MANU MILITARI: NEW VENTURE TIES TO COERCIVE INSTITUTIONS IN EMERGING ECONOMIES

ABSTRACT

In many countries with weak political institutions, new ventures face challenges such as political risks, corruption, and civil conflict, which can severely hinder their ability to survive and grow. We explore how establishing affiliations at founding with coercive institutional actors can help new ventures overcome challenges characteristic of weak and volatile political environments. Our findings on two types of venture exits, failure and governmental expropriation, suggest that founding affiliations with elite military actors reduce threats facing new ventures. Implications for strategy, entrepreneurship, and organizational theory are discussed.

INTRODUCTION

New ventures in countries with weak political institutions face challenges like political instability, corruption, high levels of crime, civil conflict, and uncertain property rights that can severely hinder their ability to survive and grow (Spicer, McDermott, & Kogut, 2000; Webb *et al.*, 2009; Hiatt & Sine, 2013). Where the rule of law is not applied equally and the state lacks the will or ability to protect private enterprises, it is often the case that "might makes right" and the strongest survive. In such environments, power and coercive influence are critical to survival and growth, and small new ventures with limited resources are extremely vulnerable (Volkov, 2002). Prior studies have shown that large firms can rely on their deep resources to moderate such challenges (Hoskisson et al., 2005), but the literature lacks investigations of strategies that new ventures with limited power, reputation, and resources can use in politically tumultuous environments (Busenitz, Gomez, & Spencer, 2000; Zahra & Wright, 2011).

Scholars have posited that social relationships can benefit new ventures in emerging economies characterized by weak and opaque political institutions (Peng & Heath, 1996; Peng & Luo, 2000; Luo & Chung, 2005; Chang, Chung, & Mahmood, 2006). In particular, studies suggest that organizational ties with suppliers, customers, and political officials can facilitate access to information and resources (Siegel, 2007). Research has also shown that establishing these kinds of affiliations at founding can have lasting effects on venture performance by providing new ventures with legitimacy, resource and reputational endowments and quality signals (Beckman, 2006; Beckman & Burton, 2008; Hallen, 2008; Stuart, Haong, and Hybels, 1999).

Yet, this literature has failed to explore how affiliations can help ventures navigate turbulent contexts in which radical regime changes and threats of violence, corruption, and

extortion are common. Specifically, no study that we know of has examined how establishing social ties at founding can provide new ventures with coercive power and influence—capabilities that can protect them against civil and political conflict, unstable governments, and expropriation and ensure contractual fulfillment when enforcement by the courts is unreliable. Nor has there has been much research into the factors that moderate such ties with organizational outcomes (Mizruchi, Stearns, & Marquis, 2006).

We address these deficiencies by examining new venture ties to coercive institutions of the state. We argue that coercive ties endow new ventures with coercive power and influence thereby providing ventures with protection from the negative effects of social conflict, corruption, and volatile political changes, which can lead to firm failure and expropriation of assets. We further show how founding ties to coercive institutions will be more important for new ventures in environments where political institutions are particularly weak or nonexistent (Peng, 2001).

Coercive institutions are the instruments that the state uses "to ensure safety and public order both of its borders and within its borders"; they include the military and police (Soeters, 2007: 3315). Such institutions differ from political actors and other state agencies in that they are equipped and legitimated to use coercive and deadly force to protect the interests of the government. As instruments of the state, they generally do not legislate or create laws, and they are expected to enforce the laws of the land without bias. Nevertheless, institutional scholars argue that appendages of the state, such as the military, often operate autonomously from political leadership (North, 1990; Hiatt & Park, 2013) and thus are likely to affect the business environment independently of other government institutions. Yet very few (if any) empirical studies address how ties to coercive institutions like the military affect new venture outcomes.

In this study, we examine new ventures in the airline industry from 10 Latin American countries over a 65-year time period. We explore how including military officers on advisory boards or in senior management at founding influences the likelihood of adverse state actions such as expropriation and directly affects new airline survival. We also analyze how such military affiliations moderate risks that are associated with environments characterized by corruption, violence and political instability.

THEORY AND HYPOTHESES

New ventures in countries with weak political institutions confront two major challenges. First, because of their newness, they face resource shortages that can lead to firm failure (Aldrich & Ruef, 2006): a lack of legitimacy and reputation, low network embeddedness, and institutional arrangements that favor incumbents make it difficult for new ventures to obtain the resources necessary for survival and growth (Stinchombe, 1964; Aldrich & Fiol, 1994; Sine, Haveman, & Tolbert, 2005). In contexts of weak political institutions, this challenge is exacerbated because the cost of doing business can be much greater. New ventures in such environments typically lack the skilled personnel, specialized departments, and experience to protect themselves, leaving them particularly vulnerable to political turbulence, corruption, and regime change (Tanzi & Davoodi, 2000; Aterido, Hallward-Driemeier, & Pages, 2007). Resources are critical in environments with weak formal governmental institutions, where organizations may need to avail themselves of costly private security services for protection from criminal threats like robbery, kidnapping of key employees, and extortion (Volkov, 2000). Large organizations can rely on existing relationships with local partners, as well as their own skilled and experienced personnel, to keep external turbulence at bay; small new ventures are significantly less able to

absorb such costs and also enjoy less access to formal sources of capital because investors are dubious about their ability to survive and grow in such environments (Beck & Demirguc-Kunt, 2006).

Second, new ventures face policy risks that can severely hinder their ability to perform, grow, and survive. These risks include contract breaches, governmental failure to honor guarantees, regulatory restrictions, and state seizure of assets (Henisz & Zelner, 2010). In countries with weak political institutions, entrepreneurs who successfully launch and grow a new venture may be unable to appropriate returns to their success because of possible government expropriation. Recent highly publicized expropriation events in Argentina (YPF), Venezuela, and Ecuador (Perenco) demonstrate the risk to organizations in countries whose governments use expropriation to increase governmental revenue or control strategic industries and assets. The literature on international business and organizational ties offers insights into how large, established firms overcome these challenges by leveraging their past international-investment experience (Vaaler, 2008), resources, and corporate partnerships (Uhlenbruck *et al.*, 2006) to withstand volatile government systems. But new ventures in emerging economies are constrained by their size, resources, and experience, and generally lack corporate partnerships at founding; research is scant on the kinds of strategies that new ventures can utilize to navigate these hazards.

Prior research suggests that organizational affiliations can assist new ventures in emerging economies by facilitating access to information and resources. A number of studies suggest that organizational ties are particularly effective if established at founding because they can provide new ventures with benefits that endure well beyond startup (Beckman & Burton, 2008; Hallen & Eisenhardt, 2012). In particular, research has shown that affiliations at founding

can provide new ventures with key resource endowments, such as legitimacy, reputation, and credit, which put them on superior developmental trajectories in relation to their peers (Shane & Stuart, 2002). Affiliations at founding can also provide ventures with social capital that entrepreneurs can draw upon for assistance in the future. Finally, affiliations at founding can provide new ventures with important and unique information that leaves a lasting structural and strategic imprint, giving startups an enduring competitive advantage (Beckman, 2006). Consequently, because affiliations established at founding may persist for long periods after founding, founding ties may be particularly effective at moderating the challenges new ventures face in environments characterized by weak institutions that may last for decades.

Entrepreneurship scholars have generally examined two kinds of organizational affiliations: private and political ties. Private affiliations are social ties with organizations and individuals such as customers and organizations within the supply chain. Scholars argue that private ties can benefit new ventures in developing economies characterized by weak political institutions by intensifying normative pressures to comply with existing contracts. For example, organizations linked by familial relations can benefit ventures in the absence of strong market and legal institutions by reducing agency costs and engendering informal norms of reciprocity and trust between organizations (Luo & Chung, 2005; Chung & Luo, 2012). However, while the normative influence decreases the costs of economic transactions, the benefits of private ties generally do not extend beyond the dyadic relationships. Consequently, ventures with ties to customers and organizations in the supply chain will receive little relief in environments where personal safety and property protection are not enforced and violence and corruption threaten business operations.

Political affiliations are ties or informal organizational relationships with political leaders. Scholars assert that in emerging economies, political ties can help firms obtain the information and resources needed for startup and growth (Carroll & Delacroix, 1982; Peng & Heath, 1996; Li & Atuahene-Gima, 2001). For example, some studies have shown that organizations with ties to political actors enjoyed higher market share, profitability, and stock returns (Peng & Luo, 2000) and were more likely to receive credit (Luez & Oberholzer-Gee, 2006) and government bailouts (Faccio, Masulius, & McConnell, 2006). Nevertheless, other studies have found political ties to be extremely sensitive to political change, which in emerging economies with volatile political systems and weak rule of law could signify tremendous risk for new ventures (Siegel, 2007). If members of a particular group obtain political power, they may not only grant privileged resources to their friends, but also punish their enemies and rival ties, leading to firm failure and state seizure of assets. Thus, not only may the resource benefits of political ties be short-lived, but there is little evidence that they can check abuses of power by governments.

In sum, past work has shown the value of organizational ties in facilitating resource and information flows, but little research has addressed how founding affiliations can provide ventures with informal protection and power in environments where formal institutional mechanisms of safety and property protection are weak or nonexistent. In such environments, power and coercive influence are important organizational capabilities that new ventures typically lack. In contrast to prior studies that have largely focused on private and political organizational ties, we explore how establishing affiliations to powerful coercive institutions at founding, such as the military, can provide new ventures with enduring benefits. Because military institutions have a potent political voice in emerging economies by virtue of longevity,

autonomy, power, and solidarity (Rouquié, 1987), establishing founding ties to military elite may provide ventures access to military assistance to thwart adverse government action, moderate the impact of political instability, and facilitate access to information and resources. We will describe coercive institutions and the development of militaries in emerging economies, with a particular focus on Latin America, and hypothesize how founding ties to stable, coercive institutions can reduce challenges for entrepreneurs in developing and emerging economies characterized by unstable political environments and competitive markets.

Coercive institutions in emerging economies: The military

Institutional scholars assert that governments are responsible for providing stable and predictable business environments by adopting and enforcing laws that protect property and secure contract rights (Weber, 1978; North, 1990). Coercive institutions—such as the military and the police—play a fundamental function in enforcing states' rules and policies (North, 1986; Soeters, 2007). We focus on the armed forces because they are typically the most powerful and best-organized coercive state institution; they are also more heavily armed than any other state entity and enjoy a near-monopoly on effective weapons (Finer, 2002).

In developing countries, much of the armed forces' organization, power, and autonomy stems from professional training provided by colonial sovereigns and western nations prior to and after self-rule (Strang, 1990). For example, in the late nineteenth century several newly created Latin American countries hired France and Germany, whose armies were among the most prestigious in the world, to train and modernize their militaries (Resende-Santos, 2007). As a result, these new nations could provide high-level technical and scientific education and produce military engineers and certified arms experts (Nunn, 1983). Such training also

inculcated hierarchy, discipline, loyalty to the *patria* (fatherland), and military expertise (Rouquié, 1987).

Military professionalization led to greater autonomy from civil governments and unity among members of the military (Arceneux, 2001). Typically, politicians did not appoint military leaders; instead all servicemen, including officers, were promoted by internal military committees, leading to lifetime military careers and stable hierarchical leadership. Because military leaders attended only military universities, they were indoctrinated in military values, creating an intense culture of solidarity, cohesiveness, and superiority (Rouquié, 1987).

The combination of autonomy, organization, and power emboldened the armed forces to intervene in political life whenever military officers deemed it necessary (Arceneux, 2001). The result was scores of military *coups d'état* and formations of military governments in Africa, Asia, and Latin America in the twentieth century. Between 1917 and 1955, for example, over 28 colonial dependencies became independent states. Of these new states, 13 experienced military coups in their first two decades of existence. To extend the scope of the argument to more established nations, there were 51 sovereign states in the world in 1917; since then, 32 have experienced military coups (Finer, 2002). When democracy was reinstated, the armed forces either participated in the policy-drafting process directly or shaped regulatory structures indirectly by retaining the right to veto regulations and programs (Fitch, 1998).[1]

But not all military intervention is as overt as a government takeover. Supplanting civilian regimes is usually the last resort; more often military actors work behind the scenes to pressure governments and organizations, using their power to intimidate and coerce civil authorities and firm leaders (Dal Bo & Di Tella, 2003). Blackmail is a common tactic: the

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[1] For example, the military's absolute veto power was codified in the constitutions of Chile, Argentina, Brazil, and Ecuador (Fitch, 1998).

military can threaten to depose certain civilian politicians or refuse to defend the government, individual politicians, or organizations from civil disorder, local armed paramilitary groups, and outside enemy attack if its demands are not met (Finer, 2002). Thus, local and national civilian political leaders try to assure that high-ranking military officials are not discomfited.

The impact of coercive ties at founding on new ventures

We propose that establishing organizational ties at founding is likely to provide new ventures with enduring resource and security benefits for a number of reasons. First, similar to prior research on founding affiliations, coercive ties at founding are likely to provide new ventures with resource endowments that not only can alter their developmental trajectory, but can also continue to pay resource and reputational dividends later on (Beckman, 2006). For example, ties to military leaders may help ventures win business from the military and other government entities. The stability and size of military organizations means that defense contracts often become durable sources of revenue, increasing venture longevity (Brommelhorster and Paes, 2003). Additionally, founding ties to coercive institutions may shape the reputation of the new venture, thereby providing them with greater security (Shane & Stuart, 2002). For example, new ventures with known affiliations to powerful military leaders may be less likely to be targeted if criminals fear retribution from the military, typically the most powerful armed group in the state. In other words, if actors with the potential to inflict damage on a venture, its assets, or its members believe that such actions will not go unanswered, they will have a strong disincentive to target that venture. This phenomenon is apt to have a security spillover effect on the surrounding area, making it a safer place to do business, increasing the venture's liklihood of survival.

Second, establishing a tie with a high ranking military officer at founding may create a lasting bond with military elite that endures well beyond the termination of the formal organizational tie. A direct, formal connection with military elite can lead to the development of a trust, which if fostered, can facilitate a continuing informal relationship after the formal organizational tie is severed (Shane & Stuart, 2002). Additionally, the solidarity, cohesiveness, and low turnover of leadership in the military contribute to a stable institution composed of dense, redundant ties. Ventures may be able to take advantage of the redundant network in expanding their relationship to others within the ranking officer's circle of friends (Rouquié, 1987). Consequently, new ventures that had established trust with military officers from founding may be able to call upon military protection and assistance even after the military officer formally leaves the organization. This benefit is particularly important in many developing countries where crime and insecurity are a problem and businesses suffer from such effects of lawlessness and corruption as theft, vandalism, extortion, and kidnapping. New ventures with founding ties to the military may receive special protection against harmful civil conflict, thereby increasing the probability of survival.

We propose that founding ties to coercive actors may also provide protection against adverse government actions like expropriation. Some studies suggest that governments typically restrict expropriation to profitable and growing firms (Knudsen, 1972; Baklanoff, 1975), constraining the willingness of entrepreneurs to appropriate returns to their investment. Because emerging economies face daunting social and economic problems, such as poverty, unemployment, and inadequate infrastructure, the revenues of high-performing companies can prove irresistible for politicians seeking sources of revenue to pay for social programs

(Akinsanya, 1980). Thus successful new ventures could face risks of adverse government actions like expropriation.

Airline-industry ventures that became victims of their own success include Linea Expresa Bolivar, C.A. (LEBCA) of Venezuela, and SCADTA of Colombia. After LEBCA became the top Venezuelan airline, the Ministry of Communications expropriated the company and made it the official carrier of government. Likewise, SCADTA was the first and largest airline in Colombia when the government seized the company and ran it as a state-owned enterprise with a new name, AVIANCA (Davies, 1983).

In view of the enormous influence that the military can exert over civilian governments, we propose that new ventures with ties to high-ranking military officers can receive protection from adverse government actions. When a high-ranking military officer is economically affiliated with a new venture, other political actors are likely to eschew aggressive actions toward it. Should a proposed government action threaten to negatively target ventures with military ties, the affected entrepreneurs could rely on their connections to pressure political leaders to scuttle the action. As a result, new ventures with military ties should experience a lower rate of expropriation. In sum, we argue that establishing affiliations with military institutions at founding can provide new ventures in developing countries enduring benefits such as resource and reputational endowments as well as protection from harmful civil and political actions, thus reducing failure and expropriation risks and increasing organizational longevity. Thus we propose:

Hypothesis 1: New ventures with military ties will experience a higher rate of survival.

Hypothesis 2: New ventures with military ties will experience a lower rate of government expropriation.

The contingency of coercive ties

Our key argument so far has centered on the premise that new ventures facing threats from weak institutions in emerging economies may reduce these hazards by establishing ties to military elite at founding. We further strengthen this causal argument by specifying conditions that can increase the impact of ties to coercive institutions. Lincoln, Gerlach, and Ahmadjian (1996) found that impact of affiliations with Keiretsu networks on firm performance is conditioned by firm and industry attributes. In the case of coercive institutions, we expect that the impact of such affiliations will be conditioned the attributes of the coercive institution, such as military resources; the venture's attributes, such as foreign ownership; and attributes indicative of weak political institutions such as civil and political conflict, political risk, and corruption.

Military resources. Because coercive institutions are not all equal in size and influence, it is unlikely that ties to coercive institutions will all have the same impact on new ventures. One factor that may moderate the influence of a military affiliation is the military's resources. An abundance of resources may increase the benefit of a founding affiliation in several ways. First, greater military resources suggest more opportunities for military contracts. Second, a critical source of military institutions' power is their ability to coerce individuals and organizations, and such capabilities are directly linked to the military's resources. Greater resources also increase the military's ability to recruit and retain personnel and to purchase and upgrade weaponry. At the same time, more lavish resources are an indicator of the military's influence: the more dominant the military's presence in a state, the more influence it has and will continue to have (because resources increase its power). Thus we argue that the power of military ties to provide

resources to new ventures and to influence political decision-making will increase with military budgets.

> *Hypothesis 3: Military ties will have a stronger negative effect on new venture expropriation rates in countries with relatively higher national military expenditures per capita.*

> *Hypothesis 4: Military ties will have a stronger positive effect on new-venture survival rates in countries with relatively higher national military expenditures per capita.*

Foreign ownership. Founding affiliations to coercive institutions are likely to be more important when new ventures have foreign ownership. In weak political institutions where the application of law is fundamentally biased, new ventures are not all afforded equal legal protection. For example, those with ties to foreign entities or significant foreign ownership can be attractive targets for unfavorable government action, such as expropriation. Unlike domestic owners, foreign investors and owners are rarely constituents of local political actors, and thus have less local political power. Consequently, expropriating firms with foreign investors may provoke less political fallout than targeting firms fully owned by citizens.

Furthermore, expropriating assets from a company with foreign ties is a reliable way to build support and capitalize on nationalist sentiment in emerging economies. Local populations often deeply resent foreign companies that are reputed to pay local workers low salaries and extract significant profits (Sigmund, 1980). Popular resentment emboldens the state to nationalize foreign firms' assets with little fear of opposition. Expropriation of foreign companies is also a way for political leaders to take a stand against "long-term . . . dependence on foreigners" (Sunkel, 1972: 517) and reap political points. When Bolivian president Evo Morales nationalized foreign companies' interests in the natural-gas sector in 2006, for example, his approval ratings soared to 81 percent (World Public Opinion, 2006). Because new ventures

with foreign investors are at greater risk of expropriation, the benefits of military affiliation should be comparably greater: such ventures can use their military connections to pressure politicians not to expropriate. Thus we argue:

> *Hypothesis 5: Military ties will have a stronger negative effect on expropriation rates of new ventures with foreign ownership.*

In addition to the characteristics of the military and the venture, we also explore the moderating impact of the political environment on the influence of coercive ties. In contexts where political institutions are particularly weak and new ventures face greater risk of failure and expropriation, we would expect the impact of coercive ties to increase. We examine three factors that arise from political institutional weakness: civil and political conflict, political risks from regime change, and bureaucratic corruption.

Civil and political conflict. North argues that "theories of institutions inevitably involve the analysis of . . . the degree to which political structure provides a framework of effective enforcement" (1990: 64). Political and civil instability attests to the inability of a government to enforce its laws and are indicative of a weak political institution (Hiatt and Sine, 2013). In emerging economies, many governments struggle to maintain predictable environments. Not only must regimes deal with factional infighting, they also have to tackle such inherent problems as deep social cleavages, income disparities, labor uprisings, corruption, and economic perturbations. When governments cannot manage these issues, domestic conflicts ensue: massive strikes, revolts, insurgencies, rebellions, and high levels of crime that increase venture risk and the cost of doing business (Tanzi & Davoodi, 2000; Aterido *et al.*, 2007).

Political and civil unrest increase the benefits of social ties with the military. A new venture with military connections may be able to avoid harm from criminals, mobs, and heavy-

handed civilian government responses to uprisings. Such ventures are likely to have greater access to the state's instruments of coercion, such as military police and armed troops. For example, elite officers may directly assign troops to protect the assets and personnel of firms with which officers have a relationship. Moreover, strong ties with coercive institutions help protect new ventures by presenting a legitimate and credible threat of retribution (Raven & French, 1958). Finally, founding affiliations with coercive institutions create a reputational effect that increase the confidence of investors and creditors, making it more likely that resource providers will maintain their support during periods of instability and conflict. Thus, we argue that military ties will be particularly important during periods of domestic conflict.

> *Hypothesis 6: Military ties will have a stronger positive effect on new venture survival rates in contexts of high political and civil conflict.*

Political risks from regime change. In weak political institutions, regime change may increase political risks, in turn increasing the value of new ventures ties to coercive institutions. Research suggests that regime change provides new political actors the opportunity both to punish rivals and to win support for the new regime by expropriating resources from successful private companies (Portes & Sensenbrenner, 1993; Siegel, 2007). This type of action is often rationalized by state actors as a means to pay for state services for the populace. For example, in Nicaragua, within days of the overthrow of the Somoza regime, the Sandinistas began expropriating farms and businesses closely tied to that regime (Merrill, 1993). Likewise, President Salvador Allende nationalized the Chilean copper and banking sectors shortly after assuming office to pay for welfare programs. More recent examples include President Evo Morales' nationalization of Bolivia's petroleum sector and President Rafael Correa's expropriation of Ecuadorean television stations.

We theorize that the likelihood of expropriation will increase during regime transitions because prevailing power structures and relationships are disrupted, providing opportunities for new political actors to gain favor with voters while punishing rivals by expropriating the businesses of their supporters. In this context, founding ties to a stable coercive institution are of great value. Despite frequent regime changes in Latin America over the last 80 years, military institutions have remained remarkably stable. New political actors and their followers are likely to refrain from actions that would provoke the country's most powerful coercive actor, because such actions might have negative ramifications for themselves and for the new government. During such chaotic periods, moreover, members of the military may take special pains to protect areas where their friends have businesses.

Hypothesis 7: Military ties will have a stronger negative effect on new venture expropriation rates during a regime change.

Bureaucracy and corruption. Weak political institutions are also likely to exhibit corruption, which can significantly affect new venture survival and expropriation. Corruption undermines organizational efficiency and increases the cost of doing business, promoting new-venture failure. Additionally, corrupt political institutions may also be more likely to expropriate assets from private companies. Political economists argue that, in countries characterized by weak political institutions, larger bureaucracies provide bureaucrats greater influence over market structure, which in turn often promotes the trading of enhanced bureaucratic services for bribes (Ades & Di Tella, 1997, 1999). In a study of African countries, for instance, Arriola (2009) found that governments with numerous state ministries tended to exhibit greater corruption because state leaders could expand their patronage networks via cabinet appointments and then use those extensive networks to secretly funnel resources to their allies. Mauro

quantified the relationship between corruption and bureaucracy, finding that the "simple correlation between corruption and red tape indices is .79 and the partial correlation—controlling for per capita GDP—is 0.66" (1995: 685).

Coercive ties can help ventures survive in such environments in a couple of ways. First, well-connected military officials can provide political cover to the new venture. Corrupt civilian officials are likely to avoid antagonizing their military counterparts because the military is a real threat to corrupt officials: military officers can arrest corrupt government officials or pressure them to leave the government. For example, in Monterrey, Mexico, the military recently arrested corrupt state officials accused of seeking and accepting bribes.[2] Second, affiliations with high-ranking military officers can expedite needed permits and licenses. Because civilian officials typically want to maintain positive relationships with the military, they seek to keep military officers content (May & Selochan, 1998). Doing so may entail fast-tracking governmental permissions and streamlining the regulatory process, while overlooking regulatory inconsistencies, for new ventures with military affiliations. Such preferential treatment reduces both start-up and operation costs, making such ventures more efficient and increasing their longevity. In many countries, securing permits to expand into new markets can take months, if not years. Establishing founding connections to coercive actors may vastly decrease the time and resources needed to obtain such permits. For example, because military officers often enjoy unfettered access to national borders, and in many cases control over who and what can cross national borders, military officials affiliated with particular ventures may help facilitate the movement of goods and services between nation-states. Thus we hypothesize:

> *Hypothesis 8: Military ties will have a stronger positive effect on new venture survival rates in countries with relatively large bureaucracies.*

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[2] See http://www.cablegatesearch.net/cable.php?id=09MONTERREY213. Similar occurrences are commonplace throughout Latin America: http://www.coha.org/.

Hypothesis 9: Military ties will have a stronger negative effect on new venture expropriation rates in countries with relatively large bureaucracies.

METHODS

To examine the effects of founding ties to coercive institutions on the likelihood that a new venture will fail or be expropriated, we examined all airlines founded in ten South American countries (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela) from the advent of the industry in 1919 through 1984 (the last year for which data exist). A total of 276 airlines were founded during this period; 167 failed, 42 were acquired, and 17 were expropriated.

Dependent variables

The dependent variables for this study are the firm-failure and government-expropriation rates of locally founded airlines. The first two Latin American airlines were founded in 1919 in Argentina and Colombia. Our data come from the book *Airlines of Latin America since 1919* and from the R.E.G. Davies collection of statistics on world airlines archived at the Smithsonian National Air and Space Museum in Washington, D.C. These sources enabled us to determine when each airline began and ceased operation, whether and when the airline was expropriated, the total number of airlines operating in a given country, and such firm characteristics as domestic or international focus, the number and size of planes in use, military ties, and state and foreign ownership.

Explanatory variable

The predictor variable for this study is founding ties to military officers. Using archival information from the Smithsonian, we identified an airline as having a military tie when a highly ranked military officer (e.g. colonel, general, admiral) belonged to its founding senior-

management team or advisory board.[3] The variable is binary (1 = yes, 0 = no). Fifty-two of 276 ventures had military ties.

Control variables

We controlled for organizational and environmental factors that could affect firm failure and government expropriation. We controlled for organizational *age* by counting the number of years since founding, and for the number of different aircraft the airline operated (*airline aircraft diversification*). For many airlines, information was missing on the number of passengers, operating finances, and employees. Following prior research (Mitchell, Shaver, & Yeung, 1994), we controlled for organizational size using a binary variable to indicate whether an airline operated aircraft that could transport 20 or more passengers (*large airline*). In the period covered by this study, planes with higher passenger capacity were generally cost-prohibitive for small airlines with few resources (Davies, 1983).

Because companies that operate in foreign countries face additional political risk (Henisz & Zelner, 2010), we included a binary variable indicating whether an airline maintained a *domestic focus* (=1) or flew international routes. Information from the Smithsonian archives also revealed whether an airline had substantial foreign investment. Like the United States, all countries in the dataset had enacted laws prohibiting majority foreign ownership. Because exact percentages of foreign ownership were unavailable, we indicated whether an airline had *foreign ownership* using a dummy variable. During the time period in question, none of the countries in the study were signatories of the World Bank's Convention on the Settlement of Investment Disputes, which stipulates protection of foreign property, provides for investor recourse, and acts as a deterrent against expropriation. Finally, because airlines that have government investment

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[3] We found no difference between different military ranks' statistical effects on firm failure and expropriation. We were unable to distinguish whether a military officer was active or retired.

may enjoy privileged regulation and subsidized credit, we controlled for whether an airline had any *state ownership* using binary variables. Of the 276 firms, 51 had substantial minority foreign investment and 33 had some state ownership.[4]

We also included economic variables that may affect airline failure and expropriation. We controlled for country population and GDP growth, using data from Maddison's (1995) *Monitoring the World Economy, 1820–1992*. Because government borrowing can affect countries' credit ratings, foreign direct investment, and inflation, we controlled for the *fiscal budget balance*, following prior research, by subtracting government spending from revenues (Vaaler and McNamara, 2004). Because a large share of airlines' revenue flows from cargo transport, we controlled for that opportunity by capturing total country trade (*total trade*). We also controlled for countries' corresponding-year *trade balance* by subtracting the value of goods exported from the value of goods imported. Maritime shipping and, in particular, ground transportation competed heavily with airlines for cargo and passenger traffic in the twentieth century (Davies, 1983). Thus we controlled for inter-sector competition by including *maritime shipping* as measured by the number of steam and motorized ships and for *ground transportation* as measured by the number of vehicles by country-year. Information on government spending, trade, maritime shipping, and ground transportation came from the Cross-National Time-Series Data Archive (Banks, 2008). All financial data is in U.S. dollars.

We also included measures of airline-sector density and age. *Airline-sector density*, modeled as the number of operating airlines by country-year, controls for intra-sector competition among airline ventures in a given country (Carroll & Hannan, 2000). We measured *airline-sector age* as the number of years since a given country's first airline was founded. This variable also controls for other changes that may have occurred linearly with the passage of time.

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[4] One airline was run by the military; we classified it as state-owned.

Because we are interested in how the power of military ties can prevent firm failure and government expropriation, we included a measure of *military expenditures per capita* from the Cross-National Time-Series Data Archive (Banks, 2008).

To explore how political instability affects new-venture performance, we controlled for *constitutional changes* and *domestic conflicts* using a measure from the Cross-National Time-Series Data Archive (Banks, 2008). The former variable measures the number of basic alterations in a state's constitutional structure that significantly change the prerogatives of the various branches of government. The domestic-conflict variable captures assassinations of high government officials, strikes involving 1000 or more workers, guerrilla-warfare activity, and crises that threaten the stability of a regime, such as revolts, purges, riots, revolutions, and anti-government demonstrations by at least 100 people.[5] This variable, which is weighted to capture the degree of political instability each event provokes, has been used in a number of studies (Banks, 1972; Jenkins & Schock, 1992).[6]

Since the nature of a political regime can affect whether its leaders expropriate, enact oppressive regulation, and foster corruption, we controlled for the *effectiveness of the legislative branch*, the relative magnitude of bureaucracy (*cabinet size*), *regime change*, and the relative level of democracy (*democracy level*), using variables found in Banks (2008) and the POLITY IV database (Marshall & Jaggers, 2000). The effectiveness of the legislative branch was measured using an ordinal scale ranging from 0 to 3.[7] Bureaucracy size was measured using the number of cabinet-level ministries. Prior studies have found cabinet size to be highly correlated with government corruption in developing and emerging economies (Takougang, 2003; Arriola, 2009); the more ministries a government has, the more easily its leaders can maximize patronage

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[5] In other analyses, we also controlled for prior *coups d'etat*; they did not alter the results.
[6] We found this measure to be robust even when controlling only for revolutions (binary).
[7] See Banks (2008) for a complete description of how this variable is constructed.

appointments and use government ministries to opaquely funnel resources to their allies. The POLITY IV database measures the relative level of democracy with a variable that ranges from -10 (strongly autocratic) to 10 (strongly democratic). This database operationalizes democracy and autocracy along five dimensions: competitiveness of political participation, regulation of political participation, competitiveness of executive appointment, openness of executive recruitment, and constraints on the chief executive. We also included a dummy variable from the same database indicating a regime change.

Analysis

To test the impact of military ties on organizational failure and governmental expropriation, we used a Cox event-history analysis.[8] The hazard rate is given as

$$h_i(t) = h_0(t) \exp (\beta' \chi)$$

where $h_0(t)$ is the baseline hazard function and $\beta' \chi$ are the covariates and unknown regression parameters. We used maximum likelihood estimation and the Huber-White-sandwich estimator of variance, which adjusts standard errors to account for multiple observations per country. Some of our interaction variables were highly correlated with each other (such as *Military ties X Foreign ownership* and *Military ties X Military expenditures*), which can lead to inflated standard errors and unstable regression coefficients. We used a Gram–Schmidt procedure to partial out the common variance between the highly correlated variables (Saville & Wood, 1991). We then tested for multicollinearity and found that all variance-inflation factors in the event-history analysis were less than 3.76 and that the majority were less than 1.93, indicating an acceptable level of multicollinearity.

Results

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[8] We also conducted a competing-events proportional hazard analysis on failure versus all other events such as expropriation, acquisition, and exit, and found the results to be robust.

Descriptive statistics and bivariate correlations appear in Table 1. The hazard model predicting new-venture failure appears in Table 2 and the hazard model predicting the rate of government expropriation of airline ventures appears in Table 3. In Table 2, the first model contains the control variables; the second model adds military ties; the model adds the interaction between military ties and military expenditures per capita; the fourth adds the interaction between military ties and domestic conflict; and the fifth model adds the interaction between military ties and executive-branch cabinet size. Several of the control variables in Table 2 had a significant impact on airline failure: older airline age, foreign ownership, greater airline-sector density, larger cabinet size, greater domestic conflict, and higher ground transportation competition. On the other hand, greater aircraft diversification, domestic focus, greater sector age, larger country population, higher total trade, and greater military expenditures per capita all reduced airline failure; the latter finding suggests that military contracts may provide vital business revenue to new airlines.

Turning to measures of venture expropriation in Table 3, the first model contains the control variables; the second model adds military ties; the third includes the interaction between military ties and military expenditures per capita; the fourth includes the interaction between military ties and foreign ownership; the fifth includes the interaction between military ties and two-year lagged regime change; and the sixth model adds the interaction between military ties and cabinet size. Several of the control variables significantly affected government expropriation of airlines: greater airline age, foreign ownership, larger cabinet size, lagged regime change, and greater sector density all had positive effects on government expropriation. High sector age was negatively correlated with government expropriation of property.

All of our hypotheses were supported. In hypothesis 1, we argued that military ties would reduce firm failure by offering such economic benefits as contracts, protection, and credibility to new ventures. Model 2 in Table 2 offers strong support for this hypothesis: new ventures with military ties were over 1.5 times less likely to fail. In hypothesis 2, we argued that military ties would discourage government expropriation; the results in model 2 of Table 3 show that new ventures with military ties were over ten times less likely to be expropriated.

In hypotheses 3 and 4, we proposed that the tendency of military ties to reduce new-venture failure and expropriation would increase as the coercive power of the military also increased. The results in model 3 in Tables 2 and 3 offer support for our hypotheses: ventures with military ties were 1.71 times less likely to fail and 1.09 times less likely to be expropriated in countries with high military expenditures. We also posited in hypothesis 5 that military ties would be more beneficial to firms with some foreign ownership. The coefficients in model 4 of Table 3 provide support for our argument: ventures with foreign ownership were over two times less likely to be expropriated when they had military ties.

Finally, we argued that the benefits of military ties will be greater in environments with particularly weak political institutions. We examined the moderating effects of three factors related to politically weak institutions that increase the risk of new venture failure and expropriation: political and civil conflict, political risk from regime change, and bureaucratic corruption. In hypothesis 6, we argued that the presence of political and civil conflict will make military ties more beneficial to organizational survival. The results in model 4 of Table 2 support our assumption: firms with military ties were 1.14 times less likely to fail in environments plagued by high domestic conflicts. In hypothesis 7 we argued that governmental change will increase the likelihood of expropriation and that under such circumstances military ties are likely

to be more important. In model 5 of Table 3, ventures with military ties were nearly two times less likely than other ventures to be expropriated after regime changes,[9] lending support to our hypothesis. In hypothesis 8 we posited that larger bureaucracies will increase firm failure, and that in such contexts military ties are more likely to protect ventures from corrupt politicians and excessive bureaucracy. The results in model 5 of Table 2 support our hypothesis: firms with military ties were 1.32 times less likely to fail in countries with large bureaucracies. In hypothesis 9 we posited that the tendency of military ties to prevent expropriation would be greater in countries with larger government bureaucracies. In model 6 of Table 3, ventures with military ties were nearly two times less likely to be expropriated by governments with larger cabinets, supporting our hypothesis.

Robustness tests

We also conducted a number of robustness tests to address data shortcomings and selection effects and related potential endogeneity.

Selection effects and unobserved heterogeneity. One could argue that military officers only join the highest-quality new ventures; if this were true then military ties would then be a proxy for unobserved quality. We find this argument implausible for several reasons. First, the limited historical data on tie establishment suggest that airline founders reach out to military officers, not the reverse. Second, we have no evidence that military officers are more adept than anyone else at judging the potential quality of a new venture at founding. The literature on political connections to new ventures provides no evidence that government officials such as policymakers and state executives can accurately judge the potential of a new venture at

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[9] In regressions not shown here, we also interacted military ties with the amount of time since a regime change. Because regime change can intensify business-climate uncertainty in countries with weak political institutions, we found the interaction to significantly increase the value of military ties in reducing new-venture failure up to three years after a regime change.

founding (Li & Zhang, 2007). Similarly, we would expect that the ability of military officials to judge the prospects of a new venture is not likely to be greater than other types of governmental officials. Finally, the historical failure rate for new airline ventures with ties to the military is an astonishingly low 15%, which is much lower than the failure rate for new ventures supported by the very best venture capital firms, which are made up of professional full time investors. It is unlikely that military officials are better at assessing the quality of a new venture than professional investors; instead it is more likely that the impact of a military tie is due to the benefits that such an affiliation can bring to the new venture.

In an effort to rule out this possibility and test for possible selection bias and unobserved heterogeneity, we conduct a propensity-score matching analysis. In this analysis, we develop a matched control group with which to estimate differences in potential quality factors during the year of founding between ventures with military ties and those without. Propensity-score matching is a technique widely used by scholars to provide an estimate of the effect of a treatment variable on an outcome variable that is largely free from omitted-variable bias (Heckman, Ichimura, & Todd, 1998). Following prior research, we constructed a quasi-control group based on characteristics similar to those of the treatment group in three stages (Levine and Toffel, 2010). First, we generated propensity scores by estimating a probit model for military ties at founding that included all the organizational variables in the main analyses. We then implemented single-nearest-neighbor matching by matching a new venture with a military tie to the same-country venture without such a tie but with the most similar propensity score and year of founding; this process produced two groups of 52 firms each. Next we compared organizational variables from the two groups that could predict quality at founding using *t*-tests: *airline size*, *foreign ownership*, *founders' prior flying experience*, *aircraft diversification*, and

domestic focus. Results of the *t*-tests indicated no statistically significant differences on any of these variables between the two groups.

  Tie duration: we cannot tell from the data when a military tie established at venture founding ends. In order to address this issue, we ran survival analyses with military ties ending after 15, 10, and 5 years and we lagged the military-tie variable by two years. In all these analyses, we found the results to be similar for both failure and expropriation analyses. We also compared small and large airlines to tease out any differences in advisory-board changes. Research suggests that smaller firms are less likely to experience advisory-board turnover than large firms, and thus would be likely to maintain military ties longer (Harrison, Torres, & Kukalis, 1988; Srinivasan, 2005). We conducted failure analyses comparing the two groups, and found the effects of military ties on firm survival to be similar. These results suggest that military ties at founding provide benefits that endure beyond potential tie severance.

DISCUSSION

  This study analyzes how founding affiliations can improve the ability of new ventures in emerging economies to manage environmental risks and increase longevity. We find that new ventures that establish ties with coercive institutions at founding enjoy longer survival and lower risk of government expropriation by virtue of their resources and reputational endowments and enduring access to military assistant that provides them power and protection them from violence and adverse government actions. Our study also found that the benefits of military ties increase with weak political institutions characterized by political risks from regime change, government corruption and bureaucracy, and civil and political conflict.

The paper makes several theoretical contributions. First, it contributes to the literature on organizational affiliations. Prior research has examined how informal social relations can provide new ventures information, legitimacy, and resource endowments, facilitate trust between organizations, and activate normative pressures to fulfill contracts (Peng & Heath, 1996; Peng & Luo, 2000; Luo & Chung, 2005; Beckman, 2006; Hallen, 2008; Chung & Luo, 2012; Webb *et al.*, 2009), but this literature lacks studies of how founding ties to coercive institutions can enhance survival rates. No study that we know of has explored how such ties can help new organizations avoid negative governmental actions like expropriation. This paper demonstrates that founding affiliations with coercive institutional actors like the military enable new ventures to tap into actors with strong coercive capabilities, thus protecting the emerging venture from hostile actors and adverse government actions. Controlling for economic variables, our analysis suggests that having such a relationship reduces the likelihood of expropriation in contexts in which a retaliatory coercive threat is likely to be important, such as in cases of regime change or ventures that are more likely to be targeted (i.e. foreign ownership).

To further test our core argument that military ties provide new ventures with legitimate coercive threat, we ran additional analyses (available on request) to test the effect of military ties on survival during civilian and military regimes respectively. The results show that military ties are more beneficial when civilian governments are in power; military ties are more likely to prevent failure and expropriation when the military does not control the government. If the impact of these ties was solely driven by increased access to information and resources, we would expect that such ties would be more important in contexts where the military is directly governing a country because presumably military officers would have full access to government resources and control over government actions. Thus our paper broadens the literature on

organizational ties and founding affiliations to encompass new kinds of actors in contexts where power and coercion play a key role in determining which organizations survive.

The paper also contributes to the business–government-relations literature on political strategy (Oliver & Holzinger, 2008). Previous studies have found that business ties to political leaders can benefit firms, but the effects vary greatly depending on whether the political actors and their allies are in power—a risk that may be too high for new ventures with few resources (Leuz & Oberholzer-Gee, 2006; Siegel, 2007). But unlike ties to political actors, we find that ties to military actors in emerging economies do not lose effectiveness due to political changes. The military's leadership stability, culture of solidarity and cohesiveness, and monopoly on weapons protect affiliated organizations from turbulence due to political turmoil. During times of political change, therefore, ties to coercive actors are more effective at mitigating related problems than are ties to governmental actors.

Furthermore, prior research has examined firms' strategic actions to influence government decisions, but most such studies have focused exclusively on elected officials as the target of influence (Hillman & Hitt, 1999). This narrow focus has led to relative neglect of those who implement policy, such as government agencies and bureaus (Hiatt & Park, 2013). Thus we know very little about the role that government appendages, and in particular coercive institutions, can play in providing differentiated benefits to new ventures (Holburn & Vanden Bergh, 2002). Our study fills this gap by demonstrating that new ventures with ties to coercive state institutions can garner substantial benefits, and that these benefits increase when coercive actors have a greater propensity to act autonomously, such as when they have more resources and during periods of high political instability.

This paper also contributes to the international entrepreneurship and business literature by examining how foreign companies, which typically face a liability of foreignness, can minimize their political risks in emerging economies (Vaaler, 2008; Guler & Guillen, 2010). Our results show that firms with foreign ownership are more vulnerable than fully domestic organizations to adverse state actions: specifically, they are more likely to experience expropriation. Our findings suggest that international new ventures and MNCs can mitigate the risk of governmental intervention by co-opting military officials and appointing them to boards of directors or executive positions at founding (Zahra, Ireland, & Hitt, 2000; Mudambi & Zahra, 2007).

Our results also contribute to research at the intersection of institutional theory and strategy (Ingram and Silverman, 2002; Peng *et al.*, 2009). Prior researchers have illustrated how weak political institutions characterized by instability, corruption, uncertain property rights, expropriation, and dysfunctional political systems can influence firm actions and performance (Akinsanya, 1980; Busenitz *et al.*, 2000; Vaaler & McNamara, 2004; Webb *et al.*, 2009; Ault & Spicer, forthcoming), but few have examined how new ventures manage these challenges, despite calls from scholars to do so (Zahra & Wright, 2011; Hiatt & Sine, 2013). This paper suggests in environments where the rule of law is weak and there is insufficient protection, founding affiliations with coercive institutions can provide ventures resources and a legitimate coercive deterrent to governments and other organizations that threaten them.

Finally, our results contribute to institutional theory (Dobbin & Dowd, 1997; Fligstein, 2001; Hiatt, Sine, & Tolbert, 2009). Though Scott has suggested that "force and fear are central ingredients" of the institutional environment (2001: 53), most organization studies have overlooked the effect of coercive institutions on entrepreneurial outcomes, and no study that we

know of has investigated how affiliations with coercive institutions can influence the survival

and expropriation rates of new ventures in turbulent political environments. This paper answers

the calls of scholars to explore a fundamental aspect of institutional theory: coercion and power

(Hirsch & Lounsbury, 1997).

Future avenues of research include exploring other ways that entrepreneurs in emerging

economies can protect themselves in turbulent environments characterized by weak or

nonexistent institutional mechanisms. For instance, what are the ethical implications of ties to

coercive institutions and what are the costs to the organization? Do firms give up autonomy? Do

such ties require complicity with immoral action by coercive institutions? For example, during

Argentina's dirty war in the 1970s, were airlines with ties to the military used to facilitate the

disappearance of civilians? Understanding the moral implications of such relationships is of

utmost importance. Finally, in many emerging countries, such as China, Egypt, Brazil, and

Argentina, the military operates large and innovative businesses (Brömmelhörster & Paes, 2003),

but we know very little about them. For example, what challenges and benefits do these

organizations present to new ventures and MNCs? What role do they play in fostering

entrepreneurship and foreign direct investment? Answers to these questions will help us

understand the role of coercive ties in moderating the negative effects of the weak institutional

enforcement and political and civil violence that plague many emerging economies.

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Table 1. Bivariate correlations and descriptive statistics

	Variable	Mean	Std. Dev.	1	2	3	4	5	6	7
	Failure	0.57	0.50							
	Expropriation	0.06	0.24							
1	Military ties	0.19	0.40	1						
2	Airline age	12.23	11.29	0.289	1					
3	Airline aircraft diversification	2.97	2.49	0.310	0.434	1				
4	Domestic focus	0.61	0.49	-0.105	-0.096	-0.398	1			
5	Foreign ownership	0.19	0.39	-0.103	-0.032	0.260	-0.473	1		
6	Size (large airline)	0.79	0.41	0.039	0.148	0.324	-0.361	0.158	1	
7	State ownership	0.12	0.33	0.525	0.247	0.151	0.006	-0.096	-0.017	1
8	Airline-sector age	28.87	15.45	0.097	0.390	-0.157	0.146	-0.347	-0.027	0.113
9	Airline-sector density	20.03	12.80	-0.159	-0.338	-0.340	0.538	-0.213	-0.239	-0.048
10	Cabinet size (executive branch)	11.29	3.27	0.098	0.252	-0.059	0.119	-0.244	-0.014	0.083
11	Constitutional changes	0.10	0.29	0.001	0.012	0.040	0.007	0.040	-0.045	-0.008
12	Country fiscal budget balance	1106	5183	-0.026	-0.015	0.033	0.043	-0.050	0.062	-0.042
13	Country GDP growth	0.05	0.03	-0.081	-0.078	0.006	0.037	0.014	0.044	-0.089
14	Country population / 1,000,000	18.70	175	-0.146	0.173	0.151	0.229	-0.163	0.085	-0.202
15	Democracy level	-0.44	5.60	-0.166	-0.034	0.021	-0.023	-0.033	0.103	-0.191
16	Domestic conflict	2066	2650	0.005	-0.001	-0.056	0.065	-0.016	-0.072	0.059
17	Effectiveness of legislative branch	1.66	1.04	-0.120	-0.081	0.090	-0.078	-0.027	0.163	-0.123
18	Ground transportation	1320	1716	0.137	0.366	-0.045	0.066	-0.143	-0.051	0.116
19	Maritime shipping	157.61	149.16	0.033	0.215	0.063	0.187	-0.180	-0.010	-0.020
20	Military expenditure per capita / 100,000	1190	2290	0.149	0.156	-0.047	0.038	-0.128	-0.064	0.058
21	Regime change	0.17	0.38	0.021	0.015	0.031	0.026	0.005	-0.022	0.020
22	Total trade	2783	8943	0.045	0.126	0.059	-0.003	-0.054	0.047	-0.063
23	Trade balance	124	2052	0.006	-0.001	0.001	-0.019	0.028	-0.011	0.014

	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
8	1														
9	-0.273	1													
10	0.613	-0.099	1												
11	-0.050	0.043	-0.070	1											
12	0.016	-0.011	-0.072	-0.087	1										
13	-0.109	0.040	-0.142	-0.050	0.137	1									
14	0.128	0.091	0.198	0.048	0.084	0.081	1								
15	0.127	0.018	-0.144	-0.053	0.203	0.066	-0.011	1							
16	0.071	0.102	0.218	0.053	0.007	-0.084	0.051	-0.124	1						
17	-0.168	0.117	-0.258	-0.089	0.212	0.101	0.115	0.697	-0.194	1					
18	0.553	-0.182	0.377	0.037	-0.110	-0.239	0.152	-0.125	0.103	-0.142	1				
19	0.165	0.119	0.318	0.063	-0.012	-0.108	0.657	-0.237	0.178	-0.108	0.462	1			
20	0.345	-0.152	0.306	-0.052	-0.082	-0.260	-0.096	-0.140	-0.004	-0.188	0.419	0.121	1		
21	-0.067	0.056	-0.064	0.475	-0.087	0.003	0.052	-0.071	0.062	-0.099	0.018	0.107	-0.057	1	
22	0.173	-0.127	0.212	-0.043	-0.024	-0.141	0.085	0.122	-0.065	0.107	0.386	0.112	0.198	-0.046	1
23	-0.028	0.023	-0.053	0.016	0.025	0.068	-0.002	-0.032	0.024	-0.025	-0.068	-0.008	-0.016	0.016	-0.803

Table 2. Cox event history analysis of airline failure (insolvency)

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
Independent Variables					
H1 Military ties		-1.508***	-3.020***	-0.780***	-1.685***
		-0.505	-0.496	-0.201	-0.561
H4 Military ties X military expenditure per capita			-2.919***		
			-0.523		
H6 Military ties X domestic conflict / 1000				-0.147***	
				-0.051	
H8 Military ties X cabinet size					-0.386**
					-0.159
Organizational Variables					
Airline age	0.124***	0.127***	0.134***	0.125***	0.127***
	-0.019	-0.017	-0.017	-0.018	-0.016
Airline aircraft diversification	-0.312***	-0.276***	-0.296***	-0.263***	-0.275***
	-0.081	-0.067	-0.072	-0.07	-0.07
Domestic focus	-1.581***	-1.497***	-1.548***	-1.501***	-1.426***
	-0.451	-0.504	-0.49	-0.509	-0.457
Foreign ownership	0.772**	0.659**	0.601*	0.605*	0.595*
	-0.309	-0.311	-0.33	-0.336	-0.34
Size (large airline)	-0.012	0.04	0.107	0.004	0.102
	-0.231	-0.194	-0.169	-0.207	-0.201
State ownership	-0.538**	-0.241	-0.255	-0.103	-0.168
	-0.209	-0.255	-0.26	-0.249	-0.272
Environmental variables					
Airline-sector age	-0.270***	-0.287***	-0.312***	-0.295***	-0.287***
	-0.022	-0.024	-0.025	-0.024	-0.028
Airline-sector density	0.172***	0.170***	0.172***	0.167***	0.163***
	-0.028	-0.029	-0.026	-0.028	-0.029
Cabinet size (executive branch)	0.200***	0.188***	0.212***	0.193***	0.148**
	-0.04	-0.036	-0.039	-0.035	-0.058

Constitutional changes	0.013	0.144	-0.05	0.214	-0.103
	-0.261	-0.242	-0.275	-0.222	-0.256
Country fiscal budget balance / 10,000	-0.248	-0.249	-0.286	-0.249	-0.358
	-0.382	-0.346	-0.39	-0.354	-0.372
Country GDP growth	0.513	1.197	0.83	0.853	0.037
	-3.444	-3.183	-3.419	-3.053	-3.981
Country population / 1,000,000	-0.015***	-0.018***	-0.019***	-0.019***	-0.018***
	-0.004	-0.004	-0.006	-0.005	-0.005
Democracy level	-0.047***	-0.045***	-0.030*	-0.013	-0.017
	-0.015	-0.014	-0.017	-0.019	-0.015
Domestic conflict / 10,000	0.369***	0.324**	0.223*	1.148***	0.281*
	-0.081	-0.15	-0.127	-0.237	-0.169
Effectiveness of legislative branch	0.104	0.09	0.068	-0.01	-0.028
	-0.095	-0.102	-0.107	-0.096	-0.096
Ground transportation / 1000	0.154**	0.231***	0.340***	0.248***	0.285***
	-0.073	-0.049	-0.035	-0.051	-0.054
Maritime shipping / 1000	0.001	0.002	0.002	0.002*	0.002
	-0.001	-0.001	-0.001	-0.001	-0.001
Military expenditure per capita / 100,000	-0.216***	-0.237***	-0.266***	-0.232***	-0.229***
	-0.026	-0.02	-0.025	-0.02	-0.018
Regime change	-0.241	-0.232	-0.155	-0.245	-0.206
	-0.362	-0.38	-0.376	-0.417	-0.344
Total trade (logged)	-0.598***	-0.541***	-0.534***	-0.537***	-0.475***
	-0.141	-0.129	-0.137	-0.122	-0.153
Trade balance / 1000	-0.604**	-0.311	0.104	-0.194	-0.071
	-0.279	-0.277	-0.315	-0.278	-0.281
Wald chi squared	148.27***	414.13***	199.05**	213.57***	372.77***

Robust standard errors in parentheses
* significant at 10%; ** significant at 5%; *** significant at 1%

Table 3. Cox event history analysis of government expropriation of airlines

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
Independent Variables					
H1 Military ties		-1.508***	-3.020***	-0.780***	-1.685***
		-0.505	-0.496	-0.201	-0.561
H4 Military ties X military expenditure per capita			-2.919***		
			-0.523		
H6 Military ties X domestic conflict / 1000				-0.147***	
				-0.051	
H8 Military ties X cabinet size					-0.386**
					-0.159
Organizational Variables					
Airline age	0.124***	0.127***	0.134***	0.125***	0.127***
	-0.019	-0.017	-0.017	-0.018	-0.016
Airline aircraft diversification	-0.312***	-0.276***	-0.296***	-0.263***	-0.275***
	-0.081	-0.067	-0.072	-0.07	-0.07
Domestically focused	-1.581***	-1.497***	-1.548***	-1.501***	-1.426***
	-0.451	-0.504	-0.49	-0.509	-0.457
Foreign ownership	0.772**	0.659**	0.601*	0.605*	0.595*
	-0.309	-0.311	-0.33	-0.336	-0.34
Size (large airline)	-0.012	0.04	0.107	0.004	0.102
	-0.231	-0.194	-0.169	-0.207	-0.201
State ownership	-0.538**	-0.241	-0.255	-0.103	-0.168
	-0.209	-0.255	-0.26	-0.249	-0.272
Environmental variables					
Airline sector age	-0.270***	-0.287***	-0.312***	-0.295***	-0.287***
	-0.022	-0.024	-0.025	-0.024	-0.028
Airline sector density	0.172***	0.170***	0.172***	0.167***	0.163***
	-0.028	-0.029	-0.026	-0.028	-0.029
Cabinet size of executive branch	0.200***	0.188***	0.212***	0.193***	0.148**
	-0.04	-0.036	-0.039	-0.035	-0.058
Constitutional changes	0.013	0.144	-0.05	0.214	-0.103

	(1)	(2)	(3)	(4)	(5)
	-0.261	-0.242	-0.275	-0.222	-0.256
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	-0.382	-0.346	-0.39	-0.354	-0.372
Country GDP growth	0.513	1.197	0.83	0.853	0.037
	-3.444	-3.183	-3.419	-3.053	-3.981
Country population / 1,000,000	-0.015***	-0.018***	-0.019***	-0.019***	-0.018***
	-0.004	-0.004	-0.006	-0.005	-0.005
Democracy level	-0.047***	-0.045***	-0.030*	-0.013	-0.017
	-0.015	-0.014	-0.017	-0.019	-0.015
Domestic conflict / 10,000	0.369***	0.324**	0.223*	1.148***	0.281*
	-0.081	-0.15	-0.127	-0.237	-0.169
Effectiveness of legislative branch	0.104	0.09	0.068	-0.01	-0.028
	-0.095	-0.102	-0.107	-0.096	-0.096
Ground transportation / 1000	0.154**	0.231***	0.340***	0.248***	0.285***
	-0.073	-0.049	-0.035	-0.051	-0.054
Maritime shipping / 1000	0.001	0.002	0.002	0.002*	0.002
	-0.001	-0.001	-0.001	-0.001	-0.001
Military expenditure per capita / 100,000	-0.216***	-0.237***	-0.266***	-0.232***	-0.229***
	-0.026	-0.02	-0.025	-0.02	-0.018
Regime change	-0.241	-0.232	-0.155	-0.245	-0.206
	-0.362	-0.38	-0.376	-0.417	-0.344
Total trade (logged)	-0.598***	-0.541***	-0.534***	-0.537***	-0.475***
	-0.141	-0.129	-0.137	-0.122	-0.153
Trade balance / 1000	-0.604**	-0.311	0.104	-0.194	-0.071
	-0.279	-0.277	-0.315	-0.278	-0.281
Wald chi squared	148.27***	414.13***	199.05**	213.57***	372.77***

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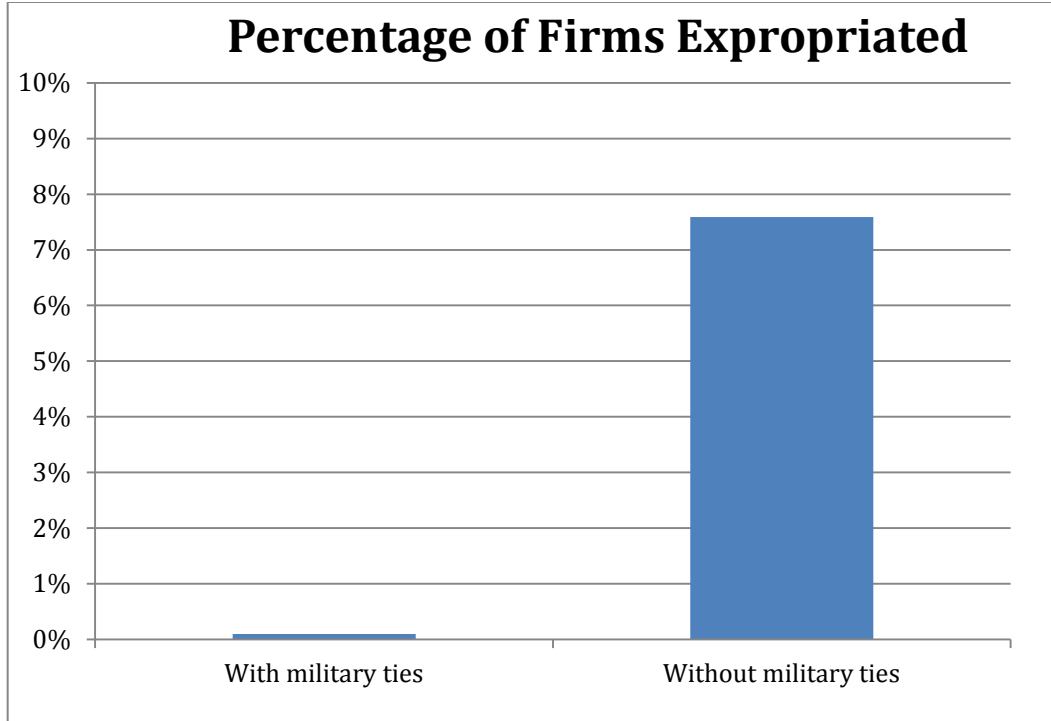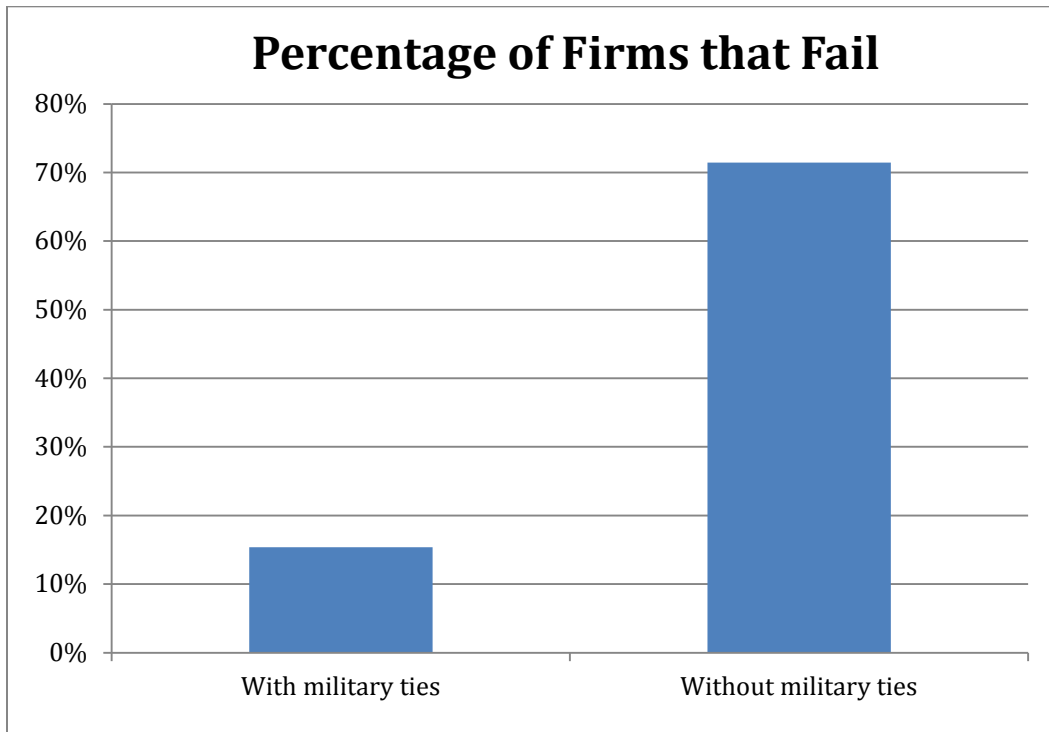**Figure 1. Organizational expropriation by military tie**

Figure 2. Organizational failure by military tie