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# Heterogeneity of political connections and outward foreign direct investment

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ABSTRACT

By examining the heterogeneity of political connections (PCs), this study reconceptualises the relationship between PCs and outward foreign direct investment (OFDI). Drawing upon resource dependence theory, we hypothesise that firms with ascribed PCs benefit from top political privileges in their home market and have a low OFDI commitment. Firms without any PCs have a medium OFDI commitment because they have to avoid the discriminative competition associated with their inferior political status. Firms with acquired PCs possess relatively strong political and market resources and face exchange pressure; thus, they exhibit a high OFDI commitment. The aforementioned hypotheses are supported by empirical results from probit and Tobit models based on panel data of 482 listed Chinese firms with OFDI from 2003 to 2014.

## 1. Introduction

Literature on increasing levels of outward foreign direct investment (OFDI) from emerging markets, especially China, has focused on the relatively strong host institutional aspects that lead firms to escape the weak home institutional environment through OFDI (Choudhury & Khanna, 2014; Stoian & Mohr, 2016). Nonetheless, such differences in institutional characteristics may not be the only reason for OFDI from emerging markets. Corporate political attributes have fundamentally reshuffled firm strategies in consideration for the ubiquitous institutional void in emerging markets (Bhaumik, Driffield, & Pal, 2010; Siegel, 2007; Sun, Mellahi, & Thun, 2010). Political connections (PCs) are prevalent worldwide (Hillman, Keim, & Schuler, 2004; Shirodkar & Mohr, 2015) and remain underexplored in the examination of OFDI commitment from emerging markets. In the current study, we advance research on emerging market OFDI by examining the nature of resource dependencies (Pfeffer & Salancik, 1978) between firms and the home government that may provide additional theoretical insights into the explanation of emerging market OFDI.

PCs refer to formal and informal ties between firms and the state, such as the equity ownership of the government and managerial connections (Faccio, 2006; Inoue, Lazzarini, & Musacchio, 2013; Pfeffer & Salancik, 1978, pp. 213–221; Sun, Mellahi, Wright, & Xu, 2015). PCs are heterogeneous in that some are naturally ascribed or designated, and the others are acquired instrumentally. Some firms tend to establish PCs to compensate for institutional voids, especially in emerging markets such as Indonesia, South Korea and China (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017; Faccio, 2006; Siegel, 2007; Sun & Wright, 2012). In contrast, other firms may enjoy strong government protection in securing strategic resources and market access in their home market. This benefit is because of the ascribed PCs of the firms that manifest in state ownership of their equity or in their long history of working with the government in its development initiatives while acting in their self-interest (Duanmu, 2014; Lioukas, Bourantas, & Papadakis, 1993; Xia, Ma, Lu, & Yiu, 2014). Certain state-owned enterprises (SOEs) in emerging markets, such as ONGC Videsh of India, Bank of Brazil and PETRONAS of Malaysia conduct international business in developed countries with the assistance of the governments of their home countries (Li, Cui, & Lu, 2014). PC heterogeneity constitutes an important origin of political hierarchy in firms. Firms with *ascribed* PCs are fundamentally different from those with *acquired* PCs. The former are naturally, intrinsically linked to the state, whereas the latter may develop managerial or equity-based political ties for opportunistic purposes (Hillman et al., 2004; Inoue et al., 2013; Sun et al., 2015). Acquired PCs are relatively fragile, especially when the regime shifts, as was the case in South Korea (Siegel, 2007). This scenario prompts the question of whether this fundamental heterogeneity in PCs leads to a difference in the OFDI commitment of firms with *ascribed* PCs, firms with *acquired* PCs and firms without any PCs.

Prior studies either compared the OFDI commitment of SOEs with

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those of non-SOEs (Bass & Chakrabarty, 2014; Choudhury & Khanna, 2014; Xia et al., 2014) or contrasted the survival odds of cross-border alliances of politically connected firms with other firms (Siegel, 2007). Although previous research has identified the important role of the state in cross-border businesses, they overlooked the heterogeneity within PCs, that is, ascribed PCs versus acquired ones. Such heterogeneity, together with the political hierarchy of different firms widely observed in developing economies (e.g. Pakistan) (Khwaja & Mian, 2005), challenges the explanatory power of existing literature on the OFDI of emerging market firms. In reality, firms with naturally ascribed PCs have reduced likelihood of exploring overseas markets because of their relatively low resource constraints at the home market (Huang, Xie, Li, & Reddy, 2017; Xia et al., 2014). In contrast, acquired PCs may propel firms to initiate risky cross-border projects (Siegel, 2007).

To address the research gap associated with PC heterogeneity, we employed resource dependence theory (Pfeffer & Salancik, 1978) as the overarching perspective to examine how the widespread ideological discrimination in granting favourable political treatments (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014, p. 921–922) affects OFDI commitment. This study employs the broad term 'OFDI commitment' to cover the propensity, intensity and associated institutional distance of OFDI. Governments in emerging markets usually grant such treatments to ideologically legitimate firms which in most cases are SOEs. However, such governments provide reduced favourable treatment to enterprises with reduced political importance (Huang, 2003). Emerging market firms generally lack strong ownership advantages in terms of advanced technologies and brands, hence, their international investments involve relatively high risks in comparison with their counterparts from developed markets (Luo & Tung, 2007; Marano, Tashman, & Kostova, 2017). We argued that firms without PCs engage in more OFDI in comparison with firms with ascribed PCs, because the former must avoid unfair competition in their home markets caused by political discrimination. We further hypothesised that firms with acquired PCs are most likely to engage in OFDI because they gain political resources from the government (e.g. low-cost loans from state-owned banks) and face political pressures for resource exchanges with the state. We found strong evidence that supports these theoretical hypotheses using panel data on publicly listed Chinese firms from 2003 to 2014 and probit and Tobit models.

This study contributes to literature in three aspects. First, this study enriches previous works on emerging market multinational enterprises (MNEs) because it incorporates the political status differentials of firms. Such incorporation is done by encompassing three major indigenous organisational firms and by examining their driving forces as well as the different levels of OFDI commitment under resource dependence theory. Second, equipped with resource dependence theory, this study finds that an increased level of OFDI commitment is not exhibited by firms with strong support from the state or business groups but by firms with acquired PCs. Finally, the study provides new insights into PCs by identifying the different roles that heterogeneous PCs played, thereby extending literature on the PC effect on OFDI. This study reveals the disadvantages of PCs in the OFDI context even in the absence of sudden political changes.

## 2. Literature review

### 2.1. PC heterogeneity and political hierarchy in emerging markets

PCs have been widely observed in developed and developing markets as formal and informal ties between firms and the state (Hillman et al., 2004). However, PCs in developing markets have relatively perplexing implications for firms because of prominent institutional voids in such markets (e.g. Indonesia, Pakistan, South Korea and China) (Faccio, 2006; Khwaja & Mian, 2005; Siegel, 2007; Sun, Hu, & Hillman, 2016). These markets feature a transition from a command economy to a market-based one in which new market-oriented institutions are not well established because of the strong ideological legacy in place (Daniels, Radebaugh, & Sullivan, 2014). As a form of direct state intervention, SOEs still widely exist in developing markets (Bass & Chakrabarty, 2014; Choudhury & Khanna, 2014; Cuervo-Cazurra et al., 2014). In such a transitional economic system, PCs and non-market strategies fill the institutional void and may also offer firms political shelter. However, such a protective effect may become obsolete when the political regime shifts (Faccio, 2006; Siegel, 2007). Firms with variances in characteristics rely on distinct non-market strategies to pursue economic performance. In other words, firms that depend on local intangible resources are highly likely to use information-based political strategies (Shirodkar & Mohr, 2015).

Firms in emerging markets may be connected with and affected by political power in various means, such as equity shareholding and managerial ties (Inoue et al., 2013; Sun et al., 2015). From an equity share perspective, a dominant state ownership grants firms special access to strategic resources as well as market entry (Liang, Ren, & Sun, 2015). Such ascribed PCs place firms in an advantageous position in their home market. From the perspective of a top management team, a private firm may acquire PCs if its executives participate actively in activities of the government, legislation bodies or the military (Faccio, 2006; Sun et al., 2016). PCs acquired through networks of executives differ in nature from ascribed PCs, in that PCs acquired by firms may become obsolete when politically connected top managers leave their positions.

Acquired PCs are based on mutual exchanges of key resources between firms and the state (Su & He, 2010). Thus, firms must constantly exhibit their political value by actively responding to government initiatives (Pfeffer & Salancik, 1978). Examples of these initiatives include high interest rates charged by connected government-owned banks (Liedong & Rajwani, 2018), risk-taking foreign investments (Williamson & Raman, 2011) and cross-border acquisitions in sensitive sectors which are difficult to penetrate (Roumeliotis, 2016). In contrast, ascribed PCs are relatively institutionalised and stable.

A salient political hierarchy exists among different organisational forms of economies in transition (Waldmeir & MacNamara, 2010), in which institutional voids remain ubiquitous, and in which state intervention is relatively strong (Daniels et al., 2014). Emerging market firms with ascribed PCs enjoy the highest political status followed by firms with acquired PCs and then by firms without any PCs. The state tends to grant the most favourable market resources including land use, bank loans, market access and import quota to firms with ascribed PCs (Waldmeir & MacNamara, 2010). Firms with acquired PCs may also obtain stronger bargaining power in certain resource allocations than firms without any PCs (Sun et al., 2016). Fortunately, firms may climb the political ladder to build and strengthen PCs with state agencies (Boubakri, Mansi, & Saffar, 2013; Siegel, 2007; Sun et al., 2016).

### 2.2. OFDI from emerging markets

OFDI from emerging markets challenges conventional MNE theories because emerging market firms usually do not possess strong ownership advantages in terms of technologies, brands or talents (Luo & Tung, 2007). Thus, such OFDI is usually regarded as a risk-taking commitment (Duanmu, 2014). In overseas markets, a firm must overcome institutional distances caused by strong pressure for local legitimacy (Kostova & Zaheer, 1999) and liability of foreignness (Zaheer, 1995). Firms incur an increased likelihood of encountering organisational overstretch and business failure if they invest in countries that are significantly different from their home country. Also, firms from emerging economies usually face high risks when conducting overseas investment projects because of their lack of necessary management knowledge, technological capabilities and internationalisation experience as well as a liability arising from their origin (Guillén & García-Canal, 2009; Luo & Tung, 2007; Marano et al., 2017). When they invest in developed and liberalised economies which offer equally free market access to firms worldwide,

their rivals increase in number and competition intensifies (Dau, 2013). Additionally, when emerging market firms invest in destinations with reduced liberalisation, overseas subsidiaries face relatively strong local market protection for indigenous firms as well as bureaucratic processes and turbulent political contexts (Park, Li, & Tse, 2006).

Existing literature has explored alternative perspectives for analysing motives and consequences of emerging market OFDI. According to resource dependence theory (Pfeffer & Salancik, 1978), firms that lack secure access to either market or financial resources in their home market can adopt international 'avoidance strategies' to alter organisational interdependence and improve the context of external control when their business is systematically affected by home market environment (Stoian & Mohr, 2016; Xia et al., 2014). From a political perspective, the state is identified as an important driving force behind the internationalisation of some SOEs with their provision of financial and political support (Bass & Chakrabarty, 2014; Cuervo-Cazurra et al., 2014; Xia et al., 2014).

Despite all the above findings, prior studies have not adequately examined a prevalent factor underlying the relationship between political status differentials of organisations in their home country and OFDI commitment. However, these studies (e.g. White, Fainshmidt, & Rajwani, 2018) have started to exploit the impact of home country institutions on political activities in host countries. Given the salient political status hierarchy between firms, examining the manner in which such a hierarchy affects the formulation of internationalisation strategies is a crucial and interesting topic for research.

## 3. Hypothesis development: resource dependence logic

### 3.1. Competitive and institutional interdependence

We employed resource dependence theory (Pfeffer & Salancik, 1978) as the central theoretical perspective to develop the hypotheses. This theory underlines various forms of interdependence between firms and external environment factors, which constrains the autonomy of firms due to resource exchange processes (Pfeffer & Salancik, 1978). Firms may employ avoidance strategies to escape such interdependence. Given the multiple forms of interdependence in emerging economies, we incorporate the most relevant ones, namely *competitive* and *institutional* interdependences to develop the hypotheses of the current study. Competitive interdependence refers to the coexistence of firms given their competition in similar product areas (Xia et al., 2014, p. 1347). Competitive interdependence prompts firms to invest abroad because they face strong competition from rivals at home (Witt & Lewin, 2007). Emerging market firms may also reduce domestic market constraints by globally diversifying their resource origins. The establishment of subsidiaries in a different country enables firms to avoid home market competition to some extent. Such an avoidance strategy through OFDI maximises global returns of firms (Boddewyn & Brewer, 1994; Stoian & Mohr, 2016; Xia et al., 2014). Institutional interdependence between firms and the state arises when firms rely on the state for political treatments (Pfeffer & Salancik, 1978, pp. 188–224). Power imbalance from the state stimulates firms to employ an avoidance strategy to seek international markets to mitigate adverse situations in the domestic country (Choudhury & Khanna, 2014). This phenomenon is salient in government–corporation exchanges in emerging markets because the government usually controls strategic resources such as bank loans, land use and preferential tax treatments (Khwaja & Mian, 2005; Sun et al., 2010).

### 3.2. Firms with ascribed PCs versus those without any PCs

From the resource dependence perspective, competitive interdependence between firms with ascribed PCs and those without any PCs plays a decisive role on OFDI commitment because the latter lacks political resources to engage in effective market competition against the former. Thus, given a discriminative political environment (Cuervo-Cazurra et al., 2014), OFDI under competitive interdependence becomes an essential option. Existing literature has found that political ideology distorts the OFDI commitment of firms (Duran, Kostova, & van Essen, 2017). Firms with ascribed PCs can secure more favourable support from the government than firms without any PCs, such as access to restricted industries and financial resources (Huang, 2003). In contrast, firms without any PCs are discriminated against and do not usually possess a political position in the market equal to that of firms with ascribed PCs (Huang et al., 2017; Park et al., 2006; Xia et al., 2014). Thus, competitive interdependence is characterised by power imbalance, in which emerging market firms with ascribed PCs possess greatly enhanced power. Firms without any PCs tend to mitigate the adverse situation from an unfair home market, in which overall market liberalisation progress lags behind that of advanced economies, thereby posing strong institutional constraints on firm development (Miller et al., 2014; Stoian & Mohr, 2016; Witt & Lewin, 2007). Therefore, firms without any PCs may exhibit high OFDI commitment that involves a significant amount of labour as well as tangible resources and considerable financial investments in a host market (Stoian & Mohr, 2016). However, engagement in foreign investment is intrinsically risky for emerging market firms (Duanmu, 2014). Despite the fact, firms discriminated against at home may choose to enter a foreign market with reduced institutional friction as well as fair competition, in which firms may thrive primarily on the basis of core competency (Chang & Wu, 2014).

**Hypothesis 1 (H1).** *Firms with ascribed PCs exhibit lower OFDI commitment than firms without any PCs.*

### 3.3. Firms with ascribed PCs versus those with acquired PCs

From the resource dependence perspective, competitive and institutional interdependences push firms with acquired PCs to be more committed to OFDI than those with ascribed PCs. On the one hand, firms with acquired PCs are still politically inferior to firms with ascribed PCs. Hence, the latter enjoys the highest degree of protection in product market access and in factor markets such as bank loans and land use because of their highest level of political status (Lioukas et al., 1993). In such a case, market power imbalance in the home country between firms with ascribed and acquired PCs pushes the latter to seek alternative markets. Internationalisation, such as OFDI, becomes a natural strategic choice because firms with acquired PCs may leverage overseas markets for alternative firm growth opportunities.

On the other hand, institutional interdependence between the state and firms further pushes firms with acquired PCs to engage in OFDI. Political connections serve as supplementary sources of strategic resources especially in emerging markets with a marked institutional void (Boddewyn, 1988; Bonardi, Hillman, & Keim, 2005; Rodriguez, Uhlenbruck, & Eden, 2005). Governments under state capitalism require firms to engage in ambitious overseas investments for political and economic considerations (Williamson & Raman, 2011). Governments set mandates and agenda for firms in competitive and strategic sectors to be global leaders. To reach that end, governments may launch national campaigns through massive policy instruments such as preferential fiscal incentives to expand their economic territories into overseas markets (Li et al., 2014). Firms with ascribed PCs are not always the most qualified or appropriate candidates because they are usually bureaucratic, inefficient and incapable of expanding into relatively uncertain overseas markets (Butler, 2016; Williamson & Raman, 2011). In contrast, the interdependence between the state and firms with acquired PCs necessitates such firms to explore the overseas market actively in exchange for strategic resources in their home markets (Roumeliotis, 2016).

**Hypothesis 2a (H2a).** *Firms with ascribed PCs exhibit lower OFDI*

*commitment than firms with acquired PCs.*

### 3.4. Firms with acquired PCs versus firms without any PCs

The above-mentioned competitive and institutional interdependences also determine jointly the difference in OFDI commitment between firms with acquired PCs and firms without any PCs. Firms with acquired PCs will exhibit strong commitment to OFDI because the positive 'push' force of institutional interdependence on their OFDI commitment outbalances the negative 'pull' force exerted by the competitive interdependence. First, in line with the institutional interdependence logic argued in H2a, firms with acquired PCs need to more respond actively to government calls and make more OFDI investments than firms without any PCs. Second, governments serve as safeguard for firms with acquired PCs, fostering their confidence in foreign-country investments. Acquired PCs improve the position of firms in the political hierarchy (Sun et al., 2010). Obtaining domestic resources is easier for firms with acquired PCs than firms without any PCs because they have stronger capabilities of accessing market opportunities and financial resources, both of which enhance the capabilities of firms to conduct foreign investments (Wang, Hong, Kafouros, & Wright, 2012; Xia et al., 2014). Politically connected board members enhance the bargaining power of firms in the allocation of strategic resources, thereby reducing environmental constraints (Siegel, 2007). Dependent on state back-up, firms with acquired PCs tend to be confident with the odds of a firm in tackling the complex environment in host markets (Heidenreich, Mohr, & Puck, 2015). Third, in developing institutional interdependence with the state through acquired PCs, firms also acquire abundant political skills that may help mitigate liabilities of foreignness in overseas markets when they engage in OFDI (Cuervo-Cazurra & Genc, 2008). Political capabilities are critical in assessing policy risks and lobbying the policy-making process in a host country (Holburn & Zelner, 2010). Firms with enhanced political capabilities may shift their organisational routines to explore host country opportunities, manage local political actors efficiently, and formulate local political strategies efficiently.

**Hypothesis 2b (H2b).** *Firms with acquired PCs exhibit higher OFDI commitment than firms without any PCs.*

Fig. 1 summarises the conceptual framework.

## 4. Method

### 4.1. Sample

We collected data on ascribed and acquired PCs as well as on overseas investments of publicly listed Chinese companies from 2003 to 2014. We chose China for this study because it presents a typical research setting for testing the aforementioned hypotheses. First, the internationalisation of Chinese firms provides a novel research context to potentially extend the boundaries of existing FDI theory. The magnitude of annual OFDI projects from China surged and reached USD 183.1 billion in 2016, rendering China the second largest OFDI home country (UNCTAD, 2017). Second, our examination of driving forces behind this rapidly emerging investment wave from China revealed business operations of firms within and across national borders received notable intervention from the Chinese government through various policy instruments (Wang et al., 2012; Williamson & Raman, 2011; Xia et al., 2014). We chose 2003 as the start year because until then, private firms were strictly prohibited from investing abroad (Buckley et al., 2007, p. 500) because of the shortage of foreign exchanges. The Chinese government only began removing barriers for globalising enterprises in late 2004 (Williamson & Raman, 2011).

We integrated three sources of firm-level datasets. First, we obtained OFDI data from the Ministry of Commerce of China. The data included the subsidiary name, name of the parent company, host country and length of investment, and were used to compile information on all OFDI projects registered with the Ministry systematically. This dataset covers Chinese OFDI projects more comprehensively than most datasets previously employed in the literature (Wang et al., 2012; Xia et al., 2014). Parent companies include listed and unlisted firms. Given that the present study required biographical information of executives, we confined the data to publicly listed firms because listed companies must disclose such detailed information to the public. OFDI projects in three special markets, namely, Hong Kong, Macau and Taiwan, were excluded. The reason is that a major portion of OFDI projects in Hong Kong and Macau are primarily for tax avoidance purposes (Xia et al., 2014), and investment in Taiwan is subject to cross-

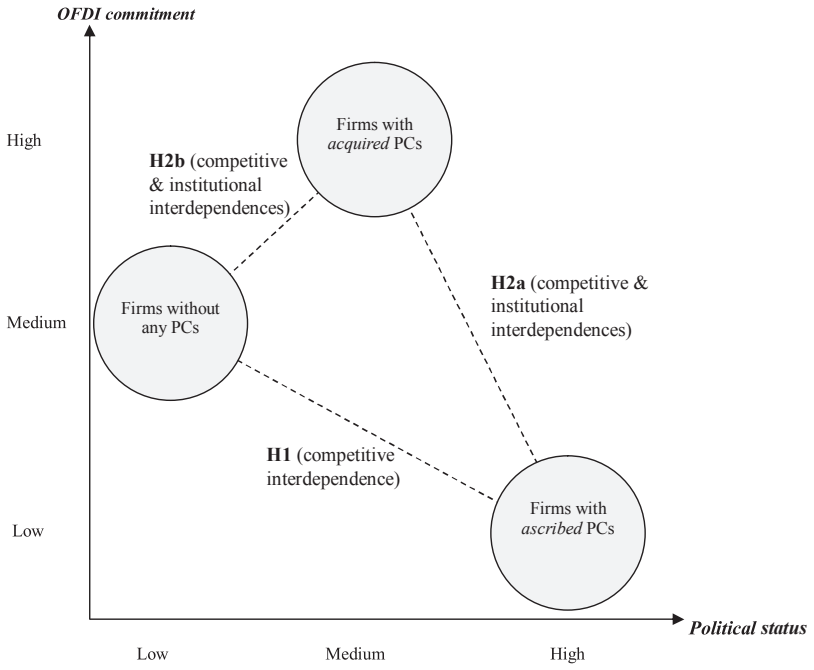



**Fig. 1.** Conceptual framework.

strait political tensions. Caribbean tax havens were excluded as well. Financial firms were likewise omitted, given that their nature fundamentally differs from that of industrial enterprises (Boubakri et al., 2013; Xia et al., 2014). Second, information was obtained from the resumes of all executives and board members of listed companies provided by the WIND database to identify and quantify acquired PCs. Third, to control for factors that can affect OFDI, financial data on the listed indigenous companies were collected from the CSMAR database which is widely used in studies on listed companies in China (Chizema, Liu, Lu, & Gao, 2015; Sun et al., 2016). The data include general accounting data, such as sales, assets, leverage and ownership structures (e.g. state equity share and ownership of the ultimate controller). In addition, financial data provide basic information on the firm, including industry affiliation, location of the parent company and year when the firm was established.

The merged sample contains all non-financial listed Chinese firms with at least one OFDI project over the sample period. The sample covers 482 firms with 3916 observations. Among these firms, 241 firms with 2397 observations are ultimately controlled by the state. Moreover, 115 firms with 823 observations are ultimately controlled by non-state investors and possess PCs, and 126 firms with 696 observations are ultimately controlled by non-state investors and do not possess PCs. The three groups are mutually exclusive and collectively exhaustive.

### 4.2. Variables on OFDI commitment

We measured OFDI commitment in three dimensions: propensity to conduct OFDI (Hu & Cui, 2014; Liang et al., 2015; Xia et al., 2014), OFDI intensity (Vermeulen & Barkema, 2002; Xia et al., 2014) and institutional distance of OFDI (Kostova, 1999). We generated a dummy variable (*OFDI dummy*) that equals 1 if a firm made at least one new investment in an overseas host country in that year and 0 otherwise (Xia et al., 2014). Certain firms may also conduct various entries in a given year simultaneously in the same country or in different countries. Therefore, we used the variable *OFDI project number* to measure how many OFDI projects a firm has invested in per year (Hu & Cui, 2014; Vermeulen & Barkema, 2002; Xia et al., 2014).[1]

Destination markets and institutional profiles of associated countries are important for the OFDI of emerging market firms. Prior studies have emphasised institutional differences between home and host countries which impose challenges and uncertainties for an MNE subsidiary to gain legitimacy in the latter (Kostova, 1999; Kostova & Zaheer, 1999). Accordingly, we regarded institutional distance as an appropriate indicator of the risk-taking attitude of firms (Jensen & Szulanski, 2004; Xu & Shenkar, 2002).[2] We used an index of investment freedom[3] to measure the national institutional profile. On the basis of the index, we calculated *OFDI institutional distance* as the difference in index scores between China and the host country (Meyer, Estrin, Bhaumik, & Peng, 2009; Miller et al., 2014). When a firm invested in multiple host countries in a given year, we used the average value of institutional distances between China and all new host countries in that year. We also measured the distance between overall freedom scores of China and those of destination countries as an alternative measure of institutional distance and obtained consistent empirical results.

### 4.3. Variables of ascribed and acquired PCs

#### 4.3.1. Ascribed PCs

We confined firms with ascribed PCs to SOEs. We categorised a publicly listed firm as an SOE if the ultimate controller, based either on ownership or voting rights, is a government authority. We used the dummy variable *ascribed PCs* to measure the ownership nature of a listed firm, with a value of 1 for state-controlled firms if the ultimate controller of firms is a central or local government agency and 0 otherwise (Xia et al., 2014).[4]

#### 4.3.2. Acquired PCs

We confined firms with acquired PCs to privately-owned enterprises (POEs). We classified a publicly listed firm as a POE if the ultimate controller is not a government authority. We then constructed the variable *acquired PCs* to measure whether the CEO or chairperson of a listed POE is politically connected.[5] Following prior studies (Fan, Wong, & Zhang, 2007; Sun et al., 2016), we regarded a firm with PCs if the CEO or chairperson of the board meets one of two conditions. First, the CEO or chairperson once worked or currently works in a national or provincial public administration agency, including ministries, bureaus, commissions, courts and jurisdictions (Liang et al., 2015). Low-level PCs (e.g., prefecture or county level PCs) are excluded because the business operations of most listed firms in China have a wide geographic coverage. Thus, only PCs with high-level government agencies could affect the overall business operations of a listed company. PCs include firms affiliated with any given ministry because sampled firms come from various industries that may have different corresponding supervisory ministries. Second, the CEO or chairperson is or was a member of national or provincial legislations and other similar organisations, including the People's Congress or the People's Political Consulting Committee (Chizema et al., 2015). Thus, the dummy variable *acquired PCs* equals 1 if either the CEO or the chairperson is politically connected during a certain year, and 0 otherwise.

### 4.4. Control variables

We controlled for factors that potentially affect OFDI commitment. A variable on firm leverage is included to measure financial resources of a listed company. Highly leveraged firms usually have fewer investment opportunities than low leveraged firms because of the restriction imposed by creditors. The restriction can be a key determinant of financial performance because of the interest burden and tax shields of debt (Zou & Adams, 2008). As for the variables, *financial leverage* is the ratio of total debts to total assets, whereas *operating leverage* is the ratio of net fixed assets to total assets (Saunders, Strock, & Travlos, 1990).

This study also controlled for equity ownership by foreign investors because they are an important source of global market knowledge that facilitates OFDI (Bhaumik et al., 2010). Foreign investors could also consider strategically Chinese firms as localisation bases, thereby weakening the OFDI intent of Chinese firms (Wang et al., 2012). Thus, *foreign share* is defined as the equity share of foreign investors (Wang et al., 2012; Xia et al., 2014).

We included several firm-level characteristics to control for firm resources and capabilities: firm size, firm age, board size and independent board. *Firm size* is measured by the natural logarithm of total

[1] To capture the remarkable dynamism exhibited by Chinese OFDI particularly after the liberalisation policy granted to private firms in 2003, this paper does not use an accumulated measure of all historical OFDI (Liang et al., 2015).

[2] Institutional differences may also involve business opportunities for international businesses (Deng et al., 2018; Stahl, Tung, Kostova, & Zellmer-Bruhn, 2016).

[3] The index is published jointly by the *Wall Street Journal* and the Heritage Foundation and is based on ten pillars, one of which is investment freedom (Miller et al., 2014).

[4] This study does not look further into the varieties of state ownership, such as 'local' versus 'central' SOEs (Li et al., 2014; Wang et al., 2012). Unlike the existing that analyze non-listed firms (Wang et al., 2012), this research used publicly listed firms with usually complex and multi-level shareholder structures. For example, a local SOE may have a significant share invested in by a central SOE. Such ownership complexity blurs the boundaries between state ownership varieties.

[5] This paper did not employ membership of the Communist Party of China as a particular symbol of acquired political connections because the resumes of top management teams available in annual reports do not disclose such membership.

**Table 1**
Descriptive statistics and correlation coefficients.

| Variables | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 *OFDI dummy* | 1.000 | | | | | | | | | | | |
| 2 *OFDI project number* | 0.700 | 1.000 | | | | | | | | | | |
| 3 *OFDI institutional distance* | 0.860 | 0.547 | 1.000 | | | | | | | | | |
| 4 *Ascribed PCs* | −0.049 | 0.010 | −0.086 | 1.000 | | | | | | | | |
| 5 *Acquired PCs* | 0.006 | −0.024 | 0.032 | −0.648 | 1.000 | | | | | | | |
| 6 *Firm size* | 0.119 | 0.169 | 0.067 | 0.311 | −0.185 | 1.000 | | | | | | |
| 7 *Firm age* | 0.063 | 0.033 | 0.057 | 0.153 | −0.060 | 0.165 | 1.000 | | | | | |
| 8 *Operating leverage* | −0.068 | −0.088 | −0.033 | 0.120 | −0.009 | 0.181 | −0.073 | 1.000 | | | | |
| 9 *Financial leverage* | −0.007 | 0.004 | −0.014 | 0.026 | 0.015 | −0.032 | 0.048 | −0.010 | 1.000 | | | |
| 10 *Independent board* | 0.110 | 0.135 | 0.084 | −0.061 | 0.023 | 0.184 | −0.022 | −0.044 | 0.026 | 1.000 | | |
| 11 *Foreign share* | −0.018 | −0.018 | −0.013 | −0.091 | −0.006 | −0.044 | −0.032 | 0.001 | −0.016 | −0.010 | 1.000 | |
| 12 *Board size* | −0.032 | 0.020 | −0.039 | 0.228 | −0.111 | 0.241 | −0.061 | 0.197 | 0.020 | −0.341 | 0.003 | 1.000 |
| Mean | 0.183 | 0.278 | 6.523 | 0.612 | 0.210 | 22.060 | 10.406 | 0.290 | 0.493 | 0.365 | 0.016 | 9.366 |
| SD | 0.387 | 0.838 | 16.043 | 0.487 | 0.407 | 1.472 | 5.228 | 0.184 | 1.439 | 0.059 | 0.069 | 2.000 |

Notes: $N = 3916$. Correlation coefficients > |0.03|, significant at $p < 0.05$.

assets in Renminbi, and *firm age* is the number of years since the firm was founded. Older firms are commonly believed to possess additional resources for OFDI (Dowell & Killaly, 2009). *Board size* is defined as the number of board members (Sun et al., 2016), and *independent board* is the share of independent board members in the entire board of directors.

Given that firms of different industries could possess dissimilar motives for engaging in OFDI, we included four industry dummy variables to control for industry-specific variations: energy and natural resources, real estate, manufacturing, and commerce. The effect of national interest and potential foreign resistance on OFDI in the energy and natural resource sectors was controlled through the industry dummy variable. In this sector, OFDI is likely to be resisted by host country governments in political considerations (Butler, 2016). Moreover, SOEs in the sector undertake relatively strong political missions and encounter more powerful institutional pressure in adopting overseas expansion strategies (Bass & Chakrabarty, 2014; Cuervo-Cazurra et al., 2014; Cui & Jiang, 2012; Luo & Tung, 2007). We controlled for highly imbalanced degrees of economic development and liberalisation by adopting the region dummy variable which equals 1 if the headquarters of a firm is located in eastern and coastal provinces and 0 otherwise (Chang & Xu, 2008). Finally, we included year dummy variables to control for cyclical disturbances, such as the stock market reform in 2006 (Liang et al., 2015). We also lagged all independent variables for a year to incorporate potentially sluggish transmission from the independent variables to OFDI.

### 4.5. Statistical models

We used different regression models to test the hypotheses. First, to examine determinants of the propensity of conducting overseas investments, we adopted probit models to cater for the dichotomous outcome variable (*OFDI dummy*):

$$\text{Prob}(\textit{OFDI dummy} = 1) = \alpha_1 + \beta_1{*}\textit{ascribed PCs} + \gamma_1\boldsymbol{X} + \varepsilon_1; \quad (1)$$

$$\text{Prob}(\textit{OFDI dummy} = 1) = \alpha_2 + \beta_2{*}\textit{acquired PCs} + \gamma_2\boldsymbol{X} + \varepsilon_2. \quad (2)$$

We constructed three subsamples to test the three hypotheses. Model (1) is used for the first subsample which includes SOEs and firms without any PCs as well as the second subsample which includes SOEs and firms with acquired PCs. Model (2) is used for the third subsample which includes POEs with and without acquired PCs. Pairwise grouping fits our models because it avoids forcing the coefficients of all control variables to be the same for the three firm types (Lamin & Livanis, 2013).

Second, we used Tobit regression models (Tobin, 1958) when dependent variables are *OFDI project number* and *OFDI institutional distance*. Dependent variables have a large number of zero observations because parent firms do not conduct OFDI annually. Therefore, an ordinary least square regression estimator would generate biased estimates for slope coefficient and intercept (Tobin, 1958). A maximum likelihood estimator of nonlinear Tobit models can resolve the problem (Amemiya, 1973):

$$y^* = \alpha_3 + \beta_3{*}\textit{ascribed PCs} + \gamma_3\boldsymbol{X} + \varepsilon_3; \quad (3)$$

$$y^* = \alpha_4 + \beta_4{*}\textit{acquired PCs} + \gamma_4\boldsymbol{X} + \varepsilon_4; \quad (4)$$

$$y = \max(0, y^*),$$

where $y$ denotes the *OFDI project number* and *OFDI institutional distance*. Latent variable $y^*$ has a normal homoskedastic distribution (Wooldridge, 2002, p. 540). We obtained robust estimates after controlling for clustering on each firm to account for firm-specific hidden factors, such as ownership advantages, that might affect political status and OFDI simultaneously.

## 5. Findings

### 5.1. Main results

Table 1 reports descriptive statistics and correlation coefficients for the total sample. All correlation coefficients between independent variables are lower than 0.35. All variance inflation factor values are lower than 5 and exclude the possibility of serious multi-collinearity (Sun et al., 2016; Xia et al., 2014). The mean value of OFDI propensity exhibits a relatively low foreign investment tendency. The average age of firms is roughly 10 years, which corresponds to the traditional internationalisation process model (Johanson & Vahlne, 1977). The average firm size is 22.06, which corresponds to a total asset of RMB 3807 million (approximately USD 634 million). Therefore, the sampled listed firms are large-scaled, thereby justifying our previous measure of central and provincial PCs for POEs, because only high-level connections influence the overall business operations of big firms.

Table 2 presents empirical results of the effects of ascribed and acquired PCs on the *OFDI dummy* by utilizing the probit models. The coefficient of *ascribed PCs* in Model 1 is negative at 1% significance level, thereby strongly supporting H1. The result suggests that SOEs backed by institutional protection tend to rely on domestic markets for development. This pattern is highly consistent with the general trend in the OFDI of listed and unlisted firms (Ministry of Commerce of China, 2016).

As predicted, Model 4 generates a significantly negative coefficient of SOEs, thereby suggesting that competitive and institutional interdependences drive firms with acquired PCs to invest abroad. The coefficient of *acquired PCs* in Model 7 is positive and statistically

**Table 2**
Effects of PCs on OFDI commitments (pairwise comparison).

| | Firms with ascribed PCs vs. Firms without any PCs | | | Firms with ascribed PCs vs. Firms with acquired PCs | | | Firms with acquired PCs vs. Firms without any PCs | | |
|---|---|---|---|---|---|---|---|---|---|
| Model # | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| D.V. on FDI | Dummy | Project # | Distance | Dummy | Project # | Distance | Dummy | Project # | Distance |
| Model type | Probit | Tobit | Tobit | Probit | Tobit | Tobit | Probit | Tobit | Tobit |
| **H1: *Ascribed PCs*** | **−0.146**** | **−0.501**** | **−9.630***** | | | | | | |
| | (0.067) | (0.233) | (3.713) | | | | | | |
| **H2a: *Ascribed PCs*** | | | | **−0.159**** | **−0.558**** | **−10.004***** | | | |
| | | | | (0.062) | (0.238) | (3.534) | | | |
| **H2b: *Acquired PCs*** | | | | | | | **0.157*** | **0.276*** | **8.281*** |
| | | | | | | | (0.083) | (0.142) | (4.713) |
| *Firm size* | 0.092*** | 0.317*** | 4.569*** | 0.096*** | 0.342*** | 4.764*** | 0.098* | 0.169* | 5.987* |
| | (0.023) | (0.092) | (1.286) | (0.023) | (0.103) | (1.303) | (0.057) | (0.096) | (3.083) |
| *Firm age* | −0.004 | −0.010 | 0.019 | −0.001 | −0.002 | 0.040 | −0.020** | −0.029* | −1.585*** |
| | (0.006) | (0.017) | (0.357) | (0.006) | (0.017) | (0.341) | (0.009) | (0.016) | (0.512) |
| *Operating leverage* | −0.562*** | −1.916*** | −23.904** | −0.503*** | −1.842** | −22.679** | −0.054 | 0.100 | 1.797 |
| | (0.199) | (0.737) | (11.378) | (0.191) | (0.810) | (11.230) | (0.344) | (0.585) | (21.409) |
| *Financial leverage* | −0.087 | −0.156 | −14.986 | −0.184 | −0.421 | −18.891** | −0.458* | −0.671 | −31.258** |
| | (0.169) | (0.452) | (10.249) | (0.151) | (0.424) | (9.468) | (0.250) | (0.409) | (15.479) |
| *Foreign share* | −0.231 | −0.466 | −7.656 | −0.058 | −0.314 | −6.217 | −0.756 | −1.165 | −44.460 |
| | (0.412) | (1.042) | (25.175) | (0.553) | (1.562) | (35.441) | (0.502) | (0.869) | (30.976) |
| *Independent board* | 0.752 | 2.365 | 42.449 | 0.912 | 3.334 | 50.871* | 0.234 | 0.321 | −4.760 |
| | (0.573) | (2.312) | (30.012) | (0.564) | (2.428) | (29.905) | (0.880) | (1.445) | (49.796) |
| *Board size* | −0.003 | 0.015 | 0.433 | 0.007 | 0.043 | 1.008 | 0.014 | 0.030 | −0.294 |
| | (0.019) | (0.071) | (1.076) | (0.017) | (0.075) | (1.010) | (0.031) | (0.052) | (1.858) |
| Constant | −3.392*** | −10.850*** | −189.849*** | −3.558*** | −12.039*** | −201.167*** | −2.252* | −4.118* | −118.929* |
| | (0.517) | (2.463) | (27.658) | (0.510) | (2.918) | (27.622) | (1.338) | (2.204) | (71.914) |
| Region Dummy | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Industry Dummies | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year Dummies | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| *N* | 2321 | 2321 | 2321 | 2496 | 2496 | 2496 | 864 | 864 | 864 |
| Likelihood ratio chi-square | 136.87*** | 5.38*** | 11.95*** | 134.90*** | 4.51*** | 12.16*** | 52.71*** | n.a. | n.a. |

Notes: Standard errors are in parentheses. *, **, *** Denote statistical significance at 10%, 5%, 1%level respectively (two-tailed tests). Robust estimates obtained after controlling for clustering on each firm.

significant, thereby supporting H2b. This result is consistent with those in existing literature (Boubakri et al., 2013). Therefore, based on empirical results in Table 2, firms with acquired PCs are most likely to conduct foreign investments.

Following the literature (Hu & Cui, 2014; Vermeulen & Barkema, 2002; Xia et al., 2014), we employed the number of OFDI projects during a given year as an alternative measure of OFDI commitment. The results are qualitatively similar to those with OFDI propensity as dependent variable. As shown in Models 2, 5 and 8, the coefficient of *ascribed PCs* is significantly negative, whereas that of *acquired PCs* is significantly positive.

Models 3, 6 and 9 in Table 2 with *OFDI institutional distance* as dependent variable support all three hypotheses. Given that coefficients of *ascribed PCs* are significantly negative in Models 3 and 6, we concluded that SOEs have reduced willingness to take risks to overcome institutional distance because the state provides privileges for them to conduct domestic business. These results are consistent with previous findings indicating that SOEs are inefficient entities (Megginson & Netter, 2001) with slow overseas expansion. Furthermore, Model 9 demonstrates that *acquired PCs* are significantly proportional in terms of risk-taking levels, thereby supporting H2b.

Coefficients of control variables exhibit salient differences across models in Table 2, particularly those of firm size, operating leverage and financial leverage. Such a difference justifies our between-ownership comparison based on pairwise grouping. For example, in Models 1–6 in which SOEs dominate subsamples, the coefficients of firm age are insignificant, whereas those of firm age for POEs (Models 7–9) are significantly negative. This finding suggests mature private firms tend to avoid OFDI as perhaps they already gained an advantageous market position in the home market. The differentiated coefficients of control variables left different portions of the variation in the dependent variable to be explained by main independent variables.

We also ran regression models across the three firm types in one sample and obtained consistent results (Table 3). We included all firms with one of the three ownership types (firms with ascribed PCs, firms with acquired PCs, and firms without any PCs), and set firms without any PCs as the base group. We constructed two dummy variables for the two other firm types. Significantly, positive coefficients of *acquired PCs* in all three models suggested firms with acquired PCs exhibited the strongest OFDI commitments in propensity, project number and institutional distance. In contrast, coefficients of firms with ascribed PCs in all models are negative, suggesting their weakest OFDI commitment.

### 5.2. Complementary analysis

We ran three sets of complementary analyses to corroborate the validity of the empirical findings.[6] First, we explore the OFDI direction to ascertain the risk-taking patterns of emerging market firms. Investing in countries with high investment freedom may provide opportunities for firms from emerging markets to learn business in a pro-market environment (Dau, 2013). Furthermore, investing in markets with

[6] Results are available upon request.

**Table 3**
Effects of PCs on OFDI commitments (whole sample).

| Model # | 1 | 2 | 3 |
|---|---|---|---|
| D.V. on FDI | Dummy | Project # | Distance |
| Model type | Probit | Tobit | Tobit |
| ***Ascribed PCs*** | **−0.109*** | **−0.316*** | **−7.606**** |
| | (0.061) | (0.197) | (3.400) |
| ***Acquired PCs*** | **0.175**** | **0.396**** | **9.108**** |
| | (0.071) | (0.177) | (4.245) |
| *Firm size* | 0.099*** | 0.309*** | 4.992*** |
| | (0.022) | (0.084) | (1.259) |
| *Firm age* | −0.002 | −0.007 | −0.074 |
| | (0.005) | (0.014) | (0.321) |
| *Operating leverage* | −0.522*** | −1.660*** | −24.071** |
| | (0.176) | (0.631) | (10.313) |
| *Financial leverage* | −0.206 | −0.433 | −19.815** |
| | (0.139) | (0.356) | (8.692) |
| *Foreign share* | −0.429 | −0.902 | −23.895 |
| | (0.375) | (0.910) | (23.602) |
| *Independent board* | 0.705 | 2.289 | 39.118 |
| | (0.533) | (2.078) | (28.845) |
| *Board size* | 0.003 | 0.026 | 0.541 |
| | (0.016) | (0.060) | (0.968) |
| Constant | −3.534*** | −10.561*** | −197.953*** |
| | (0.495) | (2.270) | (26.958) |
| Region Dummy | Yes | Yes | Yes |
| Industry Dummies | Yes | Yes | Yes |
| Year Dummies | Yes | Yes | Yes |
| *N* | 2841 | 2841 | 2841 |
| Likelihood ratio chi-square | 135.99*** | 5.43*** | 9.90*** |

Notes: Base group is firms without any PCs. Standard errors are in parentheses. *, **, *** denote statistical significance at 10%, 5%, and 1% level respectively (two-tailed tests). Robust estimates obtained after controlling for clustering on each firm.

reduced liberalisation confronts institutional barriers of the host country government. In our study, firms without PCs tended to leave the distorted home market and invest abroad to pursue a fair business environment, as hypothesised in H1. Therefore, examining whether such firms have increased tendencies of engaging in OFDI in countries with a liberalised investment environment is necessary. In line with existing literature (Deng et al., 2018; Tsang & Yip, 2007), we dichotomised all destination countries into 'more liberalised countries' and 'less liberalised countries', with the index of investment freedom of their home country (i.e. China) as the cut-off point. We designed two new dependent variables as follows. *OFDI institutional distance*$_{up}$ equals 0 when a new OFDI project is in a country with a reduced investment liberalisation score and equals *OFDI institutional distance* otherwise. Similarly, *OFDI institutional distance*$_{down}$ equals 0 when a new OFDI project is in a country with an increased investment liberalisation score and equals *OFDI institutional distance* otherwise. To test H1, we ran the model in Eq. (3) with two distance variables and only included firms with ascribed PCs and firms without any PCs to simplify the comparison. The coefficient of *ascribed PCs* (SOEs) is significantly negative when the dependent variable is *OFDI institutional distance*$_{up}$, but insignificant when the dependent variable is *OFDI institutional distance*$_{down}$. This result indicates that in comparison with SOEs, firms without any PCs are more likely to conduct OFDI in a more liberalised, that is, less discriminated market. We further utilised two dummy variables to test H1, namely *up* and *down investments*, in which the former equals 1 if firms invest in markets with enhanced liberalisation, and the latter equals 1 if firms invest in markets with reduced liberalisation. Empirical results indicate that firms without any PCs prefer more liberalised countries. The above findings corroborate the logic in H1.

Second, we investigated the role of institutional pressure on SOEs when testing H2a. In developing the hypothesis, we argued that firms with acquired PCs face institutional pressure from the state for resource exchange such that these firms must respond actively to national initiatives to engage in OFDI or invest in overseas sensitive sectors otherwise inconvenient for SOEs to invest in (Roumeliotis, 2016). Similarly, SOEs face strong institutional pressure from the state to search for and acquire strategic assets in global markets, such as, coal, natural gas, crude oil and iron ores (Bass & Chakrabarty, 2014; Butler, 2016; Cui & Jiang, 2012). Therefore, evaluating the role of institutional pressure on the OFDI of SOEs in natural resources is necessary. We identified a subsample of SOEs and politically connected POEs in the natural resource sector and tested H2b. The coefficients of *ascribed PCs* remain consistently positive when the dependent variables are *OFDI dummy*, *OFDI project number* and *OFDI institutional distance*, thereby illustrating an exceptionally high SOE OFDI. Additionally, SOEs in natural resources have high OFDI in countries with reduced investment freedom but insignificant commitment to countries with enhanced investment freedom. This empirical finding is consistent with the fact that SOEs from transitional economies usually face strong resistance in acquiring natural resource companies in liberalised economies (Butler, 2016; Roumeliotis, 2016). The strong influence of institutional pressure on SOEs in natural resource sectors is counter-balanced by the influence of weak institutional pressure in other sectors of the entire sample because the number of observations with the independent variable one-year lagged is 136. This value only accounts for 5.4% of the sample of SOEs and firms with acquired PCs.

Third, we evaluated financial consequences of OFDI by examining whether and how the value of a firm, as measured by *Tobin's Q* (Griffith, 1999; Wu, Wu, & Rui, 2012), is affected by OFDI. To obtain *Tobin's Q*, we multiplied the number of shares with the market price, with the book value of total debts as the numerator. We then calculated the ratio of the numerator to total assets. Coefficients of *OFDI propensity*, *OFDI project number*, and *OFDI institutional distance* are almost all statistically insignificant when OFDI variables were lagged with one, two and three years, thereby suggesting OFDI is an undesirable strategy for firm value, at least in the short term. We also ran all models for firms with ascribed PCs (i.e. SOEs), firms with acquired PCs and firms without any PCs. Estimated coefficients of PCs are either insignificant or negative. These results are consistent with those in the entire sample. The finding strongly suggests that OFDI is risky for emerging market firms because of their lack of advanced technologies, strong brands, internationalisation experience and organisational design. The undesirable consequence of OFDI implicitly underscores the undesirable effects of the discrimination associated with the political status of firms (Marano, Arregle, Hitt, Spadafora, & van Essen, 2016). SOEs may constantly have favourable political and economic resources at their home markets, generally discouraging interest in highly risky international markets. This finding is true except for extremely important sectors, such as natural resources (Bass & Chakrabarty, 2014; Butler, 2016). POEs lack a fair competitive environment in the home market, and thus, they explore risky overseas markets. POEs build PCs with the state, but such firms remain inferior to SOEs in the political hierarchy. Therefore, when the state necessitates role models in claiming their overseas interests, firms with acquired PCs first venture out into sensitive sectors in which SOE overseas investment may easily attract excessive media attention and political resistance in the host country (Roumeliotis, 2016).

## 6. Conclusion

### 6.1. Discussion

Prior studies on the role of PCs for OFDI have omitted heterogeneity within PCs, that is, ascribed PCs usually possessed by SOEs and acquired PCs usually observed in POEs. To address this gap, we employed resource dependence theory and examined how political hierarchy affects OFDI. All empirical results strongly support our hypotheses and depict an overall picture of the manner in which political hierarchy influences the interplay between firms with different political attributes in domestic and overseas markets. Ideological discrimination protects the least efficient SOEs at their home market, and to some extent, *de facto* exempts SOEs from venturing internationally (Huang et al., 2017).

Our findings on the relationship between political hierarchy and OFDI are highly consistent with pertinent evidence of emerging markets. For example, Stoian and Mohr (2016) examined OFDI flows from 29 emerging economies from 1995 to 2011 and found evidence for the pushing effects of regulative voids on OFDI.

### 6.2. Contributions

Our study contributes to literature on emerging market MNEs by incorporating the political status differentials of firms, encompassing three major indigenous organisational forms and examining the driving forces and different OFDI patterns of these firms. Our findings highlight the importance of political discrimination in understanding the differentiated OFDI commitments of various firms. Given that such discrimination is widely observed in emerging or transitional economies (Miller et al., 2014; World Bank, 2016), inevitably, the strategies of MNEs originating from such economies are distorted. Thus, the perspective of political status differential provides a novel and powerful tool in examining the political influence on MNE strategies.

Second, from a resource dependence perspective, our finding suggesting the relatively weak relationship between state ownership and OFDI extends literature on OFDI that has identified highly supportive effects. Much existing literature highlight the role of state ownership or affiliation to business groups as a key determinant of OFDI because of the resources and capabilities available from these types of organisational forms in support of OFDI (Liang et al., 2015; Pan et al., 2014). In contrast, we identify that a heightened level of OFDI commitment is not exhibited by these types of firms but by firms with acquired political connections.

Third, the present study enriches literature on political connections by identifying the heterogeneous roles played by two types of PCs and adds to literature on how PCs affect OFDI. We classified PCs into those ascribed, which in most cases are SOEs and those acquired, which are usually POEs. Both PC types grant firms seemingly equivalent state support. Nonetheless, firms with acquired PCs can hardly match firms with ascribed PCs in political status. Moreover, firms with acquired PCs should devote their resources towards projects with political values, such as OFDI investments to important overseas markets, which reveals disadvantages of such connections in the OFDI context. However, strategy scholars focused mostly on the positive aspects of PCs. In the limited studies on negative aspects, undesirable consequences occurred only when the external environment experienced stiff changes, such as a political regime shift (Siegel, 2007) or pro-market reforms (Sun et al., 2010). This study adopted the perspective of political hierarchy and examined the downside of PCs even without environmental changes, that is, the pressure on firms with PCs to conduct OFDI projects for political intent.

### 6.3. Limitations

Despite their theoretical contributions, interpretations of the findings may still have several limitations. First, we do not consider OFDI entry modes (e.g. greenfield, acquisition or joint venture), when various entry modes involve different degrees of resource commitments and levels of operational risk (Meyer et al., 2009). Second, we do not possess data on OFDI values because of data constraints. Thus, we did not examine the effect of PCs on OFDI magnitude. In reality, the investment value of SOEs tends to be higher than the average value, though the share of the project number of SOEs in the total project number has declined (e.g., 6.7% in China in 2014) (Ministry of Commerce of China, 2016). Third, we categorised all indigenous firms into three types depending on political status. However, actual boundaries between firm types are blurred. For example, certain privately controlled firms do not have executive PCs but have minority state equity ownership (Inoue et al., 2013; Sun et al., 2015). Because state ownership in private firms does not seem as opportunistic as that in executive PCs, the influence of state ownership on OFDI may vary depending on various issues, such as industrial competition and destination country. Fourth, heterogeneity inside SOEs, that is, 'local' versus 'central' SOEs, may be further explored (Li et al., 2014). Fifth, given data constraints, we only examined listed firms. Public firms, whether state or privately controlled, are subject to close monitoring by the public. Therefore, their risk-taking OFDI strategies show prudence to achieve desirable financial statements. Finally, the generalisability of our findings to other emerging markets is subject to empirical tests based on concrete data. This statement is true despite similarities between Chinese institutional environments and other emerging markets where the state maintains nontrivial intervention in the economy (Wang et al., 2012) and where firms may employ non-market strategies to circumvent institutional voids (Faccio, 2006; Siegel, 2007; Sun et al., 2016).

### 6.4. Managerial implications

This study offers important implications for managers in emerging market POEs eager to conduct OFDI or to alleviate the external constraints of their firms by establishing PCs with state agencies. Previous studies have indicated that PCs allow firms access to strategic resources, thereby promoting their value (Faccio, 2006). However, our empirical results show that OFDI does not contribute to firm value, at least in the short term. Hence, emerging market MNEs should consider alternative approaches for improving their internationalisation trajectory, such as coordination between headquarters and subsidiaries as well as horizontal or vertical integration after overseas acquisition (Williamson & Raman, 2011) because the establishment of political ties involves risky resource exchanges with the state sector that might not be to the best long-term interest of firms.

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