ARTICLE IN PRESS

International Business Review xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

Heterogeneity of political connections and outward foreign direct investment

Ziliang Deng[a], Jiayan Yan[a,b,*], Marc van Essen[b,c]

[a] Renmin Business School, Renmin University of China, Beijing 100872, China
[b] Darla Moore School of Business, University of South Carolina, Columbia, SC 29208, USA
[c] EMLYON Business School, France

ARTICLE INFO

Keywords:
Political connection (PC)
Outward foreign direct investment (OFDI)
Political hierarchy
Resource dependence theory
State-owned enterprise
Privately-owned enterprise

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

* Corresponding author at: Renmin Business School, Renmin University of China, Beijing 100872, China.
E-mail addresses: ziliang.deng@ruc.edu.cn (Z. Deng), yanjiayan@ruc.edu.cn (J. Yan), marc.vanessen@moore.sc.edu (M. van Essen).

https://doi.org/10.1016/j.ibusrev.2018.02.001
Received 26 April 2017; Received in revised form 21 January 2018; Accepted 2 February 2018
0969-5931/ © 2018 Elsevier Ltd. All rights reserved.

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,

Download English Version:

https://daneshyari.com/en/article/7412593

Download Persian Version:

https://daneshyari.com/article/7412593

Daneshyari.com