(.308)	(.293)	(.297)	(.297)
CEO or chair was mid-ranking or higher gov't. bureaucrat × Dummy for Regime I	−35.779•••	−36.694•••	−33.257•••	−36.676•••
	(.783)	(.720)	(.750)	(.731)
CEO or chair was mid-ranking or higher gov't. bureaucrat × Dummy for Regime II	−36.736•••	−37.740•••	−34.190•••	−37.771•••
	(.538)	(.538)	(.547)	(.535)
CEO or chair was mid-ranking or higher gov't. bureaucrat × Dummy for Regime III	.159	−.070	−.009	−.028
	(.571)	(.539)	(.570)	(.558)
Firm size	−.008	−.014	−.005	−.018
	(.032)	(.030)	(.031)	(.031)
Leverage	−.488•	−.494•	−.512••	−.482•
	(.250)	(.260)	(.257)	(.260)
Export orientation	.337	.386	.337	.389
	(.313)	(.317)	(.310)	(.318)
Employee value added	.000	.000	.000	.000
	(.000)	(.000)	(.000)	(.000)
Training expenditure/Total sales	−.479	−.468	−.463	−.472
	(.294)	(.296)	(.297)	(.295)
R&D expenditure/Total sales	11.632•••	11.952•••	12.556•••	11.463•••
	(4.057)	(3.905)	(3.760)	(4.163)
Affiliated with a top-30 business group	.383•	.352	.376•	.341
	(.229)	(.221)	(.218)	(.231)
Time dummy for Regime II	.496	.506	.505	.502
	(.498)	(.496)	(.496)	(.497)
Time dummy for Regime III	.701	.744	.674	.758•
	(.532)	(.524)	(.531)	(.527)
Business group fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Number of observations	6417	6417	6417	6417
Number of firms	665	665	665	665
Number of alliances	153	153	153	153
Time at risk	6450	6450	6450	6450
Log pseudo-likelihood	−861.731	−858.787	−862.349	−858.700
Wald χ^2	92862.42	97012.32	77062.66	96990.32
Prob > χ^2	.000	.000	.000	.000

• $p < .10$; •• $p < .05$; ••• $p < .01$.

* Robust standard errors, connected for clustering at the firm level, are in parentheses. Regime I = 1987–1992, Regime II = 1993–1997, and Regime III = 1998–2003.

reverse causality explanations, I chose not to include it in the full model of table 4.

I also tested whether experience with pre-liberalization alliances during the 1970–1986 period was the hidden variable driving the political capital results. As shown in table 6, prior experience with pre-1987 alliances is a nonsignificant factor in securing cross-border alliances after liberalization. This is logical, given that the nature of cross-border alliances changed significantly once Korean firms were allowed to pick their own partners without government interference and to conduct almost any resource-sharing activity of their choice.

Finally, I tested for whether the temporary removal of certain types of cross-border alliances would significantly change the results. Because the majority of cross-border alliances in the sample involved four or more stated activities, it does not make sense to remove these alliances from the sample. So, for a simple robustness check, I removed the "focused" alliances that involved only one of the alliance activities I

studied: equity joint ventures, joint production arrangements, joint sales and marketing arrangements, exclusive supply arrangements, joint R&D, or joint financial investment. When I temporarily removed the focused alliances one by one in table 7, and even when I removed all the focused alliances at once, the political capital variables continued to be significant.

Table 7

Cox Proportional Hazards Model Estimates after Temporarily Excluding Different Types of Focused Alliances*

Variable	All but equity joint venture alliances Model 1	All but direct equity investment alliances Model 2	All but access to finance alliances Model 3	All but joint R&D alliances Model 4	All but joint production alliances Model 5	All but focused alliances Model 6
CEO or chair was officer of FKI × Dummy for Regime I	–36.981••• (.737)	–36.183••• (.969)	–34.185••• (.974)	–32.934••• (1.040)	–36.192••• (.979)	–36.398••• (1.094)
CEO or chair was officer of FKI × Dummy for Regime II	1.128•• (.493)	1.242••• (.448)	1.264••• (.453)	1.470••• (.430)	1.272••• (.456)	1.414••• (.450)
CEO or chair was officer of FKI × Dummy for Regime III	.771• (.399)	.960••• (.293)	.857••• (.313)	.516 (.401)	.975••• (.314)	.131 (.794)
CEO or chair was a minister × Dummy for Regime I	–37.747••• (1.187)	–37.510••• (1.170)	–35.549••• (1.167)	–34.750••• (1.161)	–37.640••• (1.157)	–38.611••• (1.245)
CEO or chair was a minister × Dummy for Regime II	–36.913••• (.893)	–37.572••• (.736)	–35.529••• (.724)	–34.535••• (.702)	–37.526••• (.740)	–37.503••• (.951)
CEO or chair was a minister × Dummy for Regime III	–.177 (.848)	.285 (.597)	.322 (.591)	.712 (.542)	.419 (.606)	–38.202••• (.563)
CEO or chair born in Gangwon × Dummy for Regime I	–36.677••• (.863)	–36.756••• (.893)	–34.403••• (.870)	–33.833••• (.935)	–36.863••• (.809)	–38.212••• (1.281)
CEO or chair born in Gangwon × Dummy for Regime II	–38.387••• (.892)	–38.250••• (.811)	–36.032••• (.797)	–35.197••• (.800)	–38.350••• (.824)	–39.386••• (1.056)
CEO or chair born in Gangwon × Dummy for Regime III	1.368•• (.643)	1.258••• (.351)	1.212•• (.481)	1.213•• (.518)	.932 (.571)	1.897•• (.854)
CEO or chair born in Choongchung × Dummy for Regime I	–.189 (1.028)	–.148 (1.037)	–.168 (1.038)	–.065 (1.028)	–.153 (1.032)	
CEO or chair born in Choongchung × Dummy for Regime II	.554 (.555)	.423 (.540)	.428 (.537)	.483 (.538)	.420 (.530)	
CEO or chair born in Choongchung × Dummy for Regime III	.169 (.336)	.473• (.247)	.481•• (.244)	.568•• (.275)	.459• (.259)	
CEO or chair attended Kyungbok High School × Dummy for Regime I	–37.544••• (.456)	–37.449••• (.443)	–35.454••• (.441)	–34.478••• (.445)	–37.449••• (.439)	–38.480••• (.444)
CEO or chair attended Kyungbok High School × Dummy for Regime II	.757 (.704)	.600 (.708)	.591 (.705)	.601 (.697)	.597 (.705)	.603 (.705)
CEO or chair attended Kyungbok High School × Dummy for Regime III	.366 (.420)	.283 (.304)	.296 (.310)	.258 (.338)	.213 (.355)	–1.541 (1.760)
CEO or chair born in North Korea × Dummy for Regime I	–37.501••• (.390)	–37.428••• (.389)	–35.462••• (.387)	–34.457••• (.390)	–37.434••• (.387)	
CEO or chair born in North Korea × Dummy for Regime II	–37.765••• (.327)	–37.622••• (.326)	–35.628••• (.325)	–34.601••• (.320)	–37.628••• (.326)	
CEO or chair born in North Korea × Dummy for Regime III	–.250 (.679)	–.220 (.610)	–.288 (.635)	–1.147 (.979)	–.244 (.629)	
CEO or chair attended Kyungpook High School × Dummy for Regime I	.146 (1.171)	–.198 (1.297)	–.218 (1.338)	–.176 (1.309)	–.159 (1.141)	.073 (1.320)
CEO or chair attended Kyungpook High School × Dummy for Regime II	–37.752••• (.480)	–37.581••• (.504)	–35.589••• (.501)	–34.474••• (.502)	–37.541••• (.451)	–38.706••• (.538)
CEO or chair attended Kyungpook High School × Dummy for Regime III	.839•• (.364)	.712•• (.323)	.526 (.353)	.501 (.507)	.559• (.293)	.155 (.632)
CEO or chair born in Jeolla × Dummy for Regime I	–37.157••• (.432)	–37.296••• (.484)	–35.332••• (.485)	–34.402••• (.493)	–37.386••• (.525)	–37.638••• (.466)
CEO or chair born in Jeolla × Dummy for Regime II	–.056 (.635)	.161 (.579)	.159 (.577)	.108 (.586)	.188 (.590)	.009 (.614)
CEO or chair born in Jeolla × Dummy for Regime III	–.210 (.410)	.042 (.334)	.005 (.334)	.018 (.361)	–.030 (.360)	.123 (.564)
Senior manager attended Busan High School × Dummy for Regime I	–38.020••• (.882)	–37.841••• (.826)	–35.848••• (.796)	–34.883••• (.852)	–37.862••• (.824)	–38.978••• (1.210)
Senior manager attended Busan High School × Dummy for Regime II	.002 (.780)	–.091 (.760)	–.064 (.759)	–.054 (.764)	–.053 (.762)	.009 (.852)

(continued on next page)

Table 7 *(continued)*

Cox Proportional Hazards Model Estimates after Temporarily Excluding Different Types of Focused Alliances*

Variable	All but equity joint venture alliances Model 1	All but direct equity investment alliances Model 2	All but access to finance alliances Model 3	All but joint R&D alliances Model 4	All but joint production alliances Model 5	All but focused alliances Model 6
Senior manager attended Busan High School × Dummy for Regime III	.712•• (.294)	.618••• (.238)	.604•• (.240)	.408 (.287)	.486•• (.238)	–.484 (.747)
CEO or chair attended Kyunggi High School × Dummy for Regime I	.067 (.765)	.089 (.849)	.129 (.902)	.033 (.869)		.115 (.806)
CEO or chair attended Kyunggi High School × Dummy for Regime II	.016 (.769)	–.059 (.749)	–.081 (.749)	–.138 (.760)		.139 (.744)
CEO or chair attended Kyunggi High School × Dummy for Regime III	.072 (.370)	–.047 (.296)	–.005 (.310)	.052 (.347)		.733 (.608)
CEO or chair was mid-ranking or higher gov't. bureaucrat × Dummy for Regime I		–36.767••• (.750)	–34.807••• (.771)	–33.830••• (.785)	–36.777••• (.669)	–37.831••• (.717)
CEO or chair was mid-ranking or higher gov't. bureaucrat × Dummy for Regime II		–37.715••• (.558)	–35.699••• (.549)	–34.723••• (.567)	–37.713••• (.541)	–39.039••• (.456)
CEO or chair was mid-ranking or higher gov't. bureaucrat × Dummy for Regime III		.328 (.429)	.130 (.565)	–.782 (1.085)	.170 (.532)	–38.547••• (.534)
All other controls included	Yes	Yes	Yes	Yes	Yes	Yes
Business group fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	6417	6417	6417	6417	6417	6417
Number of firms	665	665	665	665	665	665
Number of alliances	113	147	151	133	144	66
Time at risk	6450	6450	6450	6450	6450	6450
Log pseudo-likelihood	–625.240	–823.911	–853.390	–753.299	–818.174	–356.447
Wald χ^2	99158.72	98384.57	86665.53	101265.94	93493.44	135837.65
Prob > χ^2	.000	.000	.000	.000	.000	.000

• $p < .10$; •• $p < .05$; ••• $p < .01$.

***** Robust standard errors, connected for clustering at the firm level, are in parentheses. Regime I = 1987–1992, Regime II = 1993–1997, and Regime III = 1998–2003. Because these models artificially eliminate various types of alliances, some independent variables subsequently lacked sufficient variation and therefore were dropped from models 1, 5, and 6.

After certain types of alliances were eliminated in models 1, 5, and 6, several variables lacked sufficient variation to be estimated and were dropped from those models, but this did not substantively affect the coefficients on the remaining variables. The systematic removal of certain types of focused alliances thus did not cause the main results to disappear.

DISCUSSION AND CONCLUSION

Prior research reviewed here suggested that political network ties carry only two values, positive and zero, while the results of this study suggest that political network ties can also be a significant liability. This study found that being tied through sociopolitical networks to the political regime currently in power significantly increased the rate at which Korean companies formed cross-border strategic alliances and also that being tied through sociopolitical networks to the political enemies of the regime in power significantly decreased the rate at which these companies formed cross-border alliances. A change in political regime could quickly change a political liability into an asset, and vice versa. Furthermore, network ties continued to be important determinants of cross-border alliance activity as Korea proceeded with political and economic liberalization. Prior studies on political connections in

emerging economies have all largely viewed political connections as something that took on either a positive or zero value but did not consider that they could take on a meaningful and significant negative value (i.e., Talmud, 1999; Fisman, 2001; Johnson and Mitton, 2003; Faccio, 2006; Leuz and Oberholzer-Gee, 2006). The findings of the present study thus extend the focus of the past literature on who benefits from political connections to include the consequences of having the "wrong friends" at the wrong time. Clearly, when rival networks are competing for resources and when one network temporarily seizes political power, there will be a temptation not only for the network to give preferential support to its friends but also to act against its enemies and friends of its enemies through exclusion, expropriation, and reprisal.

Another significant finding of this study is that network ties to the state continued to be valuable after Korea advanced through a long period of liberalization. There has been a longstanding debate about whether network ties to the state lose their value after liberalization (Nee, 1989; Guthrie, 1998) or remain valuable after liberalization (i.e., Ledeneva, 1998; Y.-M. Lin, 2001; Luo and Chung, 2005). The results reported here clearly support the latter view, with the value of regional and regional high school ties to the state remaining significant during the Kim Dae Jung administration. Kim Dae Jung came to power after South Korea had already joined the World Trade Organization (WTO) and the Organization for Economic Cooperation and Development (OECD). The key explanation for the continued importance of political ties is that liberalization does not mean the end of the regulatory powers or allocative budget powers of the state.

This study also opens up further questions that cannot be readily answered with the current data. First, though this study has identified the contingent value of ties and has also shown that there are significant, sudden changes in value following a regime change, one unanswered question is under which conditions the negative tie is most destructive to the firm and under which conditions the positive tie is most beneficial. Specifically, are negative ties relatively more destructive to the firm when they occur immediately following a period when the firm enjoyed favored access? Conversely, do positive ties take on greater importance when they immediately follow a period of being on the outside? Or is the magnitude of the impact (either positive or negative) on the firm's access to outside resources more a function of the immediate legal and political constraints of those who are currently in power? It is not possible to speculate on these questions with the current data. The marginal effects of the coefficients are mostly quite large, suggesting large positive and negative value, of political ties under multiple sets of conditions. But there are differences in the size of coefficients and no immediately obvious explanation for why some coefficients are larger than others at different points in time. To shed more light on that question would require even more granular data on the intensity of firms' connections to each network, the cohesion of each network, the power concentration or fragmentation of the networks across time, the

presence of the network in the judicial and law enforcement parts of the government, and the performance of firms across time relative to their most closely related peer by business activity and size in a rival network. Some of these data would be tremendously difficult to collect, and certainly a combination of qualitative case studies as well as large-sample data collection could identify under what conditions political ties will become the most beneficial, or the most destructive, to the firm.

Second, the fact that political ties are shown to retain significant value after liberalization implies that we need to do more work to study the nature of business-government ties even in developed economies. Even the U.S.-based evidence shows signs of significant political favor exchange long after liberalization. As was described by Kroszner and Stratmann (1998), even after liberalization, the state enjoys great autonomy to decide the rules of entry and competition in the financial services sector. As Jayachandran (2006) showed, political contributions can still be a significant determinant of market capitalization, even in the U.S. As a result, the debate over the value of political ties after liberalization should shift away from a discussion of whether the ties matter, given that much evidence suggests that they do, toward a discussion of how they operate under various institutional rules of the game after liberalization. It is clear from the U.S. context that the state retains enormous discretion to dole out defense and other contracts, set the terms of banking regulations, decide which mergers and acquisitions should be allowed to go forward and which should be blocked, and rule on whether firms can bundle products as a means of exerting market power, among numerous other powers. Liberalization is a process for democratizing the state and reducing restrictions on trade and foreign capital flows. It also often involves the privatization of state assets. But liberalization does not constitute the withdrawal of the state from the economy. As a result, one might expect to see the kind of results shown in this study, namely, that more networks gain more open access to a democratized state but that network ties still determine who has privileged access to state-distributed resources.

Moreover, the contingent positive and negative dynamic of political networks is known through case studies and popular accounts to occur frequently in the United States, suggesting again that more research on business-government ties is needed even in developed economies. Koenig (1980) documented through a series of case anecdotes how the Nixon White House in the 1970s attempted to actively punish corporate supporters of Nixon's political enemies. Burnham (1989) reported in a special investigation for the *New York Times* how the administrations of Franklin Roosevelt, John Kennedy, and Richard Nixon each directed the Internal Revenue Service (IRS) to investigate political opponents for tax violations. Burnham also reported how, following Senate investigations into the IRS's management, the IRS leaked information to the press saying that two senators were themselves the subject of tax-related investigations. Neither senator was ever charged with any violation, but the leaks

allegedly short-circuited their political careers (Burnham, 1989). In 2006, the governor of the state of Kentucky was investigated for targeting civil service workers for termination based on their party affiliation. A former state official gave e-mail correspondence to the Kentucky attorney general, and as Urbina (2006) described in a *New York Times* report, "The documents revealed the existence of 12 officials who called themselves the Disciples and who pursued with religious zeal a systematic plan to clean house of Democrats." Fourteen members of the governor's administration have since been charged with 23 felonies and 60 misdemeanors.

Such active discrimination is likely an all-too frequent feature of politically motivated networks, even in developed economies, and the extent to which this active discrimination plays a role in firms' decisions in developed economies to join or not to join networks is an important topic for future research. Being a potential victim of political dynamics may be a reason for organizations to choose not to become tied with sociopolitical networks even in developed economies. A future study might take a set of multiple changes in government across multiple developed economies and examine whether the contingent value of political ties ever truly diminishes under different forms of democracy (parliamentarism vs. presidentialism), different types of electoral districts, and different types of voting and campaign finance rules. Ideally, one would want data to measure whether the contingent positive and negative value of ties is primarily a function of the concentration or fragmentation and internal cohesion of the social networks themselves or else is primarily being driven by these other institutional checks and balances that vary substantially across even developed economies.

Negative cascades of political exclusion and discrimination seem to occur inside organizations in both developed and emerging economies. The organizational behavior literature includes compelling findings showing that negative ties impede self-advancement and interpersonal cooperation (i.e., Brass and Labianca, 1999, 2006). Much of this work has focused on direct negative ties among members of work teams, but scholars might also find negative cascades of discrimination based on politically oriented ties within organizations, both in emerging and developed economies. Being a friend of the enemies of the clique that gains budget-planning power in a firm can potentially be quite destructive for someone's career. Network ties may frequently turn into liabilities in numerous and frequent situations in which rival networks compete for the allocation of scarce resources. Still, future research is required to lay out the conditions under which contingent political capital matters within organizations.

Still, even if political ties retain universal value, it is likely that they differ significantly in function and magnitude between developed and emerging economies, and future research can shed more light on these important differences between the two types of economies. I agree with Luo and Chung (2005) that the state's power to support firms may even expand when the country liberalizes but does not at the same time achieve a strong rule of law. Without a strong rule of law, there is but a weak or even nonexistent judicial check on the

power of the executive branch to bend its own rules. For example, South Korea clearly liberalized its banking sector in the 1990s, but there was no court to stop the executive branch from bending the rules on the implementation of banking regulation (Haggard, 2000). Also, even as emerging economies democratize and develop a rule of law, increased public accountability may actually make network ties more important. In the past, when military dictators ruled South Korea, they did not have to worry much about being caught having taken bribes. In fact, it was widely known during the time of General Park and General Chun in the 1970s and early 1980s that various firms were giving large bribes—and there were few if any prosecutions in those years. But once the generals fell from power, they were put on trial and their books were opened. Although the generals were later pardoned by Kim Dae Jung, a precedent was set by which politicians could expect to be convicted and publicly shamed for taking bribes. Furthermore, a political party could face punishment at the polls if its leaders were caught taking bribes from businessmen.

Future research is needed to disentangle the impact of changes in the rule of law and associated public accountability relative to the deepening of political and economic liberalization. The empirical constraint until very recently is that legal reform has usually been haphazard and ineffective across most emerging and transition economies. Yet even partial legal reforms that have taken place in the last few years in countries such as Chile and Mexico may lead to measurable changes in the quality of the rule of law and public accountability for government officials. These legal reforms and their future effects on the contingent value of political ties need to be further examined.

In conclusion, elite sociopolitical network ties to the state are an understudied topic in organizational theory and economic sociology, and this study has attempted to shed further light on how network ties to the state are spatially structured, carry important consequences for organizational outcomes, and have contingent positive and negative value depending on the nature of political regimes. Both in the study of sociopolitical network ties and in the study of interfirm economic ties more generally, there is a need to place greater theoretical attention on the dark side of embeddedness. From the past two decades of scholarship, we now have compelling and empirically supported theories about the social bonding and long-term innovation and efficiency benefits of network embeddedness, but we know much less about conditions leading to contingent negative liabilities from network affiliation. There is fertile ground for subsequent research on how these social bonding and efficiency benefits dynamically match up over time with contingent liabilities, with the goal being to explain how organizations might beneficially choose to affiliate with their economic and sociopolitical peer actors under varying conditions of institutional development, resource availability, and network cohesiveness and fragmentation. It will be particularly fruitful to examine these theoretical issues in the context of sociopolitical network ties, given that the post-liberalization state con-

tinues to retain sizable influence over which organizations receive privileged access to—or otherwise get excluded from—key resources in the economy.

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