

# Vertical and Horizontal Social Capital and Firm's Performance in China: some implications

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The role of social factors in economic performance is well established and acknowledged in economic literature. In fact, economic activity is deeply embedded in social structure so that it affects micro and macro level economic outcomes. In this study, we refer to the distinction between vertical and social capital to investigate the differential impacts of this two types of social capital on firm's performance outcomes.

We depart from the usual western capitalism context in which these relationships are studied, to undertake our enquiry into the Chinese institutional context, referring to the local conceptualisation of social capital, known as Guanxi.

More specifically by analysing the local phenomenon of Guanxi within the lenses of received Social Capital literature, we developed two hypotheses that we tested on a unique dataset of more than 5,000 Chinese private enterprises, using a fractional probit regression model.

We also run several robustness checks that supports our findings about the positive impact of horizontal social capital in predicting firm's profits. The same, but less straightforward support is obtained for vertical social capital. Indeed these are interesting findings for the context of the study and discussions will delve into the possible explanations to derive several theoretical and policy implications.