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# **The influence of political risk, inertia and imitative behavior on the location choice of Chinese multinational enterprises: does state ownership matter?**

## **Abstract**

**Purpose** – Drawing on the institutional perspective, this study investigates how state ownership moderates the relationships between political risk, inertia, and mimetic behavior, and the location choice of Chinese multinational enterprises (MNEs).

**Design/methodology/approach** – We argue that state ownership leads Chinese firms to behave toward political risk in an unconventional way, and that government support makes them less dependent on their own and other Chinese firms' prior host country experience. We tested our hypotheses using data on outward foreign direct investment (OFDI) decisions made by 186 Chinese firms in 93 countries.

**Findings** – We found that Chinese state-owned enterprises (SOEs), compared to non-SOEs, are more likely to move into countries with high political risk, and that they are less likely to be inertial and mimetic.

**Originality/value** – Building on the distinction between macro and micro political risk, we contribute to the political risk literature by developing several arguments that explains why political risk varies across investing firms in a given host country. Moreover, this is one of the first studies of its kind to investigate the moderating effect of state ownership on the relationship between inertial and mimetic behavior, and the location choice of Chinese MNEs.

**Keywords** Chinese firms; cross-border investments; location decisions.

**Paper type** Research paper

## 1. Introduction

Location decisions of multinational enterprises (MNEs) have received considerable attention from both scholars and practitioners as the choice of overseas location has the potential to either enhance or reduce firm performance (Jain et al., 2016). Over the recent years, the rising prominence of emerging-market MNEs is reshaping the global landscape. Since they exhibit distinct behaviors and growth strategies from those of their developed-country counterparts, the assumptions underlying traditional theories need to be re-evaluated in order to investigate how the distinctive attributes of emerging-market MNEs may affect their international expansion (Kim & Aguilera, 2016).

China is the most prominent within this trend of outward foreign direct investment (OFDI) from emerging economies, with some Chinese MNEs carrying out significant cross-border mergers and acquisitions (M&As). The leading role of state-owned enterprises (SOEs) in this process has been one of the distinctive characteristics since the very beginning. It is estimated that Chinese SOEs are responsible for about three-quarters of China's OFDI stock (Sauvant, 2013). Regarding this governance structure, two recent literature reviews on foreign location choice suggest that non-market factors such as government ownership or connections to the government may be critical in determining location decisions of emerging-market MNEs (Jain et al., 2016; Kim & Aguilera, 2016).

Firms entering a host market face a high level of uncertainty stemming from several host country factors. Among these host country determinants of location choice, political risk has been extensively researched in the case of Chinese MNEs (Buckley et al., 2007, 2016; Duanmu & Guney, 2009; Guo et al., 2014; Han et al., 2014; Kang & Jiang, 2012; Kolstad & Wiig, 2012; Lv & Spigarelli, 2016; Quer et al., 2012). However, empirical evidence about how state ownership moderates the influence of political risk on location decisions of Chinese MNEs is still scant (Amighini et al., 2012; Duanmu, 2012, 2014; Ramasamy et al., 2012).

Moreover, Yuan and Pangarkar (2010, 2016) report that managers of Chinese MNEs can address the uncertainty in foreign market entry by either repeating their past choices (inertial behavior) or by imitating other companies (mimetic behavior). Nevertheless, they did not analyze the moderating effect of state ownership on the proposed relationships between inertial and mimetic behavior and location choice of Chinese MNEs.

This paper aims to fill these research gaps by exploring the role of state ownership in Chinese MNEs' location decisions. More precisely, we analyze the relationships between state ownership and host country political risk, inertia and imitative behavior, and how these relationships affect Chinese MNEs' location choice.

We make several contributions to the international business literature. First, we show that firms from the same home country, due to their particular characteristics, do not face the same political risk in a host country and do not have the same dependence on their own prior decision-specific experience or on other home country firms' prior experience in the host country.

Second, this study also contributes to the empirical research on emerging-market MNEs, in particular, those from China. Although the internationalization of Chinese firms is receiving increasing attention among international business scholars (Enderwick, 2017; Qunyong, 2017), there are still some gaps in the literature, and further research is needed to extend our knowledge of Chinese MNEs. Some previous papers have analyzed the role of state ownership in several Chinese OFDI issues (Quer et al., 2015). However, as stated above, only a few of them have explored the moderating effect of state ownership on the locational determinants of Chinese MNEs. In addition, by including state ownership as a moderating variable, we try to shed light on the unconventional behavior of Chinese MNEs' location decisions reported in prior empirical research that has not distinguished between Chinese SOEs and non-SOEs. In doing so, we also seek to provide new insights to the ownership-

location-internalization (OLI) model (Dunning, 1981), by analyzing how state ownership may be a source of ownership advantages, as well as a mechanism to reduce perceptions of both transaction costs and location disadvantages.

The paper is structured as follows. First, we propose several hypotheses on the above-mentioned moderating effects of state ownership. Then, we present the methodology used for our empirical research, based on a sample of Chinese OFDI decisions. After discussing the main findings, we conclude by outlining the main contributions and limitations of our study, as well as by suggesting future research directions on this topic.

## **2. Theory and hypotheses development**

### *2.1 Political risk*

Host country political risk is one of the most researched institutional factors affecting location decisions of MNEs. From a regulative institutional perspective, it is expected that MNEs will locate in countries where regulative institutional constraints are less repressive to foreign investments (Kang & Jiang, 2012). The political and legal regime is one of the main dimensions of these regulative institutions. The high degree of uncertainty associated with foreign ownership or increased asset exposure in the event of an eventual expropriation can hinder OFDI decisions (Brouthers, 2002; Pak & Park, 2004). MNEs with superior proprietary assets face greater hazards of intellectual property appropriation as well as higher expropriation risk when the host country does not provide strong property rights protection (Jiang et al., 2014). Thus, the conventional wisdom suggests that high political risk is negatively related to OFDI location, given that MNEs will be more reluctant to enter countries with an unstable environment.

However, there are arguments that challenge this view and suggest that not all foreign firms face the same political risk in a host country. One of the most widely accepted

definitions of political risk is that of Simon (1982: 68), who defines it as "governmental or societal actions and policies, originating either within or outside the host country, and negatively affecting either a select group of, or the majority of, foreign business operations and investments". This definition is interesting because it suggests that political risk may vary across investing firms in a given host country. Actually, Robock (1971: 9) was the first to introduce a distinction between a macro political risk ("when unanticipated and politically motivated environmental changes are broadly directed at all foreign enterprise") and a micro political risk ("when the environmental changes are intended to affect only selected fields of business activity or foreign enterprises with specific characteristics"). This differentiation between macro and micro nature of political risk is important since some events may have different impact depending on industry- and firm-specific factors. While macro risks are environmental events which affect all foreign firms in a country without regard to organizational characteristics, micro risks are industry, firm, and even project-specific (Kobrin, 1981). However, prior empirical research mainly focused on the macro dimension of political risk, paying less attention to the micro dimension.

Furthermore, several factors, such as the contribution of the firm to the local economy (Juhl, 1985; Rice & Mahmoud, 1990), may moderate the impact of the general environment on each firm particular political risk exposure (Alon & Herbert, 2009). Political risk involves several factors, such as expropriation hazard, rules, regulations, security issues, fiscal policies, trade barriers, etc. Anyway, the magnitude of their effect may vary from one firm to another depending on firm-specific characteristics (Alon et al., 2006; Alon & Herbert, 2009). First, firm-specific capabilities for coping with political risk may play a determinant role (Frynas & Mellahi, 2003; Jiménez et al., 2014). In particular, emerging-market MNEs can build specific capabilities for coping with a politically uncertain territory. They suffer the competitive disadvantage of operating in a home country with an underdeveloped institutional

environment. However, this disadvantage can turn into an advantage when doing business in host countries with similar weak institutional environments (Cuervo-Cazurra & Genc, 2008). Facing such uncertainty at home has helped some emerging-market MNEs to develop capabilities for coping with risk and political uncertainty. Therefore, these firms may use the home country specific circumstances to develop firm-specific advantages.

Moreover, the nationality of the investing firm may also affect political risk exposure, depending on the diplomatic relations between home and host countries (De la Torre & Neckar, 1988). As Simon (1984) points out, when a MNE invests in a given host country, it enters the world of that country and the risks it will face will depend upon the interactions of key actors, which can have indirect external risks, including the effect of deteriorating relations between the home and the host country. Ultimately, MNEs represent their home country and strained diplomatic relations with the host country may lead to hostility and unfair treatment by the host government, thus increasing political risk (Alon & Herbert, 2009).

Some empirical papers on Chinese MNEs supported the conventional view that host country political risk discourages their OFDI, because of the above-mentioned factors, i.e., institutional constraints, high degree of uncertainty, lack of property rights protection or hazard of expropriation (Duanmu, 2012, 2014; Duanmu & Guney, 2009; Guo et al., 2014; Lv & Spigarelli, 2016). Anyway, there is also empirical evidence suggesting that host country risks do not affect Chinese MNEs in a conventional way. Buckley et al. (2007, 2016) found no evidence to support that Chinese OFDI was associated negatively with rising levels of host country political risk. Similarly, Quer et al. (2012) reported that a high political risk in the host country did not discourage Chinese MNEs. Kolstad and Wiig (2012) found that Chinese OFDI was attracted to countries with a combination of large natural resources and poor institutions. Other papers even report that Chinese MNEs tend to locate in countries that are politically risky (Han et al., 2014; Kang & Jiang, 2012; Ramasamy et al., 2012).

Some researchers have provided arguments for these unconventional findings drawing on the above-mentioned bilateral diplomatic relations between China and particular host countries. Thus, Buckley et al. (2007, 2016) point out that some Chinese OFDI have been located in countries with which China has close political and ideological ties, many of which have a high political risk. Li and Liang (2012) argue that Chinese firms tend to go to high-risk host countries, not because of their risk acceptant preference, but rather because of the risk-reduction effect of good political relationships between China and the host country. In a similar way, Li et al. (2013) report that by building good relationships with the host country and representing Chinese companies to bargain with the host government, the Chinese government may reduce the risk level facing Chinese companies doing business in that country. As Child and Marinova (2014) suggest, the active involvement of the Chinese government in Chinese firms' internationalization can extend to bilateral agreements that can stabilize host country environments for Chinese firms. Thus, bilateral diplomatic relations between China and the host country may play a role (Zhang et al., 2014), since they serve as a risk-reduction device, especially for SOEs (Duanmu, 2014). Following a similar reasoning, Gao et al. (2015) argue that the political relations between China and the host country may influence the impact of host country institutions on market expansion of Chinese SOEs.

Some scholars have provided other explanations for these unconventional findings. Ge and Ding (2009) suggest that some Chinese MNEs select investment locations mainly based on their own strategic objectives, disregarding political risk or psychic distance, in an attempt to catch up with incumbent developed-country MNEs (Luo & Tung, 2007). Chinese MNEs are usually latecomers to the industry in which they compete. For that reason, they have to accelerate their internationalization pace with the aim of accessing resources and capabilities that are not available in their home country (Mathews, 2002). This is considered a distinctive



characteristic of emerging-market MNEs that try to overcome their latecomer disadvantages through aggressive and risk-taking cross-border acquisitions (Kedia et al., 2012).

In addition, Kang and Jiang (2012) point out that Chinese MNEs try to exploit opportunities in countries where developed-country MNEs might regard as too risky. Focusing on the very idiosyncrasy of China's own institutional framework, Buckley et al. (2007, 2016) also provide additional arguments. They suggest that Chinese firms do not perceive or behave toward risk in the same way as firms from industrialized countries, demonstrating a perverse attitude to risk. First, because of imperfections in the Chinese capital market, the cost of capital is lower for Chinese firms, in particular, for SOEs. Second, because they are subject to Chinese government institutional influences, they may not behave only as profit-maximizers. Similarly, Rudy et al. (2016) point out that SOEs are likely to display a greater risk appetite, as a result of their soft budget constraint derived from their relationship with the state.

We propose that state ownership may put Chinese firms in a better position to take advantage of all the above opportunities. The government as owner of the MNE can tolerate higher risk in cross-border transactions compared to a private owner. Managers of SOEs can enter host countries that are considered too risky for privately-owned MNEs because of the protection they enjoy from the home government (Cuervo-Cazurra et al., 2014): the home government can bail SOEs out if they run into difficulties, and it can use political relationships and diplomacy to reduce potential expropriation risks.

In fact, some papers dealing with the location determinants of Chinese OFDI have reported differences between SOEs and private firms regarding political risk influence. Duanmu (2012, 2014) found that Chinese SOEs, compared to non-SOEs, are less concerned about host country political risk, while Amighini et al. (2012) and Ramasamy et al. (2012) reported that Chinese SOEs are attracted to countries with natural resources and risky political

environments. As stated above, a softer budget constraint, a behavior not only as pure profit-maximizers since they usually pursue policy goals, and the protection from the home government, in particular that derived from bilateral diplomatic relations, provides Chinese SOEs with advantages over their privately-owned counterparts when investing in politically risky locations. All these arguments lead us to propose:

**Hypothesis 1:** State ownership moderates the negative effect of political risk on the location of Chinese OFDI, in that SOEs are more likely to move into countries with high political risk.

## *2.2 Inertial behavior*

According to the institutional theory, organizational imprinting refers to the process of institutionalization by which organizations tend to maintain certain structural features and practices over time (Zucker, 1977). With organizational imprinting, once a decision has been implemented, the likelihood of alternatives for future decisions is reduced (Lu, 2002). This argument may also be related to the notion of behavioral inertia from an ecological perspective. The population ecology theory suggests that since organizational changes are risky, firms are subject to strong inertial forces; in other words, they seldom succeed in making radical strategic and structural changes when facing environmental threats (Hannan & Freeman, 1977; 1984). Drawing on this perspective, inertia may be defined as the tendency to routinely repeat past actions and patterns of activities (Jansen, 2004).

In the context of OFDI location choice, these ideas are connected with a particular type of international experience, namely, decision-specific experience, suggesting that, faced with uncertainty, firms will repeat their past selections. Thus, when choosing OFDI location, inertial forces will encourage MNEs to rely on organizational routines and discourage them from selecting a new host country where they have no prior experience (Yuan & Pangarkar, 2010). In fact, when analyzing location strategies, Jiang et al. (2014) found that a large

number of prior entries by the focal firm were associated with a higher probability of future investments in the same country.

When firms enter a new host market, they usually face a high level of uncertainty and they must overcome the liability of foreignness, or the additional costs that a company must face when entering a host market for the first time (Zaheer, 1995). The lack of institutional market knowledge – about language, laws, and rules – is associated not only with psychic distance but also with the liability of foreignness (Johanson & Vahlne, 2009).

Knowledge about the host country informs foreign entry decisions (Lu et al., 2014). If the firm has been doing business in a particular host country for a long time or if it has already established subsidiaries, it will probably have a deeper knowledge of that host environment. Several prior studies reported a positive association between host country specific experience and resource commitment (Chang & Rosenzweig, 2001; Luo, 2001; Yu, 1990). Therefore, host-country specific experience may help firms to overcome the liability of foreignness, which in turn helps them to apply past decision-specific experience (Lu, 2002; Luo & Peng, 1999).

In the case of Chinese OFDI, empirical evidence for the impact of inertial behavior on location choice is still scant. Yuan and Pangarkar (2010, 2016) reported that prior selections of the particular host country by the focal firm increased the likelihood that the focal firm may undertake future OFDI in the same location. This is also facilitated through an ongoing learning process and knowledge creation about the location (Johanson & Vahlne, 2009) and local customers (Hertenstein et al., 2017; Hobdari et al., 2017).

However, Yuan and Pangarkar (2010, 2016) did not address the potential moderating effect of state ownership. State ownership may influence firm willingness and ability to carry out OFDI. MNEs with a lower degree of state ownership depend less on the government as resource provider (Wang et al., 2012). Chinese non-SOEs, compared to their SOE

counterparts, must rely only on their own resources and capabilities when doing business abroad. Most of the large SOEs enjoy certain privileges such as government-supported finance, subsidies, regulations or monopolistic position at home (Song et al., 2011). Thus, government ownership can be a source of firm-specific advantages when it provides SOEs with funds for investments or diplomatic support to deal with foreign governments (Cuervo-Cazurra et al., 2014).

Thanks to the access to these strategic assets, Chinese SOEs may be more confident and less risk averse when entering a new host country. Thus, when choosing a new location, Chinese SOEs may be less dependent on their own prior decision-specific experience in the particular host country. In view of these arguments, we propose:

**Hypothesis 2:** State ownership negatively moderates the effect of behavioral inertia on the location of Chinese OFDI, in that SOEs are less likely to be inertial compared to non-SOEs.

### *2.3 Mimetic behavior*

Isomorphism is another key element of institutional theory. It refers to a process that forces one organization to resemble others that face similar environmental conditions (DiMaggio & Powell, 1983). Institutional theory posits that organizations seek approval or legitimacy from their peers. Hence, faced with uncertainty, organizations tend to behave in ways that are consistent with the actions of other organizations within their institutional environment (Meyer & Rowan, 1977). Mimetic behavior or frequency imitation (copying very common practices) is a type of institutional isomorphism by which organizations execute practices previously used by other organizations (Haunschild & Miner, 1997).

Mimetic behavior has been used in prior studies focusing on market entry decisions. Haveman (1993) found that organizations tend to follow similar and successful organizations into new markets. Henisz and Delios (2001) reported that the probability of locating a plant in

a given country would be greater the greater the number of prior locations by other firms. Jiang et al. (2014) found that the negative impact of formal and informal institutional distance between host and home countries on OFDI location choice was mitigated by the experience of other home country firms in that host country. Similarly, Jiménez and de la Fuente (2016) showed that a larger number of firms from the same home country in a host country positively moderate the negative influence of a greater psychic distance on the location of a MNE's subsidiary, both for firms belonging to the same industry and to different industries.

This is related to the concept of 'vicarious experience', i.e., the foreign investment experience of other firms that share a common characteristic, providing the MNE with information about the formal and informal institutional environments of a host country, which enhances MNE's ability to manage subsidiary operations in institutionally distant locations (Jiang et al., 2014). One such common characteristic may be the same home country, since such compatriot firms will face the same or similar difficulties when investing in a host country (Tan & Meyer, 2011). Besides, shared beliefs and a culturally-similar background make it easier for the investing firm to infer from and absorb the experience of companies from the same country of origin (Cohen & Levinthal, 1990).

As in the case of inertial behavior, empirical evidence for the influence of mimetic behavior on location choice of Chinese MNEs is still scant. Yuan and Pangarkar (2010, 2016) also reported that prior selections of the particular host country by other Chinese firms increased the likelihood that the focal firm entered the same host country in future decisions. However, they did not address the potential moderating effect of state ownership either.

Following a similar reasoning as above, we argue that state ownership may moderate the relationship between imitative behavior and location choice. Thanks to the privileges they enjoy, Chinese SOEs may be more confident and less risk averse when making foreign

market entry decisions. Thus, when entering a new host country, Chinese SOEs may be less dependent on other Chinese firms' prior experience in that host country.

Furthermore, similarities between firms may encourage mimetic behavior. In this case, compatriot firms with a similar ownership structure may be considered a particularly relevant reference group for imitation. However, companies from the same home country with different ownership types may vary in their propensity to imitate. Thus, Xie and Li (2017) report that Chinese SOEs are less likely to imitate compared with their privately-owned compatriots. This lower tendency to imitate may be explained by the fact that Chinese SOEs tend to have different incentives and strategic goals than privately-owned ones, including to achieve the political objectives of their home government. This may lead them to be perceived as political actors, rather than pure business entities, thus increasing resistance in many host countries (Huang et al., 2017). For that reason, Chinese SOEs may be reluctant to imitate the previous strategic choices of state-owned peers (Xie & Li, 2017). As a consequence, we propose:

**Hypothesis 3:** State ownership negatively moderates the effect of mimetic behavior on the location of Chinese OFDI, in that SOEs are less likely to be mimetic compared to non-SOEs.

### **3. Data and method**

#### *3.1 Data collection*

We collected our data from several secondary sources: the China Global Investment Tracker (created by The Heritage Foundation, which provides a comprehensive dataset of large Chinese investments and contracts worldwide), news items published on some Chinese newspapers (such as China Daily and Global Times) as well as information from each

company's corporate website. Finally, we obtained 489 OFDIs made by 186 Chinese firms in 93 countries between 2005 and 2013, this being the sample for our study.

The top destination is the US, with 67 OFDIs, followed by Australia (57), Canada (29), Brazil (24), Russia (24) and the UK (20). China National Petroleum Corporation [CNPC] leads the ranking of top investing companies, with 32 OFDIs, followed by Sinopec (27), China National Offshore Oil Corporation [CNOOC] (15) and Sinochem (10). The main industries included in our sample are mining (26.3%), engineering and construction (10.2%), automotive (9.7%) and finance (5.9%). Regarding ownership type, 99 companies are SOEs (53.2%), while the remaining 87 (46.8%) are non-SOEs.

### 3.2 *Dependent variable*

Our dependent variable is the *location decision* by firm  $i$  about an investment in country  $j$ . It was proxied by a dummy variable: (1) if firm  $i$  invests in country  $j$ ; (0) otherwise (Duanmu, 2012; Henisz & Delios, 2001; Jiménez & de la Fuente, 2016; Quer et al., 2012; Yuan & Pangarkar, 2010).

### 3.3 *Independent variables*

*Political risk.* We measured this variable using the political risk rating of the International Country Risk Guide (PRS, 2013). This measure has been used in prior studies on Chinese OFDI (Buckley et al., 2007, 2016; Duanmu, 2012; Duanmu & Guney, 2009; Han et al., 2014; Quer et al., 2012).

*Inertial behavior.* This variable was proxied by the number of prior investments by each firm in each particular country (Jiang et al., 2014; Lu et al., 2014; Luo, 2001; Yuan & Pangarkar, 2010).

*Mimetic behavior.* Following previous studies on vicarious experience (Jiang et al., 2014; Jiménez & de la Fuente, 2016), this variable was proxied by the number of prior investments

by other Chinese firms, excluding the focal firm, in the particular country (Lu et al., 2014; Yuan & Pangarkar, 2010).

### 3.4 Moderator

*State ownership.* We used a dummy variable as a moderator: (1) if SOE; (0) otherwise (Cui & Jiang, 2012; Duanmu, 2012; Li et al., 2016; Liu & Scott-Kennel, 2011; Pangarkar & Yuan, 2009).

### 3.5 Control variables

We controlled for a number of factors that might influence location decisions of Chinese MNEs. When MNEs enter an institutional environment with a different set of rules, they must build social legitimacy. The difficulty in attaining this is mainly related to cultural distance between home and host countries (Cui & Jiang, 2009, 2010). However, empirical evidence regarding the influence of cultural distance is not conclusive in the case of Chinese firms. While some papers found that Chinese OFDI is associated with cultural proximity to host countries (Blomkvist & Drogendijk, 2013; Buckley et al., 2007, 2016; Kang & Jiang, 2012) other studies reported that cultural distance does not have a strong negative influence on the location of Chinese OFDI (Quer et al., 2012; Zheng et al., 2016). Thus, we included *cultural distance* as a control variable, measured by the Kogut and Singh (1988) index, using the extended Hofstede's model with six dimensions (Hofstede et al., 2010).

Host market characteristics are widely recognized factors that affect investment inflows to a country. Over recent years, market seeking has been one of the main driving factors of Chinese OFDI (Buckley et al., 2008; Voss et al., 2010). It is expected that fast growing economies provide more market opportunities than others that are growing slowly or are in recession. However, empirical evidence is not conclusive in the case of Chinese MNEs either. Kang and Jiang (2012) only obtained partial support for the positive influence of host market growth on the location choice of Chinese OFDI, while Buckley et al. (2007, 2016)



found no relationship, and Duanmu and Guney (2009) reported that Chinese OFDI was attracted to countries with low market growth. Thus, we also controlled for *host market growth*, measured by GDP growth (annual %), using data from The World Bank, to capture the market potential of a host economy.

The level of development of the host country may also influence location decisions of MNEs. The strength of a country's institutional framework reduces business costs for foreign companies. In many emerging economies, institutional weakness may amplify information asymmetries, so companies face greater risks and need to spend more resources to search for information (Meyer et al., 2009). To control for this, we included *developed country* as a dummy variable taking the value of (1) if the host country is a developed country and (0) otherwise. In doing so, we followed the classification of the International Monetary Fund (Yang et al., 2013).

*Resource-seeking* has been one of the traditional motivations of Chinese OFDI. Over recent years, because of the rapid economic growth of the Chinese economy, there has been an increasing emphasis on oil, gas and raw materials for many industries. Most of the key players have been SOEs, which enjoy strong support from the Chinese government (Buckley et al., 2008). Thus, we included a dummy variable regarding the motive of each investment: (1) if resource-seeking; (0) otherwise. The investment was included in the resource-seeking category if the investing company belonged to a mining, metal or oil and gas industry and its aim was to access a local resource, usually in a country rich in raw materials.

Voss et al. (2010) found that differences in local home government attitude play a role, since differences regarding the speed of the OFDI approval process exist among Chinese regions. This leads them to suggest that OFDI is better supported in China's eastern coastal regions, the traditional poles of Chinese economic growth. Similarly, Liu et al. (2014) confirm that well-developed regional institutional environments in China positively affect the

extent of Chinese firms' OFDI. Sun et al. (2015) argue that greater institutional open access in a particular Chinese region leads to a greater outward internationalization of local firms headquartered in that region. Furthermore, Wu and Chen (2014) find that the level of institutional development in the home Chinese region is positively associated with location in advanced foreign markets. Thus, we controlled for the *intra-Chinese institutional differences*. Using data from the National Bureau of Statistics of China, this variable was proxied by the GDP per capita of the Chinese province, region or municipality where the firm's headquarters are located (with a log transformation).

#### 4. Results and discussion

As stated above, our dependent variable was given a value of (1) if firm  $i$  invests in country  $j$ , and (0) otherwise. Since we study the decision of location or non-location of a firm in a particular country, we have 17,298 observations (186 firms x 93 countries). We tested our hypotheses using a conditional logistic regression model, which is appropriate in situations where choice attributes and decision maker's characteristics may have an impact on the outcome. This model has been used in prior empirical studies on Chinese OFDI location choice (Duanmu, 2012; Quer et al., 2012; Yuan & Pangarkar, 2010; Zheng et al., 2016).

Table 1 reports descriptive statistics and correlations while Table 2 shows the results of the conditional logistic regression for location choice.

*Insert Table 1 about here*

*Insert Table 2 about here*

We used different models to test the hypotheses. Model 1 performed the regression considering only control variables. The model is significant ( $p < 0.001$ ) and four control variables became significant with a positive effect on location choice: cultural distance, developed country, resource-seeking, and intra-Chinese institutional differences. Model 2

included the direct effects of political risk, inertia, imitative behavior and state ownership, this model being also statistically significant ( $p < 0.001$ ). This model returned a statistically significant negative effect of political risk on location decisions ( $p < 0.001$ ), whereas a statistically significant positive effect of inertia, imitative behavior and state ownership (all with  $p < 0.001$ ).

Models 3-6 tested the hypotheses regarding the moderating effects of state ownership. All of these models were statistically significant ( $p < 0.001$ ). Models 3, 4 and 5 included the interaction effects independently, while model 6 included all of them. The interaction term between political risk and state ownership was positive and significant both in model 3 ( $\beta = 0.03$ ,  $p < 0.01$ ) and model 6 ( $\beta = 0.02$ ,  $p < 0.05$ ). These findings suggest that Chinese SOEs are more likely to undertake OFDI in countries with high political risk than Chinese non-SOEs. Thus, hypothesis 1 is supported. These findings are consistent with those of Amighini et al. (2012), Duanmu (2012, 2014) and Ramasamy et al. (2012) who found that Chinese SOEs were less risk averse compared to their non-SOEs counterparts. Moreover, our results may provide a justification for other empirical studies reporting that host country risk does not affect Chinese MNEs in a conventional way (Buckley et al., 2007, 2016; Kang & Jiang, 2012; Kolstad & Wiig, 2012; Quer et al., 2012). Some of them even found that Chinese firms demonstrated a perverse attitude toward risk in comparison with developed-country MNEs. However, the latter studies did not explicitly consider the moderating effect of state ownership on the relationships between determinants and location choice. Thus, the inclusion of state ownership as a moderating variable may help to shed light on the unconventional behavior of Chinese MNEs when making location decisions.

The interaction term between inertia and state ownership was negative and highly significant both in model 4 ( $\beta = -2.41$ ,  $p < 0.001$ ) and model 6 ( $\beta = -2.34$ ,  $p < 0.001$ ). These findings suggest a negative moderating effect of state ownership on the relationship between

inertial behavior (prior investments by the firm in each host country) and the likelihood that the firm will enter this host country. Therefore, hypothesis 2 is strongly supported.

The interaction term between mimetic behavior and state ownership was negative both in models 5 and 6, but only became statistically significant in model 5 ( $\beta=-0.02$ ,  $p<0.05$ ). These results suggest a negative moderating effect of state ownership on the relationship between imitative behavior (prior investments by other Chinese firms in each host country) and the likelihood that the location will be chosen. However, the lack of significance in the final model leads us to consider hypothesis 3 as partially supported.

In this case, a comparison between the results regarding hypotheses 2 and 3, and those obtained in previous studies on Chinese MNEs is difficult to make. As stated above, empirical evidence for inertial and mimetic behavior on Chinese OFDI location is scant. The positive direct effects of inertial and mimetic behavior reported in models 2-6 are consistent with the findings of Yuan and Pangarkar (2010, 2016), i.e. that past choices of the particular host country by the focal firm and other Chinese firms will increase the likelihood that the focal firm will select the same host country in future location decisions. Nevertheless, since they did not analyze the potential moderating effect of state ownership, a comparison with our results suggesting that Chinese SOEs tend to be less inertial and mimetic, is not possible.

With regard to the control variables, two of them turned out to be statistically significant in all models. First, the dummy variable *resource-seeking* showed a positive significant effect on the location decision of Chinese MNEs. Thus, belonging to a mining, metal or oil and gas industry is positively associated with the decision to carry out OFDI in a particular host country. As we pointed out above, the search for resources such as oil, gas or raw materials has been one of the traditional driving factors of China's OFDI, in particular, for Chinese SOEs.

Second, the variable *intra-Chinese institutional differences* (proxied by the GDP per capita) also showed a positive significant effect in all the regressions. This result suggests that the firm's home region may have influenced OFDI location decisions. In particular, it is expected that firm's decisions will be facilitated if OFDI is better supported in the home region, something that may occur in the east side of China, the traditional engine of China's economic growth over the past 30 years. In fact, descriptive statistics reveal that firms whose headquarters are located in Beijing (northern China), Shanghai, Shandong, Jiangsu and Zhejiang (eastern coastal regions) and Guangdong (southern China) account for 68.8% of the investors included in our sample.

## 5. Conclusion

This paper aimed to contribute to the study of Chinese MNEs' behavior by analyzing if Chinese SOEs respond to external institutional factors in a different way compared to their non-SOEs counterparts when choosing an OFDI location. In doing so, we also contribute to the study of OFDI location, one of the most important decisions of MNEs. As Deng (2013) suggests, since the prevailing theories mainly focus on privately-owned firms, a fruitful research avenue might be to consider how and to what extent Chinese state ownership might advance FDI theories and firm conduct in the global landscape.

From a theoretical standpoint, we aimed to advance institutional theory in international business research by analyzing how state ownership moderates the relationships between some host country institutional factors and OFDI location decisions. As Jain et al. (2016) point out in their literature review on location decisions, how does government structure (e.g., being an SOE) determine location choice remains an under-researched area. Actually, Cuervo-Cazurra et al. (2014) argue that the SOE dimension of state-owned MNEs may extend the MNE literature in answering the question on where to invest abroad. Thus, they point out

that whereas the traditional explanation suggests that MNEs tend to select a country in which resources and capabilities are more easily applicable to achieve higher profitability, state-owned MNEs may select a country in which the home government wants to achieve influence or diplomacy even if that location offers limited business benefits.

An interesting element of our study is the notion that firms from the same country do not face the same political risk in another country due to their particular characteristics. This idea has important theoretical implications for the political risk literature. Drawing on the distinction between macro and micro political risk, we have developed some arguments that explains why political risk varies across investing firms in a given host country, adding something new to the political risk literature. Academic research on micro political risk is still scant, since most of the research to date has focused on macro political risk (Alon & Herbert, 2009). Micro political risk assessment should be performed at the industry – or even at the firm – level, while most authors, when they write about political risk in general, they refer to macro political risk (Sottilotta, 2013).

Furthermore, we have provided new empirical evidence on the behavior of Chinese MNEs, which are becoming key players in the global economy over recent years. In particular, to the best of our knowledge, this is one of the first papers to analyze the moderating effect of state ownership on the relationship between inertial and mimetic behavior, and the location choice of Chinese MNEs. Our results suggest that Chinese SOEs, compared to non-SOEs, are more likely to move into countries with high political risk, and they are less likely to be inertial and mimetic. However, the last moderating effect showed less statistical significance. As stated above, good diplomatic relations between China and the host country, the attempt to catch up with incumbent developed-country MNEs, the aim to exploit opportunities in countries regarded as risky by developed-country MNEs, or the very idiosyncrasy of China's institutional framework are some of the reasons behind the unconventional behavior of

Chinese SOEs when entering host countries with a higher political risk. Regarding inertial and mimetic behavior, the Chinese government provides SOEs with strategic support making them less dependent on their own and other Chinese firms' past experience in the host country.

In addition to contributing to the academic literature on Chinese MNEs and location choice, this study also has several managerial implications. Some Chinese MNEs have carried out significant cross-border M&As and are becoming leading global players in many industries from oil and gas to automotive, engineering, construction, and finance. Managers of companies from other countries, in particular those of developed-country MNEs, must know how these emerging global players make decisions when doing business abroad. Furthermore, since many Chinese MNEs are also SOEs, it is necessary to analyze if their behavior differs from that of their non-SOEs counterparts, and if it deviates from the conventional wisdom, mainly derived from developed-country MNEs. The findings from this study lead us to consider that this is true at least with regard to location choice decisions. More precisely, government support makes Chinese SOEs less risk averse when entering a new host country.

Despite these contributions, this paper has several limitations that suggest potential directions for future research. First, since the percentage of equity ownership by the Chinese government was not available for all the firms included in our sample, we measured state ownership using a dummy variable. Different levels of state ownership might influence the relationships analyzed in this paper, leading to a different result in some cases. As Inoue et al. (2013) argue, companies with a minority state ownership are less affected by the agency distortions commonly present in full-fledged SOEs. Thus, future research could explore if fully SOEs behave in a different way compared to firms with a lower percentage of state ownership.

Second, our research setting has been China, whose OFDI activities show distinctive characteristics that may have influenced our findings. How SOEs from other emerging

economies behave regarding political risk, inertial and imitative behavior still remains underexplored. A comparison among Chinese, Indian or Latin American SOEs is another interesting avenue for future research in order to explore if the arguments presented here are generalizable to other emerging-market MNEs.

Third, since micro political risk is the political risk affecting a particular firm, project, or industry, the unit of analysis should not only be the target country (as in macro political risk) but also the firm's nationality, industry, or particular project characteristics and their relationship to the host country (Alon & Herbert, 2009). This would call into question the currently common approach, also used here, of compiling cross-country indices or indicators of political risk that are then supposed to apply to all foreign-owned firms. As Kobrin (1979) pointed out, aggregate quantitative indices ignore industry and firm specific factors, providing rankings that are independent of firm or industry factors, and measuring political instability rather than the potential impact of political risk upon specific types of firms. Although an index-based approach may be useful to establish to which class of risk a country belongs, micro risk approaches focusing on individual projects or firms are also necessary (Sottilotto, 2013). Future research may overcome this limitation by using innovative ways for measuring micro political risk, thus considering more home country, industry, firm and even project variables that might affect particular political risk exposure.

Finally, although prior research papers dealt with the role of state ownership in some Chinese OFDI issues, more work is needed to extend our knowledge of its influence on the internationalization of Chinese firms. Some questions remain open for future research. For instance, how does state ownership affect the establishment mode choice between acquisitions and greenfield investments? What role does it play on the choice between native or expatriate staff in foreign subsidiaries? Moreover, what differences exist between Chinese SOEs and non-SOEs when managing cultural integration in cross-border M&As?



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**Table 1** Descriptive statistics and correlations

	Mean	Standard deviation	1	2	3	4	5	6	7	8
1. Cultural distance	2.30	0.98								
2. Host market growth	4.22	3.84	-0.32**							
3. Developed country	0.29	0.45	0.37**	-0.42**						
4. Resource-seeking	0.34	0.47	0.00	0.00	0.00					
5. Intra-Chinese institutional differences	3.99	0.20	0.00	0.00	0.00	-0.14**				
6. State ownership	0.53	0.50	0.00	0.00	0.00	0.17**	0.19**			
7. Political risk	61.15	12.94	-0.26**	0.32**	-0.67**	0.00	0.00	0.00		
8. Inertial behavior	0.01	0.16	0.03**	-0.02*	0.03**	0.03**	0.02**	0.03**	-0.04**	
9. Mimetic behavior	5.02	9.26	0.19**	-0.12**	0.27**	-0.00	-0.01	-0.01	-0.29**	0.07**

\*p&lt;0.05; \*\*p&lt;0.01.

**Table 2** Results of conditional logistic regression for location choice

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
<i>Control variables</i>						
Cultural distance	0.14*	0.06	0.05	0.06	0.05	0.06
Host market growth	0.02	0.02	0.02	0.02	0.02	0.02
Developed country	0.78***	0.26	0.26	0.25	0.27	0.25
Resource-seeking	0.53***	0.38***	0.38***	0.41***	0.38***	0.41***
Intra-Chinese institutional differences	1.23***	0.93***	0.93***	1.01***	0.92***	1.01***
<i>Direct effects</i>						
Political risk		-0.02***	-0.04***	-0.02***	-0.02***	-0.04***
Inertial behavior		0.28***	0.29***	2.68***	0.30***	2.63***
Mimetic behavior		0.01***	0.01***	0.01**	0.02***	0.02**
<i>Moderator</i>						
State ownership		0.48***	-0.96*	0.54***	0.62***	-0.55
<i>Interactions</i>						
Political risk x State ownership			0.03**			0.02*
Inertia x State ownership				-2.41***		-2.34***
Imitation x State ownership					-0.02*	-0.01
Chi-square	116.08***	1637.85***	1638.24***	1831.64***	1639.92***	1832.08***
N	17,298	17,298	17,298	17,298	17,298	17,298

Dependent variable: (1) Firm  $i$  invests in country  $j$ ; (0) Otherwise.

\* $p < 0.05$ ; \*\* $p < 0.01$ ; \*\*\* $p < 0.001$ .