



Re-examining foreign subsidiary survival in a transition economy: Impact of market identity overlap and conflict

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ARTICLE INFO

Keywords:

Foreign subsidiary
Firm survival
Transition economies
Market identity
Interpopulation ecology
Socialist legacy
China

ABSTRACT

Taking an identity perspective from the organizational ecology literature, we re-examine foreign subsidiary survival in a transition economy. State-owned enterprises (SOEs) with a socialist identity and privately owned enterprises (POEs) with a market identity exert different influences on foreign-owned enterprises (FOEs). SOEs and POEs affect the survival of FOEs primarily through the cognitive legitimation process. SOEs tend to crowd out FOEs due to identity conflict. Owing to identity overlap, POEs tend to increase the survival chances of FOEs. The level of socialist legacy in regions where FOEs are located affects the sociopolitical legitimacy of FOEs' market identity, thus moderating the relationships between SOE and POE density and the survival of foreign subsidiaries.

1. Introduction

Owing to the international expansion of multinational corporations (MNCs), the determinants of foreign subsidiary survival have long been a central issue in international business research. However, apart from the context of international joint venture (JV) studies (Mohr et al., 2016), little attention has been paid to the potential influence of domestic firms on foreign subsidiary survival (Chang & Xu, 2008; Li, 2008). Limited previous studies have mostly approached the impact of domestic firms from the perspective of competition. Earlier researchers have argued that the higher the density of domestic firms, the lower the entry rate of foreign firms (Li, 2008) and the poorer their performance (Miller & Eden, 2006), especially in developed economies.

Later scholars extended this line of research to examine the heterogeneity of domestic firms, especially their ownership type in a transition economy. As an economic system moves from a planned to a market economy, dominant state-owned enterprises (SOEs) and newly emerging privately owned enterprises (POEs) coexist (Luo et al., 2019; Steensma & Lyles, 2000; Xu et al., 2014; Yun et al., 2022). SOEs and POEs in a transition economy tend to have different resource endowments and market niches (Chang & Xu, 2008). Chang and Xu (2008) found that reformed local POEs are more likely to crowd out foreign entrants than conventional local firms (including SOEs) owing to greater

market and resource overlaps. This research stream has largely assumed that market-based competition from domestic firms drives foreign subsidiary survival. Such an assumption may not be an issue in developed market economies where private ownership and market competition dominate.

However, in transition economies where market-based operations have not fully received support from local communities and the presence of foreign-owned enterprises (FOEs) is low, FOEs may encounter cognitive and sociopolitical legitimacy challenges when they compete with SOEs and POEs (Ahlstrom & Bruton, 2001; Zeng & Xu, 2020). Cognitive (or constitutive) legitimacy refers to a new organizational form being taken for granted (Hannan & Freeman, 1989), whereas sociopolitical legitimacy indicates the extent to which a new form conforms to established principles, rules, and standards (Aldrich & Fiol, 1994). Although studies from the intrapopulation ecology perspective have mainly examined how foreign firms can gain cognitive legitimacy by collocating with other FOEs (Peng & Beamish, 2019; Zeng & Xu, 2020) and institutional theory has largely elaborated how FOEs gain sociopolitical legitimacy from isomorphic processes and firm strategies (Gaur & Lu, 2007; Mata & Portugal, 2000), little attention has been paid to the legitimation influences of diverse domestic organizational forms that are situated in the interpopulation ecology perspective (Ruef, 2000). To fill this research gap, our study considers the following

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research questions: How do SOEs and POEs influence the survival of foreign subsidiaries differently? How do these effects vary in different subnational regions?

We approach the research questions from the identity perspective in the interpopulation ecology literature. Interpopulation ecology embodies ideas on organizational identity that can help explain variations in terms of organizational forms (Dobrev et al., 2006; Ingram & Simons, 2000; Ruef, 2000). SOEs and POEs can represent two fundamentally different dimensions of pressure in a transition market. Although ownership type can reflect differences in resources and market niches, it also informs the core identity of a particular type of domestic firm and the levels of its cognitive and sociopolitical legitimacy in the local market (Luo et al., 2019; Steensma & Lyles, 2000; Xu et al., 2014).

Furthermore, the identity perspective from the interpopulation ecology literature provides ideal theoretical mechanisms to describe interactions among organizational forms (Dobrev et al., 2006; Ingram & Simons, 2000; Ruef, 2000). It helps address the sources of cognitive and sociopolitical legitimacy for foreign subsidiaries when interacting with SOEs and POEs. During the early phase of economic transition, SOEs with a socialist identity remain legitimate and even dominant (Shinkle & Kriauciunas, 2012; Steensma & Lyles, 2000; Xu et al., 2014), while POEs with a market identity strive to grow and develop their legitimacy (Xu et al., 2014). Such SOEs and POEs with distinct fundamental identities represent different logics of economic activities (Greve & Zhang, 2017) and are expected to influence foreign subsidiary survival in various ways (Dobrev et al., 2006; Ingram & Simons, 2000; Ruef, 2000). Their presence in a local market affects cognitive legitimacy because it influences the types of business activities that are considered understandable and taken for granted by audiences such as local business partners, government agencies, and the public. It also embodies residual sociopolitical legitimacy acquired previously by SOEs and POEs (Ruef, 2000). The identity conflict and identity overlap between domestic and foreign firms can affect the legitimation process of SOEs and POEs (Dobrev et al., 2006; Ingram & Simons, 2000; Ruef, 2000).

Examining organizational form dynamics in a transition economy context also provides an opportunity to enrich the organizational ecology perspective. Transition economies are characterized by unevenly developed regional institutions due to historical paths (Raynard et al., 2013; Tran & Santarelli, 2021). Not all foreign firms face the same opportunities and threats brought by domestic firms. Although most foreign firms may have a market identity, their location may influence the sociopolitical legitimacy of that identity. Subnational areas in transition economies often have different levels of socialist legacy due to the historical developmental trajectories of ideologies (Shinkle & Kriauciunas, 2012; Wang et al., 2019) and the extent to which regional systems sustain socialism (Li et al., 2010). Such a regional historical legacy can not only inform the temporal influence of the socialist past but also generate spatial heterogeneity among locally accepted ideologies and norms, thus influencing the sociopolitical legitimacy of market identity. Such heterogeneities in regional institutions help enrich temporal and spatial effects on interpopulation dynamics (Wezel, 2005).

In sum, building on the identity perspective in the interpopulation ecology literature, this study is designed to re-examine foreign subsidiary survival in a transition economy. We argue that SOEs crowd out FOFs because of the core identity conflict. By contrast, POEs enhance FOFs' survival owing to identity overlap. The degree of socialist legacy may strengthen these effects. Our empirical analysis is based on a panel of data describing 84,016 foreign subsidiaries in China during the 1998–2007 period. These findings contribute to the foreign subsidiary survival and organizational ecology literature.

2. Theoretical background

2.1. Prior research on foreign subsidiary survival

Various perspectives have been applied in examining the

determinants of foreign subsidiary survival in a host country. One research stream has adopted intraorganizational ecology reasoning to explore how market share (Mitchell et al., 1994) or the entry of other foreign firms can influence foreign firms' survival (Kronborg & Thomsen, 2009; Peng & Beamish, 2019; Zeng & Xu, 2020). Another research stream has applied the organizational learning perspective to investigate how the international experience of firms (Delios & Beamish, 2001; Li, 1995) and the experience of peer firms from the same country can influence foreign subsidiary survival (Dai et al., 2013; Yang et al., 2015). Other works have argued that entry mode (Li, 1995), entry timing (Delios & Makino, 2003), and firm resources (Delios & Beamish, 2001) can influence foreign subsidiaries' advantages and affect their survival chances. Many studies have drawn on institutional perspectives and highlighted the roles of institutions in foreign subsidiary survival. Some have shown that economic (Tsang & Yip, 2007), cultural (Zeng et al., 2013), and institutional distances (Gaur & Lu, 2007) between a home country and a host country are influential. In addition, some have documented emerging markets with unique institutional characteristics (Getachew & Beamish, 2017; Ma & Delios, 2007).

Previous work has greatly expanded the understanding of foreign subsidiary survival, but some important questions remain underexplored. First, the potential influence of domestic firms on foreign subsidiary survival has been discussed less often than other topics. Domestic and foreign firms often have different sources of competitive advantages; thus, domestic firms can influence foreign subsidiaries differently than their foreign peers do (Li, 2008). Therefore, examining how the presence of domestic firms can influence foreign subsidiary survival is important. Few studies on reverse spillover have examined the influence of domestic firms on foreign firms (e.g., Driffield et al., 2014; Wei et al., 2008). Instead, most research has focused on whether domestic firms can influence the productivity (Wei et al., 2008) and innovation of foreign firms (Li et al., 2013; Liu et al., 2014) from a knowledge-based perspective. We must also examine the impact of different types of domestic firms on FOFs' survival because such impacts may occur through different mechanisms than those that affect productivity or innovation. Furthermore, although most reverse spillover studies have treated domestic firms as a homogeneous group, only a few (e.g., Chang & Xu, 2008; Kamal, 2014) have considered how domestic firms with different identities can distinctly affect foreign firm survival in a transition economy context.

Second, few studies focusing on foreign subsidiary survival have highlighted unique transition market characteristics. Transition economies are subsets of emerging economies that are shifting from a centrally planned to a market-based economic system. Some researchers have found that institutional voids in emerging markets can influence foreign subsidiary survival (Getachew & Beamish, 2017), whereas others have concentrated on resource competition (Chang & Xu, 2008). However, features unique to transition economies have been less well documented. For instance, during an economic transition, domestic firms with different types of organizational identities emerge (Luo et al., 2019; Xu et al., 2014). Residual SOEs retain a socialist identity and conduct business differently than POEs with a market capitalist identity (Greve & Zhang, 2017). They represent different types of legitimacy and preferred ways of doing business in the local market. Cognitive and sociopolitical legitimacy can be critical issues for foreign subsidiaries in a host country before any knowledge spillover can happen. However, studies on reverse spillover have rarely explored such issues (Chang & Xu, 2008; Kamal, 2014). In addition, the effects of distinctive transition economy features, such as the degree of socialist legacy at the regional level, on the dynamics between domestic and foreign firms are less well known.

2.2. Legitimacy, organizational forms, and interpopulation dynamics

Organizational form refers to "those characteristics of an organization that identifies [sic] it as a distinct entity and, at the same time, classifies [sic] it as a member of a group of similar organizations"

(Romanelli, 1991: 81). The emergence of a new organizational form requires it to acquire legitimacy, which is defined as the acceptance of an organizational form by its environment (Hannan & Freeman, 1989). Organizational ecologists suggest differentiating cognitive and sociopolitical legitimacy: the former is “how taken for granted a new form is,” and the latter is “the extent to which a new form conforms to recognized principles or accepted rules and standards” (Aldrich & Fiol, 1994: 646). Cognitive legitimation, which refers to spreading knowledge about a new organizational form, is often examined in intra- and interpopulation ecology studies. Intrapopulation ecology is depicted by the density-dependent model (Hannan & Freeman, 1989). An initial increase in the density of a form can improve the audience’s cognitive understanding of it. However, a further increase in density can lead to resource depletion, resulting in competition (Hannan & Freeman, 1989).

Interpopulation ecology highlights two distinct mechanisms that lead to different interpopulation dynamics. The first mechanism applies to forms with conflicting identities and few resource and niche overlaps. As the number of organizations in a form increases, its cognitive legitimacy is bolstered (Ruef, 2000). If the emerging form has a serious identity conflict with the existing form, then audiences will not have a comprehensive understanding of the emerging form. Hence, legitimacy spillover is unlikely (Ruef, 2000; Xu et al., 2014). Firms of the established form can also refuse to deal with or even attack those of the emerging form with an opposing identity (Simons & Ingram, 2004; Xu et al., 2014). Lack of access to critical resources and/or hostility can then threaten the survival of firms (Ingram & Simons, 2000; Simons & Ingram, 2004). The second mechanism is related to forms’ overlapping identities (Dobrev et al., 2006; Ruef, 2000). An existing form gains cognitive legitimacy as the density of firms identified with it increases. If the identity of an emerging form overlaps with that of an existing form, the former can obtain cognitive legitimacy from the latter (Dobrev et al., 2006; Ruef, 2000). For example, financial cooperatives can gain cognitive legitimacy from commercial banks because “the two forms share the same general identity of a money lending institution” (Dobrev et al., 2006: 584).

Sociopolitical legitimation is largely about receiving acceptance from key stakeholders, such as the general public, key opinion leaders, and government officials (Aldrich & Fiol, 1994). Early intrapopulation research assumed that sociopolitical legitimacy is largely derived from population growth (Aldrich & Fiol, 1994; Hannan & Freeman, 1989). Sociopolitical legitimation has also been examined in interpopulation ecology studies. For organizational forms with a crucial identity conflict, sociopolitical legitimacy spillover is less likely to happen due to the incompatibility of ideological priorities and cultural norms (Simons & Ingram, 2004). For forms with identity overlap, when the density of one form increases, the new form can enjoy residual sociopolitical legitimacy due to prior collective action by a previously existing form (Aldrich & Ruef, 2006; Ruef, 2000). For example, freestanding abortion clinics enjoy sociopolitical spillover from family planning organizations because the latter reduces much of the social movement cost for the former in securing regulatory approval (Ruef, 2000).

In addition to ecologists, institutionalists have examined how organizational forms can gain cognitive legitimacy through institutional entrepreneurs’ identity work (Brown & Toyoki, 2013) or acquire sociopolitical legitimacy by establishing linkages with powerful actors or through isomorphism processes or firm strategies (Baum & Oliver, 1991; Haveman & David, 2008). Many prior studies on FOEs’ survival have examined how sociopolitical legitimacy can influence foreign subsidiary survival from the institutional perspective (e.g., Gaur & Lu, 2007; Mohr et al., 2016) and cognitive legitimacy from the intrapopulation ecology perspective (e.g., Peng & Beamish, 2019; Zeng & Xu, 2020). However, these two perspectives are not sufficient to explain interpopulation dynamics, which can also influence foreign firm survival, especially in a transition economy context where multiple organizational forms with different identities coexist (Xu et al., 2014).

2.3. Ownership type as a distinct form in China

Conceptualizing SOEs, POEs, and FOEs as distinct organizational forms based on ownership is well justified by prior studies (Xu et al., 2014; Zhou & van Witteloostuijn, 2010). Ownership type can determine the legitimacy of doing business in transition economies. For example, in China, the economic transition has been in progress since the 1970s. At that time, the economy was centrally planned, and SOEs based on the socialist ideology dominated the economy. SOEs often have ancillary social objectives, such as maintaining employment and controlling important industries (Greve & Zhang, 2017). They may not be particularly profit oriented and have limited control over their operations (Greve & Zhang, 2017).

The first phase of China’s transition started in 1978. New government policies allowed POEs and FOEs to emerge. However, SOEs continued to exist, and neither POEs nor FOEs enjoyed high status. They were operating under the capitalist market system (Xu et al., 2014; Zhang & Keh, 2010) and thus were abhorrent to the socialist ideology. The second transitional phase began in 1992 when the central government sought to establish what was described as a “socialist market economy,” which involved restructuring ownership and promoting further market competition (Wang et al., 2019). In 1997, private ownership gained legal status through a constitutional amendment. With the open-door policy, numerous FOEs were attracted to promote market-based operations (Zhang & Keh, 2010). Data from the Chinese National Bureau of Statistics (CNBS) annual yearbook show that over 99.5 percent of these FOEs were from capitalist economies such as the US, Japan, South Korea, and France. Although FOEs can be either publicly or privately owned in their home countries, FOEs and POEs operate under a more market-based system according to the institutional arrangement of the Chinese government (Yun et al., 2022). The evolution of SOEs and POEs created different sets of rules in various regional markets, generating regional effects on the survival chances of FOEs (Xu et al., 2014; Zhou & van Witteloostuijn, 2010).

3. Hypotheses

From the organizational ecology perspective, cognitive and sociopolitical legitimacy are lacking for new foreign firms with different nationalities and with little institutional support from local communities. Even though organizational ecologists do not deny the roles of powerful social actors (e.g., government and industry associations) and institutional entrepreneurs in establishing sociopolitical legitimacy for new forms (Ruef, 2000), a comprehensive explanation of FOE legitimation requires us to consider other populations in communities (Aldrich & Ruef, 2006).

During the early stage of the economic transition, the private sectors in which FOEs operate began to receive some degree of sociopolitical legitimacy because of legal recognition (Xu et al., 2014). However, their sociopolitical legitimacy was still relatively low among key stakeholders, such as local labor forces and industry associations (Zeng & Xu, 2020). More importantly, cognitive legitimacy was still lacking due to the low level of comprehensibility of market-based enterprises such as FOEs among local audiences (Zeng & Xu, 2020). As suggested by Aldrich and Fiol (1994), sociopolitical legitimacy may not be the most relevant to legitimacy issues for a new organizational form. Even though a new form can be legally validated through various strategies, it begins with low cognitive legitimacy by definition, which makes gaining support extremely difficult. Hence, we focus on how the density of domestic forms can influence FOEs’ acquisition of cognitive legitimacy and provide a certain degree of residual sociopolitical legitimacy rather than examining how FOEs acquire sociopolitical legitimacy through political strategies, such as building ties with the government (Zheng et al., 2022).

FOEs entering a host country often encounter a market space with domestic SOEs and POEs with different or similar sets of fundamental

identities. The influence of SOEs and POEs increases as their numbers increase. Miller and Eden (2006) conceptualized local density as the number of firms vying for similar resources in a subnational area in a certain industry. In this study, the local density of SOEs is differentiated from that of POEs.

3.1. Identity conflict with SOEs as a legitimacy challenge to FOE survival

In many transition economies, SOEs with a socialist identity are still the dominant legitimized organizational form (Xu et al., 2014). When the local density of SOEs is large, the socialist ideology continues to prevail (Ingram & Simons, 2000). When those SOEs employ the local workforce, the local public is likely to show patriotic appreciation of public ownership. Fulfilling social objectives, such as maintaining employment, is taken for granted in the eyes of audiences such as local governments, the labor force, and business entities (Greve & Zhang, 2017). When a region has numerous SOEs, their cognitive legitimacy increases with the comprehensibility of socialist identity among local audiences. However, FOEs are likely to be associated with a capitalist market identity. Given that socialism and capitalism are fundamentally opposing ideologies (Ingram & Simons, 2000), the presence of SOEs is unlikely to facilitate audiences' understanding of a market identity. Instead, such audiences are likely to feel that FOEs with a market identity do not fit well with, and are even contradictory to, their schemata. As Ruef (2000: 684) suggested, such "crucial differences in identity are typically sufficient to prevent symbiotic coevolution." Therefore, SOEs cannot provide much cognitive legitimacy spillover to FOEs (Ruef, 2000; Simons & Ingram, 2004).

As the density of SOEs increases, any prior sociopolitical legitimacy associated with socialist norms and standards among local communities spreads (Aldrich & Fiol, 1994). Sociopolitical measures such as regulations that maintain a large labor force and protect domestic markets are hardly useful for FOEs with a market identity. These measures might even decrease the efficiency of FOEs (Simons & Ingram, 2004). Thus, the proliferation of SOEs cannot provide much residual sociopolitical legitimacy spillover to FOEs.

Local legitimacy is particularly important for foreign firms operating in transition economies to acquire local resources and support from local stakeholders (Baik & Park, 2019; Gifford et al., 2010). Although FOEs entering transition economies seek to deploy the ownership advantage obtained from their corporate parent, it is still critical for them to find local partners to deploy location-bounded assets and acquire local knowledge (Liao & Yu, 2012). FOEs also depend on local government authorities to obtain legal licenses and necessary infrastructure, such as factories, water and electricity supply, telecommunication networks, and transportation (Gifford et al., 2010; Reimann et al., 2012). In addition, a successful operation cannot be achieved without skilled laborers, who often have a strong attachment to the local community (Reimann et al., 2012). In regions dominated by SOEs, due to their lack of cognitive and sociopolitical legitimacy, FOEs are less likely to obtain support from local resource providers (Aldrich & Fiol, 1994). Local labor forces and other business entities sometimes discourage those with an opposing ideology by refusing to exchange with them (Simons & Ingram, 2004). These characteristics can make the prevalence of SOEs in a local environment a particularly strong threat to FOEs. Ingram and Simons (2000) empirically showed that banks with strong capitalist beliefs selectively fail to support cooperatives with a socialist orientation. Thus, in a transition economy, the legitimacy challenge of FOEs arises not only from their foreign identity, as has been suggested by prior studies (Peng & Beamish, 2019; Zeng & Xu, 2020), but also from their capitalist market identity. This inherent market identity is partly attributable to their home countries but is largely due to the institutional arrangement in the transition economy.

In addition, SOEs have soft budget constraints and can often acquire the resources they need with government assistance (Goldeng et al., 2008), whereas FOEs are highly likely to have to compete for resources

in the market. SOEs also tend to have a fixed customer base that cannot defect. Therefore, their niche overlap tends to be small, making resource competition less likely to be the main driving force that decreases FOE survival. In addition, when SOEs dominate the center of the market, market forms are more likely to occupy the peripheral market. Thus, SOEs and FOEs are less likely to be direct resource competitors (Yun et al., 2022).

Hypothesis 1. The local density of SOEs will have a positive relationship with the exit risk of an FOE.

3.2. Identity overlap with POEs as legitimacy enhancement of FOE survival

Colocation with POEs may be expected to help legitimize the idea of a market-based identity, to the benefit of foreign entrants. China began allowing POEs as a way to develop a market-based economy (Chang & Xu, 2008; Xu et al., 2014). As the local density of POEs increases, market-based transactions become more common than before and external audiences, such as other domestic businesses, local residents, and the government, come to recognize the region as more market-oriented than others. Over time, market-based strategies come to be taken for granted, and POEs' market-based identity becomes legitimized, at least within the region. Local audiences' understanding of market-based operations can be facilitated to a great extent. As the proliferation of POEs in China remains at an early stage (Ruef, 2000), legitimacy spillover to other market-based forms is still possible. Hence, FOEs that share a market-based identity with POEs can receive cognitive legitimacy spillover, which can enhance their survival.

As the density of POEs increases, any prior and ongoing sociopolitical legitimacy that POEs have acquired through social movements or political approval is likely to spread in the local community. The local political and regulatory environments thus become increasingly more favorable to POEs (Zhang & Keh, 2010). POEs not only gradually gain institutional support (from banks, for example) but also attract additional resources that are important for market-based operations. The acceptance of POEs allows FOEs to enjoy sociopolitical legitimacy spillover due to identity overlap (Ruef, 2000).

Unlike SOEs, which can access resources through government support and have a fixed customer base, POEs and FOEs usually operate under market rules and compete for market resources (Zhou & van Witteloostuijn, 2010). However, due to technological advantages and support from their parent firms, foreign firms are less likely to operate in the same market niche as POEs. Although they sometimes compete for similar resources, such as skilled laborers (Zhou & van Witteloostuijn, 2010), FOEs tend to be in a better position than POEs to win a market competition through market-based strategies (Li et al., 2009). FOEs often pay higher salaries and provide better career opportunities than POEs. POEs and FOEs thus are less likely to compete aggressively in input and output markets. The potential rising competition effect is less likely to override the legitimation benefits in the early stage of economic transition. Otherwise, the emergence of FOEs would become impossible in the local market (Ruef, 2000).

Hypothesis 2. The local density of POEs will have a negative relationship with the exit risk of an FOE.

3.3. Regional socialist legacy and sociopolitical legitimacy

Cognitive legitimacy and sociopolitical legitimacy are complementary and interrelated (Baum & Powell, 1995). Baum and Powell (1995: 530) suggest that "although cognitive legitimacy can be achieved without sociopolitical approval, the latter is considered to be a vital source of, or impediment to, the former". Although different levels of SOE and POE densities primarily affect the cognitive legitimacy of FOEs in a regional market, the regional sociopolitical legitimacy of the market identity serves as an additional channel that interacts with the density to

affect the survival of FOEs. Here, we take into account regional socialist legacy as a particular characteristic of a transition economy that affects the sociopolitical legitimacy of FOEs' market identity. Institutional theorists suggest that old cultures, values, ideologies, and institutions hardly fade away during institutional transitions (Shinkle & Kriauciunas, 2012; Wang et al., 2019). Rather, they continue to have an enduring effect on organizations and individuals through various material and symbolic legacies (Raynard et al., 2013). During economic transitions, several national and local policy initiatives were put forward to promote a market-based economy. However, a socialist legacy still prevailed. As suggested by Lieberman (2002: 702), "New policies, institutional arrangements, or ideological paradigms...do not replace the old but are layered atop prior patterns." Thus, the effect of the socialist legacy cannot be ignored.

In this study, the socialist legacy can be understood as the socialist past affecting the institutions, attitudes, and behaviors of actors at diverse levels across sociopolitical and economic systems during the transition (LaPorte & Lussier, 2011). It includes inherited ideas and structures, thinking models, and institutions about socialism (Peters & Painter, 2010). Its effects can influence how actors respond to broader institutional prescriptions. Legacies often have varied effects across geographical regions (Marquis et al., 2011) because organizations established around the same period in different regions are more likely to have incorporated similar cognitive frames (Raynard et al., 2013).

Transition economies, such as China, Russia, and Vietnam, have varying institutional landscapes across different subnational areas (Raynard et al., 2013). The historical development trajectory leads to institutions being unevenly developed across regions, particularly in terms of their socialist legacy (Nykanen, 2021; Wang et al., 2019). The central government seeks to adopt various strategies to develop and sustain new patronage of the socialist ideology in the face of China's fast marketization process (Li et al., 2010). Red education sites are one of the popular political measures used by several communist-led nations to reinforce the sense of national identity and promote the achievements of the socialist regime (Li et al., 2010). For example, red education sites in China utilize the historical heritage of the Chinese Communist Party (CCP) (Li & Hu, 2008) to enhance the Chinese socialist identity, which is a combination of socialist ideology, patriotism, and traditional Chinese virtues, such as collectivism (Li et al., 2010). These sites include the residences of former CCP leaders, past revolutionary event sites, and monuments and other objects associated with the "red spirit" (State Administration of Cultural Heritage, 2007). Such heritage-based education sites are important means of disseminating values, beliefs, and norms related to the socialist legacy (Li et al., 2010; Tang et al., 2021).

The socialist legacy could have a persistent impact on local audience values, beliefs, and behaviors, which then affect the sociopolitical legitimacy of FOEs' market identity. In regions with strong socialist legacies, socialist identity and its associated organizational forms are more likely to be accepted by cultural norms and political authorities through the socialization process (Greve & Rao, 2012), thus acquiring a high level of sociopolitical legitimacy (Aldrich & Fiol, 1994). However, the market identity and its organizational forms as ideological rivals are less likely to be considered appropriate or right in such regions, thus lacking local sociopolitical legitimacy. Organizational forms with a market identity would be difficult to acquire sociopolitical legitimacy.

More specifically, when FOEs operate in a region, local audiences in the local market assess the "suitability of their local environments for particular kinds of businesses through the observation of businesses that have previously succeeded in the region" (Romanelli & Khessina, 2005: 345). In regions with strong socialist legacy, local residents will easily remember and recall the socialist past (Tang et al., 2021). The local residents might consider socialist identity appropriate and treat market identity as its rival. Then, they would view the function of a market economy and its related organizational forms as violating local social norms (Fritsch et al., 2014). With a low level of local sociopolitical legitimacy, FOEs with a market identity would become more atypical to

local audiences due to differences in beliefs, values, and assumptions between foreign MNCs and the local community, resulting a tension between FOEs and the local community (Newenham-Kahind & Stevens, 2018). Such tension can result in a battleground that exists for years and creates a cost that is difficult to reduce over time. Thus, FOEs cannot rely on sociopolitical support as an alternative legitimacy source. Under such circumstances, both cognitive legitimacy spillover and sociopolitical support are impossible. With a lack of sociopolitical approval, it would be even more difficult for FOEs' market identity to develop its cognitive legitimacy (Baum & Powell, 1995). Thus, the socialist legacy serves as an additional institutional layer, enhancing the ecological power of SOEs and further threatening FOEs' survival (Newenham-Kahind & Stevens, 2018).

Hypothesis 3a. The positive relationship between the local density of SOEs and the exit risk of an FOE will be stronger when the socialist legacy of a focal province is high.

The extent of POEs' influence on FOEs' survival also depends on the socialist legacy of a region. Socialist legacy maintaining efforts such as red education initiatives have changed the CCP's role from creating a socialist legacy to transferring that legacy to present and future generations in a sustainable manner (Wall & Zhao, 2017). Regions with a strong socialist legacy have focused more on SOEs and domestic investment, with a regional development emphasis on prioritizing political goals over economic efficiency (Fan & Scott, 2003). In such regions, the market identity is viewed as atypical and contradictory to the local norms, thus resulting in a low level of sociopolitical legitimacy. Under such a situation, FOEs are less likely to gain sociopolitical approval from local audiences, but they have to largely rely on interpopulation legitimation from POEs. Desai (2011) suggested that when a field experiences legitimacy concerns, organizations undertake efforts to minimize disruptions and defend activities within their field. Thus, POEs and FOEs are more likely to defend their market identity together when there is a lack of sociopolitical legitimacy. Consequently, the legitimacy spillover effect becomes stronger. In addition, an unfavorable situation among local audiences can constitute a metalevel identity crisis (Patvardhan et al., 2015). It may activate a collective identity formation through which POEs and FOEs reach a coherent market identity.

In regions with high socialist legacy, local politicians often show dedicated efforts in developing, promoting, and sustaining the socialist past through heritage education sites and other initiatives (Li et al., 2010). The spread of the socialist identity is more common than it was in previous years. Local audiences become further exposed to socialist ideology by recalling the history of the communist revolution and by being exposed to knowledge about the CCP's contributions to national independence, liberation, and prosperity through the socialist regime (Li & Hu, 2008). With such socialist identity reinforcement, the idea that POEs and FOEs represent the market identity will continue to persist in these regions. Under these circumstances, owing to the lower level of local acceptance caused by the lack of sociopolitical legitimacy, the interpopulation legitimacy spillover becomes an important channel for FOE survival.

For regions with a low level of socialist legacy, capitalist values may influence local audiences' values, beliefs, and behaviors (Wang et al., 2019). In such regions, the market identity normally enjoys a higher level of sociopolitical legitimacy, and market-based operations are viewed as appropriate by local audiences. Therefore, FOEs can seek legitimacy from the local institutions and legitimacy spillover becomes less important in these regions. Capitalist ideology can stimulate free-market behavior (Chang & Wu, 2014), reduce entry barriers, and promote competition (Shinkle & Kriauciunas, 2012), strengthening competitive effects.

Hypothesis 3b. The negative relationship between the local density of POEs and the exit risk of an FOE will be stronger when the socialist legacy of a focal province is high.

4. Methods

4.1. Sample and data

China provides an ideal setting for testing our hypotheses. For the past three decades, MNCs have rushed into the Chinese market. China has become the world's fiercest battleground for MNCs competing with different types of local firms. The hypotheses were tested using a panel dataset constructed from data collected through China's Annual Industrial Surveys, with a unique identifier for each firm assigned to each observation. These data have been used in several prior studies (e.g., Chang & Xu, 2008; Xu et al., 2014; Zhang et al., 2014). We obtained the data from the EPS Database company and found that our sample size was almost identical to the officially released number from the CNBS. The database contains information on approximately 500,000 industrial firms. By law, all firms with annual sales of at least ¥5 million (790,000 USD) must report annually (Chang & Xu, 2008). From 1998 to 2006, the data cover all Chinese SOEs regardless of sales and other types of firms with annual sales of at least ¥5 million. After 2006, the sampling criteria were changed (Zhang et al., 2014), so the independent variables of our study were restricted to the data from 1998 to 2006. Theoretically, we chose this sampling window to coincide with the period when identity-based dynamics became important over the course of the transition of the Chinese market. During this period, state logic still prevailed and market logic began to gain ground (Greve & Zhang, 2017). SOEs wanted to remain dominant, but POEs and FOEs began to emerge. Hence, during our sampling window, we could observe inter-population dynamics driven by identity overlap and conflict among diverse organizational forms.

Firm ownership type is represented by a three-digit code in the survey database. However, some firms did not update their ownership information after changes in their ownership structure, so information on capital investment was used instead to classify firm ownership type. The CNBS has six classifications based on investor identity: (1) state capital; (2) collective capital; (3) legal person capital; (4) private capital; (5) Hong Kong, Macau, or Taiwan capital; and (6) foreign capital. The first four types describe domestic capital. Foreign investment laws require a foreign partner to invest at least 25 percent of a firm's capital. A firm is also considered foreign if at least 25 percent of the capital investment is from Hong Kong, Macau, Taiwan, or other foreign countries. Among domestic firms, SOEs have at least 50 percent state capital investment, collective firms have at least 50 percent collective capital investment, and private firms were a new form of organization at the time of these data. They ostensibly operated under market mechanisms, similar to private enterprises elsewhere, although "private capital" is merely a segment of such investment in China. Legal persons are another form of investors whose interests are aligned with market-based operations (Greve & Zhang, 2017). To capture these new organizational forms, POEs were defined in this study as firms with at least 50 percent legal person or private investment. This definition is consistent with those of other studies on reformed local firms (Chang & Xu, 2008) and private enterprises (Xu et al., 2014). "Other forms" covers firms that do not belong to any of these categories, such as domestic firms with mixed ownership structures where none of the domestic owners has a majority shareholding. Specifically, FOEs with state ownership were excluded from the sample for theoretical simplicity because they are a hybrid organizational form with a fuzzy identity (Tran & Santarelli, 2021). Consistent with the practices of previous studies (Zhang et al., 2014), we included only the data on manufacturing firms in the analyses. After missing data and some data entry errors were removed, the final sample comprised 302,749 firm-year observations.

4.2. Measurement

4.2.1. Dependent variables

Exit of an FOE. A foreign subsidiary was considered to have exited a

market when it discontinued its operations or ceased to operate as a corporation (Chang & Wu, 2014; Chang & Xu, 2008). *Exit of an FOE* was represented by a dichotomous indicator variable, with "1" indicating the exit. A foreign subsidiary was identified as having exited at $t + 1$ if it was represented in the data at time t but not at $t + 1$. However, a foreign subsidiary might not have been included at $t + 1$ if its sales dropped below ¥5 million. Following Chang and Wu (2014), information from the 2004 and 2008 economy-wide censuses was used as supplementary data to help ensure variable validity. In 2004 and 2008, the census bureau surveyed all industrial firms operating in China. A firm was coded as having exited only when it did not appear in the economy-wide census data.

4.2.2. Independent variables

Local density of SOEs was quantified as the number of SOEs each year in an industry in a province. Industry was defined at the three-digit level of China's standard industrial classification (SIC) system. *Local density of POEs* was quantified by counting the number of POEs reporting each year in an industry in a province using the same industry and province definitions. To account for the complexity of the ownership structure and size distribution of foreign firms, ownership and size-weighted density measures were evaluated in a robustness check. All density measures were divided by 1000.

4.2.3. Moderators

Regional socialist legacy was measured by counting the number of red education sites in each province. Due to different regional development trajectories, each region has a different level of attachment to the CCP, resulting in an unbalanced number of red education sites. For example, Shaanxi and Hebei Provinces served as the headquarters of the People's Liberation Army and the office location of the CCP Central Committee from 1947 to 1949 (Li et al., 2010); therefore, they have relatively large numbers of red education sites. In each region, a provincial coordination executive team was responsible for promoting and establishing the local socialist heritage (Li & Hu, 2008). Such red education sites can not only attract local residents by enabling them to recall and memorize the contributions of their ancestors in the local community but also help stabilize and sustain the socialist legacy of the region. During annual celebrations, such as Army Day, National Day, and Victory over Japanese Aggression celebrations, local residents, especially younger members of local communities, are often required to visit these sites as part of their patriotism education, beginning when they are primary school students (Wall & Zhao, 2017).

In 1995, the Publicity Department of the CCP Central Committee announced a list of patriotic education sites aiming to promote national pride and enable people to memorize the history of the revolution. In 2004, to further sustain the socialist legacy during the economic transition (Wall & Zhao, 2017), many patriotic education sites related to the history of the communist revolution were selected by the general office of the CCP Central Committee and the State Council and categorized as red education sites. We manually coded the data based on the official red education sites catalog issued in 2004 (Li et al., 2010). In a robustness test, we employed data from a large ideology survey in China to exploit two additional socialist legacy variables from the attitudinal aspect of local residents.

4.2.4. Controls

Several control variables that may affect FOEs' survival were included in the analyses. For the regional-level factors, *local density of FOEs* was included to account for any influence of other FOEs on a firm's decision to exit. Local density was the number of FOEs reporting each year in a three-digit industry in a province. Variables representing *local density of COEs* (collectively owned enterprises) and *local density of other domestic forms* were similarly defined. To rule out the alternative explanation of resource competition from domestic firms, following Zheng et al. (2022), the Herfindahl indexes (HHIs) of SOEs and POEs

were used to represent the competition effect. *HHI of SOEs* was calculated by summing the squared term of each SOE's market share in an industry and region, and *HHI of POEs* was calculated by summing the squared term of each POE's market share in an industry and region. A high value indicates low competition. Provincial *population* ($\times 10^{-4}$) was another control variable representing a region's carrying capacity. Local political turnover might create policy uncertainties that affect FOE survival. *Local political turnover* was coded as a dummy variable with a value of 1 if a new politician took the party secretary position at year t and 0 otherwise (Zhong et al., 2019). At the firm level, *intangible asset intensity of FOEs* was measured by dividing the reported values of each foreign firm's intangible assets by its total assets. In the surveys, intangible assets refer to the value that a firm assigns to patents, unpatented technologies, trademarks, copyrights, trade secrets, and other nonphysical assets (Tian, 2007). *Firm profit* measured as net profit divided by total assets was another predictor, as were *firm size*—the natural logarithm of a firm's total assets at time t —and *firm age*—the number of years since it entered China. Older and larger firms are not as vulnerable to environmental change because of structural inertia (Hannan & Freeman, 1984). *New product* was the natural logarithm of the number of a firm's new products in year t (Li et al., 2018). A firm's *labor cost* was its total reported wages divided by the number of employees. A firm's *export intensity* was the ratio of its exports to its total sales (Zhang et al., 2014). Many export-oriented firms may feel less competitive pressure from other firms in the domestic market. Foreign subsidiaries' country of origin was also a control. Firms from Hong Kong, Macau, and Taiwan tend to have good knowledge of Chinese business culture and to have resource portfolios similar to those of domestic firms (Chang & Xu, 2008). *HMT* was coded as "1" if a foreign firm's parent was from Hong Kong, Macau, or Taiwan and "0" otherwise. *Entry mode* was indicated by a dummy variable coded as "1" if a foreign subsidiary was a JV; "0" indicated that a foreign subsidiary was wholly owned. A wholly owned subsidiary (WOS) had at least 95 percent foreign ownership. The remaining foreign subsidiaries other than WOSs were classified as JVs. Industry dummies defined at the two-digit SIC level and province dummies were also created. To control for the drastic changes when China joined the World Trade Organization, the *year 2001* was included in the analyses as a control variable.

4.3. Model specification

The dependent variable was an indicator of the exit of an FOE. To estimate the associated hazard rate, an event history analysis was performed. This analysis accounts for the temporal variation in the probability of a transition. Parametric Weibull models were evaluated because a parametric model is theoretically more efficient in using information than a semiparametric Cox model (Cleves et al., 2010; Gomulya & Boeker, 2016). In a preliminary analysis, a parametric Weibull model produced the lowest value of Akaike's information criterion among other parametric model specifications. It thus provided the best fit for the data (Allison, 2014). Parametric models are good at generating predicted values (Allison, 2014), and we relied on differences in predicted values to test the moderation hypotheses (Zelner, 2009). Therefore, parametric Weibull models were evaluated in the main analyses, but other model specifications were tested in the robustness checks.

Hazard rates can be represented as follows:

$$\text{LogH}(t) = \sum (Z_i\mu + X_i(t)\beta + c\log t)$$

Independent variables that were constant over time make up vector Z_i . The time-varying covariates for firm i made up $X_i(t)$, μ , and β were the coefficients to be estimated. To minimize the risk of reverse causality, a one-year lag was applied to time-varying explanatory variables. All standard errors were clustered by the firm to account for the interdependence of the observations.

The analyses involved testing moderation hypotheses. In nonlinear

models, such as parametric Weibull models, the coefficient of an interaction term does not correctly represent the direction and statistical significance of the true interaction (Zelner, 2009). Therefore, in the present study, the *Margins* and *Contrasts* commands in the STATA software suite (version 14) were used to estimate interactions. Doing so generated estimates of changes in the predicted hazard of the exit of an FOE, including a confidence interval (CI) for the change, at two levels of the moderators over the entire range of domestic firm densities while holding other continuous variables at their means (Crisuolo et al., 2017). All moderators were mean centered to avoid any potential multicollinearity issue.

5. Results

Table 1 presents the descriptive statistics and correlations describing the variables. The sample includes 302,749 firm-year observations during the nine-year sample period. All variance inflation factors are below 10, alleviating multicollinearity concerns. Of the 84,016 foreign firms, 17,465 are reported to have exited the Chinese market during the period.

Table 2 reports the coefficients of Weibull models predicting the exit of foreign firms. A positive coefficient means that a large value of a variable predicts an increased likelihood of failure. Model 1 is the baseline containing only the control variables. It suggests that large and young foreign firms are more likely to survive and that profitable foreign firms are less likely to exit the market. Foreign firms emphasizing exports are also less likely to leave. Innovative FOEs tend to survive, but firms from Hong Kong, Macau, and Taiwan do not. The intangible asset intensity of an FOE, a type of ownership advantage, has a positive and significant relationship with its survival. FOEs facing competition from POEs are more likely to exit. Facing competition from SOEs enhances survival, possibly due to resource partitioning. These findings are largely consistent with those of prior studies.

Model 2 adds the independent variables. In this model, the local density of SOEs shows a positive and significant ($b = 4.45$, $SE = 0.94$, $p \approx 0.000$) relationship with the likelihood of the exit of an FOE. This result statistically supports Hypothesis 1, but the practical significance of the finding is best indicated by hazard ratios. A larger hazard ratio indicates a greater likelihood and a faster rate of exit. The effect size is given by $100(e^{b\Delta x} - 1)$, which provides the percentage change in the hazard with a change of x units in an independent variable. Accordingly, when the local density of SOEs increases by 0.01 (the number of SOEs increases by 10), the hazard increases by 4.55 percent. When the local density of SOEs increases by 0.05 (the number of SOEs increases by 50), the hazard increases by 24.92 percent. These numbers can be considered economically meaningful, supporting Hypothesis 1.

The results of Model 2 show that the coefficient of the term representing the local density of POEs is negative and significant ($b = -0.35$, $SE = 0.06$, $p \approx 0.000$). Hypothesis 2 is thus statistically supported. In practical terms, when the local density of POEs increases by 0.1, the hazard decreases by 3.44 percent. When the local density of POEs increases by 0.5, the hazard decreases by 16.05 percent. These magnitudes are practically meaningful, confirming Hypothesis 2.

Model 3 includes the interaction between the local density of different types of organizational forms and the regional socialist legacy. The coefficients indicate that the interaction between the local density of SOEs and the regional socialist legacy is positive and significant ($b = 0.50$, $SE = 0.08$, $p \approx 0.000$). The predicted differences in hazard between the high and mean levels of the regional socialist legacy were calculated. The results indicate that the effect is significant when the local density of SOEs is below 0.02 and above 0.04, which is the case in approximately 92.23 percent of the observations. Thus, Hypothesis 3a is statistically supported. The effect sizes at different levels of the regional socialist legacy were calculated with changes in the independent variables of different magnitudes. For example, when the local density of SOEs increases by 0.03, the hazard increases by 27.91 percent when the regional

Table 1
Means (M), standard deviations (SDs), and correlations.

Variables	M	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
(1) FOE exit	0.07	0.25	1																			
(2) Local density of SOEs	0.01	0.01	0.01	1																		
(3) Local density of POEs	0.21	0.31	0.00	0.06	1																	
(4) Firm profit	0.05	0.13	-0.07	-0.03	0.03	1																
(5) Firm size	10.17	1.33	-0.13	0.01	-0.07	-0.02	1															
(6) Firm age	6.58	4.67	0.01	-0.02	-0.00	-0.03	0.14	1														
(7) Intangible asset intensity of FOEs	0.02	0.05	-0.04	-0.01	-0.01	-0.07	0.12	-0.02	1													
(8) New product	0.67	2.45	-0.03	-0.00	-0.00	0.03	0.18	0.05	0.03	1												
(9) Export intensity	0.47	0.45	-0.03	-0.06	-0.10	-0.05	-0.10	0.04	-0.04	-0.05	1											
(10) Labor cost	15.85	11.38	-0.04	-0.07	-0.00	0.07	0.31	0.05	0.03	0.11	-0.15	1										
(11) Population	6030.02	2831.40	0.01	0.09	0.19	-0.02	-0.00	0.05	-0.02	-0.05	-0.16	-0.14	1									
(12) Entry mode	0.39	0.49	0.02	0.07	0.02	0.03	0.00	0.08	0.02	0.09	-0.17	-0.05	-0.10	1								
(13) HMT	0.52	0.50	0.03	0.02	0.03	-0.07	-0.09	0.07	-0.05	-0.05	0.03	-0.15	0.13	-0.06	1							
(14) Year 2001	0.08	0.28	-0.01	0.05	-0.10	-0.02	-0.02	-0.01	-0.01	-0.01	0.00	-0.07	-0.02	0.03	0.02	1						
(15) HHI of SOEs	0.00	0.00	0.01	0.02	-0.19	-0.03	0.04	-0.04	0.01	0.01	-0.07	-0.02	-0.06	0.06	-0.01	0.06	1					
(16) HHI of POEs	0.00	0.00	-0.00	-0.19	-0.21	-0.00	0.03	0.01	0.02	0.01	-0.02	0.02	0.00	-0.01	0.02	0.02	0.25	1				
(17) Local political turnover	0.17	0.38	-0.03	0.01	-0.11	0.02	-0.02	-0.01	-0.00	-0.03	-0.03	-0.07	-0.05	0.03	-0.03	0.02	0.03	0.02	1			
(18) Regional socialist legacy	20.21	9.07	-0.00	-0.08	-0.06	0.05	-0.06	-0.04	0.05	-0.04	-0.08	-0.15	-0.04	0.04	0.01	-0.01	-0.02	-0.02	0.17	1		
(19) Local density of other forms	0.01	0.01	-0.00	0.13	0.72	0.02	-0.10	-0.04	-0.02	-0.03	0.13	-0.07	0.10	0.10	-0.04	-0.02	-0.13	-0.19	-0.04	-0.04	1	
(20) Local density of COEs	0.03	0.04	0.02	0.51	0.28	-0.02	-0.08	-0.02	-0.05	-0.05	0.07	-0.10	0.12	0.04	0.05	0.05	-0.11	-0.22	-0.01	-0.15	0.41	1
(21) Local density of FOEs	0.15	0.22	0.02	0.14	0.63	-0.03	-0.12	0.05	-0.07	-0.05	0.25	-0.07	0.28	-0.13	0.14	-0.06	-0.19	-0.23	-0.10	-0.13	0.46	0.43

n = 302,749 firm-year observations.

Correlations in bold are significant at the $p \leq 0.05$ level of confidence.

socialist legacy is one standard deviation above the mean level. Additionally, the hazard increases by 11.64 percent when the regional socialist legacy equals the mean value. Thus, Hypothesis 3a has practical implications.

In Model 3, the coefficient of the term representing an interaction between POE density and the regional socialist legacy is negative and significant ($b = -0.04$, $SE = 0.01$ $p \approx 0.000$). Calculating the predicted difference in hazard over the 90 percent CI between the high and mean values of the regional socialist legacy shows that the 90 percent CI of the predicted differences does not include 0 when the local density of POEs is below 0.075 and above 0.2. This was the case in approximately 76.40 percent of the observations, so Hypothesis 3b is statistically supported. When the local density of POEs increases by 0.3, the hazard of the exit of an FOE decreases by 9.63 percent when the regional socialist legacy equals the mean value, but it decreases by 18.95 percent when the level of the regional socialist legacy is one standard deviation above the mean. Thus, Hypothesis 3b is economically meaningful.

Figs. 1 and 2 show the interaction of SOE and POE density with levels of the regional socialist legacy across the entire range of such densities. Figs. 1A and 2A depict the predicted hazard for the regional socialist legacy one standard deviation above the mean, at the mean, and below the mean at different density levels. Figs. 1B and 2B illustrate 90 percent CI for the difference in the predicted exit hazard for the regional socialist legacy one standard deviation above the mean or at the mean. The figures are based on Model 3 in Table 2. The Margins and Contrasts commands in version 14 of the STATA software suite were used to estimate changes in the predicted hazard of the exit of an FOE and generated a CI for the estimates at two levels of the moderators over the entire range of domestic form densities while holding other continuous variables at their means.

5.1. Supplementary analysis and robustness check

Although the first order density effect is commonly examined in interpopulation dynamics, potential resource competition might also exist. Except for the HHI, we also evaluated the quadratic terms of SOE and POE density. Results in Table 3 show that the quadratic term for SOE density is not statistically significant, which indicates that there might not be strong resource competition between SOEs and FOEs during the early stage of transition in China. The quadratic term for POE density ends up being positive and significant. The U shape relationship was further verified through a procedure recommended by Haans et al. (2016). It suggests that, although this study primarily focuses on the legitimation process in interpopulation dynamics, the potential competition effect might outweigh the legitimation effects when the local density of POEs exceeds 1.238. The moderating effects remain qualitatively similar.

Two alternative measures of the independent variables were also tested. An ownership-weighted measure of density was tested to better reflect firm identity. Although the classification was based on majority ownership, firms can in fact have mixed ownership structures. Firm identity is fuzzy. An ownership-weighted measure of density was used to capture the fuzziness in a firm's ownership structure. The proportion of capital investment in each category was used as a weight when density was calculated. For example, if a domestic firm had 50 percent state capital, 10 percent collective capital, 20 percent legal person capital, and 20 percent private capital in its investor base, then it was regarded as 0.5 SOE, 0.1 COE, and 0.4 POE when density was calculated. Normally, it would be considered an SOE. Table 4 shows results consistent with those of Table 2 using this weighting. As another alternative, firms' size-weighted density was also tested to account for the size distribution of domestic firms. Following Zhou and van Witteloostuijn (2010), the aggregate sales of each domestic organizational form were used as a measure of population mass. Table 5 shows the results. For both measures, the results are qualitatively similar to those reported in Table 2.

Table 2
Coefficients of models predicting foreign firm exit.

	Model 1			Model 2			Model 3		
	<i>b</i>	<i>SE</i>	<i>p</i>	<i>b</i>	<i>SE</i>	<i>p</i>	<i>b</i>	<i>SE</i>	<i>p</i>
Firm profit	-2.43	0.08	.000	-2.42	0.08	.000	-2.40	0.08	.000
Firm size	-0.49	0.01	.000	-0.49	0.01	.000	-0.49	0.01	.000
Firm age	-0.01	0.00	.000	-0.02	0.00	.000	-0.02	0.00	.000
Intangible asset intensity of FOE	-1.92	0.22	.000	-1.90	0.22	.000	-1.89	0.22	.000
New product	-0.03	0.00	.000	-0.03	0.00	.000	-0.03	0.00	.000
Export intensity	-0.53	0.02	.000	-0.53	0.02	.000	-0.53	0.02	.000
Labor cost	-0.01	0.00	.000	-0.01	0.00	.000	-0.01	0.00	.000
Population	-0.00	0.00	.000	-0.00	0.00	.000	-0.00	0.00	.000
Local political turnover	-0.31	0.02	.000	-0.31	0.02	.000	-0.32	0.02	.000
Entry mode	0.12	0.02	.000	0.12	0.02	.000	0.12	0.02	.000
HMT	0.07	0.02	.000	0.07	0.02	.000	0.06	0.02	.000
Year 2001	-0.14	0.03	.000	-0.16	0.03	.000	-0.17	0.03	.000
HHI of SOEs	256.24	30.71	.000	265.02	31.68	.000	258.07	30.39	.000
HHI of POEs	-68.94	19.83	.001	-61.53	19.45	.002	-62.44	19.47	.001
Local density of other form	-6.16	1.12	.000	-2.22	1.32	.092	-1.80	1.33	.176
Local density of COEs	1.10	0.26	.000	-0.01	0.30	.842	0.29	0.31	.358
Local density of FOEs	-0.45	0.06	.000	-0.16	0.08	.017	-0.26	0.08	.001
Local density of SOEs (H1)				4.45	0.94	.000	4.45	0.89	.000
Local density of POEs (H2)				-0.35	0.06	.000	-0.40	0.07	.000
Regional socialist legacy							-0.28	0.11	.015
Local density of SOEs X Regional socialist legacy (H3a)							0.50	0.08	.000
Local density of POEs X Regional socialist legacy (H3b)							-0.04	0.01	.000
Constant	2.49	0.11	.000	2.35	0.11	.000	1.11	0.56	.049
ln_p Constant	0.49	0.01	.000	0.50	0.01	.000	0.50	0.01	.000

n = 302,749 firm-year observations. Industry and province dummies were included in all models.

We then excluded FOEs with more than 50 percent local ownership and conducted the test again. The results are largely consistent, suggesting that the findings are not biased against the FOE definition. The results shown in Table 6 also indicate that FOEs are categorized as a whole group during the early stage of the economic transition. We also stratified our sample by different regions and industries. The sample was separated into coastal and non-coastal regions (Li & Li, 2010). For industries, high-tech and low-tech industries were also evaluated separately (Howell, 2017). The results in Table 7 suggest that the results hold across different regional and industry stratification.

Extending the sampling window beyond 2006 presented some empirical challenges. One of the major issues was that the exit of an FOE could not be correctly verified, as economy-wide censuses ceased in 2008. Other possible issues are that after 2006, the sampling criteria of the CNBS changed (SOEs with revenue below 5 million RMB were removed from the data), and ownership information could not be fully corrected because the information on capital investment of several years was missing. Moreover, important accounting information, such as

intangible assets and new product sales, was missing. Hence, for the robustness check of our findings in the later period of the transition of the Chinese economy, we separately constructed data from 2007 to 2010 and tested our theory. Table 8 displays the largely consistent results.

In addition to the legacy variable used in the main analysis, we constructed two attitudinal legacy variables (LaPorte & Lussier, 2011) based on data from the China National Citizen Ideology Survey conducted by Peking University in 2008. We matched the two variables to the above data from 2007 to 2010. In one set of questions, the respondents were asked to evaluate the extent to which they trusted local institutions, such as the CCP, central government, People’s Congress, residential committee, procuratorate, local government, police, and social media. Trust in the CCP can be considered a form of the socialist legacy (LaPorte & Lussier, 2011). To measure local residents’ trust in the CCP, we subtracted the mean of trust in other institutions from trust in the CCP to account for an individual’s average trust propensity. Then, we aggregated the individual score at the regional level. Additionally, the respondents were asked about their attitude toward the current

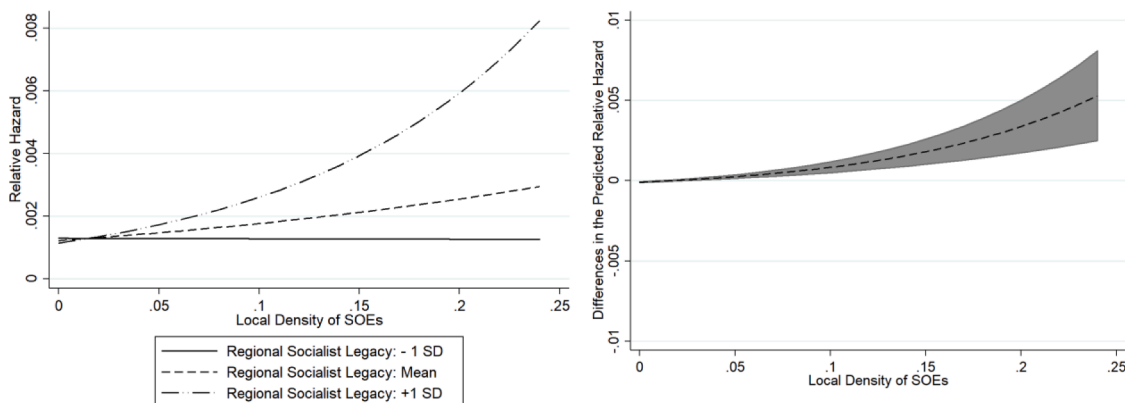
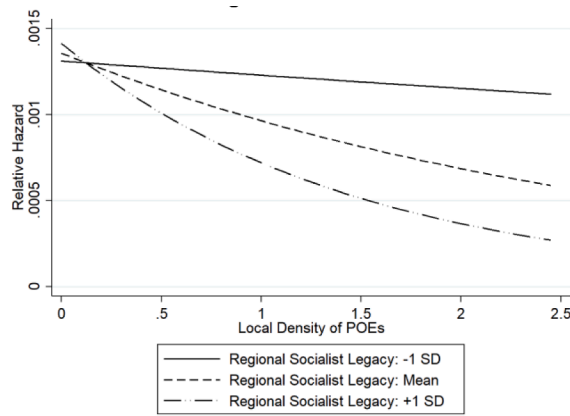
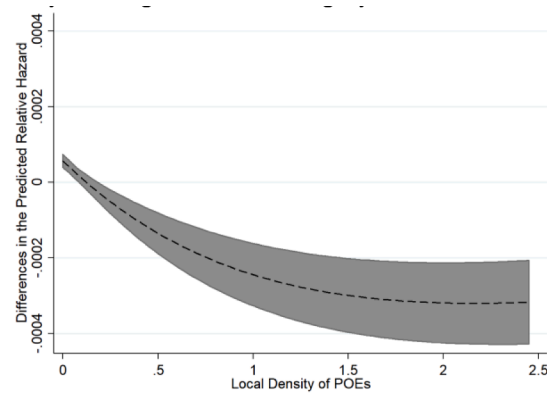


Fig. 1. A and B. Interaction of SOE density with regional socialist legacy.
Notes: Fig. 1A and B are based on Model 3 in Table 2.



A. Predicted hazard of FOE exit for high, mean, and low level of regional socialist legacy



B. Delta predicted hazard of FOE exit for high vs. mean level of regional socialist legacy

Fig. 2. A and B. Interaction of POE density with regional socialist legacy
Notes: Fig. 2A and B are based on Model 3 in Table 2.

Table 3
Coefficients of models predicting foreign firm exit, including quadratic terms of density.

	Model 1			Model 2		
	b	SE	p	b	SE	p
Local density of SOEs (H1)	4.18	1.67	.012	5.55	1.57	.000
Local density of SOEs X Local density of SOEs	3.09	15.59	.843	-11.23	13.16	.393
Local density of POEs (H2)	-1.04	0.11	.000	-1.06	0.11	.000
Local density of POEs X Local density of POEs	0.42	0.05	.000	0.41	0.05	.000
Regional socialist legacy				-0.26	0.11	.022
Local density of POEs X Regional socialist legacy (H3a)				-0.03	0.01	.000
Local density of SOEs X Regional socialist legacy (H3b)				0.52	0.08	.000
Constant	2.33	0.11	.000	1.15	0.56	.043
ln_p Constant	0.50	0.01	.000	0.50	0.01	.000

n = 302,749 firm-year observations. Industry and province dummies were included in all models. Control variables are included in all models but their coefficients are not reported in the table.

political regime. For example, they were asked the extent to which they believed that “the current political regime is the most suitable for China.” This item shows the degree of local residents’ appreciation of the current socialist political regime. We aggregated it to the regional level, namely, *identification with the current socialist regime*. Table 9 shows the largely consistent findings.

Except for the parametric Weibull models, all models were re-evaluated using Gompertz, log-normal, and log-logistic models. The results are basically consistent with those previously reported. As another test, rather than classifying firm ownership type on the basis of capital investment, the three-digit registration codes of the CNBS were used. The results are again similar. Details of all alternative tests are available on request.

6. Discussion

6.1. Theoretical contributions

First, this study contributes to the foreign subsidiary survival literature. Numerous scholars have examined the determinants of foreign subsidiary survival from the intrapopulation perspective (Kronborg & Thomsen, 2009; Mitchell et al., 1994), organizational learning perspective (Dai et al., 2013; Delios & Beamish, 2001; Li, 1995; Yang et al., 2015), competitor analysis perspective (Chang & Xu, 2008), and institutional perspective (Gaur & Lu, 2007; Tsang & Yip, 2007). The present study re-examines the topic and instead focuses on the interpopulation ecology perspective and the distinct characteristics of a transition economy. On one hand, we have contributed to an organizational ecology-based understanding of foreign subsidiary survival,

associated with their cognitive legitimacy. Our findings emphasize the importance of identity as a driver of the cognitive legitimation process of FOEs in the interpopulation dynamics. FOEs can benefit from collocating with local POEs owing to identity affinity, facilitating the cognitive legitimacy spillover and enhancing FOE survival. However, collocating with SOEs can threaten FOEs due to identity conflict, which might block the cognitive legitimation of FOEs and negatively affect their survival.

On the other hand, prior research has primarily focused on the separate effect of cognitive legitimacy through intrapopulation dynamics (Peng & Beamish, 2019; Zeng & Xu, 2020) and sociopolitical

Table 4
Coefficients of models predicting foreign firm exit, using the ownership weighted measure.

	Model 1			Model 2		
	b	SE	p	b	SE	p
Local density of SOEs (H1)	4.76	0.96	.000	4.77	0.91	.000
Local density of POEs (H2)	-0.28	0.05	.000	-0.38	0.06	.000
Local density of SOEs X Regional socialist legacy (H3a)				0.52	0.08	.000
Local density of POEs X Regional socialist legacy (H3b)				-0.03	0.01	.000
Constant	2.32	0.12	.000	1.08	0.57	.057
ln_p Constant	0.50	0.01	.000	0.50	0.01	.000

n = 302,749 firm-year observations. Industry and province dummies were included in all models. Control variables are included in all models but their coefficients are not reported in the table.

Table 5
Coefficients of models predicting the exit of foreign firms, using the size weighted measure.

	Model 1			Model 2		
	<i>b</i>	<i>SE</i>	<i>p</i>	<i>b</i>	<i>SE</i>	<i>p</i>
Local density of SOEs (H1)	0.46	0.11	.000	0.43	0.10	.000
Local density of POEs (H2)	-0.03	0.01	.000	-0.04	0.01	.000
Local density of SOEs X Regional socialist legacy (H3a)				0.06	0.01	.000
Local density of POEs X Regional socialist legacy (H3b)				-0.00	0.00	.000
Constant	2.35	0.12	.000	1.12	0.57	.048
ln_p Constant	0.50	0.01	.000	0.50	0.01	.000

n = 302,749 firm-year observations. Industry and province dummies were included in all models. Control variables are included in all models but their coefficients are not reported in the table.

Table 6
Coefficients of models predicting foreign firm exit, excluding FOEs with majority domestic ownership.

	Model 1			Model 2		
	<i>b</i>	<i>SE</i>	<i>p</i>	<i>b</i>	<i>SE</i>	<i>p</i>
Local density of SOEs (H1)	5.18	1.12	.000	4.91	1.06	.000
Local density of POEs (H2)	-0.26	0.08	.001	-0.31	0.08	.000
Local density of SOEs X Regional socialist legacy (H3a)				0.54	0.09	.000
Local density of POEs X Regional socialist legacy (H3b)				-0.04	0.01	.000
Constant	2.65	0.12	.000	1.01	0.74	.174
ln_p Constant	0.51	0.01	.000	0.52	0.01	.000

n = 236,281 firm-year observations. Industry and province dummies were included in all models. Control variables are included in all models but their coefficients are not reported in the table.

Table 7
Coefficients of models predicting foreign firm exit, by regions and industries.

	Coastal regions			Non-coastal regions			High-tech industries			Low-tech industries		
	Model 1			Model 2			Model3			Model 4		
	<i>b</i>	<i>SE</i>	<i>p</i>	<i>b</i>	<i>SE</i>	<i>p</i>	<i>b</i>	<i>SE</i>	<i>p</i>	<i>b</i>	<i>SE</i>	<i>p</i>
Local density of SOEs (H1)	3.24	1.08	.003	6.74	2.07	.001	5.01	1.62	.002	4.87	1.16	.000
Local density of POEs (H2)	-0.31	0.06	.000	-5.39	0.94	.000	-0.29	0.15	.065	-0.45	0.08	.000
Constant	2.46	0.12	.000	0.68	1.14	.553	2.28	0.21	.000	2.28	0.13	.000
ln_p Constant	0.51	0.01	.000	0.47	0.02	.000	0.52	0.01	.000	0.49	0.01	.000
Observations	282,208			20,541			101,477			201,272		

Industry and province dummies were included in all models. Control variables are included in all models but their coefficients are not reported in the table.

legitimacy from isomorphic processes and firm strategies (Gaur & Lu, 2007; Mata & Portugal, 2000), we contribute to the literature by investigating the relationship between cognitive legitimacy and sociopolitical legitimacy, in the form of their interaction effect on foreign subsidiary survival. The degree of the regional socialist legacy in a transition economy can decrease the sociopolitical legitimacy of a foreign subsidiary with a market identity due to its ideology being fundamentally opposed to that of socialism. With a lack of sociopolitical legitimacy, the positive effect of SOE density on foreign firm exit becomes stronger since foreign firms cannot rely on sociopolitical support as an alternative legitimacy source. In addition, the negative effect of

POE density on foreign firm exit is also stronger because FOEs have to rely on interpopulation legitimation from POEs when there is an absence of sociopolitical support for market-based organizational forms in the region.

Notably, in applying the interpopulation ecology perspective, Li (2008) found that the density of domestic banks has a negative effect on foreign bank entry in the USA. We believe the inconsistency is due to the difference between a transition economy and a market economy. During our transition economy study period, POEs and FOEs had yet to obtain cognitive legitimacy because the market-based identity was not widely recognized. However, in a market economy, the market identity is the

Table 8
Coefficients of models predicting foreign firm exit (2007–2010).

	Model 1			Model 2		
	<i>b</i>	<i>SE</i>	<i>p</i>	<i>b</i>	<i>SE</i>	<i>p</i>
Local density of SOEs (H1)	12.53	3.10	.000	20.51	3.38	.000
Local density of POEs (H2)	-0.38	0.04	.000	-0.42	0.04	.000
Local density of SOEs X Regional socialist legacy (H3a)				1.77	0.33	.000
Local density of POEs X Regional socialist legacy (H3b)				-0.01	0.01	.003
Constant	18.75	0.45	.000	8.40	0.82	.000
ln_p Constant	1.32	0.01	.000	1.32	0.01	.000

n = 196,042 firm-year observations. Industry and province dummies were included in all models. Control variables are included in all models but their coefficients are not reported in the table.

Table 9

Coefficients of models predicting foreign firm exit, using alternative measures to regional socialist legacy based on the 2008 ideology survey (2007–2010).

	Model 1			Model 2		
	Degree of trust in the CCP			Identification with the current socialist regime		
	<i>b</i>	<i>SE</i>	<i>p</i>	<i>b</i>	<i>SE</i>	<i>p</i>
Local density of SOEs (H1)	19.63	4.36	.000	16.57	3.39	.000
Local density of POEs (H2)	-0.32	0.10	.000	-0.45	0.04	.000
Local density of SOEs X Regional socialist legacy (H3a)	40.69	15.50	.009	66.80	10.96	.000
Local density of POEs X Regional socialist legacy (H3b)	-0.27	0.31	.403	-0.41	0.17	.014
Constant	92.05	1.42	.000	61.88	1.36	.000
ln_p Constant	1.53	0.01	.000	1.34	0.01	.000

$n = 186,063$ firm-year observations. Industry and province dummies were included in all models. Control variables are included in all models but their coefficients are not reported in the table.

default and is fully legitimized. Under such circumstances, the emergence of a new population, such as foreign firms, becomes unnecessary (Ruef, 2000). Gaining legitimacy from the overlapping market identity with domestic firms is difficult for foreign firms. The liability of foreignness becomes more salient.

Second, this study contributes to the interpopulation ecology literature. Prior research emphasizing interpopulation ecology focused largely on direct effects among different populations (e.g., Li, 2008; Xu et al., 2014; Zhou & van Witteloostuijn, 2010). Such an effect is primarily driven by the cognitive legitimization process. Our work joins emerging studies emphasizing contingencies in interpopulation dynamics (Bogaert et al., 2016; Kuilman & Li, 2009; Ruef, 2000). Prior studies have focused primarily on population-level characteristics, such as the perceived simplicity of organizational goals, the tangibility of offerings (Bogaert et al., 2016), and the prominence of a subpopulation (Kuilman & Li, 2009). In contrast to these studies, we explore the socialist legacy which is relevant in the transition economy context.

Specifically, we consider regional-level characteristics from an institutional perspective. In contrast to Tran and Santarelli (2021), who examined local institutional quality, we examine the historical institutional legacy—the socialist legacy—which can affect the sociopolitical legitimacy of organizational forms. Locating in a province with a strong socialist legacy can decrease the sociopolitical legitimacy of a foreign firm's market identity, amplifying the influence of SOEs and POEs. We delineate how institutional legacy constructs the social context that facilitates or hinders the interpopulation ecological process by providing selection criteria for suitable organizational forms (Thornton et al., 2012). Overall, these findings reveal local market conditions in detail and the manner in which MNCs can respond to their complexity (Luo et al., 2019).

This study contributes to organizational ecology research by joining emerging studies in examining ownership form dynamics in a transition economy context (Li et al., 2007; Tran & Santarelli, 2021; Xu et al., 2014; Zhou & Van Witteloostuijn, 2010). Previous studies have usually examined interpopulation dynamics within an industry or a single institutional environment (Li et al., 2007). For example, Zhou and Van Witteloostuijn (2010) used density as a dependent variable and found that in the construction industry, POEs crowded out FOEs and SOEs legitimized FOEs. These findings differ from ours. Theoretically, Zhou and Van Witteloostuijn (2010) acknowledged the possibility of the crowding-out effect between SOEs and FOEs, although they found that SOEs have a mutualism effect on FOEs. They also suggested that the competition effect dominates the POE–FOE relationship. However, Ruef (2000) mentioned that if the existing form is widespread and highly legitimized, then legitimacy spillover becomes unlikely. Clearly, POEs and FOEs started to emerge only during the early stage of transition, when the legitimacy effect was more likely to dominate. These differences might arise from empirical manifestation. Empirically, we use a different dependent variable than that used by Zhou and Van Witteloostuijn (2010) and incorporate broader industries and more firm-level

controls. Moreover, Xu et al. (2014) examined dynamics among SOEs, COEs, and POEs in the national market in China. Xu et al. (2014) and the current study both draw theoretical logic from the interpopulation ecology perspective. However, we extend their investigation, as we examine different relationships. Specifically, they examined form dynamics among domestic organizational forms, whereas we focus on form dynamics between domestic and foreign firms. Furthermore, we analyze such dynamics across different regional markets.

This work also has implications for research on reverse spillover in transition economies. Two prior studies considered how SOEs and POEs can influence foreign firms differently in the transition economy context. Chang and Xu (2008) found that reformed local POEs are more likely to crowd out foreign firms than conventional local firms (SOEs and COEs) at the regional level. Kamal (2014) discovered that SOEs and POEs have positive effects on FOEs' industrial value added. Although our measure is different, our findings suggest that SOE and POE density have different effects on FOE survival. Foreign firms can obtain legitimacy through the presence of POEs and can be crowded out by the presence of SOEs. These seemingly contradictory results can be attributed to different empirical manifestations. Theoretically, the current reverse spillover stream does not explicitly consider identity conflict and overlap among different forms, which are quite important in a transition economy context. Identity can determine the legitimacy of FOEs in the transition market, which may be a prerequisite for any knowledge transfer. Incorporating the identity perspective into interpopulation ecology, this study further enriches the understanding of the reverse spillover process.

6.2. Managerial implications

These results have important implications for managers of foreign subsidiaries operating in transition economies. They must be alert to the benefits and threats associated with SOEs and POEs. Careful selection of an entry location can help an entrant take advantage of legitimacy spillover while shielding it from some threats. Locations with a strong socialist legacy can greatly amplify the threats from SOEs and support from POEs. Managers already operating in transition economies may consider adjusting their post entry strategies. They should monitor the number of domestic firms to evaluate the threats and opportunities they face in the local market. They can adopt an identity-based strategy by adjusting their location when ideological conflict dominates.

6.3. Limitations and future research directions

Our findings are based entirely on data from China, an economy rather different from others in the world and one that has been changing rapidly. Future research should certainly attempt to extend these findings to other transition markets in various ways. Owing to data availability, our study is able to capture only the second phase of China's economic transition. During this period, identity-based

interorganizational dynamics were quite important. Future studies may examine whether such identity-based dynamics vary as time passes. They can also test our theoretical predictions in other transition economies and periods.

In addition, the motivations for foreign subsidiary exit are not investigated. Many home-country, parent firm, and host-country factors are presumably involved. For example, Soule, Swaminathan, and Tiha-nyi (2014) found that home-country political factors can influence foreign subsidiary exit. However, our data do not include information about each subsidiary's country of origin. We differentiate only subsidiaries from Hong Kong, Macau, Taiwan, and those from other foreign countries. Although we argue that most FOEs operate under the market-based system in China because of the institutional arrangement, we acknowledge that their country of origin and ownership can also influence FOE identity. If FOEs are state-invested firms from other transition economies, then they will probably face fewer identity conflicts with SOEs and more identity conflicts with POEs. Future research may examine this issue in detail.

Moreover, FOEs with state ownership are not examined here for better theoretical clarity. State-participating FOEs, which can have a mixed state and market identity, emerged as a new hybrid organizational form during the economic transition (Tran & Santarelli, 2021; Wang et al., 2023). They are quite different from FOEs with a pure market identity. Future research can investigate how SOEs and POEs influence the survival of such hybrid organizational forms.

Last, our data are left-truncated. One way to deal with such truncation is to delete FOEs established before 1998. However, in the case of China, the loss of information is too great, and some of the information is unique (Guo, 1993). FOEs established before 1998 are highly relevant. Controlling for firm age in the formal analyses differentiates firms established before and after 1998, reducing any potential bias to a certain extent.

7. Conclusion

This study re-examines foreign subsidiary survival in a transition economy by applying an identity perspective to the interpopulation ecology literature. It deepens the scholarly understanding of how domestic firms can influence foreign subsidiary survival during an economic transition. Owing to market identity conflict and overlap, SOEs and POEs represent different threats and benefits for foreign subsidiary survival. Using data describing 84,016 foreign subsidiaries in China during the 1998–2007 period, the findings show that SOEs crowded out foreign firms, whereas POEs enhanced foreign subsidiary survival. The above effects are stronger in regions with stronger levels of the socialist legacy, where the market identity of foreign firms is lack of sociopolitical legitimacy.

Data availability

Data will be made available on request.

Acknowledgments

The authors would like to show our appreciation to our editor Professor Siah Hwee Ang and three anonymous reviewers for their constructive comments and guidance. Furthermore, we want to thank Haibin Yang, Pengfei Wang, Jinyu He, Qiang Li, Dan Li, Chang Liu, and Peng Wang for their valuable comments and suggestions on earlier versions of the paper. Jiatao Li acknowledges the financial support from the Research Grants Council of Hong Kong (HKUST #16507219; #16506622). This research was also supported by BK21 FOUR Program, UIC Research Grant (No. R72021122; UICR0300001; UICR0300007; UICR0200006-23; A2035) at BNU-HKBU United International College, Guangdong Philosophy and Social Science Project (No. GD21YGL07; GD22YGL13), and Guangdong University Innovation and Enhancement

Project (No. 2022WTSCX120).

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