

The Dynamic Role of Subnational Regions in Firm Performance*

Abstract

This study investigates dynamics of subnational regions in determining firm performance over time and by ownership type. We first explain theoretically how subnational regions affect firm performance in the context of institutional change. We then test these predictions using annual survey data of manufacturing firms in China from 1998 to 2014 – before and after a large negative institutional shock (2008 financial crisis). For all firms, subnational regions increase in importance before the financial crisis consistent with path dependency in the theory of institutional change. Post crisis, SREs decline consistent with a temporary realignment of institutions away from the status quo. Comparing ownership types, pre-crisis subnational regions are more important and increase more over time for private- than state-owned enterprises while post-crisis they decline more for the former than the latter. This is consistent with differences in organizational objectives under the institution-based theory.

Keywords: subnational region; firm performance; dynamic profit components; institutional environment

Haibing Shu
Antai College of
Economics and Management
Shanghai Jiaotong University
Shanghai, China
hbshu@sjtu.edu.cn

V. Brian Viard
Cheung Kong Graduate
School of Business
Beijing, China
brianviard@ckgsb.edu.cn

This Draft: 10/11/2022

* We thank Joerg Claussen, Gokhan Ertug, Ruitian Jing, Lin Lu, Brian Silverman, Guoguan Wan, Yanbo Wang, Sonia M. L. Wong, Brian Wu, Xin'an Zhang, Xiaoping Zhao and seminar participants at the 5th Annual Zhejiang University Conference on Industrial Economics, Southwestern University of Finance and Economics, Hong Kong University of Science & Technology, the 2016 International Industrial Organization Conference, the 2016 Yale China India Insights Program and the 2016 Strategic Management Society Special Conference Hong Kong for helpful comments. We also thank Castiel Zhuang for excellent research assistance. All errors are our own.