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INTERFIRM RELATIONSHIPS AND BUSINESS PERFORMANCE*

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We organized business associations for the owner-managers of young Chinese firms to study the effect of business networks on firm performance. We randomized 2,820 firms into small groups whose managers held monthly meetings for one year, and into a "no-meetings" control group. We find the following. (i) The meetings increased firm revenue by 8.1%, and also significantly increased profit, factors, inputs, the number of partners, borrowing, and a management score. (ii) These effects persisted one year after the conclusion of the meetings. (iii) Firms randomized to have better peers exhibited higher growth. We exploit additional interventions to document concrete channels. (iv) Managers shared exogenous business-relevant information, particularly when they were not competitors, showing that the meetings facilitated learning from peers. (v) Managers created more business partnerships in the regular than in other one-time meetings, showing that the meetings improved supplier-client matching. *JEL Codes*: D22, O12, O14, L14.

I. INTRODUCTION

Much research has focused on barriers to firm growth that act at the level of the individual firm, such as limits to borrowing or lack of managerial skills. But firms do not operate in a vacuum: business relationships, which provide information, training, referrals, intermediate inputs, and other services, are potentially central. Because of networking frictions such as lack of information or lack of trust, these relationships may not form efficiently,

*We thank Attila Gaspar, Huayu Xu, Hang Yu, and Zhenglong Zhang for excellent research assistance; Daron Acemoglu, Pol Antràs, David Atkin, Abhijit Banerjee, Andrew Bernard, Nick Bloom, Emily Breza, Arun Chandrasekhar, Esther Duflo, Ben Golub, Matt Jackson, Terence Johnson, Dean Karlan, Larry Katz, Sam Kortum, David Lam, Ben Olken, Rohini Pande, Mark Rosenzweig, Antoinette Schoar, Matthew Shapiro, Duncan Thomas, Eric Verhoogen, Chris Woodruff, Dean Yang, and seminar participants for helpful comments. We thank the Innovations for Poverty Action's SME Initiative, the Private Enterprise Development in Low-Income Countries (ERG 1893 and MRG 2355), the University of Michigan, the European Research Council under the European Union's Seventh Framework Program (FP7/2007-2013) grant agreement number 283484, and the European Research Council (ERC) under the European Union's Horizon 2020 research and innovation programme grant agreement number 724501 for funding.

The Quarterly Journal of Economics (2018), 1–54. doi:10.1093/qje/qjx049.
Advance Access publication on December 20, 2017.

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April 18, 2018