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ABSTRACT

Research summary
This study focuses on a salient challenge for entrepreneurs in emerging economies: government expropriation. Drawing on signaling arguments, we propose that an owner’s high socioeconomic status (SES) attracts government attention to her start-up by conveying information about its resource endowments. The empirical tests based on start-ups in China support that an owner’s high SES increases government expropriation. The effect is stronger for start-ups in regions with greater income inequality or those where the legal system is less developed. High-SES entrepreneurs can mitigate the risk of government expropriation by building political connections.

Managerial summary
Institutional voids in emerging economies pose a major threat to start-ups in the form of government expropriation. This research finds that the threat is more severe for start-ups with high-SES entrepreneurs because they have strong resource-mobilization capabilities and easily become expropriation targets. Further, this research suggests that two measures help protect high-SES entrepreneurs from government expropriation: locating their start-ups in regions with
low income inequality or a well-developed legal system, and building connections with the
government in order to exchange favors with government officials.
INTRODUCTION

Institutions are important for entrepreneurship (Estrin, Korosteleva, & Mickiewicz, 2013; Li, 2013). Well-functioning institutions promote entrepreneurship by providing incentives and critical resources for entrepreneurs throughout the entrepreneurship process (Bruton, Ahlstrom, & Li, 2010; Estrin et al., 2013). However, in contrast to developed economies with sufficient formal institutions, emerging economies are fraught with institutional voids, typically deficient market intermediaries, and a weak legal system (Khanna & Palepu, 1997; Puffer, McCarthy, & Boisot, 2010; Xie & Li, 2018; Yang & Li, 2008). Entrepreneurial challenges in emerging economies include corruption (Bowen & De Clercq, 2008; Tian, Yang, & Li, 2020), insecure property rights (Puffer et al., 2010), weak enforceability of contracts (De Soto, 2000), and other problems.

One salient but less mentioned challenge for entrepreneurs in emerging economies is the risk of government expropriation because government power is often relatively unconstrained in emerging economies, accompanying a lack of legal protection for property rights (Eunni & Manolova, 2012; Frye & Shleifer, 1997; Jia & Mayer, 2017; Shleifer & Vishny, 2002). Government expropriation refers to rent extraction by the government from business sectors without a legal basis to increase government revenues or provide public goods (Hou, 2015; Jia & Mayer, 2017; Tsai, 2004). Start-ups tend to experience the most severe threat of government expropriation (Du, Lu, & Tao, 2015) because they are typically at the bottom of the political hierarchy (Guo, 2013; Lu, 2002).
But start-ups differ in the extent of government expropriation they experience. Previous studies of expropriation tended to take the government’s perspective in explaining such differences. Government is considered to be quite prudent in selecting its expropriation targets in order to balance current expropriation revenue against longer term value that might be harvested as the firm grows and the economy develops (Jia & Mayer, 2017; Tomz & Wright, 2010). For instance, Jia and Mayer (2017) showed that firms operating in only one region suffer less from government expropriation than those operating in many regions because the local government is willing to protect the firm as a local business when the firm locates in only one region. However, prior expropriation studies failed to draw a complete picture of the differences between start-ups in experiencing government expropriation. Researchers have paid insufficient attention to the influence of entrepreneurs who are start-up founders and decision-makers and should be able to convey valuable information about their start-ups to the government when considered for expropriation (Elitzur & Gavious, 2003).

To fill this gap, this study explored the idea that entrepreneurs’ socioeconomic status (SES) has an important bearing on government expropriation by serving as a signal about their start-ups to the government. Due to the information asymmetry between a government and a start-up that it might target to expropriate, it is costly for the government to obtain detailed information about which start-ups might have resources and potential for expropriation. Governments need some observable signals, and an entrepreneur’s SES is one such signal.
SES indicates an individual’s position in a hierarchical social structure (Côté, 2011). SES reflects one’s capability of accessing resources (Kraus, Piff, Mendoza-Denton, Rheinschmidt, & Keltner, 2012; Krieger, Williams, & Moss, 1997; Lynch & Kaplan, 2000). An entrepreneur’s SES can influence the survival of her start-up by affecting relevant stakeholders’ perceptions about it (Anderson & Miller, 2003). Specifically, an entrepreneur’s high SES can influence a government’s expropriation decision by unintentionally signaling the start-up’s potential access to plentiful resources (Conti, Thursby, & Rothaermel, 2013; Hsu & Ziedonis, 2013; Roma, Petruzzelli, & Perrone, 2017; Shane & Cable, 2002). Sufficient resources are supposed to help the start-up recover from the damage that expropriation is likely to inflict. Jean-Baptiste Colbert, Louis XIV’s finance minister, famously said, “The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing” (as cited in The Economist, 2014: P9). Government expropriation also leans toward start-ups that are considered sufficiently resourceful, so expropriation will not cause undue difficulties and hurt the development of the local economy. Start-ups owned by high-SES individuals may thus be more exposed to government expropriation.

Of course, the influence of entrepreneurs’ SES on government expropriation will vary across contexts. In particular, SES might be more influential in regions with greater income inequality, where high-SES entrepreneurs are more likely to stand out. The effect of SES on government expropriation might be weaker in regions with a better developed legal system, where the information asymmetry between start-ups and government would be less. Established
political connections help attenuate the impact of entrepreneurs’ SES on expropriation. If a government is intent on expropriating a start-up with political connections, it will have other sources of information through ongoing interactions and thus not have to rely on the owner’s SES as a signal.

We endeavor to make three contributions in this study. First, we contribute to the entrepreneurship literature by focusing on a typical challenge that entrepreneurs may face in emerging economies: government expropriation. The entrepreneurship literature has shown that start-ups face different challenges including the liability of newness (Bruderl & Schussler, 1990), the liability of smallness (Aldrich, 1990; Aldrich & Auster, 1986), and the lack of legitimacy (Hannan & Freeman, 1984). We show that start-ups also confront the risk of government expropriation in emerging economies. We further explore how start-ups differ in the extent of government expropriation across firms and regions. Departing from previous expropriation studies that examined the influence of institutional environment (North & Weingast, 1989) and firm-level factors such as a firm’s geographic concentration (Jia & Mayer, 2017) and ownership (Zaheer, 1995; Zaheer & Mosakowski, 1997) on government expropriation, our study directs attention to entrepreneurs and investigates how their SES influences start-ups’ risk of government expropriation.

Second, we advance understanding of entrepreneurs’ SES by exploring its disadvantages for start-ups in emerging economies. The extant entrepreneurship research, largely based on developed economies, noted that entrepreneurs’ high SES benefits start-ups’ survival and growth.
Deviating from this research strand, we develop a theoretical framework to investigate how entrepreneurs’ high SES may engender unexpected negative consequences for start-ups in an emerging economy where government power is less constrained. We predict that entrepreneurs’ high SES would attract government expropriation by working as a signal and conveying information to the government about start-ups’ resource endowment.

Third, we extend the inequality literature by considering two types of inequality: economic inequality and political inequality. Previous inequality studies believed that the rich get richer because the rich have better access to networks and resources (Gray & Kish-Gephart, 2013). Sociologists and organizational scholars also provided market-based explanations for this phenomenon including globalization, skill-based technological change, and social capital (Cobb, 2016; Smith, Saunders, Stuckhardt, & McGinnis, 2013). In contrast, we suggest that the rich in emerging economies such as China may bear great government expropriation hazards due to the political privilege enjoyed by government authority over entrepreneurs (Goodman, 2014; Guo, 2013; Lu, 2002). In this sense, our study indicates that economic and political inequality needs to be considered before concluding that the rich get richer in emerging economies.

**HYPOTHESIS DEVELOPMENT**

**Political inequality in China**

**Inequality in the political structure.** China’s political system empowers the state and its political elites to make many sorts of resource-allocation decisions (Oi & Walder, 1999). The
Chinese Communist Party (CCP) controls state power by monitoring leading cadres at each level (Burns, 1989; Goodman, 2014). The CCP supervises the work of the government by appointing and promoting government officials. In China, power inequalities are intrinsic to the political system (Guo, 2013), especially inequality among people in the system and those outside the system (Goodman, 2014). Beyond the CCP itself, those in the system include the party’s associates at different levels of administration, all government-affiliated institutions, and all enterprises owned or controlled by the state or by CCP-state agencies (Goodman, 2014).

Everyone else is outside the system. The structure of society in China is such that government officials and managers associated with state-owned enterprises form the top of the hierarchy, followed by members of other occupations (Lu, 2002). Political power gives people or firms in the system better privileges, benefits, and access to resources than are available to those outside the system (Gao & Riskin, 2009). Many privileges and benefits are difficult to quantify in economic terms. Those with greater political power can sometimes extract the benefits of people or firms outside the system.

**The evolving political status of entrepreneurs.** Historically, entrepreneurs and their start-ups have been outside the system. During the Maoist era (1949–1976), private enterprise and economy was suppressed and the state controlled nearly all significant aspects of industry and commerce in China. Only from the 1980s have privately owned firms begun to re-emerge. Private companies were technically illegal until 1988. Throughout the 1990s, many government officials continued to reject the notion of private ownership, subjecting entrepreneurs to political
harassment and sometimes even imprisonment (Tsai, 2005). In 2000, the CCP tried to give the private sector the same status as organizations in the state sector by announcing that privately owned businesses should be supported and encouraged, but guided. The ideological debate about private property continued to be fierce, and legislation on property rights was delayed until 2007.

Chinese entrepreneurs reported they experience discrimination in comparison to those functioning inside the state sector in addressing their relationships with the party-state (Tsai, 2007). Political elites still control regulations and policies and determine the allocation of resources controlled by the party-state. Entrepreneurs have expressed their strong willingness to be in the system to gain access to valuable resources and opportunities (Dickson, 2008). Due to the rapid growth of private firms and their attempt to gain power, the CCP has generally begun to build closer relations with China’s entrepreneurs (Dickson, 2007). For instance, the government has begun to grant entrepreneurs membership in Chambers of Commerce and business associations organized by local governments (Chen & Dickson, 2010). However, China remains a Communist party-state, and a substantial proportion of its economy remains dominated by the remnant structures of state socialism (Huang, 2008). The political inequality between organizations in the system and those outside the system persists, and Chinese entrepreneurs remain disadvantaged, despite recent changes in how the government treats them (Coase & Wang, 2012; Huang, 2008).

**Start-ups and government expropriation in China**
Government expropriation is common in emerging economies where government power is relatively unconstrained (Frye & Shleifer, 1997; Khanna & Palepu, 1997). Advocates defend government expropriation on the basis that it helps increase the local government’s revenue, reduce its financial burden, and provide public goods (Tsai, 2004). Hence, the government expropriates more heavily when local revenue is lower or when state expenditures are higher (Hou, 2015).

Because of their low position in the political structure, start-ups are particularly exposed to government expropriation in China. Power inequality causes start-ups to depend highly on the government because the government maintains a significant role in controlling the allocation of resources and regulating the business environment (Du, Lu, & Tao, 2014; Khanna & Palepu, 1997). As a result, start-ups must comply with various government requirements to reduce political uncertainty and gain access to government-controlled resources (Li & Zhang, 2007). Most start-ups cannot resist government expropriation because they have relatively weak political power. Start-ups find it hard to turn to China’s legal system for protection, so they could not rely on the legal way to refuse government infringement and protect their property (Li, Meng, & Zhang, 2006). In Russia, too, entrepreneurs are constantly at risk of government expropriation, and there they can seek protection only by building political connections (Puffer et al., 2010).

**Entrepreneurs’ socioeconomic status as an unintentional signal for government expropriation**
Though government officials have ample abilities to extract revenues from start-ups in China, due to power inequalities, they usually face the tradeoff between current gains and future rewards when considering expropriating a private business (Ang, 2010, 2012; Tomz & Wright, 2010). The current gains from preying on private businesses must be balanced against the expected future rewards from protecting private business operations (Ang, 2010; Cole & English, 1991). Jia and Mayer showed that the government expropriates private business only when current expropriation revenues exceed future losses (Jia & Mayer, 2017). Hence, local governments are quite prudent in choosing expropriation targets, to ensure current revenue extraction would not severely damage new ventures’ future operations and hamper local economic development (Jia & Mayer, 2017; Tomz & Wright, 2010).

From the government’s point of view, information asymmetry is a problem. It is difficult to judge a start-up’s resource endowment and its ability to recover from expropriation, making it hard for a government to choose its expropriation targets. It is also expensive and time-consuming for a government to collect such information, because no trustworthy public data are available about start-ups in China. To carefully decide from whom to extract rent, the government tends to rely on other observable signals, and the owner’s SES is one such signal.

Entrepreneurs’ SES is a signal unintentionally sent out by entrepreneurs but received and used by the government to identify expropriation targets. Spence (1973) explained that a good signal should be costly for the signaler to generate and is observable by outsiders. For instance, a patent granted to a firm in the emerging market of China works as a positive signal of technology
potential received by other firms in a developed economy, because such information is costly to generate and easy to be observed (Huang & Li, 2019). SES also complies with the definition of a good signal. SES is very difficult and costly to obtain, and thus provides a basis on which entrepreneurs can be sorted. An individual’s SES rests on her resources and prestige (Côté, 2011; Gray & Kish-Gephart, 2013; Sayer, 2005). The most relevant resources for SES are income, wealth, and educational attainment. Prestige refers to an individual’s ranking in a social hierarchy, typically giving access to goods and services and viewed as reflecting the entrepreneur’s competence (Ridgeway, 2014). Resources and prestige take a long time to accumulate and are quite costly to obtain. Owing to the substantial cost involved in obtaining a high SES, entrepreneurs with limited resources or prestige find it highly costly to send the SES signal that would enable outsiders to distinguish between high- and low-quality entrepreneurs in the economy (Connelly, Certo, Ireland, & Reutzel, 2011; Kirmani & Rao, 2000).

Outsiders can notice SES. Individuals communicate their SES to society through some reliable patterns (Bourdieu, 1984; Kraus et al., 2012; Krieger et al., 1997; Lynch & Kaplan, 2000). People widely understand that high SES among a firm’s founders and directors can help generate investors’ positive evaluations and even access to financing (Chahine, Filatotchev, & Zahra, 2011). But the influence of such signals is not always positive, as signals can be intentional or unintentional (Connelly et al., 2011). Different from intentional signals, purposefully sent out by signalers to change perceptions of an observing audience in a positive way, signalers inadvertently deliver unintentional signals that may be interpreted by receivers in
ways the signalers did not expect and appreciate (Krausert, 2016). In China, an entrepreneur’s SES can work as such an unintentional signal that is not explicitly sent out by start-ups to the government. However, government officials may use SES as one signal to identify appropriate targets for expropriation, because SES helps reduce the information asymmetry between a start-up and the government by disclosing information about a start-up’s resource endowment and its ability to recover from expropriation.

Start-ups with high-SES owners tend to attract more government expropriation, due to the signaling effect. High SES reflects an owner’s control over valuable resources (Bullock & Lott, 2010; Smith et al., 2013). Government could extract more revenue from start-ups with high-SES owners, because their abundant resources enable them to seize more opportunities for new business and hence create more value (Reagans & McEvily, 2003; Roma et al., 2017). High SES also indicates an owner’s ability to cope with difficult situations such as expropriation because high-SES entrepreneurs are considered to have strong capabilities to search, access, and transfer resources through their personal channels to sustain the normal operations of new ventures. Hence, start-ups owned by high-status entrepreneurs are more likely to be identified as expropriation targets by the government than other start-ups. Thus, we propose,

**Hypothesis (H1).** A start-up with a higher-SES owner is more likely to encounter government expropriation in China.

We expect local conditions in a region to play a major role in affecting local governments’ expropriation decisions toward start-ups. Both regional income inequality and
regional legal system should be influential in changing the relationship between an owner’s SES and her start-up’s government-expropriation hazard by affecting the salience and importance of SES as a signal for government expropriation.

**The moderating role of regional income inequality.** Income inequality has become a major topic of public debate and garnered growing interest from economists and business scholars (Cobb, 2016; Davis & Cobb, 2010). Individuals might differ in their starting points, and such disparity strengthens the level of inequality among people, generally viewed as the Matthew effect (Merton & Merton, 1968). Income inequality at a macro level may bring injustice to poor people by influencing their upward mobility, educational attainment, and life expectancy (Corak, 2013; Wilkinson & Pickett, 2009). Researchers have started analyzing the influences of income inequality at the national (Kenworthy & McCall, 2008; McCarty, Poole, & Rosenthal, 2016) and regional levels (Newman, Johnston, & Lown, 2015) on individual attitudes and behaviors.

The influence of SES on the risk of government expropriation should be stronger for start-ups in regions with a great inequality of income because SES would be a more salient signal in such areas. In China, the central government has regional biases in investment priorities, resulting in significantly increased income inequality among provinces in recent years (Wang & Hu, 1999). In regions with great income inequality, few individuals control a large fraction of resources available in the economy. In such settings, the government more easily notices high-SES entrepreneurs because they are few in number, thereby inviting more government expropriation. Conversely, in regions where incomes are more equal and where the distribution
of resources and wealth is more even, high SES tends to be less salient with less risk of attracting government attention. In sum, high-SES entrepreneurs and their start-ups in regions with greater income inequality are more prone to be noticed by the government and hence identified as expropriation targets. Therefore, we propose,

**Hypothesis (H2).** Regional income inequality strengthens the positive relationship between an owner’s SES and her start-up’s government-expropriation hazard in China.

**The moderating role of regional legal system.** An effective legal system involves a well-established rule of law, an efficient judiciary system, and well-developed intermediaries (Wan & Hoskisson, 2003). An effective legal system is conducive to the rise of entrepreneurship because it enables start-ups to easily negotiate transactions with other parties in the market (Greif, 1993), thereby facilitating their operations. An effective legal system also helps start-ups protect their benefits when in conflict with other entities in the market.

We propose that a well-developed legal system may reduce the effect of SES on the government-expropriation hazard. First, the information asymmetry between start-ups and government would be less in a superior legal system because numerous actors in the market may work as effective information sources to disseminate information among market players. For instance, Gul and Qiu (2002) found that countries with strong legal protection and law enforcement can develop effective financial markets, thereby reducing information asymmetry among firms. As credible information about start-ups is more widely available, the role of SES in
conveying information about start-ups is less important. The government will then be less prone to use SES as the clue to make judgments about start-ups in its region. In addition, in a region with a well-developed legal system, many high-SES entrepreneurs will emerge because an effective legal system offers strong protection of property rights and promotes the emergence of start-ups (Cull & Xu, 2005; Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2003; Fogel, Hawk, Morck, & Yeung, 2006; McMullen, Bagby, & Palich, 2008). In such a situation, SES will be less salient as a signal noticed by the government and further used as the basis to identify expropriation targets. Taken together, entrepreneurs’ SES will be less salient and important as a signal for government expropriation when the regional legal system is better developed. Thus, we propose,

**Hypothesis (H3).** A well-developed legal system weakens the positive relationship between an owner’s SES and her start-up’s government-expropriation hazard in China.

**The moderating role of political connections.** Political connections are another important consideration whenever the government infringes on private-property rights. Political connections form between entrepreneurs or the top managers of firms and political institutions (Zhou, 2013). Political connections generate preferential treatment, lighter taxation, and relaxed regulations for firms (Faccio, 2006). Political connections work as informal institutions that complement institutional voids and help start-ups obtain critical resources (Ge, Carney, & Kellermanns, 2019; Zhou, 2013). In emerging economies where political inequality prevails and
institutions are weak, new ventures need to build good relationships with the government in order to cope with environmental uncertainty and protect themselves from various types of expropriation (Du et al., 2014; Jia, 2016; Li, Meng, Wang, & Zhou, 2008; Puffer et al., 2010). Entrepreneurs may even be able to influence government policies to some extent (Keim & Hillman, 2008; Pinkse & Groot, 2015). Hence, political connections help defend start-ups against government expropriation (Hou, 2015; Mellahi, Frynas, Sun, & Siegel, 2016), not only because entrepreneurs become familiar with the government and its procedures through their connections and interactions with the government (Hillman, Zardkoohi, & Bierman, 1999; Zhang, Marquis, & Qiao, 2016), but also because they have ongoing exchanges of favors with government officials (Ge et al., 2019).

We posit that political connections weaken the influence of entrepreneurs’ SES on government expropriation by working as another factor that reduces information asymmetry between a government and start-ups. For start-ups with political connections, local government becomes familiar with them through ongoing interactions. Such political connections may also serve as a conduit through which entrepreneurs inform politicians about their business and needs (Bonardi & Keim, 2005). As such, the information asymmetry between government and start-ups with political connections is reduced. With less information asymmetry, the link between SES and government expropriation should be weaker for start-ups with political connections. In contrast, for start-ups without political connections, information asymmetry is a major issue because a government could not obtain detailed information about the start-up through other
channels. SES continues to be very important as a signal for government to identify appropriate expropriation targets. Therefore, we propose,

**Hypothesis (H4).** *An owner’s political connections weaken the positive relationship between her SES and the start-up’s government-expropriation hazard in China.*

**METHODS**

**Data collection**

We tested these hypotheses using data from nationwide surveys of Chinese private firms conducted by the Privately Owned Enterprises Research Project Team (POERT). These large-scale, nationwide surveys help government agencies devise policies and regulations to promote the development of businesses in the private sector (Jia, 2016). POERT surveys use multistage stratified sampling method to select a set of private firms, based on provinces and industries. The local arms of the All-China Federation of Industry and Commerce (ACFIC) and the State Administration of Industry and Commerce then help train survey investigators, contact the owners of the private firms selected, and conduct face-to-face interviews to collect data. Investigators collect firm and entrepreneur data, including information about the firms’ operations and financial results and about the owners’ SES.

This study’s sample was limited to the start-ups covered in POERT surveys. Following the lead of Zhou, Gao, and Zhao (2017), we used five years since a firm’s inception as a cutoff point to identify start-ups. We used POERT survey data from 2006, 2008, and 2010 for empirical analyses. After pooling three years of survey data, we had 3,861 usable responses. We excluded
missing values for key variables such as SES from analysis (Table 1 provides an overview of the sample excluded from the analysis due to missing values). The final dataset contained 1,537 observations. No systematic differences emerged between those firms excluded and those included for sales, equity, or profits. Eventually, we collected information about province-level variables through the China Statistical Yearbook and from the database of the National Economic Research Institute (NERI).

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Insert Table 1 Here
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Measures

**Dependent variable.** We quantified *government expropriation* using the amount of unauthorized levies local governments imposed on a focal firm in a particular year. In the POERT survey, the question used to construct this variable was, “In [2005 or 2007 or 2009] how much did your firm pay on all types of unauthorized levies?” As documented by Jia and Mayer (2017), governments use unauthorized levies (or in Chinese “*tanpai*”) to increase government revenues or provide public goods. Such levies reflect the local government’s financial incentives and ability to extract rents from private businesses through political power. Because the distribution of this variable was highly skewed, we applied a logarithmic transformation. Specifically, we quantified government expropriation using the logarithm of 1 plus the amount of unauthorized levies.

**Independent variable.** *Entrepreneurs’ SES* was a composite measure of family income and education level of the start-ups’ owners (Kraus & Keltner, 2009). We used data from two survey questions to construct the variable: “In [2005 or 2007 or 2009] what was your total
amount of family income?” and “What is your education level?” First, we standardized the
values of the response to each question. Then, we added the standardized values of these two
responses to form a composite measure of each owner’s SES. As a robustness check, we
analyzed the two variables (family income and education level) separately.

**Moderators.** *Regional income inequality* was the ratio of urban disposable income to
rural net income in a province. A group led by Takemura used this measure to study the impact
of province-level wealth inequality on people’s tendency to be independent rather than
interdependent (Takemura, Hamamura, Guan, & Suzuki, 2016). We drew urban disposable
income and rural net income data from the *China Statistical Yearbook*.

The NERI index of business law enforcement by province served as a proxy for the *legal
system development* variable. The index rests on the number of business lawsuits filed and
concluded in a province scaled by that province’s GDP in a particular year (Wang, Fan, & Zhu,
2007).

We coded the *political connections* variable based on two criteria: 1) whether an owner
had past government work experience, and 2) whether they were currently a member of a
People’s Congress (PC) or the Chinese People’s Political Consultative Conference (CPPCC) at
the provincial level or above (Chen, Li, Su, & Sun, 2011; Zhang et al., 2016). We coded the
binary variable as “1” if at least one criterion was satisfied and as “0” otherwise. In a robustness
check, we coded an ordinal variable with the value of “2” if both criteria were satisfied, “1” if
either was satisfied, and “0” if neither criterion was satisfied, tested as an alternative measure.
Control variables. We included several control variables in the modeling to eliminate potential alternative explanations. We treated firm sales, equity, profits, and age as controls in the regressions (Jia & Mayer, 2017). Because sales, equity, and profits all have skewed distributions and profits can be negative, we applied an inverse hyperbolic sine transformation to all three variables.¹ Firm age was the number of years since a start-up was established.

Export intensity was another control. The rationale was that sales outside a region might increase a firm’s likelihood of being expropriated by the local government (Jia & Mayer, 2017). R&D intensity was a control as it captures firms’ resource endowment (Li & Zhang, 2007). We quantified R&D intensity as R&D investment divided by sales. We included the amount of a firm’s bank debt as a control variable as well because, in China, firms depend on the government to authorize bank loans (Firth, Lin, Liu, & Wong, 2009). The measure was the logarithm of 1 plus the amount of bank debt. We controlled and measured board effectiveness by a survey question asking whether a firm’s board had final decision-making power. We coded affirmative replies as “1” to indicate board effectiveness. Otherwise, the code was “0.” Start-ups with effective boards might be expected to rely less on the government to obtain resources and thus suffer less from government expropriation. Owners’ age was another control, as was each firm’s participation in the ACFIC. Both may reduce the risk of government expropriation (Jia, 2014).

Communist Party membership was another control, coded “1” if an owner was a party member and “0” otherwise. Party membership improves an individual’s SES in China (Li &

¹ We thank an anonymous reviewer for this suggestion.
Walder, 2017) and could also affect government expropriation. A province’s GDP per capita and unemployment rate were two additional controls. We collected those data from the China Statistical Yearbook.

**Analytical technique: Heckman two-stage models**

Because entrepreneurs may be reluctant to speak out about unauthorized government levies, the government expropriation variable had missing values. Of 1,537 usable responses, 373 (roughly 24%) did not respond to the question about unauthorized levies. Certain entrepreneur characteristics such as SES may relate to the probability of speaking out about unauthorized levies. Specifically, entrepreneurs with lower SES may be less likely to respond, due to concerns about government retaliation. Failing to address any bias resulting from entrepreneurs’ likelihood of responding about unauthorized levies would cause a biased estimation of the effect of entrepreneurs’ SES. To solve this sample-selection issue, we employed Heckman’s two-stage model.

In the first stage, we used a probit model to predict whether an entrepreneur reported unauthorized levies in the survey. All variables included in the second-stage regression model were also predictors in the first-stage model, predicting the likelihood of reporting levies. In addition, we included an instrumental variable assumed to be associated with the likelihood of reporting levies but not related to the level of levies a start-up faces. This was the regional response rate to the unauthorized levies question. We constructed this regional-response-rate variable using the first four digits of firms’ postal code to identify their locations (cf. Globerman,
That process identified the start-ups in the same metropolitan city and its surrounding area (Li, Chen, & Shapiro, 2010). We then computed the percentage of start-ups (excluding the focal start-up) in the same region reporting unauthorized levies. A high regional response rate implies a behavioral norm to report unauthorized levies in that region, though that is not the same as the level of levies a particular start-up faces. We used the first-stage probit model to calculate an inverse Mill’s ratio, serving as an additional control in the second-stage OLS regression models.

To alleviate the risk of multicollinearity, all variables included in the interaction terms were mean-centered before creating those terms. We included eighteen industry dummies in the models to control for potential industry effects, and added year dummies to control for any macroeconomic influences.

RESULTS

Tables 2a and 2b report descriptive statistics describing the main variables and their correlations. No particularly strong correlations emerged. Multicollinearity diagnostics showed that all variance inflation factors (VIFs) were below the acceptable threshold of 10. The mean value of the VIFs was approximately 1.71, with a maximum VIF value of 3.58. Hence, multicollinearity should not be a major concern in this analysis.

Table 2a shows that the regional response rate of unauthorized government levies positively correlated with a focal start-up’s propensity to respond. Table 2b shows that the sample average of the government expropriation variable was 0.56. Among those reporting
unauthorized levies, 526 firms (or roughly 45% of 1,164 firms) reported a positive value, whereas the rest reported zero for unauthorized levies. Most firm-level control variables positively correlated with government expropriation, as expected. Expropriation positively correlated with an owner’s socioeconomic background.

Model 1 in Table 3 shows the results of the first-stage probit model. The regional response rate of unauthorized levies did predict an individual firm’s likelihood of responding ($p < 0.001$). The owner’s SES positively affected the likelihood of responding to unauthorized levies at a marginally significant level ($p < 0.1$). These results provided some support for the argument that high SES entrepreneurs feel empowered to speak out about unauthorized levies.

Further, Table 3 also presents the results of the second-stage OLS regression models. The inverse Mill’s ratio had significant coefficients in all second-stage regression models, indicating a potential sample-selection issue was corrected. Also, we compared Model 2 with Model 3 to identify change in the coefficient of entrepreneurs’ SES variable after adding inverse Mill’s ratio to the model. Though that change was quantitatively insignificant, we still treated potential selection issues cautiously by controlling for inverse Mill’s ratio.

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Hypothesis 1 suggests that start-ups with a high-status owner were more likely to be expropriated. The results of Model 3 provided evidence for Hypothesis 1 ($\beta = 0.100, p < 0.001$). A calculation suggests that as an owner’s SES increases by one standard deviation, the unauthorized levies imposed on her start-up increase by 14%.

Model 4 tested the moderating effect of regional income inequality. Hypothesis 2 suggests that income inequality should strengthen the positive relationship between an owner’s SES and the start-up’s risk of government expropriation. The results of Model 4 provided evidence to support that hypothesis. The moderating effect of income inequality was positive and significant ($\beta = 0.099, p < 0.01$). A calculation shows that the unauthorized levies imposed on start-ups in regions where income inequality is one standard deviation above the mean are, on average, 21% higher when an owner’s SES increases by one standard deviation. In contrast, in regions with a low level of income inequality (one standard deviation below the mean) the increase is only 7%, on average. Figure 1 provides an illustration showing that in regions with very unequal incomes, the positive relationship between an owner’s SES and government expropriation hazard is strong.

Model 5 tested the moderating effect of legal-system development. The regression results of Model 5 documented that a well-developed legal system weakened the positive relationship between SES and government expropriation ($\beta = -0.017, p < 0.05$), supporting Hypothesis 3. A calculation shows that start-ups in regions with better-developed legal systems (one standard
deviation above the mean) suffer 9% larger levies as their owners’ SES increases by one standard deviation, but that number would be 19% in regions with a less developed legal system (one standard deviation below the mean). Figure 2 illustrates this interaction.

Finally, Model 6 tested the moderating effect of political connections. Results suggested a significant moderating effect of political connections on the relationship between SES and government expropriation. Effective political connections weakened the positive relationship between SES and government expropriation ($\beta = -0.091, p < 0.05$), thus supporting Hypothesis 4. A calculation demonstrates that as the owner’s SES increases by one standard deviation, start-ups with political connections suffer hardly any increase in unauthorized levies, whereas unauthorized levies for those without any political connections increase by 17%. Figure 3 plots this interaction.

Robustness check
We tested several alternative measures of entrepreneurs’ SES and political connections to verify the robustness of these findings. We included entrepreneurs’ education level and family income separately as indicators of SES. Results shown in Table 4 indicated a positive relationship between a college–educated owner and expropriation risk. Family income was also a positive predictor. These results suggest that local governments treat start-ups with high-SES owners as
expropriation targets. In another test, we constructed political connections as an ordinal variable coded as “2” if government work experience and PC/CPPCC membership criteria were satisfied, “1” if either was satisfied, and “0” if neither criterion was satisfied. Again we noticed that political connections weakened the positive relationship between entrepreneurs’ SES and government expropriation, similar to the results in Table 3.

DISCUSSION

In this study, we sought to clarify to what extent power inequality between entrepreneurs and government officials in China has implications for a start-up’s growth. Scholars assessing developed economies concluded that entrepreneurs’ status enables them to accumulate wealth, which further enhances economic inequality. This study tested the idea that the conclusion might not hold in China where entrepreneurs are at the lower end of the political hierarchy (Dickson, 2008; Du et al., 2015; Tsai, 2007). Entrepreneurs are embedded in a highly unequal political-power structure in China. As a consequence, governments can use their political power to extract profits from start-ups. However, start-ups are not evenly extracted. Those with high-SES entrepreneurs attract more government expropriation because owners’ high status signals abundant resources and resilience to expropriation. The empirical analyses support a positive relationship between an owner’s SES and the extent of government expropriation from her start-up. The relationship is stronger in regions where income inequality is higher or the legal system
is less developed, but weaker for start-ups with more political connections. These findings show how an entrepreneur’s background affects the extent of government expropriation. In that sense, we extend the expropriation literature by diverting attention to the characteristics of entrepreneurs.

These findings indirectly suggest that start-ups with high-SES owners could reduce the risk of government expropriation by building political connections. Some scholars have suggested that the government-expropriation problem could be solved by greater democracy (He, 1997; Parris, 1993; White, 1994; Zheng, 2004). They perceive entrepreneurs as leading agents of an emerging civil society that may eventually transform China’s political system. Other scholars disagree, however, doubting that entrepreneurs are ready to organize and strive for political democracy. For instance, Tsai (2005) showed that entrepreneurs have inconsistent interests, due to their differing backgrounds and situations, thus making it hard for them to undertake collective political action. Instead, most entrepreneurs build political connections to reduce expropriation risk in China (Dickson, 2007). In addition to joining the Communist Party, many entrepreneurs try to engage with political bodies such as the CPPCC and the National People’s Congress (Li & Liang, 2015). This study’s findings support the wisdom of such political maneuvers for start-ups with high-SES owners.

Our findings can be generalized to other emerging economies apart from China. In emerging economies, due to institutional voids, entrepreneurial firms could not gain enough support from the market for their operation and growth. So the majority of entrepreneurial firms
would rely on entrepreneurs and their resource-mobilization capabilities. Resource mobilization refers to an individual entrepreneur’s searching, accessing, and transferring resources from the resource environment to their organization (Clough, Fang, Vissa, & Wu, 2019). The initial personal endowment of entrepreneurs is vital for their resource-mobilization capabilities and thus important for their start-ups. Hence, high-SES entrepreneurs are usually believed to possess strong resource-mobilization capabilities that benefit start-ups’ growth. However, our findings show that strong resource-mobilization capabilities associated with high SES might attract government expropriation toward start-ups as well, especially in emerging economies where government power is unconstrained and the legal system is not well-developed (Xie & Li, 2018).

Our study also echoes the call by Clough et al. (2019) by touching on the understudied topic relating to the informal mode of resource transfer governance in the resource-mobilization literature. Resource transfer involves the “allocation of property rights over the resource deployment and the resultant created value” (Clough et al., 2019, p. 244). Our findings show that in emerging economies the government may stall the resource transfer of start-ups with high-SES owners by extracting their profits. So what can start-ups with high-SES owners do to prevent themselves from government expropriation? The extant studies have proposed two resource governance mechanisms to safeguard resource transfer: formal governance built on formal contracts and authority, and informal governance based on identity and trust (Bradach & Eccles, 1989; Clough et al., 2019; Williamson, 1985). Our study suggests that start-ups with high-SES owners in emerging economies can adopt informal governance measures to address
government expropriation issues and facilitate resource transfer. Specifically, high-SES entrepreneurs can choose to locate their start-ups in regions with either a low level of income inequality or a well-developed legal system. In such regions, the identity of start-ups with high-SES owners becomes less salient in the eyes of the government, thus making themselves less prone to government expropriation. High-SES entrepreneurs could also establish political connections and prevent their start-ups from government expropriation based on the informal relationship building. Established political connections help build familiarity and trust between the government and start-ups with high-SES owners, which in turn prevent such start-ups from government expropriation.

These interpretations should be considered in light of this study’s limitations. First, future researchers might want to explore to what extent these findings can be applied to other societies. For example, the traditional social structure of Indian society, based on a caste system, may provide an interesting and different setting. Also, the findings are rooted in the empirical setting of China in 2009, when private entrepreneurship was encouraged and valued by the whole society. Results might be different in other periods like the Maoist era, when the legitimacy of private entrepreneurship was low and it was hard for start-ups to protect their revenues from extraction. Hence, it would be interesting to investigate whether our findings can be applied to the Maoist era.

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2 We thank an anonymous reviewer for pointing out this direction.
A second limitation of the study is the measures of SES and unauthorized levies. The data on unauthorized levies was self-reported, which is not as good as objective reports, even though we tried to reduce possible bias. Reverse causality could also be a concern because we measured the independent and dependent variables at the same time. This does not apply, however, to entrepreneurs’ education levels because it is reasonable to assume that entrepreneurs obtained their education level prior to government expropriation. Also, unauthorized levies are likely to reduce an entrepreneur’s family income rather than increasing it, so reverse causality may not exist here. In that sense, this study’s theoretical arguments provide a reasonable explanation for the causal relationship between an entrepreneur’s SES and expropriation risk.

Third, we treated private entrepreneurs as passive receivers of government expropriation in emerging economies. Instead, they could choose to proactively address such expropriation risk, either by building political connections or by contributing to a government-led charity to exchange favor with local government officials (Ma & Parish, 2006; Zhang et al., 2016). Future studies could go further to focus on such proactive favor-exchange actions and examine whether they contribute to mitigate rent-extraction behavior by local government officials. In addition, because some proactive activities, including relationship building and charity donations, do incur cost, private entrepreneurs need to be strategic in deciding whether to proactively respond to government expropriation or to passively accept it. Therefore, it would also be interesting to examine what strategic choices entrepreneurs in emerging economies take and what key factors may influence such decisions.
Fourth, future studies might fruitfully examine the motivations behind the government expropriation of high-status entrepreneurs. Unlike covert bribes, governments seek and collect unauthorized levies publicly. Further evidence is needed to discern when or whether governments use the proceeds of expropriation for social well-being or for government officials’ self-interests. A complete understanding of the underlying logics would help advance understanding of the expropriation phenomenon.

CONCLUSION
Using survey data on start-ups in China, this study shows that power inequality has implications for the government-expropriation that entrepreneurs encounter in emerging economies. An entrepreneur’s SES is an important predictor of her start-up’s risk of being appropriated by the government in China. Start-ups with high-SES owners are more prone to expropriation by local governments. Those operating in regions with great income inequality or poor legal system experience the highest risk of government expropriation. However, established political connections can alleviate government expropriation risks for start-ups with high-SES owners.
ACKNOWLEDGEMENTS

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### TABLE 1  Overview of the Sample Selection Process

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<tr>
<td>Initial sample</td>
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<td>Dropping: missing values for entrepreneur’s SES</td>
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<td>Usable sample</td>
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<td>Dropping: missing values of firm size, profits, or age</td>
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<td>Dropping: missing values for other control variables</td>
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<tr>
<td>Final sample: first-stage probit model</td>
<td>1,537</td>
</tr>
<tr>
<td>Dropping: missing values on levies</td>
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</tr>
<tr>
<td>Final sample: second-stage OLS model</td>
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TABLE 2a  First-Stage Probit Model: Descriptive Statistics and Correlations
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<td>3.Firm age</td>
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<td>6.Equity</td>
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<td>0.36*</td>
<td>0.22*</td>
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<td>7.ACFIC membership</td>
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<td>0.05*</td>
<td>0.17*</td>
<td>0.18*</td>
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<tr>
<td>8.Export intensity</td>
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<td>0.20*</td>
<td>0.04</td>
<td>0.14*</td>
<td>0.02</td>
<td>0.17*</td>
<td>0.11*</td>
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<td>9.R&amp;D intensity</td>
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<td>-0.06*</td>
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<td>12.Party membership</td>
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<td>0.08*</td>
<td>0.09*</td>
<td>0.30*</td>
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<td>19.Regional response rate</td>
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<td>0.07*</td>
<td>0.07*</td>
<td>-0.01</td>
<td>0.04</td>
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<td>Mean</td>
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<td>2.72</td>
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<td>5.61</td>
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<td>0.01</td>
<td>0.19</td>
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Note. N = 1,537. *indicates a correlation significant at the p < .05 level of confidence.
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</thead>
<tbody>
<tr>
<td>Government expropriation</td>
<td>0.33*</td>
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<tr>
<td>Sales</td>
<td>0.06*</td>
<td>0.19*</td>
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</tr>
<tr>
<td>Entrepreneur's age</td>
<td>0.06*</td>
<td>0.23*</td>
<td>0.16*</td>
<td>0.11*</td>
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<tr>
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<td>0.23*</td>
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<tr>
<td>ACFIC membership</td>
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<td>0.06*</td>
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<td>0.19*</td>
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<tr>
<td>Export intensity</td>
<td>0.08*</td>
<td>0.19*</td>
<td>0.08*</td>
<td>0.11*</td>
<td>0.04</td>
<td>0.15*</td>
<td>0.08*</td>
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<td>-0.03</td>
<td>-0.09*</td>
<td>-0.01</td>
<td>0.06</td>
<td>0.08*</td>
<td>0.04</td>
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<tr>
<td>Board effectiveness</td>
<td>0.14*</td>
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<td>0.06</td>
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<td>0.12*</td>
<td>0.30*</td>
<td>0.16*</td>
<td>0.11*</td>
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</tr>
<tr>
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<td>Party membership</td>
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<td>0.25*</td>
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<td>0.18*</td>
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<tr>
<td>GDP per capita</td>
<td>-0.06*</td>
<td>0.02</td>
<td>0.11*</td>
<td>0.03</td>
<td>0.05</td>
<td>-0.03</td>
<td>0.01</td>
<td>0.08*</td>
<td>-0.07*</td>
<td>0.02</td>
<td>-0.06*</td>
<td>0.03</td>
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<tr>
<td>Unemployment rate</td>
<td>-0.11*</td>
<td>-0.16*</td>
<td>0.00</td>
<td>-0.10*</td>
<td>0.01</td>
<td>-0.12*</td>
<td>-0.14*</td>
<td>-0.04</td>
<td>-0.06*</td>
<td>-0.03</td>
<td>-0.12*</td>
<td>-0.06*</td>
<td>0.03</td>
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<tr>
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<td>-0.11*</td>
<td>0.00</td>
<td>-0.12*</td>
<td>-0.10*</td>
<td>-0.03</td>
<td>-0.11*</td>
<td>-0.08*</td>
<td>0.03</td>
<td>-0.04</td>
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<td>-0.12*</td>
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<td>-0.02</td>
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<td>0.08*</td>
<td>0.07*</td>
<td>0.05</td>
<td>0.00</td>
<td>0.07*</td>
<td>0.09*</td>
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<td>0.02</td>
<td>0.01</td>
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<td>0.75*</td>
<td>0.06*</td>
<td>-0.58*</td>
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<tr>
<td>Political connections</td>
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<td>0.15*</td>
<td>0.02</td>
<td>0.02</td>
<td>0.15*</td>
<td>0.15*</td>
<td>0.08*</td>
<td>0.03</td>
<td>0.08*</td>
<td>0.13*</td>
<td>0.13*</td>
<td>0.22*</td>
<td>-0.11*</td>
<td>0.03</td>
<td>0.06*</td>
<td>-0.10*</td>
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<tr>
<td>SES</td>
<td>0.26*</td>
<td>0.30*</td>
<td>0.09*</td>
<td>0.28*</td>
<td>-0.02</td>
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<td>0.12*</td>
<td>0.05</td>
<td>-0.05</td>
<td>0.07*</td>
<td>0.17*</td>
<td>0.07*</td>
<td>0.12*</td>
<td>-0.07*</td>
<td>-0.08*</td>
<td>0.17*</td>
<td>0.02</td>
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<td></td>
</tr>
<tr>
<td>Inverse Mills ratio</td>
<td>0.06*</td>
<td>0.04</td>
<td>-0.08*</td>
<td>-0.00</td>
<td>0.06*</td>
<td>0.03</td>
<td>0.04</td>
<td>0.20*</td>
<td>-0.01</td>
<td>0.05</td>
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<td>0.01</td>
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<td>0.11*</td>
<td>-0.08*</td>
<td>0.04</td>
<td>0.04</td>
<td>-0.06*</td>
<td></td>
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</tbody>
</table>

**Mean**          | 0.56    | 6.42    | 2.60    | 2.77    | 42.77   | 5.62    | 0.49    | 0.00    | 0.01    | 0.19    | 1.85    | 0.35    | 24,762  | 3.77    | 2.86    | 4.58    | 0.21    | 0.03    | 0.35    |

**S.D.**          | 0.87    | 2.18    | 1.18    | 2.86    | 8.33    | 1.84    | 0.50    | 0.02    | 0.05    | 0.39    | 2.64    | 0.48    | 13,317  | 0.62    | 0.49    | 2.17    | 0.40    | 1.42    | 0.24    |

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Note. \( N = 1,164 \); * indicates a correlation significant at the \( p < .05 \) level of confidence.
TABLE 3 Coefficients of Heckman Two-Stage Models Predicting Government Expropriation

<table>
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<tr>
<th>First-stage DV: whether responding</th>
<th>Second-stage DV: Government expropriation</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
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<tr>
<td>Sales</td>
<td>0.034</td>
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<tr>
<td></td>
<td>(0.028)</td>
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<tr>
<td>Firm age</td>
<td>0.021</td>
</tr>
<tr>
<td></td>
<td>(0.034)</td>
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<tr>
<td>Profit</td>
<td>-0.004</td>
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<tr>
<td></td>
<td>(0.016)</td>
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<tr>
<td>Entrepreneur’s age</td>
<td>-0.006</td>
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<tr>
<td></td>
<td>(0.005)</td>
</tr>
<tr>
<td>Equity</td>
<td>-0.008</td>
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<tr>
<td></td>
<td>(0.030)</td>
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<tr>
<td>ACFIC membership</td>
<td>0.079</td>
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<tr>
<td></td>
<td>(0.083)</td>
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<tr>
<td>Export intensity</td>
<td>-2.744†</td>
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<tr>
<td></td>
<td>(1.588)</td>
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<tr>
<td>R&amp;D intensity</td>
<td>1.128</td>
</tr>
<tr>
<td></td>
<td>(0.879)</td>
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<tr>
<td>Board effectiveness</td>
<td>-0.057</td>
</tr>
<tr>
<td></td>
<td>(0.101)</td>
</tr>
<tr>
<td>Bank loans</td>
<td>-0.040*</td>
</tr>
<tr>
<td></td>
<td>(0.017)</td>
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<tr>
<td>Party membership</td>
<td>-0.032</td>
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<tr>
<td></td>
<td>(0.087)</td>
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<tr>
<td>GDP per capita</td>
<td>0.000</td>
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<tr>
<td></td>
<td>(0.000)</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>-0.021</td>
</tr>
<tr>
<td></td>
<td>(0.066)</td>
</tr>
<tr>
<td>First-stage DV: whether responding</td>
<td>Second-stage DV: Government expropriation</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>--------------------------------------------</td>
</tr>
<tr>
<td>Model 1</td>
<td>Model 2 Model 3 Model 4 Model 5 Model 6 Model 7</td>
</tr>
<tr>
<td>Income inequality</td>
<td>0.109 0.113 0.118 0.141* 0.123 0.110 0.132*</td>
</tr>
<tr>
<td>(0.108)</td>
<td>(0.065) (0.065) (0.065) (0.065) (0.065) (0.065)</td>
</tr>
<tr>
<td>Legal system development</td>
<td>0.009 0.012 0.013 0.016 0.011 0.014 0.017</td>
</tr>
<tr>
<td>(0.030)</td>
<td>(0.019) (0.019) (0.019) (0.019) (0.019) (0.019)</td>
</tr>
<tr>
<td>Political connections</td>
<td>-0.009 -0.012 -0.015 -0.003 -0.010 -0.010 0.003</td>
</tr>
<tr>
<td>(0.098)</td>
<td>(0.060) (0.060) (0.060) (0.060) (0.060) (0.060)</td>
</tr>
<tr>
<td>Regional response rate</td>
<td>1.798*** (0.129)</td>
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<tr>
<td>SES</td>
<td>0.052† (0.030)</td>
</tr>
<tr>
<td>SES × Income inequality</td>
<td>0.098*** 0.100*** 0.096*** 0.099*** 0.119*** 0.117***</td>
</tr>
<tr>
<td>(0.018)</td>
<td>(0.018) (0.018) (0.018) (0.018) (0.020) (0.020)</td>
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<tr>
<td>SES × Legal system development</td>
<td>0.099** (0.033)</td>
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<tr>
<td>(0.018)</td>
<td>(0.039)</td>
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<tr>
<td>SES × Political connections</td>
<td>-0.017* -0.006 (0.008)</td>
</tr>
<tr>
<td>(0.018)</td>
<td>(0.009)</td>
</tr>
<tr>
<td>Inverse Mills ratio</td>
<td>0.220* 0.231* 0.210* 0.216* 0.221* (0.103)</td>
</tr>
<tr>
<td>(0.103)</td>
<td>(0.102) (0.103) (0.102) (0.102) (0.102)</td>
</tr>
<tr>
<td>Industry and Year dummies</td>
<td>yes yes yes yes yes yes</td>
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<tr>
<td>Constant</td>
<td>-0.554 0.023 -0.012 0.392 0.038 0.042 0.496*</td>
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<tr>
<td>(0.559)</td>
<td>(0.320) (0.320) (0.237) (0.318) (0.321) (0.244)</td>
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<tr>
<td>Number of Observations</td>
<td>1,537 1,164 1,164 1,164 1,164 1,164 1,164</td>
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<tr>
<td>R-squared</td>
<td>0.140 0.218 0.221 0.228 0.225 0.225 0.232</td>
</tr>
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</table>

*Note.* Standard errors in parentheses. ***indicates a coefficient significant at the $p < .001$ (** $p < .01$, * $p < .05$, † $p < .1$) level of confidence.
### TABLE 4  Coefficients of OLS regressions predicting government expropriation

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
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<td>Socioeconomic status (College education or above)</td>
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<td></td>
<td>(0.069)</td>
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<tr>
<td>Socioeconomic status (Family income)</td>
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<td>0.201***</td>
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<tr>
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<td>(0.029)</td>
</tr>
<tr>
<td>Controls</td>
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<td>yes</td>
</tr>
<tr>
<td>Industry dummy</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Year dummy</td>
<td>yes</td>
<td>yes</td>
</tr>
<tr>
<td>Observations</td>
<td>1,164</td>
<td>1,164</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.179</td>
<td>0.209</td>
</tr>
</tbody>
</table>

Note. ***indicates a coefficient significant at the $p<0.001$ (* $p<0.05$) level of confidence. Standard errors are shown in parentheses. The control variables were sales, age, profit, entrepreneur’s age, equity, firms’ participation in the ACFIC, export intensity, R&D intensity, board effectiveness, bank loans, party membership, GDP per capita, employment rate, income inequality, legal system, political connections, and inverse Mills ratio. Intercepts and the control variables are not reported.
FIGURE 1 The interaction between an entrepreneurs’ socioeconomic status and income inequality in predicting expropriation.
FIGURE 2 The interaction between an entrepreneurs’ socioeconomic status and legal system development in predicting expropriation.
FIGURE 3 The interaction between entrepreneurs’ socioeconomic status and their political connections (a dummy variable) in predicting expropriation.