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overseas investment outcomes, and firm
performance shaped by outside CEO succession,
and by China's anti-corruption campaign

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**EMMNCS' POLITICAL CONNECTIONS AND THEIR OVERSEAS INVESTMENT
OUTCOMES, AND FIRM PERFORMANCE SHAPED BY OUTSIDE CEO
SUCCESSION, AND BY CHINA'S ANTI-CORRUPTION CAMPAIGN**

**HUANG DONGDONG
NANYANG BUSINESS SCHOOL**

2020

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HUANG DONGDONG

NANYANG BUSINESS SCHOOL

A thesis submitted to the Nanyang Technological University in partial fulfilment of the
requirement for the degree of Doctor of Philosophy

2020

STATEMENT OF ORIGINALITY

I hereby certify that the work embodied in this thesis is the result of original research, is free of plagiarised materials, and has not been submitted for a higher degree to any other University or Institution.

26/02/2020

Huang Dongdong

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SUPERVISOR DECLARATION STATEMENT

I have reviewed the content and presentation style of this thesis and declare it is free of plagiarism and of sufficient grammatical clarity to be examined. To the best of my knowledge, the research and writing are those of the candidate with amendments, changes and improvements as suggested by me as the Supervisor. I confirm that the investigations were conducted in accord with the ethics policies and integrity standards of Nanyang Technological University and that the research data are presented honestly and without prejudice.

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Chapter 1 is published in the following conferences:

Huang, D. D., Tsui-Auch, L. S., & Dieleman, M. 2019. EMMNCS' Home Country Political Connections and Overseas Investment Outcomes: A Multi-Theoretical Framework and Research Agenda. 79th Academy of Management Conference in Boston.

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The contributions of the co-authors are as follows:

- I conducted the data collection, literature review, materials synthesis, analysis, and data evaluation.
- Dr. Tsui-Auch assisted in data collection and literature review. She also helped me with the framework. Dr. Dieleman provided further guidance in those process.
- I wrote the drafts of the manuscript. The manuscript was revised by Dr. Tsui-Auch, Dr. Dieleman and Dr. Gomulya.

Chapter 2 is published in the following conference:

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The contributions of the co-authors are as follows:

- I conducted the data collection, literature review, materials synthesis, data analysis, and model building.
- Dr. Tsui-Auch assisted provided further guidance in those process.
- I wrote the drafts of the manuscript. The manuscript was revised by Dr Tsui-Auch.

Chapter 3 is published in the following conference:

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The contributions of the co-authors are as follows:

- I conducted the data collection, literature review, materials synthesis, data analysis, and model building.
- Dr. Gomulya and Dr. Tsui-Auch assisted provided further guidance in those process.
- I wrote the drafts of the manuscript. The manuscript was revised by Dr Tsui-Auch and Dr. Gomulya.

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SUMMARY

The overarching topic of my thesis is politically connected firms from emerging markets. There are three chapters in my thesis, falling on three streams: political connections of firms from emerging markets and the impact on overseas investments, politically connected firms and their CEOs' performance effects, and politically connected Chinese firms and their performance in an anti-corruption campaign. In the first chapter, I conducted a thorough literature review regarding political connections of emerging market multinational corporations and the impact on overseas investment. I summarized the four major theories in the literature and built a multi-theoretical framework. In the end, I identified gaps and opportunities for future research. In the second chapter, I drew inspiration from the legitimacy perspective and political embeddedness theory to examine the effects of outside CEO succession in globalizing Chinese firms on firm performance. I emphasized the importance of the alignment among CEO origin, market characteristics, legitimacy in host countries, and political embeddedness within the home country government for firm performance. In the last chapter, I aimed to explain officials' nonfeasance and the economic slowdown following the recent high-profile anti-corruption campaign in China from the threat-rigidity thesis and the social exchange theory. I argued that an anti-corruption campaign imposed an enormous threat perceived by Party Secretaries in central state-owned enterprises, making them unable to act and lowering firm performance in the short-term. However, if the central government sent signals of trust, firm leaders would act reciprocally and the perceived threat will be alleviated. By doing so, I hope my thesis will contribute to better understanding of the timely and important phenomenon of politically connected firms from emerging markets.

CHAPTER 1. EMMNCs' HOME COUNTRY POLITICAL CONNECTIONS AND OVERSEAS INVESTMENT OUTCOMES: A MULTI-THEORETICAL FRAMEWORK AND RESEARCH AGENDA

ABSTRACT

The recent wave of overseas investments from emerging market multinational corporations (EMMNCs) stirred debate in both corporate and political circles as many new players have connections to governments or politicians in their home countries. The puzzle is: Do home country political connections make good travel companions? While the role of political connections in domestic markets has been studied extensively, we know less about the impact of such connections on EMMNCs' overseas investments despite the growth of this literature. I first review this emerging literature which predominantly draws on the institutional perspective, the resource-based view, resource dependence theory, and transaction cost theory. Second, I identify and map the key findings and analyses on the mediating mechanisms, moderating mechanism, and overseas investment outcomes. Next, I synthesize arguments and analyses to develop a multi-theoretical framework. Specifically, I (a) highlight the mediating mechanisms of resources and liabilities that in turn shape an EMMNC's overseas investment outcomes, (b) summarize the factors shaping the strength of resources and liabilities, and (c) identify the moderating mechanisms in the context of EMMNCs' overseas investments across the inter-country and firm-specific levels. The multi-theoretical framework paves the way for identifying gaps and opportunities for future research directions. Finally, I develop a research agenda to: (a) advance the theoretical development by incorporating relevant concepts from perspectives on political embeddedness, legitimacy, and geopolitics, and (b) re-direct future research into politically connected privately-owned enterprises,

home country dynamics, resources and liabilities including organizational stigma, and non-market strategy.

INTRODUCTION

Research on the impact of firms' home country political connections and their overseas investments has gained momentum in recent years (Meyer, Ding, Li, & Zhang, 2014; Sun, Mellahi, & Wright, 2012). This is partly driven by the increasing internationalization from state-owned enterprises (SOEs) and perceivably state-linked enterprises in emerging markets such as China and Russia (e.g. *The Economist*, 2012a), and the escalation of trade disputes between the United States and China (e.g., *The Guardian*, 2018). As one of the most high-profile cases demonstrating such tensions recently, Huawei, the world's largest telecommunication equipment supplier and the second-largest smartphone vendor, has been banned from installing 5G wireless internet equipment in the United States and Australia for its close political connections with the Chinese government (*Consumer News and Business Channel*, 2019; *New York Times*, 2019). While some studies identify the valuable resources associated with political connections that facilitate firms' overseas investments (e.g., Anderson, Sutherland, & Severe, 2015; Deng, 2009; Duanmu, 2014), others have examined various government-linked liabilities that hinder such investments (e.g., Chen & Young, 2010; Pan, Teng, Supapol, Lu, Huang, & Wang, 2014; Zhang, Zhou, & Ebbers, 2011). *The puzzle is: Do home country political connections make good travel companions?*

In spite of the urgency to thoroughly explain the possible double-edged effects of firms' home country political connections, only a few studies have attempted to do so (Liang, Ren, & Sun, 2014; Sun et al., 2012). So far, scholars have drawn primarily on the institutional perspective (Cui & Jiang, 2012; Meyer et al., 2014), the resource-based view (Zhou, Van Witteloostuijn, & Zhang, 2014), resource-dependence theory (Huang, Xie, Li, & Reddy, 2017; Xia, Ma, Lu, & Yiu,

2014), and transaction cost theory (Demirbag, Glaister, & Tatoglu, 2007). Although some recent studies have begun to adopt multiple theoretical perspectives, there has been no attempt to build a holistic framework to explain the nature, sources, and overall effects of EMMNCs' home country political connections on their overseas investments.

Firms with home country political connections generally draw significant attention and face legitimacy concerns while making overseas investments. However, those from emerging markets with a state-led economy are more severely scrutinized than their counterparts from developed countries (e.g., Deng, Yang, Wang, & Doyle, 2017; Gammeltoft, Filatotchev, & Hobdari, 2012). A preliminary literature search for publications on home country political connections reveals that only three papers examine multinational corporations (MNCs) from developed countries (i.e., Albino-Pimentel, Anand, & Dussauge, 2018; Yeung, 1998, 2000), and all the others focus on firms from emerging markets. Hence, I aim to conduct a thorough review of the literature addressing politically connected emerging market multinational corporations (EMMNCs) and build a multi-theoretical framework. By doing so, I make several contributions. First, I provide a thorough review of publications on politically connected EMMNCs. Second, I synthesize the arguments and findings to develop a multi-theoretical framework to identify the relationship between EMMNCs' home country political connections and overseas investment outcomes, as well as the mediating and moderating mechanisms. Last, I present a research agenda to advance theoretical development, identify research opportunities, and suggest research methods for this research theme.

METHOD AND SCOPE OF THE REVIEW

I searched for articles in the *Web of Science Database* by topic and examined the words appearing in the sections of the title, abstract, keywords, and keywords plus. Based on my research topic, I

classified my keywords into four categories, which are summarized in Table 1. I obtained 695 papers after this round of keyword search.

-----Insert Table 1 about here-----

I then conducted a journal search based on the results of the keyword search. In order to make my selection as comprehensive as possible, I identified journals with high impacts (based on Journal Citation Reports of the *Web of Science Database*) from six fields relevant to my topic. The journal search is summarized in Table 2. After this round of search, the number of qualified papers was reduced to 157.

-----Insert Table 2 about here-----

I further examined the selected papers and excluded those where: (1) findings neither reflect organizational-level analysis, political connections, outward overseas investments, nor acquirer(s) from emerging markets, and/or (2) no specific theories or models are used. As a result, the total number of papers is reduced to 70 papers. I added another six relevant papers recommended through friendly reviews, and thus my review is based on 76 papers in total.

I proceeded to invite another scholar to code these papers by using an inductively derived codebook, which focuses on the type of paper (empirical or conceptual), the relationship between overseas investments of politically connected EMMNCs and firm-level outcomes (positive, negative, mixed, or insignificant based on the results), the major theories applied, and the number of theories used (single theory or multiple theories). For example, we coded the relationship between home country political connections and overseas investment outcomes as positive if the hypothesis predicted a positive relationship and the results supported the hypothesis. In order to ensure that we coded consistently with a high degree of inter-rater consensus, we did a pilot coding of 10 papers. The inter-rater agreement obtained between the two coders was 0.85, indicating a

sufficiently high level of accuracy. We also resolved any disagreements through discussions until consensus between the coders was reached.

ANALYSIS OF THE LITERATURE

Defining “Political Connections”

The concept of political connections, which derives from studies of social networks (Granovetter, 1985), has gained much attention in recent years (Sun et al., 2012). While business connections focus on a firm’s informal social connections with business organizations (Dacin, Ventresca, & Beal, 1999; Uzzi, 1997), political connections refer to a firm’s social network with governments of different levels (Sheng, Zhou, & Li, 2011), which can be equity-based (such as state ownership of a firm), or relation-based (such as informal relationships between firm leaders and government officials), or both (e.g., Bortolotti & Faccio, 2009; Peng & Luo, 2000; Siegel, 2007). Generally, the term is a multi-level construct that falls on both the individual and organizational levels, which can be categorized into four types: individual-level connections between business persons and political actors (Li & Zhang, 2007; Park & Luo, 2001; Peng & Luo, 2000; Siegel, 2007), organizational-level connections between firms and government (Bortolotti & Faccio, 2009; Sun, Xu, & Zhou, 2011; Wu, 2011), individual-organizational level connections between government officials and firms (Lester, Hillman, Zardkoohi, & Cannella Jr, 2008), and between firm leaders and government (Hillman, Zardkoohi, & Bierman, 1999). Despite differences in the levels of interaction, the four types of political connections, which are not mutually exclusive, exert similar effects on a firm’s performance. The literature collected so far has not analyzed their differences in affecting EMMNCs’ overseas investment outcomes.

Overseas Investment Outcomes

I divide the most commonly studied outcomes into two major categories. The first category relates to the process of the deal itself, which includes the completion of the deal and duration of approval (Knoerich, 2010; Li, Newenham-Kahindi, Shapiro, & Chen, 2013; Zhang et al., 2011). Positive process outcomes refer to successful completion of the deal and less duration of the approval while negative process outcomes the opposite. The second category relates to firm performance associated with overseas investments, including financial performance (Huang et al., 2017; Wang, Hong, Kafouros, & Wright, 2012; Zhu & Zhu, 2016), market performance (Du & Boateng, 2015; Tao, Liu, Gao, & Xia, 2017), and innovation performance (Anderson et al., 2015; Chen, Li, & Fan, 2018). Positive performance outcomes refer to an increase in those performance measures while negative ones a decrease. However, it should also be noted that some process outcomes such as the duration of approval are treated as proximal outcomes that can further impact performance as distal outcomes (e.g., Meyer, 2014; Zhang et al., 2011).

In general, authors predict positive overseas investment outcomes when only the resources associated with political connections are analyzed, or when the resources outweigh the liabilities. Specific positive outcomes include low levels of opposition, faster completion, and better financial, market, and innovative performance. For example, despite the potential liabilities associated with home country government political connections, Chinese firms are perceived as resource-rich and can portray themselves in positive light in mass media, gaining acceptance and investment opportunities in Africa (Li et al., 2013; Stevens & Newenham-Kahindi, 2017). On the contrary, when only the liabilities associated with political connections are studied, or when the liabilities outweigh the resources, EMMNCs are expected to face negative outcomes including deal abortion, worsening financial, market, and innovative performance. For example, Zhang et al. (2011)

confirmed a lower completion rate for Chinese SOEs compared with Chinese privately-owned enterprises (POEs) because of negative perceptions that host country stakeholders have over state ownership of firms from a state-led economy.

Distribution of Publications: Over Years

As presented in Table 3, the literature addressing politically connected firms is increasing. The total number of papers identified since 2015 is 33, compared with 31 papers from 2010 to 2014, 10 papers from 2005 to 2009, and only two papers in the period before 2005. This increase can be largely attributed to the rise of empirical papers (48 since 2010 versus 5 before 2010), indicating an increasing attention to the research theme. In contrast, the number of conceptual papers has remained stable throughout recent periods (5 papers from 2005 to 2009, 8 papers from 2010 to 2014, and 8 papers since 2015).

-----Insert Table 3 about here-----

In addition, the annual distribution of the publications is presented in Figure 1. Year 2017 saw the largest number of publications—14, followed by 12 in 2014, and 9 in 2016.

-----Insert Figure 1 about here-----

Distribution of Publications: Country of Origin

The geographical distribution of publication is presented in Figure 2. China (57), Brazil (8), India (8), Russia (4), and Turkey (3) are the top five countries of origin, together accounting for 65 out of the total 76 studies (or 85.5%). Studies regarding Chinese EMMNCs are especially prominent, with 57 studies or 75% of the total number. This distribution reflects the strong presence of politically connected Chinese MNCs such as Huawei, Alibaba, and others on the international stage. In addition, 56 out of the 76 papers adopt a single country study while 19 using multiple country studies. One does not specify the country of origin.

-----Insert Figure 2 about here-----

Distribution of Publications: Journals

I present the journal distribution of collected studies in Figure 3. The journals with at least 3 publications are *Journal of World Business* (16), *Journal of International Business Studies* (14), *International Business Review* (11), *Asia-Pacific Journal of Management* (9), *Global Strategy Journal* (7), and *Multinational Business Review* (3), which together account for 78.9% of all publications. The results suggest that current research of the focal topic is bounded in the international business field, with limited attention in more general management journals.

-----Insert Figure 3 about here-----

EMMNCs' Home Country Political Connections and Overseas Investment Outcomes

The overall relationship of all empirical studies is inconclusive, with reports of a mixed relationship being the most (23 out of 53, or 43.4% of the total), followed by studies finding an either positive or negative relationship (14 for both relationships, or each 26.4% of the total), and the rest an insignificant relationship (2 studies, or 3.8% of the total). The inconclusiveness supports the equivocal relationship and suggests the significant roles of boundary conditions (e.g., Pinto, Ferreira, Falaster, Fleury, & Fleury, 2017; Ramasamy, Yeung, & Laforet, 2012). However, it should be noted that I assign equal weight to all papers, without considering the impact of sample size across different studies. Moreover, I did not take into account the sampling or measurement errors that future research may help to address (Hunter & Schmidt, 2004).

In line with the mixed and contingent findings on a direct relationship between EMMNCs' political connections and their overseas investment outcomes, an increasing number of papers have been emphasizing on the various mediating mechanisms to shed light on the complex effects of political connections (e.g., Liu, Gao, Lu, & Lioliou, 2016; Meyer et al., 2014; Sun, Peng, & Tan,

2017). Also, more and more papers pay attention to the boundary conditions that moderate the direct relationship (e.g., Hu & Cui, 2014; Li, Cui, & Lu, 2014; Liu, Lu, & Chizema, 2014). Altogether these developments have moved the literature towards a more fine-grained understanding of political connections' impact when EMMNCs invest abroad.

Theoretical Application

The application of theories in the selected papers is summarized in Table 4. It shows that more papers draw on a single perspective than on multiple perspectives (55% versus 45%). However, a closer look reveals that an increasing number of papers are adopting multiple perspectives in recent years (none in the period before 2005, 40% in 2005-2009, 32% in 2010-2014, and 61% in 2015-present).

-----Insert Table 4 about here-----

It turns out that 54% of the total studies (41 out of 76) draw primarily on at least one of the four theories in their analysis; with the institutional perspective (INP) being the most frequently used one (32 studies, or 42.1%), followed by the resources-based view (RBV, 13 studies, or 17.1%), resource dependence theory (RDT, 7 studies, or 9.2%), and transaction cost theory (TCT, 6 studies, or 7.9%). Moreover, those four perspectives are often combined with each other in the analysis, such as the INP and TCT (Demirbag et al., 2007), the INP and RDT (Du & Luo, 2016), and the INP and RBV (Wang et al., 2012).

I summarize the relationships between empirical results and theories in Table 5. Among papers using at least one of the four primary theoretical perspectives, 59% adopt multiple theories in their analysis. As theories differ in their predictions, the empirical results of papers with multiple theoretical perspectives are usually inconsistent with those based on a single perspective (as summarized in Table 6). Overall, papers adopting the INP (including those which combine other

theoretical perspectives, the same for the rest statistics in Table 5) reveal a negative relationship (29.2%) or a mixed relationship (45.8%), while 50% of those based on RDT identify a negative relationship. The relationships are more evenly distributed for papers using RBV and TCT.

-----Insert Table 5 about here-----

A MULTI-THEORETICAL FRAMEWORK

When mapping the key findings and arguments reflected in the publications, I realize that one single theory cannot sufficiently explain the conflicting and complex dynamics through which the EMMNCs' politically connections influence their overseas investment outcomes. Therefore, I develop a multi-theoretical framework to show the complementarities among the four major perspectives, and to provide a more comprehensive understanding of the phenomenon.

Major Perspectives in Relation to the Framework

To develop a multi-theoretical framework, I identify from each perspective the core assumptions, focus, main unit of analysis, factors shaping the strength of resources and liabilities associated with political connections, mediating mechanisms, outcome predictions, moderating mechanisms and firm responses as summarized in Table 6.

-----Insert Table 6 about here-----

Institutional perspective (INP). The core assumption of authors who apply this perspective is that institutional forces exert isomorphic pressures as to how firms acquire legitimacy and shape the entry mode and firm strategies. Institutions are seen as country-specific (Hoskisson, Wright, Filatotchev, & Peng, 2013; Kostova & Zaheer, 1999; North, 1990). EMMNCs' strategy and practice are shaped by the home and host countries' institutional profiles and the institutional distance between home and host countries (Berry, Guillén, & Zhou, 2010; Liou, Chao, & Yang, 2016), which constitute sources of legitimacy concerns and hazardous relationships with the host

country (Contractor, Lahiri, Elango, & Kundu, 2014; Meyer et al., 2014), making it difficult for EMMNCs to transfer practices to host countries and impeding their overseas investment outcomes (Zhang et al., 2011). The main unit of analysis from INP falls on institutional environments in both the home country and host countries.

Political connections can work as both resources and liabilities to EMMNCs' overseas investments from the perspectives of INP theorists. Specifically, politically connected EMMNCs may be driven to support governmental and policy directives on overseas investments in order to acquire legitimacy in their home countries (Deng, 2009). However, those connections also expose EMMNCs to serious host country legitimacy concerns, which arise from a combination of ideological conflicts (Lin, 2011), national security concerns (Zhang et al., 2011), and concerns over unfair competitive advantages (see Meyer et al., 2014 for a summary). As a result, the effect of political connections on overseas investment outcomes is largely negative.

Authors emphasizing institutional constraints suggest that EMMNCs are rule takers (North, 1990), and often gain legitimacy in host countries through structural and procedural compliance with institutional norms (Meyer et al., 2014). Firms tend to seek more proximate institutional environments (Meyer et al., 2014; Stevens & Newenham-Kahindi, 2017), choose shared ownership with local partners in exchange for legitimacy (Cui & Jiang, 2012; Meyer et al., 2014), and imitate successful practices (Haunschild & Miner, 1997; Henisz & Delios, 2001; Xie & Li, 2017).

As to firm attitude towards political connections in overseas investment, earlier variants of neo-institutional theory and the institution-based view take a reactive view in that firms have to passively respond to legitimacy concerns (Meyer et al., 2014; Stevens, Xie, & Peng, 2016). However, the more recent variant of neo-institutional theory takes an active view in that firms can

negotiate with home country governments to deal with legitimacy concerns in host countries (Kostova, Roth, & Dacin, 2008).

Resource-based view (RBV). Unlike the INP which emphasizes legitimacy arising from firms' similarities in actions to cope with institutional pressures, the RBV pays attention to their economic optimization and unique strategies to harness firm-specific resources and competencies as a source of sustainable competitive advantage (Barney, 1991; Moon & Lado, 2000; Peng, 2001). Overseas investments demand a high resource commitment such as financial capital (Meyer, Estrin, Bhaumik, & Peng, 2009). Variations of EMMNCs' overseas investment outcomes can be attributed to the combination of firms' heterogeneous resources and capabilities to overcome inherent disadvantages in a foreign environment (Dunning, 2006; Yang, Jiang, Kang, & Ke, 2009).

The main focus of the RBV theorists is that political connections constitute a firm-specific resource which generates an ownership advantage critical to the success of firms' overseas investments (e.g., Dunning, 2006; Hu & Cui, 2014; Wang et al., 2012; Xie & Li, 2017). Political connections can provide EMMNCs intangible resources to access financial capital, subsidies, cheaper loans, intermediary services, policy-related benefits, and confidential information from home country government (Morck, Yeung, & Zhao, 2008; Wang et al., 2012). Such firm-specific resources make imitations by competitors difficult, thus generating a competitive advantage for an EMMNC. Because of the advantages associated with political connections, firms are likely to achieve positive investment outcomes.

As to firm response, the RBV suggests a proactive view in that EMMNCs optimize home country political connections and anticipate political risks before entering host countries (John & Lawton, 2018). Due to its focus on resources, this perspective contributes to a better understanding of the advantages of political connections, and predicts a positive relationship between an

EMMNC's home country political connections and its overseas investment (Wang et al., 2012).

Transaction cost theory (TCT). The core assumption of authors applying this theory is that a firm's motive for economic optimization and concerns over transaction costs shape its strategies and thus its investment performance (Demirbag et al., 2007; Kogut & Singh, 1988; Mudambi & Mudambi, 2002). From the TCT perspective, a firm expands overseas when the costs of economic activities in overseas markets are lower than those incurred in its domestic market (e.g., Demirbag et al., 2007; Pan et al., 2014; Pinto et al., 2017). When investing overseas, a firm is exposed to firm-related and host country-related uncertainties which generate enormous market transaction costs (Brouthers & Hennart, 2007; Demirbag, Tatoglu, & Glaister, 2009). Those costs can arise from a combination of variables such as FDI concentration, R&D intensity, location of affiliates, capital size of affiliates, heterogeneity of host country institutional environments, among others (Demirbag et al., 2007; Pan et al., 2014; Pinto et al., 2017).

The main argument of the TCT is that, other things being equal, a firm prefers to invest in foreign countries with favorable institutional environments that reduce transaction costs (Brouthers, Brouthers, & Werner, 2003; Gatignon & Anderson, 1988). However, a politically connected firm can often gain easier access to resources including government support than one without political connections. The firm can thus have a higher tolerance for risks and uncertainties and a greater capability to operate in a host country (Pan et al., 2014).

Given that resource and support from home country government help mitigate the transaction costs associated with overseas investments, a politically connected EMMNC is likely to seek a high level of ownership of its subsidiaries and ventures (Demirbag et al., 2007; Demirbag et al., 2009; Pan et al., 2014). This prediction contrasts with that from the INP, i.e., politically connected EMMNCs tend to trade ownership for legitimacy (Cui & Jiang, 2012; Meyer et al.,

2014). Overall, this perspective suggests an active firm response and predicts a positive relationship between an EMMNC's home country political connections and its overseas investment outcomes.

Resource dependence theory (RDT). Authors adopting this theory posit that a firm's ability to attract external resources is crucial for survival (Pfeffer & Salancik, 1978) and influences its overseas investment outcomes (e.g., Huang et al., 2017; Xia et al., 2014). Managers often take substantial actions to secure those resources, possibly by co-opting or creating links with external resource-providers, acquiring them, or looking for substitutes. Nevertheless, the reliance on external resources, which involves a dependence relationship, grants power to the resource-providers over a firm. In order to maintain the power balance, managers need to actively manage multiple external resource dependence relationships at any time.

An analysis of papers based on the RDT (often combined with the INP) reveals that they emphasize the dark side of political connections, which generates more dependence and leads to sub-optimal decisions because of political interferences (Huang et al., 2017; Xia et al., 2014). Political connections are argued to undermine a firm's autonomy and market orientation (e.g., Du & Luo, 2016; Huang & Cantwell, 2017). For example, Huang et al. (2017) and Xia et al. (2014) found that Chinese state ownership makes SOEs over-reliant on their home governments, which goes against the spirit of autonomy and market orientation. However, studies of SOEs from other emerging countries such as India and Brazil suggest an opposite argument. Specifically, partial state ownership can drive firms towards internationalization as an "escape strategy" to mitigate dependence on home country government and to seek more autonomy (Choudhury & Khanna, 2014; Cuervo-Cazurra, Inkpen, Musacchio & Ramaswamy, 2014; Rodrigues & Dieleman, 2018).

Altogether, the main focus of the RDT, in line with its active view of managerial agency, is that an EMMNC must decide whether it is in the interest of the firm itself to acquire or reduce political connections. In light of the resources and liabilities associated with home country political connections, the RDT generally predicts a mixed relationship.

Each perspective reviewed above offers important insights but is individually insufficient in explaining the complex dynamics that arise when politically connected EMMNCs invest overseas. The INP goes beyond the RBV and TCT, pointing out that determinants of firm actions extend beyond economic optimization to socially constructed beliefs and processes, cultural and legal rules, and the broader political contexts (Scott, 1995). Thus, it offers a comprehensive account of the institutional environments where EMMNCs operate. It is also able to predict the legitimacy concerns of host nations. This perspective, in combination with the RBV, can explain how an EMMNC's capabilities to harness home country government-linked resources are constrained by host country regulatory, normative, and cognitive institutions. Such a theoretical combination will offer insights into how firms can actively develop capabilities to absorb the government-linked resources and reduce the associated liabilities. It can also illuminate how firms can exert influence through political connections to affect the policy-making process in its own favor. This will in turn contribute to the development of competitive advantages in their overseas investments.

A combination of the INP, RDT, and TCT will elaborate how the institutional environment and state involvement can change the power balance between an EMMNC and its external parties, and affect the transaction costs associated with its overseas investments. Moreover, the INP's macro-field level focus can be supplemented by the firm-level focus of the other perspectives, a combination of which can support multiple levels of analysis.

A combination of the RBV, RDT, and TCT can explain how firms' internal resources, capabilities, autonomy in decision-making, and risk tolerance can be constrained or promoted by dynamic social interactions with the home-country government and foreign parties. Specifically, although TCT helps examine the factors that may affect transaction costs in economic activities, it fails to illuminate the rising transaction costs, internal friction, and sub-optimal decision-making associated with political connections such as political interference and bureaucracy. This limitation can be addressed by RDT, which stresses the dynamic interactions and power balance between an EMMNC and its home country government. A combination of the three perspectives will illuminate how firms can coordinate and integrate internal and external (political connections) resources to increase bargaining power, lower transaction costs, manage power balance with external resource-providers, and create sustainable competitive advantages in the long run. More interestingly, it can provide an active agency-view as to how EMMNCs can actively manipulate the triadic relationship (home country government, foreign partners, and the EMMNC itself) to avoid over-dependence on a single party, ensure a stable flow of critical resources, and reduce transaction costs relative to their own benefits.

My multi-theoretical framework, as presented in Figure 4, seeks to incorporate insights from and complementarities among the four perspectives to detect the relationship between EMMNCs' political connections and overseas investment outcomes. In addition, it identifies the resources and liabilities as the mediating mechanisms, the factors shaping the strength of resources and liabilities, the moderating mechanisms that further impacting the resources and liabilities in the context of overseas investments, and the resulting outcomes.

-----Insert Figure 4 about here-----

Mediating Mechanisms: Political Connections as Resources versus Liabilities

I identify the double-edged effects of political connections on EMMNCs' overseas investment outcomes. Such effects stem from resources and liabilities associated with political connections. According to the RBV, TCT, and RDT, resources generally exert positive effects. However, as elaborated by the INP and RDT, liabilities result in negative effects.

Specifically, resources associated with home country political connections can be broadly categorized into three forms. First, political connections may provide firms easier access to strategic resources such as land, capital, transportation, and energy (Faccio, 2006; Khwaja & Mian 2005), which are mostly controlled by the government especially in emerging and state-led economies. Second, political connections grant firms access to confidential information on domestic industries, which is of vital importance especially for those from nations characterized by institutional voids (Hillman et al., 1999). Third, politically connected firms usually enjoy preferential policies and incentives from their home country governments (Cui & Jiang, 2012; Shi, Markóczy, & Stan, 2014; Vaaler & Schrage, 2009).

While providing resources, home country political connections generate three kinds of liabilities. First, they arouse legitimacy concerns in host countries (e.g., Globerman & Shapiro, 2009; Lin, 2011). Second, politically connected EMMNCs may lack autonomy in decision-making as they are often required to pursue social and political goals at the expense of their economic interests in host nations (e.g., Boycko, Shleifer, & Vishny, 1996; Desai & Olofsgård, 2008; Husain, 1994; Okhmatovskiy, 2010). Third, firms' willingness and autonomy to take risks in overseas investments may be discounted due to their dependence on the home country governments (Du & Luo, 2016; Huang et al., 2017).

Factors Shaping the Strength of Resources and Liabilities in the Home Country

Based on the existing literature, I categorize two sets of variables that can impact the strength of government-linked resources and liabilities.

Home country context. The first set of variables focuses on the role of the state versus the market in the home country, as highlighted by perspectives which have a more macro-environmental focus such as the INP, RDP, and to a lesser extent, TCT. If the home country is a state-led economy such as China, politically connected EMMNCs will have stronger support from government-linked resources but face more severe accusations of executing the home country government's political agenda (Deng, 2009), generating unfair competition (Cui & Jiang, 2012), and violating the principle of a free market (Meyer et al., 2014). Therefore, both the resources and liabilities associated with political connections tend to be stronger. By contrast, a more market-oriented economy supported by a less dominant, regulatory state is seen as permitting fairer competition, which reduces the importance of political connections (e.g., Pan et al., 2014; Wu & Chen, 2014), as shown by studies on EMMNCs from Latin American nations (Pinto et al., 2017).

Nature of Home Country Political Connections. The second set of factors relates to the nature of home country political connections. The first one is the type of political connections. EMMNCs with formal political connections with their home governments, such as equity-based relationships, are likely to face stronger liabilities such as more severe legitimacy concerns than peers with merely informal, personal political connections. This is because an equity-based relationship allows the government to impose its priorities as a shareholder (Cui & Jiang, 2012; Meyer et al. 2014). The second is the level of government ownership (Cheung, Rau, & Stouraitis, 2009; Li et al., 2014). Usually central SOEs, which are regarded as national champions, receive stronger state support and are thus imposed more obligations and pressure to execute the home

government's political agenda. Hence, government support will be seen as stronger if a firm is under central-government ownership rather than provincial-government ownership (Huang et al., 2017; Li et al., 2014; Li, Cui, & Lu, 2017).

Moderating Mechanisms in the Context of Overseas Investment: Inter-Country and Firm Levels

However, publications which explore the boundary conditions illuminate that the effects of political connections on EMMNCs' overseas investment outcomes are highly contextual. I summarize the key moderating mechanisms based on the review and categorize them across inter-country and firm levels. Unlike the factors shaping the natural strength of politically-connected resources and liabilities in the home country, these sets of variables moderate their impact in the context of overseas investment.

Inter-country level. Institutional distance matters, according to the INP and TCT. Stakeholders in a host nation in which the role of state institutions is vastly different from that of an EMMNC's home country tend to harbor graver legitimacy concerns and more severe negative perceptions about the firm's overseas investments. As a result, institutional distance can aggravate the liabilities associated with EMMNCs' political connections. Accordingly, these firms might face more scrutiny and institutional pressure to comply with norms and regulations in the host nations, and thus bearing higher transaction costs. Factors regarding institutional distance between home and host countries (e.g., Chen et al., 2018; Gaffney, Karst, & Clampit, 2016; Min & Agyenim, 2015) include institutional quality (Brockman, Rui, & Zou, 2013; Zhang et al., 2011), cultural distance (Min & Agyenim, 2015), linguistic distance, and corruption distance (Demirbag et al., 2007). The greater the institutional distance, the greater the challenges an EMMNC will encounter from the regulatory, normative and cognitive institutions in host countries. These challenges will

increase the compliance costs and adversely affect overseas investment outcomes (e.g., Min & Agyenim, 2015; Pinto et al., 2017; Zhang et al., 2011). In contrast, the lesser the institutional distance, the greater the familiarity with EMMNCs and thus trust from host country stakeholders, which is likely to bring about positive overseas investment outcomes (Zhang et al., 2010).

Firm level. Three groups of firm level moderators have been discovered that can impact firms' ability to absorb the government-linked resources and reduce the liabilities associated with political connections, thus their overseas investment outcomes. The first, as highlighted by the RBV, stems from firms' idiosyncratic abilities, experiences, and resources to tap resources and reduce liabilities (Deng, 2013; Shi, Sun, Yan, & Zhu, 2017; Sun, Xie, & Li, 2016). Wang et al. (2012) explained that securing resources associated with political connections requires competence. Only firms with strong capabilities can actively influence policy-making process in their own favor through political connections, thus turning those unique resources into competitive advantages in overseas markets.

The second, as suggested by the INP, is an EMMNC's imitation of historical successful practices by other firms in the host country (Meyer, 2014; Xie & Li, 2017). Xie and Li (2017) drew on literature about inter-organizational imitation, and maintained that if a certain strategy or action has been adopted by many firms, it will pass legitimacy to subsequent adopters. As such, the negative effects of home country political connections on EMMNCs' overseas investment outcomes can be reduced by EMMNCs' imitation of others' successful practices in host countries.

The third, as stressed by both the INP and TCT, is a firm's market strategy such as entry mode and location choice, though those two perspectives present opposing arguments. Through the lens of the INP, the negative effects of home country political connections on EMMNCs' overseas investment outcomes can be moderated by EMMNCs' strategies of exchanging

ownership for legitimacy (Chan & Makino, 2007) and of investing in institutionally proximate environments (Yuan, Pangarkar, & Wu, 2016). However, from the TCT perspective, choosing a wholly-owned subsidiary or an acquisition as the entry mode can offset the risks and uncertainties involved in the host economy, thus improving EMMNCs' overseas investment performance (Demirbag et al, 2009; Pan et al., 2014).

RESEARCH AGENDA

As discussed above, my multi-theoretical framework provides a comprehensive view of the application and complementarities of the four major perspectives, the major interdependence and dynamic interaction of economic and political actors, the mediating mechanisms of resources versus liabilities, the factors shaping the strength of resources and liabilities in the home country, and the multi-level boundary conditions in the context of overseas investment that moderate the effects of EMMNCs' political connections on investment outcomes. This overarching framework that combines all the four perspectives provides a comprehensive, multi-levels (the interpersonal-, the firm-, and the institutional levels), multi-parties (institutions in home and host countries, the home country government, the EMMNC, and related foreign parties), and multi-agentic (reactive, active, and proactive) view of the politically connected EMMNCs and their overseas investment outcomes.

Nonetheless, my proposed framework can be further strengthened when more insights, theories, actors, and boundary conditions are added as relevant research develops. Specifically, I suggest two avenues to advance the literature: the incorporation of relevant concepts from social science theories, and future research directions for deepening and broadening the existing findings.

Incorporation of Key Concepts from Relevant Social Science Theories

Further development of my multi-theoretical framework could include key concepts from three highly relevant perspectives on political embeddedness, legitimacy, and geopolitics.

The political embeddedness perspective has increasingly been used in research addressing political connections (e.g., Batjargal, 2003; Michelson, 2007). Earlier research focused on the benefits associated with political connections (e.g., Portes & Sensenbrenner, 1993). Recent studies, however, have analyzed the costs associated with state pressure for firms to adopt strategies that support the state's political goals (Okhmatovskiy, 2010), and the resulting vulnerability to the political hazards in emerging economies (Sun et al., 2012). The strategy implication for firms is to protect its economic interests by disassociating itself from the home country government, although within the limits of institutional constraints (e.g., Okhmatovskiy, 2010). The perspective, which is not a major organizational theory, has rarely been used in studies of overseas investments of politically connected EMMNCs. Nevertheless, I argue that the concept of politically-embedded agency can offer additional insights into how EMMNCs can maximize the values of resources and reduce the costs of liabilities associated with political connections. It can help bridge the different strands of the INP, the RBV, and RDT in identifying firm strategies.

Theoretical works in the future focusing on the legitimacy issue of EMMNCs can draw on a fine-grained classification of legitimacy, as Suddaby, Bitektine, and Haack (2017) suggested. In my review process, I have come across papers in which the term "legitimacy" is frequently used but conceptualized rather differently. For example, legitimacy in a home country environment is treated as a resource (e.g., Deng, 2009; Meckling, Kong, & Madan, 2015), which is essentially a thing or property. However, legitimacy in the host country context is regarded as a perception held by the stakeholders there (e.g., Lin, 2011; Zhang et al., 2011). Yet, on the discussion of market

strategies to legitimize their overseas investments, the process of legitimation is implied (e.g., Meyer et al., 2004; Xie & Li, 2017). Therefore, my framework, which is based on a thorough literature review, inevitably conceptualizes legitimacy in multiple ways. The conceptual clarity of future research can be improved by distinguishing (1) legitimacy-as-property, (2) legitimacy-as-perception, and (3) legitimacy-as-process (Suddaby et al., 2017). From the legitimacy-as-property perspective, legitimacy is seen as an intangible asset (Gardberg & Fombrun, 2006) or operational resource (Suchman, 1995) of an organization. In relation to my theme, it can be an outcome of the fit between an EMMNC's practices and the expectations of home context stakeholders. However, in the host country context, an investment by a foreign firm with political connections may trigger negative perceptions. This can be elucidated by the legitimacy-as-perception perspective, and can be reduced by impression management tactics (Vaara & Tienari, 2008). Essentially, the moderation of the effects of home country political connections on the level of opposition faced by the EMMNCs depends on their legitimation process. This legitimation can be depicted by the legitimacy-as-process perspective, in which legitimacy is a socially-constructed outcome of an ongoing process (Maguire & Hardy, 2009) to use non-market strategy to influence host country stakeholders.

The geopolitical perspective, which focuses on competition among nations for territory and power (Flint, 2006; Toal, 1996), bears great promise in advancing our understanding of the focal topic. Through the lens of this perspective, globalizing SOEs, because of political connections with their home country governments, can act as important geopolitical agents whose overseas activities are affected by geopolitical relations between SOEs' home and host countries. Hence, factors that affect geopolitical relationships can influence the opposition level of SOEs' overseas investments in host countries. For example, Shi, Hoskisson, and Zhang (2016) identified four

variables (geographic distance, religious similarity, political regime similarity, and resource complementarity) which can reduce interstate threat perceptions and power dynamics that in turn lower the level of opposition to SOEs' overseas investments. Moreover, the salience of nationalistic politics has been found to moderate those relationships in two directions: political leaders may play up anti-foreign sentiments and hinder foreign investments, or welcome such investments as a means to support national economic interests, depending on what narrative gives them a political advantage. Duanmu (2014) mentioned that SOEs can mitigate expropriation risks when investing overseas by leveraging their home country's political influence on host countries, which can be positively moderated by good political relations between the home and host countries, and host country's export dependence on the home country. The concept of geopolitical relations should be effectively explored given the increasing opposition to overseas investments by SOEs from emerging economies due to geopolitical concerns in recent years (Yuan, 2018).

Future Research Directions

As shown by Figure 2 on the geographical distribution of the reviewed papers, the literature on politically connected EMMNCs has developed unevenly. This development reflects the salience of political connections to firms from certain country-of-origin, and the sensitivity associated with such connections and thus limited availability of in-depth data. As a result, the literature tends to overly focus on SOEs and on China, and scratches only the surface of several immensely complex factors and mechanisms that merit substantial research.

Politically connected POEs and firm visibility. The literature reveals a predominant focus on SOEs with formal, equity-based political connections (Cui & Jiang, 2012; Meyer et al., 2014). POEs or publicly listed firms without state ownership remain understudied (Gomulya, Tsui-Auch, & Huang, 2017). This is a significant omission because POEs account for the majority of

globalizing firms and it is unclear whether such firms suffer from the same legitimacy concerns as SOEs. Anecdotal evidence shows that strong informal home government connections (as demonstrated by the Huawei case) is also highly negatively perceived. Conducting comparative case studies of firms with different ownership patterns and types of political connections would help clarify whether and when political connections help or hurt firms in their overseas investments.

Moreover, there is ample space to study other firm attributes impacting the strength of political connections such as firm visibility (Puck, Rogers, & Mohr, 2013). Firms which are larger in size, publicly listed, and high in field status are more visible in their overseas expansion than those that are smaller, non-listed, and low in status (e.g., Baker, Powell, & Weaver, 1999; Cheung et al., 2009; Doidge, Karolyi, & Stulz, 2004). As seen in media and academic reports, political connections are more salient for EMMNCs with higher visibility and they face more scrutiny in their overseas investments (Christiansen, 2011; *The Economist*, 2012a, 2012b).

Home country dynamics. So far, research on political risks focuses on the host country context (Liu et al., 2016; Tao et al., 2017; also see John & Lawton, 2018 for a summary) rather than home country context and dynamics. Politically connected EMMNCs, which are affected by home country political shocks, may lose government or politician-linked resources. Daniel (2018) reported that due to changes in Chinese government policies to tighten capital outflows, large Chinese firms were forced to reverse overseas expansion. Furthermore, Griffin, John, Clark, and Tao (2016) revealed that firms connected to corruption suspects in home countries are more likely to be investigated, thereby undermining their overseas investments. However, empirical studies of the spillover effects of home country political shocks on politically connected EMMNC's overseas investments are still scarce and such dynamics constitute a promising avenue for future research.

In addition, the size of the home country economy merits attention. Although state capitalism is on the rise globally, the attention is directed mainly to EMMNCs from China given its sheer size (*The Economist*, 2012b). A recent report by the White House Office of Trade and Manufacturing Policy (2018) clearly states that “given the size of China’s economy..., China’s economic aggression now threatens not only the U.S. economy but also the global economy as a whole.” Hence, I believe that the size of a home country economy will impact the strength of EMMNCs’ political connections. This size factor can be illuminated by cross-national comparative studies of EMMNCs in the same industry but from economies of different sizes.

Resources versus liabilities (stigma) associated with different types of political connections. There is still much room to develop a more fine-grained understanding of how political connections help or deter overseas investments. For instance, political connections come in different shapes and forms—be it connections in the host country or home country, connections to higher or lower levels of government, or ties to different types of political actors (e.g. parliament members, political parties, diplomatic access). The literature in general is moving in this direction (e.g. Albino-Pimentel et al., 2018), but there is ample space for further work. With regard to the resources associated with political connections, different types are lumped together. But could certain resources (e.g. favorable policies) be superior to others (e.g. confidential information)? Moreover, current studies based on the RBV ignore firms’ capability differences in transforming politically connected resources into competitive advantages in their overseas investments. More research is needed to explain why, when, and how politically connected resources are absorbed and how firms’ idiosyncratic characteristics affect their capability to absorb such resources.

In terms of the liabilities, future studies may look into what types of liabilities arise and which types are more or less damaging. Researchers need to take a step further to identify how

firms can avoid, mitigate, or repair damage resulting from political connections. Insights from other literature streams, such as organizational stigma (e.g., Devers, Dewett, Mishina, & Belsito, 2009; Hudson, 2008), can provide a source of inspiration. Advancing our understanding of mechanisms may require qualitative case studies. EMMNCs are known to employ unique strategies to protect themselves from the negative effects of political connections, for instance through ring-fencing and opacity (e.g., Dieleman & Boddewyn, 2012). Such case studies are still rare in the literature on political connections, but hold the potential to uncover processes of benefitting, protecting, and legitimizing the firms.

In addition, so far studies have examined different types of political connections, however, they fail to unpack the differentiating effects of various political connections on firm's overseas investment outcomes. For example, Huang et al. (2017) paper focuses on Chinese SOEs and emphasizes the strategic resources associated with the government equity (formal connection) in generating positive overseas investments. Similar resources are also highlighted in Li & Zhang's (2007) paper who examine managers' political networking (informal connection) in enhancing new venture performance. However, research so far fails to compare differences regarding those political connections in firm's overseas investments. Chances are that POEs with managerial political networking generally have less and weaker government support in their overseas investment but enjoy more autonomy. Future research can delve into this question to improve our understanding of the political connections as a multi-dimensional construct.

Non-market strategy. Whether or not home country political connections generate benefits depends largely on how firms make use of them. In this respect, the literature is still underdeveloped as most studies focus on market strategy including entry mode, location choices, and subsidiary ownership. Studies of politically connected EMMNCs can benefit from

incorporating insights from the non-market strategy literature (see Mellahi, Frynas, Sun, and Siegel, 2016 for a summary). Non-market strategy refers to “a firm’s concerted pattern of actions to improve its performance by managing the institutional or societal context of economic competition” (Mellahi, et al., 2016: 144). It reflects the active agency view of RDT, and the proactive view of the RBV (John & Lawton, 2018). This literature stream can be broadly categorized into corporate social responsibility (McWilliams & Siegel, 2001; McWilliams, Siegel, & Wright, 2006) and corporate political activity (Hillman et al., 1999; Lux, Crook, & Woehr, 2011). Moreover, anecdotal evidence from media reports shows that politically connected EMMNCs resort to political lobbying and counter-framing to alleviate legitimacy concerns among host country stakeholders when investing abroad. There is an opportunity to study non-market strategy (Cui, Hu, Li, & Meyer, 2018) by identifying how firms with home country political connections are more inclined to and capable of developing *host* country political ties to lower the level of opposition to their investments than their peers without such connections.

Qualitative case study, survey, and cross-national comparative studies. For the function of a review paper and limitation of space, I have offered a comprehensive review and a multi-theoretical framework but not spelt out all the testable propositions implied in my framework. Nonetheless, I have illustrated the relationships between variables which are implied by the arrows and boxes in the framework. Future studies can derive propositions from the framework, to assess them through qualitative case studies, and/or to suggest operationalization for testing them through large-scale surveys. I believe that my framework in its current form holds practical value for researchers in management and international business.

Importantly, I encourage future researchers to conduct cross-national comparative studies. As shown by Figure 2, 75% of studies of politically connected EMMNCs focus on Chinese firms.

However, as Pinto et al. (2017) point out, there exists a stark contrast between the dominant state role in China and the regulatory state role in Latin American nations where pro-market reforms have led to a politically connected cluster of EMMNCs with significant government involvement, but without formal equity connections. Thus Latin American firms have generally benefitted from government support (rather than suffering from liabilities of political connections). They appear to face fewer legitimacy concerns in host nations than their Chinese counterparts, leading to acquisitions of a greater or full ownership stake. Meckling et al. (2015), in a study of national oil firms, observed that whereas the state-firm relation in China is cooperative, with the state playing the role of a resource supplier; that in India has been more adversarial, with the state intervening more often as a veto player and only slowly emerging as a resource supplier. This study shows that EMMNCs from different countries might vary in resources and liabilities, depending on their specific institutional environment and the nature of government intervention. It is timely to call for cross-national comparative studies of EMMNCs from countries with different state roles and institutional environments in order to provide a more comprehensive understanding of the relationship between EMMNCs' home country political connections and their overseas investment outcomes.

Meta-analysis. Last but not least, I recommend that researchers conduct a meta-analysis of the focal topic to resolve the inconclusive and sometimes conflicting outcomes shown in prior studies based on different theoretical perspectives. For example, the RDT posits that home country political connections lead to EMMNCs' over-dependence on their governments, which undermines firms' legitimacy, autonomy, market orientation, and decision making (Huang et al., 2017; Xia et al., 2014), and thus investment performance. Nonetheless, the TCT holds the counterpoint that political connections provide EMMNCs resources and support, increase the tolerance

level of uncertainty and risk, lower transaction costs, and improve firms overseas investment performance (Pan et al., 2014). Another set of opposing arguments relates to how political connections affect EMMNCs' entry mode. Drawing on the INP, politically connected EMMNCs are likely to exchange ownership for legitimacy (Cui & Jiang, 2012; Meyer et al., 2014). However, from the TCT perspective, firms tend to adopt high-stake ownership to offset the risks and uncertainties in the host economy (Demirbag et al., 2009; Pan et al., 2014). Given these contradictory predictions and findings, I expect that a meta-analysis can offer a more conclusive answer to these topics based on the results of current studies.

CONCLUSION

EMMNCs, which become large global players, often come with political connections with their home country governments, generating admiration as well as suspicion. In this paper, I provided a comprehensive literature review of politically connected EMMNCs and their overseas investments, and unpacked the diverse views and findings. This provides me a basis on which to develop a multi-theoretical framework that systematically combines the mediating role of resources and liabilities, the factors shaping the strength of resources and liabilities, and the multi-level mechanisms that moderate the relationship between home country political connections and overseas investment outcomes. Based on the multi-theoretical framework, I developed a research agenda to advance the theoretical development by incorporating relevant concepts from social science perspectives on political embeddedness perspective, legitimacy, and geopolitics. Furthermore, I proposed to re-direct future research into politically connected POEs and firm visibility, home country dynamics, resources and liabilities (including stigma) associated with political connections, and non-market strategy. Finally, I encourage researchers to use research methods such as qualitative case study, large scale survey, and cross-national comparative studies

to test the relationship between variables illuminated in my multi-theoretical framework, as well as a meta-analysis to resolve the inconclusive and conflicting predictions reflected in prior studies. I hope that this review will stimulate more future research into the timely and important phenomenon of overseas expansion by politically connected EMMNCs.

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TABLE 1. KEYWORDS FOR LITERATURE SEARCH

Categories	Keywords Search
Political ties or connections	political tie* or political connect* or political affiliation or political network or connect* with government or state or regime
Overseas investment	overseas investment* or overseas M&A* or cross-border* investment or cross-border* M&A* or international investment or international M&A*
Emerging markets (with a state-led economy)	China or Chinese or Malay* or Russia* or emerging market* or emerging econom* or developing market or developing econom* or developing nation*
Firm-level analysis	organization* or firm* or corporat* or compan* or multi-nation* or compan* or multi-nation* enterprise* or multination* compan* or multination* enterprise* or MNC* or MNE*

Note: Superscript * means to find any words starting with the same letters before the superscript itself.

TABLE 2. JOURNALS FOR LITERATURE SEARCH

Fields	Journal Search
General Management	Academy of Management Review or International Journal of Management Reviews or Academy of Management Journal or Administrative Science Quarterly or Journal of Management or Journal of Management Studies or Organization Science or Organization Studies or Academy of Management Annals or Academy of Management Executive or Academy of Management Perspectives
Strategy and International Business	Strategic Management Journal or Global Strategy Journal or Journal of International Business Studies or Strategy Science or Journal of World Business or Management Interview Review or Journal of International Management or International Business Review or Multinational Business Review
Sociology	American Journal of Sociology or American Sociology Review or American Review of Sociology or Economy and Society or International Sociology
Political /Economic Geography	World Development or International Journal of Urban and Regional Research or Regional Studies or Journal of Economic Geography, Economic Geography or World Politics or Political Geography
Other Social Science Fields	American Journal of Political Science or American Political Science Review or Review of International Political Economy or World Politics or British Journal of Political Science or Annual Review of Political Science or Socio-Economic Review or American Economic Review
Area/Regional Research	Management and Organization Review or Asia-Pacific Journal of Management or Asian Business and Management or China Quarterly

TABLE 3. PUBLICATIONS ON EMMNCS' POLITICAL CONNECTIONS – OVERSEAS INVESTMENT OUTCOMES

Period	Positive Relationship	Mixed/Contingent Relationship	Insignificant Relationship	Negative Relationship	Empirical	Conceptual	Total
Before 2005	0	0	0	0	0	2	2
2005-2009	3	1	0	1	5	5	10
2010-2014	4	11	2	6	23	8	31
2015-present	7	11	0	7	25	8	33
Total	14	23	2	14	53	23	76

TABLE 4. TRENDS OF THEORETICAL APPLICATION IN PUBLICATIONS ON OVERSEAS INVESTMENTS BY POLITICALLY CONNECTED EMMNCS

Period	Single Theory	Multiple Theories	Total	Percentage of Multiple Theories
Before 2005	2	0	2	0%
2005-2009	6	4	10	40%
2010-2014	21	10	31	32%
2015-present	13	20	33	61%
Total	42	34	76	45%

TABLE 5. OVERSEAS INVESTMENT OUTCOMES OF POLITICALLY CONNECTED EMMNCS AND THEORIES APPLIED IN PUBLICATIONS

Theory	Number of Empirical Papers	Positive Relationship <i>n</i> (%)	Mixed/Contingent Relationship <i>n</i> (%)	Insignificant Relationship <i>n</i> (%)	Negative Relationship <i>n</i> (%)
INP	24	6 (25)	11 (45.8)	0	7 (29.2)
RBV	8	3 (37.5)	2 (25)	1 (12.5)	2 (25)
RDT	6	1 (16.7)	2 (33.3)	0	3 (50)
TCT	5	2 (40)	1 (20)	0	2 (40)
Others	28	6 (21.4)	15 (53.6)	2 (7.1)	5 (17.9)

Note: The papers categorized under each theory include those using both a single and multiple theories. Hence there are repeated calculations in the number of empirical papers.

INP refers to the institutional perspective; RBV, resource-based view, RDT; resource dependence theory; and TCT, transaction cost theory.

TABLE 6. MAJOR THEORIES IN RELATION TO THE COMPREHENSIVE FRAMEWORK

Perspectives	Institutional Perspective	Resource-based View	Transaction Cost Theory	Resource Dependence Theory
Core Assumptions	<p>Institutional forces via isomorphic pressures interferes with how EMMNCs use resources and impact their overseas investment outcomes.</p> <p>Gaining legitimacy from a host nation's institutional environment is crucial for EMMNCs' survival and success.</p>	<p>An EMMNC's motives for economic optimization and ways to harness its resources shape its overseas investment performance.</p> <p>The success of an EMMNC depends on the use of the heterogeneous firm-specific resources and capabilities when operating in a host economy.</p>	<p>An EMMNC's motive for economic optimization and concerns over transaction costs arising from firm-related and host country-related factors influence its overseas investment performance.</p> <p>The success of an EMMNC reflects the ability to lower the transaction costs when operating in a host economy.</p>	<p>An EMMNC's ability for externally sourcing crucial resources influences its overseas investment performance.</p> <p>The survival and success of an EMMNC depends on managers' strategies to actively manage multiple external resource dependence relations.</p>
Main Focus	How institutional profiles of and distance between home country and host country shape firm practices, and host country legitimacy concerns.	How the possession of intangible resources based on home country political connections of an EMMNC makes imitations difficult and generates competitive advantages.	How the resources and support from home country government enables an EMMNC to endure risks and uncertainty encountered in its host country and thus mitigate transaction costs.	How the home country political connections of an EMMNC generate both resources and liabilities, which affect its autonomy and market orientation.
Main Unit of Analysis	Institutional environments	Organizations	Organizations	Organization and critical resource-providers
Factors shaping the strength of resources and liabilities	Home country with a dominant state role in economy arouses more	No literature available	No literature available	No literature available

	legitimacy concerns, thus aggravating the liabilities. Political connections' attributes such as the level or type impact the strength of state control, thus the associated resources and liabilities.			
Mediating Mechanism: Resources	Home country legitimacy	Government support in terms of easier access to resources, confidential industrial information, and preferential policies.	Government support permits a higher tolerance level of risks and uncertainties	Government support adds bargaining power to an EMMNC against its competitors and foreign partners.
Mediating Mechanism: Liabilities	Host country legitimacy concerns arising from a combination of ideological conflicts, nation security concerns, and perceived unfair competitive advantages.	No literature available	No literature available	Government connections generate a dependence on the home government that may undermine firm autonomy, market orientation, and host country legitimacy
Outcome Predictions	Negative	Positive	Positive	Mixed
Moderating Mechanisms	Institutional distance between home and host countries aggravates legitimacy perception, thus reinforcing liabilities and weakening resources. Firm market strategies such as entry mode and ownership strategy can	Firms' abilities, experiences, and internal resources will impact their ability to absorb politically-linked resources into sustainable competitive advantage, or their ability to deal with liabilities (though lack of	Institutional distance between home and host countries will increase the transaction costs, thus reinforcing more liabilities.	No literature available

alleviate or aggravate legitimacy perception, thus impacting the strength of resources and liabilities.

Firms that imitate others' historical success practices will be regarded more legitimate, thus reinforcing resources and weakening liabilities.

literature on the specific micro-mechanisms).

Firm Response

Reactive (earlier variant of neo-institutional theory; institution-based view): investing in proximate institutional environments, choosing shared ownership in exchange for legitimacy, and imitating success practices adopted in host countries.

Active (recent variant of neo-institutional theory): negotiation with home country governments.

Proactive: Optimizing home country political connections and anticipating political risks in host countries.

Active: Harnessing political country political connections to support high-stake subsidiary ownership and ventures in a host country.

Active: Juggling with multiple external resource dependence relations, and managing political connections to ensure the flow of critical external resources.

FIGURE 1. DISTRIBUTION OF PUBLICATIONS: OVER YEARS

FIGURE 2. DISTRIBUTION OF PUBLICATIONS: COUNTRIES OF ORIGIN

Note: The publications include studies based on single or multiple theories.

FIGURE 3. JOURNAL DISTRIBUTION

Note: JWB = *Journal of World Business*; JIBS = *Journal of International Business Studies*; IBR = *International Business Review*; APJM = *Asia-Pacific Journal of Management*; GSJ = *Global Strategy Journal*; MBR = *Multinational Business Review*; CQ = *China Quarterly*; MOR = *Management and Organization Review*; PG = *Political Geography*; RIPE = *Review of International Political Economy*; SMJ = *Strategic Management Journal*; ABM = *Asian Business & Management*; EMJ = *European Management Journal*; IBS = *International Business Studies*; IJMR = *International Journal of Management Reviews*; JIM = *Journal of International Management*; TIBR = *Thunderbird International Business Review*.

FIGURE 4. A MULTI-THEORETICAL FRAMEWORK OF THE EMMNCs' HOME COUNTRY POLITICAL CONNECTIONS AND OVERSEAS INVESTMENT OUTCOME RELATIONSHIP

Note: INP refers to the institutional perspective; RBV, resource-based view, RDT; resource dependence theory; and TCT, transaction cost theory.

**CHAPTER 2. THE PERFORMANCE EFFECTS OF OUTSIDE CEOS IN
GLOBALIZING CHINESE FIRMS: MARKET CHARACTERISTICS, LEGITIMACY,
AND POLITICAL EMBEDDEDNESS**

ABSTRACT

I draw inspiration from the legitimacy perspective and political embeddedness theory to examine the effects of outside chief executive officers (CEOs) in globalizing Chinese firms on firm performance. Specifically, I argue that the fast-changing and turbulent market environment for globalizing firms from emerging markets will amplify the adaptive capability of outside CEOs and reduce the costs of organizational disruption that they may bring. Hence, outside CEO succession will bring positive effects to the performance of globalizing Chinese firms. Moreover, such positive effects will be stronger in central state-owned enterprises (SOEs) due to their greater improved legitimacy perceived by stakeholders in host countries. In addition, the performance effects of outside CEOs will be even more positive in central SOEs with a Party Secretary that have work experience in both the government and industry sectors, who helps outside CEOs better embedded in the home country political system. However, outside CEOs' performance effects will be less positive when there is a strong presence of Party Secretaries on the board of directors, which leads to over-embeddedness problems. I test my hypotheses using a sample of 251 globalizing Chinese firms listed on the Shanghai and Shenzhen stock exchanges. The results offer strong support for my arguments. The results point to the importance of alignment among CEO origin, market characteristics, legitimacy in host countries, and political embeddedness within the home country government for firm performance.

INTRODUCTION

A growing number of studies have focused on outside Chief Executive Officer (CEO) succession in the field of strategic leadership in recent years, largely driven by the increasing proportion outside CEO hires now present of new CEO hires over the years (e.g., Cummings & Knott, 2018; Murphy & Zabojsnik, 2007). Research regarding outside CEOs mainly falls into three domains: the antecedents of outside CEO succession, the effects of outside CEO succession on firm performance, and the multi-level boundary conditions that moderate outside CEOs' performance effects. As to the antecedents of outside CEO succession, most authors adopted a supply-demand perspective. On the supply side, more strategically homogeneous firms in an industry will lead to a larger pool of outside candidates, thus increasing the rate of outside CEO succession. In contrast, outside CEO succession is expected to occur less frequently among firms with more qualified internal candidates, or an heir apparent (Zhang & Rajagopalan, 2003). On the demand side, the desire to effect organizational change, external pressure, and internal monitoring are the main forces that drive outside CEO succession (e.g., Jung, 2014; Virany, Tushman, & Romanelli, 1992).

Regarding the performance effects of outside CEOs, researchers have mainly adopted an organizational adaptation or organizational disruption perspective. From an organizational adaptation perspective, outside CEOs can enhance firm performance because of their superior human capital (Bennedsen, Nielsen, P´erez-Gonz´alez, Wolfenzon, 2007), external knowledge, networks, non-routine information flow (Hermann & Datta, 2002; Menon & Pfeffer, 2003), and stronger adaptive capabilities in a turbulent environment (Tushman & Rosenkopf, 1996). However, outside CEOs can also negatively affect firm performance according to the organizational disruption perspective. Outside CEOs lack firm-specific knowledge (Bailey & Helfat, 2003; Zhang & Rajagopalan, 2010), struggle with integration into the new organization and incumbent top

management team (TMT, Friedman & Saul, 1991; Grossman, 2007; Hambrick, 1995), and must invest time and energy on relationship-building and integration into the organization early after succession (Fondas & Wiersema, 1997; Shen & Cannella, 2002). In order to reconcile the two contrasting predictions regarding outside CEOs' performance effects, a small number of researchers have examined a variety of multi-level boundary conditions, including CEO-TMT similarity and CEO experience diversity on the individual level (Georgakakis & Ruigrok, 2017), foreign institutional ownership, pre-succession firm performance at the organizational level (e.g., Chung & Luo, 2013; Karaevli & Zajac, 2013), and industry-level factors such as high-technological intensity, industry growth rate, industry concentration, and munificence (e.g., Geletkanycz & Boyd, 2011; Georgakakis & Ruigrok, 2017).

Despite efforts to fathom the complex and contingent performance effects of outside CEOs, our knowledge remains limited. Prior studies mainly focus on outside CEOs at firms in developed countries, while paying little attention to those from globalizing emerging market firms, which play an increasingly important role in the global economy (e.g., Financial Times, 2017; Stiglitz, 2003). Corporate governance structure, a fundamental organizational variable that distinguishes emerging market firms from their counterparts in the developed world, may significantly affect outside CEOs' performance. However, there is little research examining this important factor. Regarding the macro level moderators, most studies fail to go beyond the industry level to examine the market characteristics and institutional environment in which firms operate. As to the individual level, while acknowledging the importance of firm leaders' biographic characteristics, many studies ignore their political embeddedness, which is especially important in emerging markets characterized by institutional voids.

In order to address those research gaps, I focus on outside CEOs in globalizing firms from emerging markets and draw upon the legitimacy perspective and political embeddedness theory. Legitimacy is of vital importance for a firm's survival and success in any institutional environment. Globalizing firms have to gain legitimacy through structural and procedural conformity with institutional isomorphic pressures in host countries (e.g., Meyer, Ding, Li, & Zhang, 2014; Stevens, Xie, & Peng, 2016; Suddaby, Bitektine, & Haack, 2017). Political embeddedness refers to "direct and indirect, individual and organizational ties to the state" (Michelson, 2007: 353) and the political embeddedness theory itself offers a mixed view regarding political-organizational relationships. On one hand, political embeddedness can facilitate business transactions if managed well; on the other hand, it can also generate constraints (Okhmatovskiy, 2010; Sun, Mellahi, & Thun, 2010). As a baseline argument, I predict that globalizing firms from emerging markets like China are operating in an environment characterized by rapid change and turbulence, which reduce the negative impacts of organizational disruption that outside CEOs usually cause but amplify the importance of their adaptive capabilities. Therefore, outside CEOs will exert positive performance effects on globalizing Chinese firms. Moreover, such positive effects will be stronger in central state-owned enterprises (SOEs) due to greater improved legitimacy perceived by stakeholders in host countries. In addition, the performance effects of outside CEOs will be even more positive for central SOEs with a Party Secretary (i.e., the leader of Party Committee) having both government and industry work experience but less positive when there is a strong presence of Party Secretaries on the board of directors. In conclusion, I wish to emphasize the importance of alignment among CEO origin, market characteristics, legitimacy in host countries, and political embeddedness with the home country government for firm performance.

I test the hypotheses using a sample of Chinese firms listed on the Shanghai and Shenzhen stock exchanges that have conducted cross-border mergers and acquisitions (M&As). I seek to make the following contributions. First, my study contributes to the leadership succession literature by analyzing how a fast-changing and turbulent market environment influences outside CEOs' performance effects, and how legitimacy in host countries and political embeddedness with the home country government moderate the relationship. Second, my study contributes to the international business literature by examining globalizing firms from emerging markets, especially by considering the differences among central SOEs, local SOEs, and privately-owned enterprises (POEs) from China. Third, my study also contributes to the corporate governance literature by examining the unique dual-governance structure in Chinese SOEs due to the presence of a Party Committee.

THEORY AND HYPOTHESES DEVELOPMENT

Outside CEOs: Antecedents, Performance Effects, and Boundary Conditions

Research regarding outside CEOs mainly falls into three domains: the antecedents from both the supply and demand sides that lead to outside CEO succession, the performance effects of outside CEOs from the organizational adaptation and organizational disruption perspectives, and the multi-level boundary conditions that moderate the performance effects of outside CEOs.

The first domain relates to the antecedents of outside CEOs in organizational leadership succession. Researchers have examined a series of antecedents from the supply-demand perspective. On the supply side, an industry with more strategically homogeneous firms will have more intra-industry CEO successions owing to a larger pool of outside candidates. In comparison, firms with more qualified internally-groomed candidates or an heir apparent are thought to be less likely to have an outside CEO succession (Zhang & Rajagopalan, 2003). Consistent with this

prediction, researchers have also discovered a negative relationship between the probability of outside CEO succession and firm size and age, which have been frequently used as proxies for the size of the pool of internal candidates by prior studies (Dalton & Kesner, 1983; Helmich, 1975; Pfeffer & Salancik, 1977). On the demand side, a desire for organizational change (Virany et al., 1992) along with increasing external pressure for performance and internal monitoring (Jung, 2014) constitute two major sets of antecedents. For example, studies have revealed a positive relationship between the probability of outside CEO succession and (1) high growth, (2) low pre-succession performance, and (3) strategic and industry instability (Datta & Guthrie, 1994; Zhang & Rajagopalan, 2003). Moreover, the rate of outsider succession has been found to be positively linked with the growth of institutional ownership, the strengthening of internal monitoring, and the rise of shareholder activism (Jung, 2014).

The second area of research interests regarding outside CEOs focuses on their performance effects, which researchers mainly analyze from organizational adaptation and organizational disruption perspectives. According to the organizational adaptation perspective, outside CEOs can increase a firm's human capital due to their selection from a larger pool of candidates (Bennedsen et al., 2007). Outside CEOs bring with them external knowledge, networks, and non-routine information flow that contribute to information processing, learning, and innovation (Hermann & Datta, 2002; Menon & Pfeffer, 2003). Moreover, compared with insider successions, outside CEOs are believed to better adapt to turbulent environments (Tushman & Rosenkopf, 1996). Given the potential advantages associated with outside CEOs, they can significantly improve firms' adaptive capacity. As a result, researchers from the organizational adaptation perspective usually argue that outside CEOs positively impact firm performance (Grossman, 2007).

Researchers adopting the organizational disruption perspective, contrarily, point out the negative performance effects of outside CEOs for the following reasons. First, outside CEOs lack firm-specific knowledge and skills when initiating strategic change, which leads to more disruption and premature decisions incompatible with firms' internal competencies (Bailey & Helfat, 2003; Zhang & Rajagopalan, 2010). Second, outside CEOs are likely seen as contenders for power and have less support from the existing TMT early after succession, therefore impeding transition and integration (Friedman & Saul, 1991; Grossman, 2007; Shen & Cannella, 2002). Even in cases where outside CEOs are accepted as the new leader by incumbent managers, knowledge fragmentation and disruption still occur due to lack of shared intra-firm experiences (Denis, Langley, & Pineault, 2000; Hambrick, 1995). In addition, in order to overcome those liabilities, outside CEOs usually spend considerable time on relationship-building and integration immediately after succession, which distracts them from engaging in other important activities (Fondas & Wiersema, 1997; Shen & Cannella, 2002).

Given these conflicting predictions from the two theoretical perspectives, a small number of studies have started to examine the various multi-level boundary conditions moderating the performance effects of outside CEOs, which makes up another major research domain. From the micro individual level, researchers have shown that CEO-TMT similarity and CEO experience diversity can promote relational and informational exchange, thus enhancing post-succession firm performance (Georgakakis & Ruigrok, 2017). At the organizational level, foreign institutional ownership has been found to improve outside CEOs' performance premiums because owners of foreign institutions interpret outside CEO succession as a commitment to professional management. Therefore, they are willing to provide more support to outside CEOs (Chung & Luo, 2013). Moreover, better pre-succession firm performance can exert a positive moderating effect

because it creates a friendlier TMT and offers more resources needed for outside CEOs to effect organizational change (Georgakakis & Ruigrok, 2017; Karaevli & Zajac, 2013). As to the macro industry level, factors such as high-technological intensity, high industry growth, low industry concentration, industry munificence all contribute to better performance effects of outside CEOs. These factors amplify an outside CEO's ability to carry out effective organizational change in fast-changing environment and offer more resources to support those changes (Chung & Luo, 2013; Geletkanycz & Boyd, 2011; Georgakakis & Ruigrok, 2017).

Despite various attempts to analyze the complex and contingent performance effects of outside CEOs, our understanding remains limited. Prior studies mainly focus on leadership successions in organizations from develop countries, with little attention paid to those taking place in globalizing firms from emerging markets, a rapidly-growing and increasingly important force in the global economy (e.g., Financial Times, 2017; Stiglitz, 2003). However, most emerging firms are managed by idiosyncratic and sometimes contrastingly different governance structures compared with their counterparts in the developed world. As a fundamental organizational variable, corporate governance structure is expected to significantly amplify or impede outside CEOs' performance effects, though there are few studies looking into this topic. Moreover, regarding the macro level moderators, few studies go beyond the industry level to examine the market characteristics and institutional environment in which firms operate. As to the individual level, despite previous studies' focus on the importance of biographic characteristics of firm leaders, research exploring their political embeddedness, an important variable in emerging markets with underdeveloped institutional infrastructure, is scarce. In order to address these research gaps, I focus on globalizing firms from China and develop my arguments from the legitimacy perspective and political embeddedness theory, with a special attention paid to the importance of alignment

among CEO origin, market characteristics, legitimacy in host countries, and political embeddedness in the home country for firm performance.

Background: Variations in Corporate Governance among Chinese Firms

As much of my analysis involves corporate governance structures, I first describe variations in corporate governance among Chinese firms. Chinese firms have developed very unique corporate governance systems, based on the nation's distinctive political system, since the start of the Reform and Opening Policy in 1978. While transforming from a centralized planned economy to a socialist market economy with Chinese characteristics, China's POEs have largely adopted the Anglo-American corporate governance model which involves a separation of ownership from management. Professional managers take charge of daily operations while the board of directors fill the role of monitors and resource-providers. The same reform has also taken place in Chinese SOEs. However, there is a higher-level governing body in SOEs, which is the Communist Party Committee (e.g., Griffin, Liu, & Shu, 2016; Li, 2006; Tomasic & Fu, 2006). In 1993, China enacted the Company Law allowing the Party to play an important role in SOEs (Li, 2006; Tomasic & Fu, 2006; Zhang, 2006), especially in central SOEs.

Central SOEs are usually the largest and most important SOEs, which are actual state organs and under direct control of the State-owned Assets Supervision and Administration Commission (SASAC) of the state council (Brødsgaard, 2012; Brødsgaard & Hubbard, 2017). The Party Committee plays a paramount role in central SOEs in two ways. First, it holds the ultimate authority to appoint and dismiss top firm leaders. Second, it dutifully executes the policies of the central government and has a priority in firms' important decision-making, such that major strategic decisions of central SOEs must be discussed and agreed to within the Party Committee

before being forwarded to the board of directors (e.g., Brødsgaard & Hubbard, 2017; Griffin et al., 2016; Zhang, 2006).

In comparison, local SOEs refer to those under the control of provincial- or city-level SASACs, whose Party Committees also play a deciding role in senior personnel appointment and strategic decision-making. However, after decades of regional decentralization and corporate reforms in China, the central government's control of local SOEs has become limited. As a result, local SOEs enjoy more autonomy in carrying out the central government's policies (Brødsgaard & Hubbard, 2017; Qian, 1996). In fact, local governments often collude with local SOEs against the central government. A typical manifestation of the difference is that local government officials are more short-term oriented as they seek political promotion, and hence often urge local SOEs to pursue more short-term outcomes at the cost of long-term sustainability such as environmental protection, which the central government has set as a development priority (Qian, 1996; Zhou, 2004, 2007a).

When it comes to POEs, although they are also expected to form Party Committees, in practice they rarely do. According to Xinhua News (2012), less than one percent of individually-owned enterprises have a formal Party Committee. For those POEs that have adopted such a practice, the Party Committee mainly acts as a connection-builder between the focal firm and the government, and has no real power in the firm's personnel appointments or decision-making (Brødsgaard & Hubbard, 2017). As the leader of the Party Committee, the Party Secretary is de facto most powerful person in SOEs, though he or she plays a much less influential role in POEs (e.g., Su, Tao, Xi, & Li, 2012; Zhou, 2004, 2007a).

The Market Characteristics of Globalizing Chinese Firms

In order to reconcile the conflicting theoretical predictions regarding outside CEOs, I examine a series of multi-level boundary conditions. As a first step, I look into the macro market characteristics as a baseline factor that influences the performance effects of outside CEOs. Specifically, I focus on globalizing firms from China, a typical emerging market economy. Here I define globalizing firms strictly to those that conduct cross-border M&As. Emerging markets are characterized by high growth and accelerating pace of market liberalization (e.g., Ocampo & Taylor, 1998; Stiglitz, 2000), and firms that globalize are operating in a context characterized by uncertainty and turbulence (e.g., Efrat & Shoham, 2012; Knight, 2000). Market liberalization with high growth indicates large-scale changes taking place within a short time. Uncertainty and turbulence bring about more challenges and intensify competition. From the organizational adaptation perspective, a fast-changing and turbulent environment will amplify the advantages of outside CEOs. Usually, outside CEOs with a change orientation, external network, and new perspectives will help firms to better adapt to ongoing changes (e.g., Haveman, Russo, & Meyer, 2001; Hoskisson, Eden, Lau, & Wright, 2000; Tushman & Rosenkopf, 1996). In contrast, inside CEOs who have more firm-specific knowledge may fall into the ‘competency trap’, which reduces their ability and willingness to adapt to a dramatically changing market environment (Chung & Luo, 2013). Moreover, as market liberalization opens up competition in new industries where POEs previously had been excluded, outside CEOs who have external knowledge, experiences, and networks will be more capable of tapping new opportunities (e.g., Bailey & Helfat, 2003; Georgakakis & Ruigrok, 2017). In addition, because outside CEOs are selected from a larger pool of candidates, they usually possess better human capital that enables them to better deal with turbulence and challenges (Bennedsen et al., 2007). A few empirical studies support this view. For

example, Chung and Luo (2013) found that fast de-regulation and privatization in Taiwan during 1996 and 2005 made the adaptive capability of outsiders an important asset, and their succession led to higher subsequent firm profitability compared with insider successors. Another study by Bennesen et al. (2007) discovered that outsider successors exerted more positive influence on firm profitability, especially in those fast-growing industries.

On the other hand, the advantages associated with inside CEO succession (or the disadvantages of outside CEOs) from an organizational disruption perspective are less salient for globalizing Chinese firms. The importance of accumulated firm-specific knowledge and better integration into the incumbent TMT and organization that inside CEOs enjoy declines with rapid institutional transition (Newman, 2000). Facing unprecedented external environmental change brought by large-scale transitions, firms cannot rely on previously successful practices and strategies (Hoskisson et al., 2000). Moreover, in emerging markets like China where societies are characterized as relationship—based, the risk of adverse selection is lower as firms can make use of informal, personal contacts to gather extensive information regarding outside candidates (Bian, 1997; Chung & Luo, 2013). In fact, prior studies have implicitly suggested that where outside CEO succession might be disruptive to firms' daily operations in a stable environment, it can be performance-enhancing in turbulent circumstances (e.g., Chung & Luo, 2013; Haveman et al., 2001; Tushman & Rosenkopf, 1996). Given the above reasons, I propose the baseline hypothesis.

Hypothesis 1: For globalizing Chinese firms, outside CEO succession is related to better economic performance than insider CEO succession.

Legitimacy in Host Countries

I now look at another important institutional factor—legitimacy, and focus on the importance of the alignment among CEO origin, market characteristics, and the legitimacy of globalizing

Chinese firms in host countries for their performance. Specifically, I draw from the legitimacy perspective and examine the moderating effect of the legitimacy globalizing Chinese firms have with their host countries' stakeholders. Legitimacy is defined as "a generalized perception that the action or assumption of an entity is desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: 574) , which is critical for a firm's survival and success in any institutional environment. It constitutes a major motive behind firm action and an end in itself, and is often gained through structural and procedural conformity with institutional isomorphic pressures (e.g., Meyer et al., 2014; Stevens et al., 2016; Suddaby et al., 2017).

Globalizing firms operating in multinational environments are subject to conformity pressures from institutions in host countries, which can be difficult to deal with (Meyer et al., 2014). As discussed above, most firms in China have political connections with the Chinese government due to the presence of the Party Committee. Usually firms with political connections in their home country draw attention and face legitimacy concerns in host countries when they conduct cross-border M&As, but those from emerging markets with a state-led economy like China are even more severely scrutinized than their counterparts from developed countries (e.g., Deng, Yang, Wang, & Doyle, 2017; Gammeltoft, Filatotchev, & Hobdari, 2012). Legitimacy concerns over politically-connected globalizing firms from emerging markets can arise from a combination of ideological conflicts (Lin, 2011; Tipton, 2009), national security concerns (Globerman & Shapiro, 2009; Nyland, Forbes-Mewett, & Thomson, 2011), and concerns over unfair competitive advantages (Sauvant, 2010). Previous studies have found that legitimacy concerns can arouse a high degree of opposition to acquisitions in host countries, which eventually leads to negative outcomes such as transaction cancellation or worsening firm performance (e.g.,

Chen & Young, 2010; Huang, Xie, Li, & Reddy, 2017; Shi, Hoskisson, & Zhang, 2016). As a result, politically-connected globalizing firms from emerging markets mostly comply with institutional norms in host country environments and adopt legitimizing actions to alleviate those concerns that may severely undermine firm performance (Meyer et al., 2014; Stevens & Newenham-Kahindi, 2017).

I argue that the appointment of top managers such as a CEO from outside the firm can be an effective legitimizing action. Outside CEO succession signals a firm's commitment to professional management rather than governance by relationships, which corresponds to the mature-market institutional logic shared in most developed countries (Luo, Xue, & Han, 2010; Zucchella, 2006). Also outside CEOs are selected from a larger pool of candidates which signals their quality and demonstrates a firm's devotion to change and performance (Cummings & Knott, 2018; Zhang, 2008). In comparison, inside CEOs come from a much more restricted pool and their succession often raises concerns about relationship-based rather than competence-based selection. A few studies have examined firms' adoption of such an approach to reduce legitimacy concerns in host countries. For example, Gomulya, Tsui-Auch, and Huang (2017) argue that globalizing firms from emerging markets are likely to appoint professional managers from outside as a symbolic legitimizing action to gain the host country's approval. Although such action does not guarantee fundamental changes in firms' governance practices, as the outside CEOs may lack true control over the firms' daily operation, it serves as an impression management tactic to suggest that the firm is professionally governed and managed.

Among globalizing Chinese firms with various governance structures, I predict that outside CEO succession will have the greatest impact on the legitimacy of central SOEs than local SOEs and POEs. Prior literature has demonstrated that the degree of legitimacy concerns depends on

both the nature and the level of political connections. As to the nature of political connections, firms with formal political connections, such as equity-based relationships, face more severe legitimacy challenges than those with only informal ones, such as interpersonal contacts. This is because an equity-based relationship grants the government the power to impose its priorities as a shareholder (Cui & Jiang, 2012; Meyer et al. 2014). Therefore, SOEs face more legitimacy challenges than POEs. In addition, the degree of legitimacy concerns also increases with the level of government ownership. While receiving greater government support as “national champions”, central SOEs have more obligations and pressures to serve national strategic goals. In contrast, local SOEs receive less support, display greater market orientation, and have more autonomy and leeway to carry out the central government’s policies (Li, Cui, & Lu, 2014). Therefore, globalizing firms’ political connections will be more salient if they are under the central government control rather than local government control (Huang et al., 2017; Li et al., 2014; Li, Cui, & Lu, 2017). Given the nature and level of political connections of central SOEs, they will face the greatest legitimacy concerns in their globalizing activities relatively to local SOEs or POEs. Accordingly, they will enjoy the most improved legitimacy and hence benefit the most by appointing outside CEOs as successors. Given the above analysis, I propose the following hypothesis.

Hypothesis 2: The relationship between outside CEO succession and globalizing Chinese firms’ economic performance will be more positive in central SOEs than other types of firms.

Political Embeddedness in the Home Country

Having considered the institutional environment in host countries, I now examine the political context in the home country. Specifically, I develop my arguments based on the political embeddedness theory and emphasize the importance of an alignment of CEO origin, market characteristics, legitimacy, and political embeddedness for firm performance. Political

embeddedness theory is frequently cited in research related to political connections (e.g., Batjargal, 2003; Michelson, 2007; Uzzi, 1997). The concept of political embeddedness broadly refers to “direct and indirect, individual and organizational ties to the state” (Michelson, 2007: 353), and is derived from social embeddedness theory which focuses on firms’ embeddedness in networks of social and exchange relationships (Granovetter, 1985). Earlier research generally emphasizes the benefits associated with political embeddedness for firm performance in both developed and emerging economies (e.g., Portes & Sensenbrenner, 1993; Uzzi, 1997). Those benefits include opportunities to influence regulatory policies (Hillman, Keim, & Schuler, 2004), greater legitimacy in the firm’s home country (Baum & Oliver, 1991), easier access to valuable resources under state control, such as preferential treatment, confidential information, and public sector contracts (e.g., Johnson & Mitton, 2003; Lester, Hillman, Zardkoohi, & Cannella Jr., 2008; Welch & Wilkinson, 2004). Some studies, however, pay more attention to the costs of political embeddedness in emerging markets (e.g., Fisman, 2001; Sun et al., 2010). Those costs result from pressure to adopt strategies to support the state’s and politicians’ political goals at the cost of firms’ economic interests (Okhmatovskiy, 2010), and the vulnerability to political shocks prevalent in emerging markets (Leuz & Oberholzer-Gee, 2006; Siegel, 2007). Overall, political embeddedness theory provides a contingent view that while established political-organizational relationships can facilitate business transactions, they also generate constraints for firms embedded in such relationships (Okhmatovskiy, 2010; Sun et al., 2010). Hence, it is difficult to make holistic predictions about the balance of benefits and costs associated with political embeddedness without considering specific contextual factors. I take two contexts with different levels of political embeddedness for outside CEOs in central SOEs into consideration, with contrasting implications for firm performance. Specifically, I argue that when a Party Secretary has both government and

industry work experience, the performance effects of outside CEOs in central SOEs will be even more beneficial because outside CEOs are better politically embedded in the home country's political context. However, when there is a strong presence of Party leaders from both the focal firm and other organizations sitting on the board, outside CEOs will be over-embedded in the political system and thus more prone to the costs of government influence. As a result, firm performance will suffer.

PS Both-track. PS Both-track refers to those Party Secretaries who have worked in both the government (political track) and industry (industry track) before serving the current firm. Compared with those who only have government work experience, Party Secretaries who have also worked in the industry can help outside CEOs in central SOEs better embed themselves with both the home country government and incumbent TMT for the following reasons. First, Party Secretaries with industry work experience are more likely to take more economic interests into consideration when making strategic decisions, thus aligning themselves more with outside CEOs. Previous studies have demonstrated that biographic attributes of top leaders such as their functional backgrounds and experiences significantly affect their strategic choices and decision-making, and thus firm performance (e.g., Bunderson & Sutcliffe, 2002; Hambrick & Mason, 1984). When promoting strategic decisions, Party Secretaries with only government work experience may make decisions that are optimal from the government's point of view, but sub-optimal for the firm (Okhmatovskiy, 2010). In contrast, Party Secretaries from both political and industry tracks are possibly more business-minded and likely rely on their experiences in industry to make more balanced strategic choices. Second, Party Secretaries from both tracks can provide both business advice and political counsel to outside CEOs, which will help outside CEOs to make decisions as well as navigate government-organization relationships. Prior studies have highlighted the

important advisory and resource-provision roles of board members in assisting CEOs to enhance firm performance (e.g., De Villiers, Naiker, & Van Staden, 2011; Hillman & Dalziel, 2003). In addition, as such Party secretaries have worked in industry before, they are likely to understand and support outside CEOs, thus helping outside CEOs to better integrate with the organization and incumbent TMT, and saving them time to focus on operations. Previous literature points out that integration into an incumbent management team presents a major challenge for outside CEOs that can greatly distract from managing their firms in the early stages after succession (e.g., Chen, 2015; Georgakakis & Ruigrok, 2017). As to the negative side, I expect no more embeddedness costs associated with a Party Secretary from both tracks than that from the political track only. Given the above reasons, I propose the following hypothesis.

H3: The relationship between outside CEO succession and globalizing Chinese firms' economic performance will be even more positive in central SOEs with a Party Secretary from both the industry and political track than those without.

Percentage of PS on Board. It calculates the proportion of (vice) Party Secretaries from both the focal firm and other organizations sitting on the board. Previous research has demonstrated that state owners, represented by Party Secretaries in Chinese firms, have the incentive to impose social and political goals on firms to achieve their political agenda at the costs of economic goals. A typical example is that Chinese SOEs tend to retain excessive employment at the cost of firm performance to promote social stability (e.g., Boycko, Shleifer, & Vishny, 1996; Okhmatovskiy, 2010). When there is a high percentage of Party Secretaries on board, the influence of other shareholder declines accordingly, which will create an over-embeddedness situation where CEOs are more affiliated with those state owners and more in line with their political interests. Such political over-embeddedness will make the focal firm more prone to the costs of

government influences ultimately (e.g., Okhmatovskiy, 2010; Sun et al., 2010) and create a misalignment among CEO origin, market characteristics, legitimacy in host countries, and political embeddedness within the home country government. Although more Party Secretaries on board will also grant the outside CEO access to more government-controlled resources, those extra benefits are minimal compared with the costs of increasing government influence, especially given that Central SOEs already enjoy a high degree of government support.

Given the above analysis, I argue that the costs associated with a high percentage of (vice) Party Secretaries on board will exceed the benefits. Therefore, I propose the following hypothesis.

H4: The relationship between outside CEO succession and globalizing Chinese firms' economic performance will become less positive in central SOEs as the percentage of Party Secretaries and vice Party Secretaries on board increases.

METHODS

Sample and Data Collection

My sample consists of all Chinese listed firms on the Shanghai and Shenzhen A-Share Stock Exchanges that were involved in at least one cross-border merger or acquisition by the end of 2015. I extracted the full list of globalizing Chinese firms from the THOMSON REUTERS SDC Mergers & Acquisitions database. I then manually collected corporate governance data from corporate annual reports found on the official websites of Shanghai and Shenzhen A-Share Stock Exchanges. In addition, I extracted financial data from the WIND financial database, one of the most comprehensive and widely used financial databases for Chinese listed firms (Xu, Xu, & Yuan, 2013; Zou, Wong, Shum, Xiong, & Yan, 2008). I gathered the corporate governance and financial data for the years 2008 to 2015. I accumulated 1640 firm-year observations after excluding missing data, with outside CEO observations accounting for 10.49% of the total (or 172 observations). The

total number of globalizing firms included in the sample is 251, of which 49 are central SOEs, 44 provincial or city level SOEs, and 158 POEs. The statistics show that a typical firm in the sample is 15.66 years old, with 3.57 CEO successions on average (including relay successions where the same CEO serves consecutive terms, see Zhang & Rajagopalan, 2004). Also a typical CEO stays in the position for 4.25 years, as Chinese firms are required to have a re-election of the board of directors every three years (see Article 47 of the Company Law of the People's Republic of China¹), which means most CEOs serve only 1 to 2 terms.

Dependent Variable

I employed *Return on Equity (ROE)* as the dependent variable in my model, which was calculated as the ratio of net to total shareholders' equity. *ROE* is a widely used means of measuring firm performance and regarded as a major financial indicator by investors. Because my study aims to examine outside CEOs' performance effects, I did not use market-based performance measures subject to factors beyond managerial control (Karaevli, 2007).

Independent and Moderator Variables

Outside CEO, the independent variable, measured whether or not the CEO was appointed from outside the firm. *Outside CEO* was a dummy variable coded "1" if the CEO had never worked in the focal firm (or any other affiliates of the same group if the focal firm was a member of a business group) before he or she was hired to the position, otherwise "0" (Chung & Luo, 2013).

I then employed a series of dummy variables in my regression models as moderator variables. *Central SOE* was coded "1" if a firm was an SOE under the control of the central government, otherwise "0". Such information could be gathered from the introduction of a firm's annual report or from the official websites of the stock exchanges where those firms were listed.

¹ <http://www.lawinfochina.com/Display.aspx?lib=law&ID=641>.

PS Both-track assessed whether the Party Secretary of a firm had work experience both in government as well as in industry before serving the focal firm. I assigned “1” to those that had both kinds of experience and “0” to those without. *Percentage of PS on Board* was calculated by the number of (vice) party secretaries on board divided by the total number of board members. Such information could be collected in the section of biographic characteristics of board members in the corporate annual reports. In cases where information was missing, I also searched for personal information in the SINA Finance Database, one of the most authoritative and comprehensive online financial databases available covering Chinese listed firms (e.g., Lin, Whinston, & Fan, 2015; Zeng, 2010).

In order to test for moderating effects, I also included the interaction terms between (1) *Outside CEO* and *Central SOE*, (2) *Outside CEO* and *PS Both-track*, (3) *Outside CEO* and *Percentage of PS on Board*, (4) *Central SOE* and *PS Both-track*, (5) *Central SOE* and *Percentage of PS on Board*, (6) *PS Both-track* and *Percentage of PS on Board*, (7) *Outside CEO*, *Central SOE*, and *PS Both-track*, and (8) *Outside CEO*, *Central SOE*, and *Percentage of PS on Board*. Among all the interaction terms, (1), (7), and (8) are the primary focus of this study.

Control Variables

The first set of control variables addresses the biographic characteristics of each firm’s Party Secretary, Chairperson, and CEO. Biographic characteristics of firms’ top leaders have been found to significantly affect decision-making processes and firm strategy, and thus firm performance (e.g., Buyl, Boone, Hendriks, & Matthyssens, 2011; Nelson, 2005; Peni, 2014). Some of these most often examined characteristics include tenure (e.g., Henderson, Miller, & Hambrick, 2006; Simsek, 2007), educational level (e.g., Halebian & Finkelstein, 1993; Nadkarni & Herrmann, 2010), and overseas experiences (e.g., Carpenter, Sanders, & Gregersen, 2001; Sambharya, 1996).

In the Chinese context, the political background of firm leaders can also significantly impact firm performance (e.g., Li, Meng, Wang, & Zhou, 2008; Pessarossi & Weill, 2013). Therefore, I controlled for the following biographical characteristics of the Party Secretary, chairperson, and CEO.

PS/Chair/CEO Tenure refers to the number of years since those firm leaders first took their positions in the focal firm. *PS/Chair/CEO Education* is an integer measure of the highest educational level attained. Specifically, “6” was assigned to those with a doctorate, “5” a master’s degree, “4” an undergraduate degree, “3” a high school degree, “2” a middle school degree, “1” a primary school degree, and “0” to any level below primary school degree. *PS/Chair/CEO Overseas* is a dummy variable that indicates whether the leader has any overseas work or study experience. I assigned “1” to those who have at least one overseas work or study experience, and “0” to those without. *PS/Chair/CEO Two Sessions Member* refers to the political context in which a firm leader had been a member serving either one of “two sessions,” China’s biggest political meetings of the year. The term “two sessions” refers to China’s two major political bodies: the National People’s Congress (NPC), or the national legislature, and Chinese People’s Political Consultative Conference (CPPCC), or the top consultative body in the country (e.g., Chung, 2008; Shen, 2017). The “two sessions” sits at the highest level of China’s political structure and being a member of “two sessions” signals a person’s important political position in China (e.g., Yang & Yin, 2008; Zhou, 2007b). *PS/Chair/CEO Two Sessions Member* was coded “1” if the specific firm leader has been (either at the present or in the past) a member of the NPC or CPPCC, and otherwise “0”. All the information was gathered from the biographic information of board members in the corporate annual reports.

The second set of control variables relates to board characteristics. Prior studies have demonstrated that board characteristics, including board leadership structure, board size, average board age, and the role of directors, and will significantly affect firm performance (e.g., Dalton, Daily, Ellstrand, & Johnson, 1998; Klein, 1998; Kroll, Walters, & Le, 2007; Rechner & Dalton, 1991). Therefore, I controlled for the following board variables. *PS-CEO Duality* refers to the scenario where the same person holds both the positions of the Party Secretary and the CEO. *PS-Chair-CEO Ternary* refers to the situation in which a firm's Party Secretary, chairperson, and the CEO is the same person. Those variables are developed from the well-established literature on *CEO Duality* which refers to the phenomenon where a firm's CEO also holds the position of the board chair (e.g., Baliga, Moyer, & Rao, 1996; Boyd, 1995; Tuliao & Chen, 2017). *Board Size* is represented by the number of board members. I included those board members serving on the focal firm board for at least six months in a year and excluded those serving less than six months. *Board Age* refers to the average age of board members. *Monitors Size* refers to the number of a sample company's outside directors owning at least 5 percent or representing such ownership. *Resource Providers Size* is represented by the number of a sample company's outside directors not representing large shareholders (holding or representing less than 5 percent ownership).

I controlled for firm-specific characteristics that have been demonstrated to significantly influence firm performance, such as firm size (e.g., Hansen & Wernerfelt, 1989; Orlitzky, 2001), R&D intensity (e.g., Artz, Norman, Hatfield, & Cardinal, 2010; Belderbos, Carree, & Lokshin, 2004), ownership concentration (e.g., Heugens, Van Essen, & Van Oosterhout, 2009; Omran, 2009), and institutional ownership (e.g., Chaganti & Damanpour, 1991; Mehran, 1995). *Firm Size* was assessed using the log value of a firm's total assets. *R&D Intensity* was calculated by the ratio of R&D expenditures to total revenue. *Ownership Concentration* was measured by the percentage

of total shares held by the top ten largest shareholders, while *Institutional Ownership* the percentage of shares held by institutional investors.

The fourth set of variables controlled for sample firms' financial condition. Prior studies have found materially influence financial conditions on firms' motivation, behaviors, and performance (e.g., Aghion, Bacchetta, Ranciere, & Rogoff, 2009; Guillaumont Jeanneney, Hua, & Liang, 2006). Specifically, I controlled for the following financial variables. *Financial leverage* was defined as the ratio of total liabilities to equity. Firms that are more levered usually involve greater financial risk and have less flexibility when facing difficulties, which may negatively impact long-term performance (e.g., George, 2005; Ogden & Watson, 1999). *Inventory* was calculated by the ratio of inventory in terms of total revenue. Inventory is usually considered as inherently wasteful and a higher ratio is a consequence of more problems yet to be solved, which can drag down firm performance (e.g., Davy, White, Merritt, & Gritzmacher, 1992; Lieberman & Demeester, 1999). *Operational Efficiency* is an efficiency index calculated as the ratio of cost of goods sold to total revenue. A higher ratio indicates loss of efficiency and perhaps poor firm performance (e.g., Ramaswamy, 2001; Niraj, Gupta, & Narasimhan, 2001). *Subsidy Intensity* was measured by the ratio of government subsidy to total revenue. The disclosure of government subsidies is unique in the annual reports of Chinese listed firms. Prior studies have proven that government subsidies can affect firm productivity and thus long-term performance (e.g., Cowie, 2002; Wallsten, 2000). I also followed recent top management journals and controlled for *Tobin's Q*, the ratio of a firm's market value to its replacement value (e.g., Flammer & Luo, 2017; Liang, Ren, Sun, 2015).

As my sample covers Chinese firms that have conducted overseas M&As, I also controlled for characteristics related to M&As. Specifically, I controlled for the number of M&As (e.g.,

Barkema & Schijven, 2008; Zakaria, Fernandez, & Schneper, 2017) and stakes of acquisitions (e.g., Humphery-Jenner, Sautner, & Suchard, 2017; Meyer et al., 2014).

Finally, I also controlled for fixed-effects of *Firm*, *Year*, *Target Region of Overseas M&As*, *Listed Board*, *Industry*, and *Province* across various models (elaborated in the analysis). Table 1 displays the descriptive statistics and pairwise correlations.

----- Insert Table 1 Here -----

ANALYSIS AND RESULTS

I employed the fixed-effects model to test my hypotheses as my sample includes same firms over multiple periods. The results are displayed in Table 2. Model 1 is the baseline model which includes all control variables. Model 2 adds the independent variables to Model 1 and tests the main effect of outside CEOs. Model 3 incorporates all two-way interaction terms and tests the moderating effects of central SOEs. Model 4 is the full model including all three-way interaction terms and tests all moderating effects. I also included the random-effects in Model 5. Nonetheless, the Hausman test (Hausman & Taylor, 1981) suggests that there are statistically differences between the random-effects model and the fixed-effects model ($p = 0.000$) and hence supports for the adoption of the fixed-effects model. Hence, all the below analyses are based on the results of Model 4. However, I also used results of Model 5 as a robustness check. I did not use it as a reference to the interaction plot because the results for the two basic effects (Hypothesis 1 and 2) were not supported.

Because the inclusion of interaction terms may lead to problems of multi-collinearity, I followed Aiken, West, and Reno (1991) and mean-centered all the independent variables before creating the interaction terms. The mean variance inflation factor (VIF) of Model 4 is as small as 1.82 and the highest VIF for the individual variable (i.e., firm size) is only 5.72, well below the generally

accepted VIF limit of 10 (Cohen, Cohen, West, & Aiken, 2003). Therefore, multi-collinearity does not seem to be a problem in my regression analysis.

Endogeneity Test

The issue of endogeneity may present another methodological concern of my study. Endogeneity can arise from one of the following three conditions: (1) simultaneous causality, (2) errors in variables, or (3) omitted variables correlating with both the dependent variable and at least one of the independent variables (Bascle, 2008). In the study of outside CEO succession and firm performance, researchers have emphasized the complex causal processes that can lead to endogeneity issues (Giambatista, Rowe, & Riaz, 2005). In order to alleviate such concerns, I took the following steps. First, I adopted fixed-effects models in my study so as to control for all time-invariant omitted variables, which, nevertheless, cannot capture those omitted variables changing over time. Therefore, I further employed instrumental variables to account for the endogeneity issue inherent in outside CEO succession. A valid instrumental variable must fulfill two conditions: relevancy and exclusion restriction. The relevancy condition requires that the instrument variable and the endogenous variable (*Outside CEO*) must be correlated after the control for all other exogenous variables. The exclusion restriction requires no correlation between the instrument variable and the error term of the second-stage equation. Following prior studies, I used CEO age (Lardon, Deloof, & Jorissen, 2017) and the percentage of female board members (Elsaid & Ursel, 2011) as potential instruments for *Outside CEO*. I then conducted the Sargan test. The test was statistically insignificant at 5% level ($p = 0.178$), indicating that instrumental variables were statistically valid. Therefore, I used these two instrumental variables and conducted the Davidson-MacKinnon endogeneity. The test was also insignificant at 5% level ($p = 0.169$). Hence, the issue of endogeneity has been greatly addressed in our study.

I adopted R-square (within) as the measure of fit for each model since I used the fixed-effects model in the regression analysis (StataCorp, 2007). The full model is statistically significant and substantially explains *ROE* variances of the sampled Chinese firms ($R^2 = 0.512$, $F = 43.92$, $p = 0.000$). All the statistical significance tests of this study (including robustness checks) are two-tailed.

----- Insert Table 2 Here -----

Hypothesis 1 predicts that the appointment of outside CEOs will positively impact firm performance in globalizing Chinese firms as the fast-changing and turbulent market environment in which these firms operate will amplify the benefits brought of CEOs from an organizational adaptation perspective and reduce their disadvantages from an organizational disruption perspective. In consistency with the prediction, the results indicate a significant influence of *Outside CEO* on *ROE* ($\beta_{\text{Outside CEO}} = 0.041$, $p = 0.097$), thus Hypothesis 1 is marginally accepted. Compared with those firms with inside CEO succession, firms with outside CEO succession generally experience a 0.041 increase in *ROE*. The statistics show that 10.15% of the sampled firms have an outside CEO. The impact is not significant in that outside CEO succession on average results in an increase in returns amounting to 4.1% of equity, equity being constant and other things being equal. However, this weak support demonstrates the complex trade-offs in outside CEO succession. In addition, it also suggests the need to examine the multi-level boundary conditions that significantly moderate the advantages and disadvantages associated with outside CEO succession (Cummings & Knott, 2018; Georgakakis & Ruigrok, 2017; Zhang & Rajagopalan, 2010), which I do below.

Hypothesis 2 suggests the alignment between outside CEO succession and legitimacy in host countries will contribute to the performance effects of outside CEOs. Central SOEs, because

of the strong presence of the party system in their governance structure, suffer more from legitimacy concerns than non-central SOEs. However, the appointment of outside CEOs signals a commitment to professional management. Hence, outside CEOs are predicted to have a positive performance impact on globalizing central SOEs because of their greater improved legitimacy perceived by stakeholders in host countries. Consistent with this prediction, I find a statistically significant result of the interaction term *Outside CEO* and *Central SOE* ($\beta_{\text{Outside CEO} \times \text{Central SOE}} = 0.202, p = 0.000$), thus supporting Hypothesis 2. So compared with non-central SOEs or central SOEs with insider succession, the *ROE* of central SOEs with outside CEO succession generally increases 0.202. My sample shows that only 3.13% of firms are central SOEs with an outside CEO. This impact is large given that those firms will experience a return increase about 20.2% of equity, equity being constant and other things being equal. As 98% of *ROE* (excluding the extreme 1% at both ends) fall between -0.300 and 0.359, an increase of 0.202 accounts for 30.7% (or 0.202 divided by 0.659) of the range in *ROE*. Hence, the relationship suggested by Hypothesis 2 has a strong size effect. However, I cannot draw the interaction plot as the *Central SOE* variable has been omitted after the inclusion of firm-fixed effects in Model 4. In addition, the results in the random-effects Model 5 does not support this hypothesis. As Hypothesis 2 tests the main effect, I cannot rely on the results of Model 5 as a reference to draw the interaction plot but treat it as a robustness check. In fact, Model 5 supports for significant effects of the two three-way interaction terms (Hypothesis 3 and 4).

Hypotheses 3 and 4 further emphasize the importance of the alignment among outside CEO succession, market characteristics, legitimacy, and political embeddedness for firm performance. Specifically, Hypothesis 3 considers the scenario in which Party Secretaries have both government and industry work experience. Such Party Secretaries are thought to bridge the differences or even

conflicts between CEOs and the government, be more business-minded, provide more support and advice to outside CEOs, and help them to better integrate with the organization and the incumbent TMT. As a result, Outside CEOs are better embedded with the political system and their performance effects will be more positive. The results presented in Model 4 report a statistically positive coefficient for the three-way interaction term *Outside CEO*, *Central SOE*, and *PS Both-track* ($\beta_{\text{Outside CEO} \times \text{Central SOE} \times \text{PS Both-track}} = 0.245, p = 0.007$), thus supporting Hypothesis 3. In general, those outside CEOs in central SOEs with a Party Secretary working in both the industry and government will bring about 0.245 increase in ROE, when compared with their counterparts in central SOEs without such a Party Secretary. The statistics show that only 13.3% of all firms have a Party Secretary with both industry and government work experience. The effect is large in that such a Party Secretary will help central SOEs' outside CEOs to achieve a return increase amounting to 24.5% of equity, equity being constant and other things being equal. To better illustrate the three-way moderating effect, I follow Aiken et al. (1991) and draw the interaction plot in Figure 1. However, as the *Central SOE* variable has been omitted after the inclusion of firm-fixed effects in the regression model, I have to treat the two-way interaction term of *Outside CEO* and *Central SOE* (the moderating effect in Hypothesis 2) as a single variable *Outside CEO Succession in Central SOEs* and draw the two-way interaction plot between *Outside CEO Succession in Central SOEs* and *PS Both-track* based on Model 4. This simplifies the three-way interaction plot into a two-way plot. I use one standard deviation below and above the means of the variables to represent high and low values. From Figure 1, I can find that the value of *ROE* increases by a magnitude of 0.13 (from 0.883 to 1.013) when there is no *PS Both-track* but increases by a magnitude of 0.189 with the presence of *PS Both-track*. The value of *ROE* change is larger in the condition when there is the presence of *PS Both-track*, accounting for 28.7% (or

0.189 divided by 0.659) of the total range of *ROE* (excluding the 1% extremes at both ends). Hence, the moderating effect is very significant.

----- Insert Figure 1 Here -----

Hypothesis 4 considers the political over-embeddedness context in which there is a strong presence of Party Secretaries sitting on board of directors. Under such circumstances, outside CEOs are more affiliated with those state owners and more in line with their political interests, which often conflict with the economic interests. This over-embeddedness situation will also expose the firm to government influences and create a misalignment among CEO origin, market characteristics, legitimacy in host countries, and political embeddedness within the home country government. As a result, firm performance will suffer. Consistent with this prediction, I find a statistically three-way interaction among *Outside CEO*, *Central SOE*, and *Percentage of PS on Board* on *ROE* ($\beta_{\text{Outside CEO} \times \text{Central SOE} \times \text{Percentage of PS on Board}} = -1.480, p = 0.003$). Therefore, Hypothesis 4 is strongly supported. To put it at the extreme, the highest percentage of Party Secretaries in central SOEs with an outside CEO is 0.273 in my sample. That firm will experience a net *ROE* decrease at 0.404 compared with those with no Party Secretaries on board, or a return loss at 40.4% of equity, equity being constant and other things being equal. I also simplify the three-way interaction plot into a two-way plot by treating the interaction term in Hypothesis 2 as a single variable *Outside CEO Succession in Central SOEs*. I then draw the two-way interaction plot of *Outside CEO Succession in Central SOEs* and *Percentage of PS on Board* in Figure 2 based on the results of Model 4. The high and low values refer to those at one standard deviation above and below the means of the included variables respectively. As shown in Figure 2, *ROE* increases by 0.28 (from 0.852 to 1.132) when there is low presence of Party Secretaries on board, but decreases by a magnitude of 0.803 (from 1.035 to 0.232) with a strong presence of Party

Secretaries on board. Therefore, the latter *ROE* change is larger and accounts for 74.7% (0.202 divided by 1.08) of the total range of *ROE* (excluding the 0.5% extremes at both ends), indicating a very significant moderating effect for *Percentage of PS on Board*.

----- Insert Figure 2 Here -----

Robustness Check

I conducted additional analysis to test the robustness of my model and address some concerns. First, I controlled for more biographic characteristics of the CEO and the Party Secretary, including their gender, age, and functional track to address concerns that important biographic variables may be omitted. I also controlled for the number of previous successions of both the CEO and the Party Secretary as firms' historical succession experiences might influence more recent successions. The full model remains statistically significant and substantially explains *ROE* variances of globalizing Chinses firms ($R^2 = 0.497$, $F = 18.28$, $p = 0.000$). The results are consistent with those of Model 4. All hypotheses are supported at very significant levels ($\beta_{Outside\ CEO} = 0.044$, $p = 0.084$; $\beta_{Outside\ CEO \times Central\ SOE} = 0.207$, $p = 0.001$; $\beta_{Outside\ CEO \times Central\ SOE \times PS\ Both-track} = 0.254$, $p = 0.006$; $\beta_{Outside\ CEO \times Central\ SOE \times Percentage\ of\ PS\ on\ Board} = -1.489$, $p = 0.003$).

I then excluded all POEs in my sample and test my hypotheses using only local SOEs and central SOEs. I expect the results to be less significant as the difference in corporate governance structures between local SOEs and central SOEs is much less as compared to that between SOEs and POEs. So this approach represents a very conservative test. The full model remains statistically significant and substantially explains *ROE* variances of globalizing Chinses firms ($R^2 = 0.714$, $F = 22.2$, $p = 0.000$). The results are largely consistent with those in Model 4. Hypotheses 2 and 3 are still supported at two-tailed tests ($\beta_{Outside\ CEO \times Central\ SOE} = 0.352$, $p = 0.000$; $\beta_{Outside\ CEO \times Central$

$SOE \times PS \text{ Both-track} = 0.299, p = 0.090$), while Hypothesis 4 is supported at one-tailed test ($\beta_{Outside\ CEO \times Central\ SOE \times Percentage\ of\ PS\ on\ Board} = -1.098, p = 0.072$).

Last, I controlled for *ROE* of the previous year to address the concern that the performance effects of outside CEOs might still be due to past performance. The results show that prior year *ROE* exerts a significantly negative effect on *ROE* in the focal year ($\beta_{ROE\ Lag} = -0.055, p = 0.084$). Considering the possible causality between outside CEO succession and poor firm performance in the past, as prior studies have demonstrated (Datta & Guthrie, 1994), I then followed Chung and Luo (2013) and controlled for the two-way interaction between *ROE* of the prior year and *Outside CEO*. The model is statistically significant and powerful in explaining *ROE* variances of globalizing Chinese firms ($R^2 = 0.575, F = 24.43, p = 0.000$). The results still largely support Hypotheses 2, 3, and 4 ($\beta_{Outside\ CEO \times Central\ SOE} = 0.178, p = 0.006$; $\beta_{Outside\ CEO \times Central\ SOE \times PS\ Both-track} = 0.243, p = 0.087$; $\beta_{Outside\ CEO \times Central\ SOE \times Percentage\ of\ PS\ on\ Board} = -1.251, p = 0.014$). However, Hypothesis 1 is not significant. Overall, the results of the three tests largely support the robustness of my model.

DISCUSSION

Contributions and Implications

By examining the performance effects of outside CEOs in globalizing Chinese firms, I have been able to make the following theoretical contributions. First, my study has contributed to the leadership succession literature by emphasizing the importance of the alignment among CEO origin, market characteristics, firm legitimacy in host countries, and political embeddedness with the home country government for firm performance. Prior studies have mainly focused on industry level moderators while paying little attention to the more macro-market and institutional environment. Although biographic characteristics of firm leaders have been found to significantly

influence their decision-making and hence firm performance, there has been little research regarding their political embeddedness, which plays an important role in emerging markets with significant institutional voids. My study has addressed research questions by examining firm-level data of globalizing Chinese firms. By doing so, I highlight that what matters to firm performance is not just the quality of outside CEOs themselves, but how well outside CEOs fit with the organization and the macro environment.

Second, my study has contributed to the international business literature by examining globalizing firms from emerging markets, especially globalizing central SOEs, local SOEs, and POEs from China. Prior studies regarding globalizing firms have overwhelmingly focused on those from developed countries, though there is a recent shift towards globalizing firms from emerging markets, partly driven by the rapidly growing overseas investment from China and Russia (e.g., *The Economist*, 2012) and the escalation of a trade war between China and the United States (e.g., *The Guardian*, 2018). However, those studies usually treat globalizing firms from emerging markets the same, without further analysis into the vast differences between SOEs and POEs. My study demonstrates that SOEs and POEs differ substantially in terms of corporate governance structures, the Party Secretary's role, and legitimacy in the home and host countries, which greatly affect firm organization and performance. My study suggests abundant opportunities for research regarding SOEs and POEs in emerging markets. Lack of such knowledge not only prevents us from developing a better understanding of globalizing firms from emerging markets but also leads to practical losses in business.

Third, my study has also contributed to the corporate governance literature by going beyond the traditional corporate governance structure applied in the west and examining the unique dual-governance structure in Chinese SOEs due to the strong presence of the Party Committee.

Such a governance arrangement adds more complexities in terms of decision-making, strategic goals and choices, legitimacy, political embeddedness, and firm outcomes. My study explains how such a unique system differs from that in the West and influences outside CEOs' performance effects, thus enriching research regarding variations of corporate governance structures.

In addition, some practical implications for firm leaders and policy makers can also be drawn from the results of my study. For example, my study supports the importance of outside CEOs' independence in daily management that not only helps alleviate foreign stakeholders' legitimacy concerns, but also saves CEOs from bureaucracy and relationship-building. As a result, those outside CEOs can make better use of their talents. Moreover, Party Secretaries with industry work experience were found to better cooperate with outside CEOs to boost firm performance due to their better understanding of and support to their CEOs, and being more business-minded in their strategic choices. Hence, it is recommended that the state should appoint Party Secretaries with industry work experience to run SOEs. Perhaps most importantly, my study highlights the importance of the alignment among CEO origin, market characteristics, home country's political context and host countries' institutional environment for firm performance, which echoes the call for the person-organization-environment fit with a special focus on outside CEOs.

Limitations and Future Research

This study, like all other research works, has limitations. However, it can serve as a stepping stone to future research. First, although I have examined the legitimacy issue in host countries and political embeddedness with home country government, I did not take globalizing firms' political embeddedness in host country contexts into consideration. The issue of firms' political embeddedness in host countries holds considerable research promise. For example, the review by Mellahi, Frynas, Sun, and Siegel (2016) points out that firms usually resort to non-market

strategies, especially corporate political strategy, to help them better adapt to host countries' political environments and bring about desired organizational outcomes. Anecdotal evidence from media reports also reveals that politically-connected globalizing firms from emerging markets have tried various means to embed themselves in host countries' political systems, such as political lobbying and using inter-governmental connections to reduce legitimacy concerns and get deals done (e.g. Australian Broadcasting Corporations, 2009; FitzGerald, 2009).

Another limitation of my study is that I relied on archival data to approximate the degree of political embeddedness of outside CEOs with the central government, i.e., a Party Secretary with work experience in both the government and the industry, and the number of Party Secretaries and vice Party Secretaries sitting on the board of directors. An ideal way is to conduct personal interviews with outside CEOs in central SOEs to gain insights into their perceived embeddedness in the government. This approach would disclose more interesting micro-mechanisms through which political embeddedness influences outside CEOs' performance. Hence, I encourage future research to employ qualitative research methods to complement quantitative studies despite the challenges to gain access to SOEs for interviews.

CONCLUSION

I draw on the legitimacy perspective and political embeddedness theory to analyze the performance effects of outside CEOs in globalizing firms from emerging markets. I test the hypotheses on globalizing Chinese firms listed in Shanghai and Shenzhen stock exchanges. The results show that the fast-changing and turbulent market environment for globalizing Chinese firms will amplify the adaptive capability of outside CEOs and reduce the liability of organizational disruption. This positive effect is statistically greater in central SOEs due to greater improved legitimacy perceived by stakeholders in host countries. In addition, the performance effects of outside CEOs will be

even more positive for central SOEs with a Party Secretary having both government and industry work experience, but less positive when there is a strong presence of Party Secretaries sitting on the board of directors. By doing so, I demonstrate the importance of the alignment among CEO origin, market characteristics, firm's legitimacy in host countries, and political embeddedness with the home country government for firm performance.

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TABLE 1. DESCRIPTIVE STATISTICS AND CORRELATIONS

Variables	N	Mean	S.D.	1	2	3	4	5	6	7	8	9
1. ROE	1695	0.085	0.188									
2. Outside CEO	1695	0.101	0.302	-0.025								
3. Central SOE	1695	0.221	0.415	-0.013	0.080							
4. PS Both-track	1695	0.163	0.492	0.017	0.019	0.169						
5. Percentage of PS on Board	1695	0.048	0.097	0.002	0.003	0.341	0.125					
6. PS Tenure	1695	2.362	3.420	0.027	0.021	0.130	0.243	0.152				
7. PS Education	1695	2.433	2.489	0.021	0.013	0.367	0.325	0.379	0.649			
8. PS Overseas	1695	0.048	0.213	0.013	-0.016	0.267	0.091	0.132	0.098	0.239		
9. PS Two Sessions Member	1695	0.104	0.354	0.061	0.023	0.184	0.068	0.065	0.241	0.325	0.179	
10. Chair Tenure	1695	5.645	4.192	0.052	0.008	-0.188	-0.047	-0.206	0.207	-0.185	-0.055	-0.042
11. Chair Education	1695	4.750	0.942	0.023	0.045	0.149	0.020	0.099	0.043	0.190	0.096	0.140
12. Chair Overseas	1695	0.131	0.383	-0.001	0.027	0.061	0.000	-0.016	-0.077	-0.052	0.218	0.065
13. Chair Two Sessions Member	1695	0.183	0.466	0.032	0.115	0.219	0.117	0.036	0.133	0.143	0.177	0.495
14. CEO Tenure	1695	4.714	3.826	0.051	-0.069	-0.115	-0.011	-0.092	0.065	-0.124	-0.046	-0.038
15. CEO Education	1695	4.735	0.950	0.021	-0.001	0.162	0.085	0.135	0.093	0.200	0.068	0.153
16. CEO Overseas	1695	0.162	0.368	0.005	0.253	0.059	0.026	-0.055	-0.032	-0.079	0.179	-0.012
17. CEO Two Sessions Member	1695	0.068	0.296	0.087	0.040	0.004	0.216	0.044	0.199	0.198	-0.034	0.337
18. PS-CEO Duality	1695	0.082	0.274	0.016	-0.084	0.018	0.029	0.072	0.303	0.309	-0.037	0.157
19. PS-Chair-CEO Ternary	1695	0.046	0.210	0.028	-0.072	-0.064	0.049	-0.018	0.229	0.220	-0.023	0.201
20. Board Size	1695	9.638	2.696	0.024	0.130	0.244	0.190	0.144	0.312	0.352	0.135	0.234
21. Board Age	1695	50.169	4.372	0.023	0.022	0.423	0.212	0.391	0.234	0.427	0.192	0.305
22. Monitors Size	1695	3.064	2.642	0.035	0.087	0.373	0.160	0.253	0.150	0.295	0.157	0.145
23. Resource Providers Size	1695	5.264	2.730	0.036	0.151	0.093	0.090	0.135	0.187	0.233	0.078	0.136
24. Firm Size	1695	22.951	2.228	0.096	0.088	0.484	0.272	0.364	0.327	0.482	0.216	0.384
25. Ownership Concentration	1695	0.640	0.184	0.042	0.000	0.336	0.120	0.144	0.003	0.207	0.141	0.160
26. Institutional Ownership	1695	0.415	0.269	0.102	0.020	0.292	0.146	0.242	0.189	0.306	0.133	0.152
27. R&D Intensity	1695	0.016	0.037	-0.036	-0.058	-0.119	-0.087	-0.137	-0.050	-0.165	-0.061	-0.094
28. Financial Leverage	1695	1.828	3.600	-0.241	0.197	0.193	0.128	0.188	0.132	0.214	0.057	0.163
29. Inventory	1695	0.329	0.585	-0.205	-0.013	0.094	-0.066	0.127	-0.029	0.006	-0.033	0.070
30. Operating Efficiency	1695	0.137	0.165	0.312	0.048	-0.109	-0.006	-0.076	0.018	-0.003	0.005	-0.016
31. Subsidy Intensity	1695	0.011	0.023	-0.009	-0.020	-0.115	-0.029	-0.091	-0.077	-0.123	-0.053	-0.083
32. Tobin's Q	1640	1.949	1.870	0.024	-0.063	-0.280	-0.161	-0.272	-0.218	-0.314	-0.126	-0.167
33. Stakes of Acquisitions	1695	0.556	6.264	0.004	-0.023	-0.042	-0.023	-0.022	-0.029	-0.047	-0.017	-0.018
34. Number of M&As	1695	0.527	0.828	-0.014	-0.018	-0.113	0.014	-0.119	0.127	-0.010	-0.044	0.147

TABLE 1 (CONTINUED)

Variables	10	11	12	13	14	15	16	17	18	19	20	21
11. Chair Education	-0.023											
12. Chair Overseas	0.073	0.166										
13. Chair Two Sessions Member	0.058	0.222	0.085									
14. CEO Tenure	0.544	0.038	0.134	-0.005								
15. CEO Education	-0.025	0.446	0.129	0.158	0.081							
16. CEO Overseas	0.193	0.151	0.411	0.039	0.118	0.096						
17. CEO Two Sessions Member	0.093	0.162	0.014	0.291	0.133	0.205	0.018					
18. PS-CEO Duality	0.056	0.051	-0.029	0.148	0.108	0.094	-0.108	0.275				
19. PS-Chair-CEO Ternary	0.080	0.049	-0.061	0.140	0.078	0.051	-0.081	0.306	0.733			
20. Board Size	-0.055	0.205	-0.003	0.206	-0.051	0.258	0.051	0.203	0.092	0.079		
21. Board Age	-0.059	0.175	0.090	0.234	-0.008	0.198	0.071	0.182	0.132	0.094	0.322	
22. Monitors Size	-0.178	0.131	-0.005	0.182	-0.088	0.216	-0.097	0.078	0.063	0.015	0.595	0.332
23. Resource Providers Size	0.029	0.241	0.042	0.153	-0.008	0.226	0.179	0.177	0.037	0.059	0.601	0.220
24. Firm Size	-0.102	0.260	0.104	0.334	-0.032	0.344	0.094	0.268	0.122	0.053	0.541	0.630
25. Ownership Concentration	-0.232	0.075	0.009	0.062	-0.157	0.155	0.048	0.071	-0.050	-0.105	0.089	0.169
26. Institutional Ownership	-0.019	0.143	0.045	0.083	0.003	0.194	0.054	0.125	0.021	-0.046	0.223	0.367
27. R&D Intensity	0.161	-0.026	0.014	-0.064	0.094	-0.058	0.071	-0.050	-0.053	-0.043	-0.166	-0.119
28. Financial Leverage	-0.092	0.118	0.062	0.136	-0.018	0.173	0.018	0.176	0.113	0.016	0.459	0.271
29. Inventory	-0.032	-0.065	-0.093	0.001	-0.063	-0.026	-0.126	-0.019	-0.004	-0.009	-0.028	0.054
30. Operating Efficiency	0.050	0.038	0.037	-0.023	0.007	0.038	0.072	0.042	-0.043	-0.053	0.160	-0.041
31. Subsidy Intensity	0.076	-0.061	-0.025	-0.048	0.004	-0.096	0.003	-0.050	-0.043	-0.043	-0.137	-0.076
32. Tobin's Q	0.137	-0.083	0.018	-0.169	0.091	-0.145	0.020	-0.108	-0.097	-0.058	-0.322	-0.389
33. Stakes of Acquisitions	0.021	-0.024	0.026	-0.027	0.039	-0.008	0.006	-0.012	0.014	0.031	-0.048	-0.036
34. Number of M&As	0.170	0.092	0.029	0.147	0.184	0.070	0.025	0.121	0.059	0.090	-0.026	0.089

TABLE 1 (CONTINUED)

Variables	22	23	24	25	26	27	28	29	30	31	32	33
23. Resource Providers Size	0.056											
24. Firm Size	0.522	0.330										
25. Ownership Concentration	0.202	-0.073	0.358									
26. Institutional Ownership	0.334	0.098	0.495	0.340								
27. R&D Intensity	-0.195	-0.094	-0.182	-0.138	-0.112							
28. Financial Leverage	0.395	0.232	0.571	0.133	0.205	-0.134						
29. Inventory	0.021	-0.052	0.076	0.026	0.073	-0.093	0.306					
30. Operating Efficiency	0.091	0.184	0.170	0.094	0.069	-0.026	0.182	-0.189				
31. Subsidy Intensity	-0.155	-0.024	-0.155	-0.051	-0.069	0.174	-0.097	-0.070	0.140			
32. Tobin's Q	-0.376	-0.177	-0.525	-0.095	-0.230	0.376	-0.312	-0.177	0.154	0.161		
33. Stakes of Acquisitions	-0.056	-0.028	-0.035	0.015	-0.017	0.015	-0.005	-0.015	-0.019	-0.004	0.008	
34. Number of M&As	-0.047	-0.001	0.171	-0.098	0.071	0.215	0.057	-0.055	-0.036	-0.002	0.014	0.068

Note: Correlations with an absolute value greater than .0484 are significant at the $p < .05$ level.

TABLE 2. RESULTS OF REGRESSION MODELS

Variables	Model 1		Model 2		Model 3	
	b	s.e.	b	s.e.	b	s.e.
Outside CEO (<i>H1</i>)			-0.004	0.021	0.019	0.023
Moderators²						
Central SOE						
PS Both-track			-0.007	0.015	0.008	0.019
Percentage of PS on Board			-0.196*	0.088	-0.169 [†]	0.095
Outside CEO × Central SOE (<i>H2</i>)					0.145**	0.056
Outside CEO × PS Both-track					0.023	0.044
Outside CEO × Percentage of PS on Board					0.068	0.174
Central SOE × PS Both-track					-0.039	0.032
Central SOE × Percentage of PS on Board					0.254	0.238
PS Both-track × Percentage of PS on Board					-0.024	0.085
Outside CEO × Central SOE × PS Both-track (<i>H3</i>)						
Outside CEO × Central SOE × Percentage of PS on Board (<i>H4</i>)						
Controls						
PS Tenure	-0.004	0.003	-0.003	0.003	-0.004	0.003
PS Education	0.004	0.006	0.006	0.006	0.004	0.006
PS Overseas	-0.029	0.029	-0.027	0.029	-0.025	0.029
PS Two Sessions Member	-0.007	0.021	-0.012	0.021	-0.012	0.022
Chair Tenure	-0.002	0.002	-0.002	0.002	-0.002	0.002
Chair Education	0.000	0.009	-0.001	0.009	-0.003	0.009
Chair Overseas	0.021	0.015	0.022	0.015	0.022	0.015
Chair Two Sessions Member	0.015	0.017	0.015	0.017	0.018	0.017
CEO Tenure	0.004*	0.002	0.004*	0.002	0.004*	0.002
CEO Education	-0.007	0.007	-0.007	0.007	-0.007	0.007
CEO Overseas	0.010	0.023	0.009	0.023	0.010	0.023
CEO Two Sessions Member	-0.017	0.020	-0.012	0.021	-0.017	0.021
PS-CEO Duality	-0.099**	0.035	-0.101**	0.035	-0.100**	0.035

PS-Chair-CEO Ternary	0.115*	0.047	0.111*	0.047	0.106*	0.047
Board Size	-0.008†	0.005	-0.010*	0.005	-0.011*	0.005
Board Age	0.000	0.002	0.000	0.002	0.000	0.002
Monitors Size	0.007	0.005	0.008	0.005	0.008†	0.005
Resource Providers Size	0.008	0.005	0.008†	0.005	0.009†	0.005
Firm Size	0.079***	0.014	0.079***	0.014	0.077***	0.014
Ownership Concentration	0.009	0.056	0.004	0.056	0.009	0.056
Institutional Ownership	0.077***	0.022	0.078***	0.022	0.075***	0.022
R&D Intensity	0.178	0.151	0.174	0.151	0.168	0.151
Financial Leverage	-0.068***	0.003	-0.068***	0.003	-0.070***	0.003
Inventory	0.069***	0.017	0.071***	0.017	0.074***	0.017
Operational Efficiency	0.500***	0.046	0.500***	0.046	0.504***	0.046
Subsidy Intensity	0.031	0.213	0.033	0.213	0.018	0.212
Tobin's Q	0.002	0.004	0.001	0.004	0.001	0.004
Stakes of Acquisitions	-0.001	0.001	-0.001	0.001	-0.001	0.001
Number of M&As	-0.013	0.010	-0.014	0.010	-0.015	0.010
Constant	0.893***	0.083	0.894***	0.083	0.897***	0.084
Firm-fixed Effects Included	Y		Y		Y	
Year-fixed Effects Included	Y		Y		Y	
Target Region-fixed Effects Included	Y		Y		Y	
Listed Board-fixed Effects Included	N		N		N	
Industry-fixed Effects Included	N		N		N	
Province-fixed Effects Included	N		N		N	
Observations	1640		1640		1640	
N	251		251		251	
R-squared (within)	0.481		0.483		0.488	
Change in R-squared	--		0.002		0.005*	
F-statistics	25.38***		24.06***		21.91***	

Note: All t-tests are two-tailed; †p<0.10; *p<0.05; **p<0.01; *** p<0.001. Model 1-4 are the fixed-effects models while Model 5 the Random-effects Model. All analyses are based on the results of Model 4.

TABLE 2 (CONTINUED)

Variables	Model 4		Model 5	
	b	s.e.	b	s.e.
Outside CEO (<i>H1</i>)	0.041 [†]	0.025	0.028	0.018
<i>Moderators</i>				
Central SOE			-0.024 [†]	0.014
PS Both-track	0.005	0.019	0.010	0.011
Percentage of PS on Board	-0.167 [†]	0.095	-0.032	0.059
Outside CEO × Central SOE (<i>H2</i>)	0.202 ^{***}	0.058	-0.038	0.035
Outside CEO × PS Both-track	-0.005	0.048	-0.016	0.043
Outside CEO × Percentage of PS on Board	-0.068	0.177	0.298 ^{**}	0.103
Central SOE × PS Both-track	-0.035	0.032	-0.016	0.020
Central SOE × Percentage of PS on Board	0.295	0.243	0.402 [*]	0.178
PS Both-track × Percentage of PS on Board	0.005	0.085	0.074	0.080
Outside CEO × Central SOE × PS Both-track (<i>H3</i>)	0.245 ^{**}	0.091	0.174 [*]	0.072
Outside CEO × Central SOE × Percentage of PS on Board (<i>H4</i>)	-1.480 ^{**}	0.494	-1.212 ^{**}	0.383
<i>Controls</i>				
PS Tenure	-0.004	0.003	-0.004 [*]	0.002
PS Education	0.005	0.006	-0.002	0.003
PS Overseas	-0.042	0.029	-0.073 ^{**}	0.023
PS Two Sessions Member	-0.010	0.021	0.019	0.015
Chair Tenure	-0.002	0.002	0.001	0.001
Chair Education	-0.005	0.009	0.009	0.006
Chair Overseas	0.020	0.015	0.004	0.012
Chair Two Sessions Member	0.022	0.018	-0.006	0.011
CEO Tenure	0.004 [*]	0.002	0.003 [*]	0.001
CEO Education	-0.008	0.007	-0.004	0.005
CEO Overseas	0.009	0.023	-0.032 [*]	0.014
CEO Two Sessions Member	-0.019	0.021	0.003	0.017
PS-CEO Duality	-0.103 ^{**}	0.035	0.050 [*]	0.024

PS-Chair-CEO Ternary	0.108*	0.047	-0.035	0.031
Board Size	-0.013**	0.005	0.003	0.003
Board Age	0.000	0.002	-0.002	0.001
Monitors Size	0.010*	0.005	0.006	0.003
Resource Providers Size	0.011*	0.005	-0.005 [†]	0.002
Firm Size	0.078***	0.014	0.035***	0.005
Ownership Concentration	0.011	0.056	-0.031	0.031
Institutional Ownership	0.075***	0.022	0.053**	0.019
R&D Intensity	0.169	0.150	0.087	0.143
Financial Leverage	-0.070***	0.003	-0.035***	0.002
Inventory	0.080***	0.017	-0.009	0.011
Operational Efficiency	0.515***	0.046	0.386***	0.033
Subsidy Intensity	0.013	0.211	-0.219	0.192
Tobin's Q	0.001	0.004	0.000	0.003
Stakes of Acquisitions	-0.001	0.001	0.000	0.001
Number of M&As	-0.015	0.010	-0.013 [†]	0.007
Constant	0.922***	0.084	0.664***	0.134
Firm-fixed Effects Included	Y		N	
Year-fixed Effects Included	Y		Y	
Target Region-fixed Effects Included	Y		Y	
Listed Board-fixed Effects Included	N		Y	
Industry-fixed Effects Included	N		Y	
Province-fixed Effects Included	N		Y	
Observations	1640		1640	
N	251		251	
R-squared (within)	0.494		0.415	
Change in R-squared	0.006**		--	
F-statistics	21.59***		--	

Note: All t-tests are two-tailed; [†]p<0.10; *p<0.05; **p<0.01; ***p<0.001. Model 1-4 are the fixed-effects models while Model 5 the Random-effects Model. All analyses are based on the results of Model 4.

FIGURE 1. THE MODERATING EFFECT OF PS BOTH-TRACK

Note: All slope difference tests significant at $p < 0.001$ level.

FIGURE 2. THE MODERATING EFFECT OF PERCENTAGE OF PS ON BOARD

Note: All slope difference tests significant at $p < 0.001$ level.

CHAPTER 3. THE CAMPAIGN THAT BACKFIRES: ANTI-CORRUPTION DRIVE ON CHINESE FIRMS AND REDUCED PERFORMANCE

ABSTRACT

This study introduces behavioral perspectives to complement macro-level views into anti-corruption research. Specifically, I draw from threat-rigidity thesis and social exchange theories to argue that anti-corruption campaigns subject state-owned enterprises (SOEs) to stresses and anxieties leading to their inability to act and thus lower firm performance. However, I argue that if government sends signals of trust, such as appointing a Party Secretary after the campaign or as a CEO, the perceived threat will be alleviated and firm leaders can perform better. By examining firm-level data of Chinese listed SOEs and privately-owned enterprises (POEs), I tested the hypotheses that receive clear supports.

INTRODUCTION

Studies on the impact of corruption have been consistently growing over time. At the national level, corruption has been argued to exert two contrasting effects: to “grease” the wheels of bureaucracy and make them run more smoothly, or to “sand” such wheels and make them run more erratically. Proponents of the greasing view argue that corruption can facilitate economic transactions (e.g., Méon & Weill, 2010; Wei, 2000), increase efficiency by correcting or circumventing government failures (e.g., Huntington, 2006; Leff, 1964), and even improve the attractiveness and quality of civil service (Bailey, 1966; Leys, 1965; Méon & Sekkat, 2005). In contrast, proponents of the sanding view of corruption (e.g., Aidt, 2009; Klitgaard, 1991) point out that corruption reduces government revenues and compromises the quality of public investments (Birhanu, Gambardella, & Valentini, 2016; Mauro, 1995), generates waste and misallocation of resources (Murphy, Shleifer, & Vishny, 1993; Shleifer & Vishny, 1993), and leads to market distortions and

unpredictability that hamper overall economic activities (Campos, Lien, & Pradhan, 1999; Fisman & Miguel, 2007; Murphy et al., 1993; Shleifer & Vishny, 1993).

At the firm level, research on corruption has also been argued to yield either positive or negative effects, although the findings so far seem to show that corruption is largely detrimental to firm performance. For example, although a few studies show that firms can benefit from corruption (e.g., Dreher & Gassebner, 2011; Egger & Winner, 2005), more show that corruption actually hurts firm performance (e.g., Gaviria, 2002; O'Toole & Tarp, 2014; Svensson, 2005). The negative effects arise primarily from a combination of government officials' rent-extraction behaviors for personal benefit (Galang, 2012; Kaufmann & Wei, 1999), firms' loss of flexibility and greater vulnerability to further bribery (Shleifer & Vishny, 1993), and fewer resources available to develop sustainable competitiveness (Birhanu et al., 2016).

While more research is needed to identify the impact of corruption in a more precise manner, research on anti-corruption is even much more limited. Largely the reason seems to be practical. That is, it is not common to find anti-corruption campaigns systematically long-lasting and far-reaching enough to lend itself to empirical examination (Griffin, Liu, & Shu, 2016). Yet, examining the effect of anti-corruption is important because even if corruption is largely detrimental, a campaign to eliminate corruption may create unintended or asymmetrical effects. For example, to the extent that any such changes disrupt business practices, different stakeholders might feel discouraged or at least find it challenging to continue business as usual. Anecdotal evidences in the media have also revealed how an anti-corruption campaign leads to the suspension of new project approvals or inactivity, resulting in worsening firm performance (e.g., Denyer, 2015; Hewitt, 2016; Shepard, 2016), as summarized by Chinese Premier Li Keqiang that "some officials were taking a *wait-and-see* attitude, being reluctant to implement major policies of the central

government and their dereliction of duty had slowed the economy” (Denyer, 2015). If so, such an understanding could raise caution of any unintended negative effects of starting an anti-corruption campaign that so far is yet to be systematically examined.

To expand our understanding on this, I examine the effect of anti-corruption campaigns on firm performance. I draw on the threat-rigidity thesis and social exchange theory to inform my research. The threat-rigidity thesis explains organizational rigidity or inability to act in the face of an environmental change that has impending negative or harmful consequences large enough to be perceived as a threat (Staw, Sandelands, & Dutton, 1981). Social exchange theory complements this by introducing the norms of reciprocity fundamental to a wide range of corporate governance relationships (Connelly, Shi, & Zyung, 2017; Westphal & Zajac, 2013). Combining both theories, I argue that an anti-corruption campaign subjects firm leaders to uncertainty and anxiety that cause them to freeze business activities, voluntarily or not, and thus reduce firm performance. I test my hypotheses in the context of China’s recent anti-corruption campaign started in December 2012, which I argue has reduced the performance of Chinese listed central state-owned enterprises (SOEs) relative to that of Chinese listed local SOEs and privately-owned enterprises (POEs) conducting cross-border mergers & acquisitions (M&As).

Due to the differences in corporate governance systems among different types of Chinese firms, Party Secretaries in Chinese central SOEs were among the main targets of the first stage of China’s anti-corruption campaign, while leaders from other types of firms were subjected to fewer party disciplinary measures and less government scrutiny. These differences provide a natural experimental setting that differentiates the levels of threat perceived by Party Secretaries in Chinese central SOEs and other firms’ leaders after the anti-corruption campaign, thus making it an ideal test for my hypotheses.

Using rigorous methods (e.g. coarsened exact matching with difference-in-differences design), I found overall support for the main argument that an anti-corruption campaign reduces firm performance. Corroborating my argument that perceived threats emanating from an anti-corruption campaign are likely to be the cause behind the reduced firm performance, I also predicted and found that when government sends signals of trust that could alleviate such a threat perception, then firm performance improves. Two examples of such trust signals that I investigate here are (1) the appointment of a Party Secretary representative even after the anti-corruption campaign has started and (2) when the Party Secretary is the CEO as well. Further, the effect of an anti-corruption campaign is more pronounced when it involves SOEs that are more prominent at the national level.

This paper offers several contributions. First, this study enriches the research on corruption and business ethics by examining the negative impact of the recent Chinese anti-corruption campaign on firm performance in the short-term, complementing traditional literature that emphasizes its positive effect in the long-run. Second, this study contributes to this literature by introducing behavioral perspectives in order to assess the effects of a political process on the perceived threat of a firm leader and its subsequent impact on the firm, thus bridging the macro- and micro-perspectives to advance theory development. Third, I introduce the dual-governance system in Chinese firms which complements traditional studies on moderate corporate governance system where there is a separation of management and ownership. The dual governance system and its overall effects on firm outcomes merit further research.

THEORY AND HYPOTHESES DEVELOPMENT

Corruption: Impact on Economic Growth and Firm Performance

As the literature addressing anti-corruption efforts has developed from research on corruption, I first provide a brief summary of the corruption literature. Corruption can be broadly defined as "the misuse of public office for private gain" (Treisman, 2000: 399). Literature regarding the effects of corruption on macroeconomics often falls into the "greasing or sanding the wheels" debate. Those who favor the greasing view argue that corruption can work as 'speed money', which facilitates economic transactions and overall economic growth that would not have happened otherwise (e.g., Méon & Weill, 2010; Wei, 2000). Moreover, corruption can increase efficiency by helping private sector agents to correct or circumvent government failures and restrictive regulations (e.g., Huntington, 2006; Leff, 1964). In addition, corruption might improve the quality of civil service (Bailey, 1966; Leys, 1965). This is because the low wages of administrative jobs are supplemented by bribery, improving the attractiveness and quality of civil service (Méon & Sekkat, 2005).

However, recent papers reviewing empirical studies of corruption offer little support for the greasing view (Campos et al., 2010; Galang, 2012). Instead, many scholars now argue for the "sanding" view (e.g., Aidt, 2009; Campos et al., 2010; Klitgaard, 1991), and emphasize the overall negative effects of corruption on the economy for several reasons. First, corruption reduces government tax revenues and compromises the quality of government expenditures on infrastructure and other public investments (Birhanu et al., 2016; Mauro, 1995). Second, corruption generates waste and misallocation of resources by encouraging rent-seeking rather than productive activities (Murphy et al., 1993; Shleifer & Vishny, 1993). Third, corruption leads to market distortions and unpredictability that hamper overall economic activity (Campos et al., 1999;

Fisman & Miguel, 2007; Murphy et al., 1993; Shleifer & Vishny, 1993). As for boundary conditions, institutional environment and the quality of governance have been found to significantly moderate the effects of corruption on economic growth. Specifically, corruption exerts more positive or less negative economic effects in countries with weak institutional quality (Brockman et al., 2013; Méon & Sekkat, 2005; Méon & Weill, 2010) and deficient governance quality (Aidt et al., 2008; Méndez & Sepúlveda, 2006). In short, corruption is “only possible as a second best option in a malfunctioning institutional setting” (Campos et al., 2010: 1).

Nonetheless, country-level analysis has suffered from endogeneity issues with respect to institutions. For example, Aidt, Dutta, and Sena (2008) found that high corruption is usually associated with worse governance quality, which might contaminate the greasing view in that regimes with poor governance just cannot get much worse even with corruption. Such endogeneity concerns are hard to address due to lack of satisfactory instrumental variables at the aggregate level (Aidt, 2009; Campos et al., 2010). Such issues, however, can be effectively circumvented by using firm-level data (e.g., Asiedu & Freeman, 2009; Birhanu et al., 2016), which can shed light on the micro-level mechanisms through which corruption affects firm outcomes that further impact the macroeconomics at large (Birhanu et al., 2016). Thus, recent research on corruption has been extended to firm-level analysis (e.g., Aidt, 2009; Birhanu et al., 2016; Brockman et al., 2013).

Despite a few corroborating conditionally positive effects of corruption on firm entry (Dreher & Gassebner, 2011), foreign direct investment (Egger & Winner, 2005), and sales growth (Mendoza, Lim, & Lopez, 2015); most studies demonstrate negative effects of corruption in terms of productivity (De Rosa, Gooroochurn, & Gorg, 2010), fixed asset investment (Birhanu et al., 2016), sales growth (Gaviria, 2002; Seker & Yang, 2012), and return on investment (O'Toole & Tarp, 2014). The major factor driving these results is that government officials have too much

discretion over red tape and usually extract excessive extra rents for their personal benefit (Galang, 2012; Kaufmann & Wei, 1999; Shleifer & Vishny, 1993). Also firms that give bribes become less flexible to utilize resources and more vulnerable to further demands for bribery (Shleifer & Vishny, 1993). Most importantly, bribery may drain firm resources and reduce investments important to sustaining competitiveness such as fixed assets. Eventually, firm's long-term performance will suffer (Birhanu et al., 2016).

Anti-corruption Campaigns: Studies on Effects and Gaps in Research

So far, research on anti-corruption drives has been limited. Part of the reason lies in the fact that few governments have the will and ability to undertake sweeping actions to eradicate political and corporate corruption in their countries (Griffin et al., 2016). However, the high-profile anti-corruption campaign in China initiated after President Xi took office in 2013 provides a valuable opportunity to conduct research and some researchers have begun to examine the impact of China's anti-corruption campaign.

Chinese firms amid the anti-corruption campaign. In December 2012, the Chinese Communist Party launched a campaign to curb the wide-spread corruption found not only in politics and the military, but also in business (Lockett, 2016). The campaign has impacted Chinese firms differently, corresponding to their corporate governance structures. There are lots of variations of corporate governance structures among Chinese firms. While most firms, including SOEs, have largely adopted the Anglo-American corporate governance structure where there is a separation of ownership from management, there is also a higher-level governance body—the Party Committee in SOEs (Griffin et al., 2016; Li, 2006; Tomasic & Fu, 2006). Headed by a Party Secretary, the Party Committee is under the control by the Central Organization Department of the Chinese Communist Party, which holds the ultimate authority to appoint and dismiss top firm

leaders in SOEs. In particular, central SOEs, the largest and most important SOEs under direct control of the State-owned Assets Supervision and Administration Commission (SASAC) of the state council, have less autonomy and leeway in carrying out central government policies as compared to their local counterparts at the provincial level (Brødsgaard & Hubbard, 2017; Qian, 1996). Privately-owned enterprises (POEs), however, although expected to form Party Committees, rarely adopt the practice in reality; less than 1 percent of individually-owned enterprises (a major kind of POEs) have a formal Party Committee according to a review by Xinhua News (2012).

Since the start of the anti-corruption campaign, Chinese SOEs, especially central SOEs, have been among the most prominent targets of the anti-corruption campaign (Leutert, 2015), and Party Secretaries have been among the first to bear the brunt. Miller (2015) has reported that China's graft-busters have gone after business leaders by sending "inspection teams into 36 central SOEs over the last two years, placing 21 executives under investigation for wrongdoing". For example, Lin Song, the Party Secretary of China Resources, a Chinese central SOE ranking 86th on the list of *Global 500* in 2017², was sentenced to 14 years in prison in 2017 (Lam, 2018).

Limited studies on the effect of the anti-corruption campaign. So far only a few studies have analyzed the effects of the anti-corruption campaign, such as the immediate market reaction, industry output growth, and import of luxury goods. For example, Lin et al. (2016) found that both non-SOEs in provinces with stronger market institutions and SOEs experienced immediate shares appreciation though non-SOEs in provinces with weaker market institutions experienced share price declines. Jiang, Sun, and Hua (2018) found that industries in provinces with a strong private sector presence experienced less industry output growth deceleration. Qian and Wen (2015)

² <http://fortune.com/global500/list/>.

showed that the importation of luxury goods easily observable by the public was reduced by 55% in the first seven months of the anti-corruption campaign. Griffin et al. (2016) find that although the anti-corruption campaign appears to be a step in the right direction, there has not been statistically significant positive impact on earnings manipulation, the information environment of the financial markets, or foreign investment.

The arguments of these studies on the effects of the anti-corruption campaign are based on the established literature on corruption. Following the dominant sanding-the-wheel perspective of corruption's impact, studies to date generally predict positive effects from anti-corruption campaigns on economic growth and firm performance arising from the removal of corruption. Nonetheless, empirically this argument is seldom supported. Moreover, while predicting the anti-corruption campaign's effects, these studies usually adopt macroeconomic models whose effects take years to unfold. Unfortunately, they fail to take behavioral factors of the firm's top leaders into consideration, which can play a major role in the short-term that significantly counteract or even reverse the long-term positive effects.

The short-term impacts, however, have been highlighted in some media reports about government officials' failure to perform their duties (i.e., nonfeasance) or doing nothing attitude, and the economic slowdown following the anti-corruption campaign. For example, Hewitt (2016) reported that the austere new rules and the severity of the on-going anti-corruption campaign had intimidated some party officials as they saw no benefits, but high political risks of new initiatives, which resulted in a suspension of investment projects. Fabre (2015) observed a wait-and-see attitude among officials, "who were delaying some investment decisions, out of the fear to be suspect or due to the lack of incentive." The fear of being labelled as corrupt has "led to some officials simply doing nothing," and "no one wants to make a decision anymore, so everything

stops in the business world” (Shepard, 2016). Essentially, officials were likely to “put business on hold, halfway through the process, until an anti-corruption inspection team from the central government had left the area” (Hewitt, 2016). A Hong Kong-based economist suggested that even upright officials with clean hands might be nervous and that inaction was considered as “the safest way for self-protection” (Domínguez, 2017). Eventually, Chinese Premier Li Keqiang complained that “some officials were taking a wait-and-see attitude, being reluctant to implement major policies of the central government and their dereliction of duty had slowed the economy” (Denyer, 2015). Overall, the anti-corruption campaign in China might have cost 1 to 1.5 percent of GDP growth annually (Fabre, 2015).

Given these anecdotes, I think more rigorous research is needed which examines top leader’s behavioral factors that may have played a greater role in a firm’s short-term performance since the anti-corruption campaign started. Failing to do so may not only prevent us from developing a better understanding of the anti-corruption campaign but also result in severe economic losses. I draw on the following behavioral perspectives to assess if and when an anti-corruption campaign may actually reduce firm performance.

Threat-rigidity Thesis

The existing literature on corruption and business ethics seldom examines the micro-, individual-level factor. I argue that the impact of the anti-corruption campaign on the psychological impact on firm leaders could significantly strengthen or counteract the intended effects of the campaign. In fact, the often reported do-nothing or inaction attitude of party leaders, the intentional suspension of approvals of new projects, and the stagnation of economic activity since the anti-corruption campaign make it timely to examine the individual factor.

I draw on the threat-rigidity thesis to explain the inability to act of party officials of SOEs. The threat-rigidity thesis was a multilevel framework proposed by Staw et al. (1981) that examined individual, group, and organizational effects. A threat can be defined as “a negative situation in which loss is likely and over which one has relatively little control” (Dutton & Jackson, 1987: 80). The thesis suggests that when facing losses large enough to be perceived as a threat, top leaders are subject to anxiety, stress, and physiological arousal, and an organization tends to restrict information and constrict its control. As a result, both the top management team and the organization become rigid, unable to act/or do something new, in the face of adverse environmental change (e.g., Barker & Mone, 1998; Shimizu, 2007). Previous research in the fields of crisis management and organizational decline has based on the threat-rigidity thesis to examine organizations’ maladaptation and dysfunction in the face of environmental adversity (e.g., Cameron, Whetten, & Kim, 1987; D’Aveni, 1989; McKinley, 1993).

Although first developed in the west context, the thesis-rigidity thesis has been found to be applicable in East Asian regions with high Confucian values including China (e.g., Ko & Tan, 2012; Zhang, Livneh, Budak, Robert, & Romero, 2017). In my empirical context, the high-profile anti-corruption campaign in China exerts enormous threats over the Party Committee in central SOEs. Specifically, the direct agency in charge of overseeing the anti-corruption campaign is the Central Commission for Discipline Inspection (CCDI), an internal agency of the party without judiciary authority. However, the CCDI can directly enforce party discipline on party members, combat malfeasance, and punish those party members who commit offenses. When party officials engage in serious criminal wrongdoing, the CCDI can even gather and forward evidence to the judicial organs to speed up the judicial process against such officials (Wederman, 2004). Hence, the CCDI’s investigations impose potential negative losses to the Party Committee. The Party

Secretary, as the leader of the Party Committee, is the main target of investigation and bears the strictest monitoring and controls, and the most severe punishment if found guilty from the CCDI. Accordingly, s/he perceives the anti-corruption campaign as a threat and bears enormous stress and anxiety that results in his or her rigidity, inaction, and inability to act. At least in the short-term, the firm's performance is likely to be negatively affected.

In comparison with central SOEs, the threat-rigidity effect of the anti-corruption effort is expected to be much less felt in local SOEs and POEs. The central government can apply anti-corruption discipline more readily to SOEs than POEs. With the support and protection of local governments, local SOEs have more leeway and are much less influenced by central government policies than central SOEs (Brødsgaard & Hubbard, 2017; Qian, 1996). Moreover, the anti-corruption campaign is a top-down process, with implementation starting at central SOEs and moving out to the local SOEs (e.g., Fabre, 2015, 2017), and it may take years for local SOEs to feel the impact. So in the first stage of the anti-corruption campaign (Dec., 2012—2015), I predict that Party Secretaries from central SOEs bore the brunt, and they perceived the most threat as compared with their counterparts in other types of firms. As a result, the economic performance of central SOEs declined the most given the short period of time. Hence, I propose the following hypothesis.

Hypothesis 1: The anti-corruption campaign in China decreased the firm performance of central SOEs relative to non-central SOEs.

Social Exchange Theory

I argue that the effect of the anti-corruption campaign on the economic performance of central SOEs is moderated by several boundary conditions. Specifically, I draw on social exchange theory, which is often used to analyze a wide range of corporate governance relationships (Connelly et al.,

2017; Westphal & Zajac, 2013) such as top managers' relationships with boards of directors, analysts, other firms' managers, shareholders and other stakeholders (e.g., Bosse, Phillips, & Harrison, 2009; Wade, O'Reilly, & Chandratat, 1990; Westphal & Bednar, 2008; Westphal & Clement, 2008; Westphal & Zajac, 1997). A key principle of social exchange theory is the norms of reciprocity, defined as "the interest motive of the dyad partners" (Uhl-Bien & Maslyn, 2003: 514). Generalized norms of reciprocity occur when "individuals who have received a particular kind of help feel obligated to help others as they were helped when the opportunity to provide aid presents itself" (Westphal, Park, McDonald, & Hayward, 2012: 224). In terms of the social exchange between top managers and shareholders, top managers will infer the motivation of shareholders from aspects such as the reasons behind the appointment, salary and promotion, constitutional limitations on shareholders' influence and so on. As a result, top managers will behave in a reciprocal way based on the inferred norms of the exchange relationship (Bosse & Phillips, 2016; Bosse et al., 2009; Connelly et al., 2017).

In the case of the dual governance system in Chinese SOEs, I argue that social exchange is also central to the relationship between a Party Secretary and the government. The government plays a deciding role in appointing or firing their Party Secretaries (Brødsgaard, 2012; Brødsgaard & Hubbard, 2017). The Party Secretary of an SOE is likely to act reciprocally, depending on how he or she is treated by the government. Based on the collected media reports and the arguments from the threat-rigidity thesis, I expect that Party Secretaries have generally perceived threat with the implementation of the anti-corruption campaign. However, if the government grants more power and autonomy to Party Secretaries during the campaign, the sharp contrast can be a sign of enormous trust and security to those Party Secretaries. They are likely to feel obligated to reciprocate the trust and security from the government by working hard to improve firm

performance. As a result, if more autonomy and trust is granted, the perceived threat arising from the anti-corruption campaign is likely to be alleviated, and the negative effect of the campaign on firm's economic performance is reduced.

Recent appointment. I suggest two variables to approximate the government's trust in the Party Secretary. The first is the *Recent-appointment to Party Secretary Status*, defined as a Party Secretary being appointed for the first time at or after the anti-corruption campaign has officially kicked off. The variable is derived from the variable "*recently-attained celebrity status*" coined by Cho, Arthurs, Townsend, Miller, and Barden (2016). Prior research in psychology has demonstrated that recent success has a great influence on a person's expectations about his or her future success, and hence people will attach greater importance to their most recent performance (e.g., Feather, 1966; Hogarth & Einhorn, 1992; Steiner & Rain, 1989). Cho et al. (2016) further proved that the effects of availability between CEOs' recently attained celebrity and celebrity status granted in the past will significantly affect their decision-making. Specifically, CEOs' decisions "are more likely to be anchored in recent performance and assessment. They may adjust their perceived capabilities based on current performance as these signals provide the clearest guidance regarding their abilities" (Cho et al., 2016: 2682-2683).

In terms of the anti-corruption campaign, I argue that if a Party Secretary is appointed to that position for the first time only after the anti-corruption campaign has started, they will have a higher level of perceived competence based on their recent success (Deci & Ryan, 2012; Stone et al., 2009). In addition, those with a *recently-appointed Party Secretary status* will perceive greater trust and sense of security from the government despite its enormous external monitoring and control associated with the anti-corruption campaign. As a result, s/he is likely to feel indebted and work hard to improve firm performance, which will greatly alleviate the threat-rigidity effect and

the negative effect of the anti-corruption movement on the economic performance of central SOEs.

I thus propose:

H2: The negative effect of the anti-corruption campaign on the firm performance of a central SOE will be reduced if its Party Secretary has been recently-appointed.

PS-CEO Duality. The second moderating factor is *PS-CEO Duality*, which occurs when the same person holds both the positions of Party Secretary and the CEO. The variable is developed from the well-established literature on *CEO Duality* which refers to the phenomenon where a firm's CEO also holds the position of the board chair (e.g., Baliga, Moyer, & Rao, 1996; Boyd, 1995; Tuliao & Chen, 2017). In the modern corporate governance system, professional CEOs are in charge of daily operations and are usually regarded as “the most powerful member of the corporate elite” (Jensen & Zajac, 2004: 513). The chairperson, as the leader of the board, is in charge of monitoring as well as mentoring the CEO and top management teams (e.g., Tricker, 2000; Zald, 1969). CEOs who also chair the board will have full authority over the firm because of his or her strong decision-making authority resulting from less monitoring from the board and fewer conflicts with shareholders (Baliga et al., 1996; Elsayed, 2007; Tuliao & Chen, 2017). According to Lewellyn and Fainshmidt (2017), *CEO Duality* can be regarded as a “governance mechanism for power and discretion” such that “the power and discretion from a dual leadership structure allows CEOs to significantly influence strategic decision-making processes, which ultimately impacts organizational effectiveness” (p: 1605).

Despite decades of marketization reforms, the appointment of senior executives in Chinese SOEs is still under the mutual control of the SASAC and the Party Committee Organization Department, as demonstrated in the fact that notices of appointment or dismissal are issued by the two entities (Liu & Zhang, 2018). When it comes to Chinese central SOEs, if the Party Secretary

is also given the CEO position, such duality will provide full control over the firm due to fast decision-making and less constraints from supervision (e.g., Qian, 2002; Tomasic & Fu, 2006; Zhang, 2006). Therefore, *PS-CEO duality* will signal great trust from the government, especially given such a duality arrangement has become uncommon in Chinese listed firms after decades of corporate reforms. For example, Li (2006) calculated about 14.41% of public listed firms have the *PS-CEO duality* arrangement. In my original sample covering years from 2008 to 2015 (without matching as discussed in the methods part), only 10.53% of the total firms have such an arrangement. According to social exchange theory, Party Secretaries who are also given the CEO position will have a higher level of perceived competence, trust, and sense of security from the government, hence experiencing less threat-rigidity effect during the anti-corruption campaign. As a result, I predict less negative effects of the anti-corruption campaign on the economic performance of central SOEs. Hence I propose:

H3: The negative effect of the anti-corruption campaign on the firm performance of a central SOE will be reduced if its Party Secretary also holds the CEO position.

METHODS

Data and Matched Sample Construction

I extracted corporate governance data from the annual reports of Chinese listed firms in Shanghai and Shenzhen A-share stock markets from 2008 to 2015. Given the target of anti-corruption campaign is mainly SOEs, I collected data for all Chinese listed SOEs. However, due to the large

number of all Chinese listed firms³ and resource limitations, I collected data for only Chinese POEs that had conducted cross-border M&As by the end of 2015. Such POEs usually disclose more information and are more transparent, partly due to the conformity pressure of host countries' institutional reporting requirements (DiMaggio & Powell, 1983; Oliver, 1991; in a subsequent robustness test, I also tested my hypotheses using only SOEs). As my study requires in-depth biographical information regarding each firm's Party Secretary and CEO, those POEs that conduct cross-border M&As are preferable. I got the list of POEs that completed overseas M&As from the database of THOMSON REUTERS SDC Mergers & Acquisitions database. As the anti-corruption campaign officially started in December 2012, my sample from 2008 to 2015 fully covers the periods before and after the campaign. I extracted financial data from the WIND financial database, which provides the most comprehensive financial data for Chinese listed firms available (Xu, Xu, & Yuan, 2013; Zou, Wong, Shum, Xiong, & Yan, 2008). After excluding observations with missing data, I retained 8128 firm-year observations, including data for 923 SOEs (including 324 central SOEs) and 189 POEs.

As I decided to conduct the difference-in-differences method to alleviate endogeneity concerns and examine the effect of the anti-corruption campaign, I constructed a matched sample which comprises firms that bore the brunt and similar firms that were hardly affected at the first stage of the political event, with the aim to resolve the non-random sample selection bias. I adopted the Coarsened Exact Matching (CEM, e.g., Bettis, Gambardella, Helfat, & Mitchell, 2014;

³ According to Sina Finance database

(http://finance.sina.com.cn/worldmac/indicator_CM.MKT.LDOM.NO.shtml), there were 3052

Chinese listed firms at the end of 2016.

Feldman, Amit, & Villalonga, 2016) and chose the central SOEs as the treatment group as they were the main target of the anti-corruption campaign. I then matched other firms which were much less affected based on four firm characteristics: *Industry-Adjusted Profitability*, *Firm Size*, *Firm Age*, and *Industry*. The measures for these firm characteristics are averaged in the years 2008-2012, before the start of the anti-corruption campaign in China.

Table 1 displays the results of CEM based on the four matching characteristics, including the p values of the t-test for the differences-in-means and the Kolmogorov-Smirnov test for the equal distribution. As shown in Table 1, except for *Firm Size*, there are no statistical differences for the other firm characteristics between the treated group and control group. The matching procedure eventually produced 1297 observations for both the treated group (297 central SOEs) and the control group (297 other firms).

Dependent Variable

I chose Return on Equity (*ROE*) as the dependent variable. *ROE* is defined as the ratio of net income to total shareholders' equity. It is one of the most widely used accounting measures for firm performance and considered an important financial indicator for investors (e.g., Chakravarthy, 1986; Chen, Cheng, & Hwang, 2005; in a robustness test I also used Return on Sales as the dependent variable).

Independent Variables

I employed the difference-in-differences estimation method to explore the relationship between the anti-corruption campaign and firm performance. I used central SOEs as the *Treatment* group, and other firms as the *Control* group. To complete the difference-in-differences method, I also set the *Time* dummy variable. I assigned a value "1" to the years 2013 and after, and "0" to those before 2013. 2013 was the year in which the fifth-generation leaders took office and the anti-

corruption campaign officially started (though the Eight-point Regulation document was issued in December, 2012). I used the interaction between *Treatment* and *Time* to conduct the difference-in-differences test.

Moderators

Recently-appointed PS Status is a dummy variable coded as “1” if the Party Secretary was appointed for the first time in or after 2013, after the anti-corruption campaign started, and “0” to those appointed earlier. *PS-CEO Duality* is a dummy variable coded as “1” if the Party Secretary and the CEO are the same person, and “0” otherwise.

The interaction terms between (1) *Treatment* and *Recently-appointed PS Status*, (2) *Time* and *Recently-appointed PS Status*, (3) *Treatment* and *PS-CEO Duality*, (4) *Time* and *PS-CEO Duality*, (5) *PS-CEO Duality* and *Recently-appointed PS Status*, (6) *Treatment*, *Time*, and *Recently-appointed PS Status*, (7) *Treatment*, *Time*, and *PS-CEO Duality* were also included to test for moderating effects.

Control Variables

The first set of control variables relates to the biographic characteristics of each firm’s Party Secretary and CEO. Prior research has demonstrated that characteristics of top leaders such as CEO can significantly affect firms’ decision-making and strategy, and hence their performance (e.g., Buyl, Boone, Hendriks, & Matthyssens, 2011; Nelson, 2005; Peni, 2014). Some of the most commonly examined biographic characteristics are tenure (e.g., Henderson, Miller, & Hambrick, 2006; Simsek, 2007), gender (e.g., Khan & Vieito, 2013; Wolfers, 2006), educational level (e.g., Halebian & Finkelstein, 1993; Nadkarni & Herrmann, 2010), and overseas experiences (e.g., Carpenter, Sanders, & Gregersen, 2001; Sambharya, 1996). As the Party Secretary is the most powerful person (in SOEs) or the chief connection builder (in some POEs), and the CEO is the

chief executive of daily operation, I first controlled for the following biographic characteristics of both Party Secretary and CEO.

PS Tenure and *CEO Tenure* refer to the number of years of Party Secretary and CEO first took their positions. *PS Gender* and *CEO Gender* are dummy variables identifying the genders of the Party Secretary and CEO respectively, with “0” assigned to females and “1” to males. *PS Education* and *CEO Education* are integer measures of the highest educational level attained by the Party Secretary and CEO respectively. Specifically, “6” was assigned to those with a doctorate, “5” a master’s degree, “4” an undergraduate degree, “3” a high school degree, “2” a middle school degree, “1” a primary school degree, and 0 to any level below primary school. *PS Overseas* and *CEO Overseas* are dummy variables indicating whether the Party Secretary and CEO have any overseas work or study experiences. If the person had at least one overseas work or study experience, I would assign “1”, otherwise “0”.

The second set of control variables concerns board characteristics. Previous studies have demonstrated that board characteristics, such as average board age, board size, insider directors, and new directors will significantly affect firm performance (e.g., Dalton, Daily, Ellstrand, & Johnson, 1998; Klein, 1998; Shivdasani & Yermack, 1999; Shukeri, Shin, & Shaari, 2012). Hence, I controlled for the following variables regarding board characteristics. *Board Age* refers to the average age of all board members. *Board Size* refers to the number of board members who have served in the focal firm for at least six months in a year. *Insiders Size* refers to the number of company executives who are also board members. *New Directors* refers to the number of newly-coming board members who have never served in the board before.

I then controlled for some firm-specific characteristics which have been found to exert significant influences on firm performance, such as firm size (e.g., Hansen & Wernerfelt, 1989;

Orlitzky, 2001), R&D intensity (e.g., Artz, Norman, Hatfield, & Cardinal, 2010; Belderbos, Carree, & Lokshin, 2004), labor intensity (e.g., Brammer & Millington, 2008; Dewenter & Malatesta, 2001), ownership concentration (e.g., Heugens, Van Essen, & Van Oosterhout, 2009; Omran, 2009), and institutional ownership (e.g., Chaganti & Damanpour, 1991; Mehran, 1995). *Firm Size* is measured with the log value of total assets. *R&D Intensity* refers to the intensity of R&D expenditures expressed as a percentage of total revenue. *Labor Intensity* refers to the ratio of employees to total revenue (as the coefficient is too small, I multiply the original value by 10000). *Ownership Concentration* is measured by the percentage of total shares held by the top ten largest shareholders. *Institutional Ownership* refers to the percentage of shares held by institutional investors.

The fourth set of control variables relates to firms' financial conditions. Previous research has found that financial condition can significantly influence a firm's motivation, behaviors, and eventually its performance (e.g., Aghion, Bacchetta, Ranciere, & Rogoff, 2009; Guillaumont Jeanneney, Hua, & Liang, 2006). Therefore, I controlled for the following financial variables. *Financial Leverage* refers to the ratio of total liabilities to equity. Firms that are more levered are considered to have higher financial risks and less flexibility when faced with difficulties, which may negatively impact long-term performance (e.g., George, 2005; Ogden & Watson, 1999). *Operational Efficiency* refers to the ratio of cost of goods sold to total revenue. It is an efficiency index measuring the average cost of the products sold. A higher ratio indicates a lack of competitiveness and perhaps poor firm performance (e.g., Ramaswamy, 2001; Niraj, Gupta, & Narasimhan, 2001). *Market-to-book Ratio* is measure by the market value of equity to the book value of equity (e.g., Cho & Pucik, 2005; Flammer, 2015). It is a frequently controlled financial variable that measures the evaluation of a listed firm. Usually a ratio less than 1 indicates the stock

is undervalued while a ratio greater than 1 overvalued. *Subsidy Intensity* is measured by the ratio of government subsidies to total revenue. The disclosure of government subsidies is a unique variable in Chinese listed firms. Previous research has found that government subsidies can affect firm productivity and long-term performance (e.g., Cowie, 2002; Wallsten, 2000).

Finally, I controlled for the fixed effects of *Firm*, *Listed Stock Exchange*, *Region*, *Industry*, and *Year* for different models. Table 2 displays the descriptive statistics and pairwise correlations of all the variables.

----- Insert Table 2 Here -----

ANALYSIS AND RESULTS

In order to examine the performance differences between central SOEs and other firms before and after the anti-corruption campaign (*H1*), I adopted the difference-in-differences ordinary least squares estimation method. The difference-in-differences estimation is of great appeal not only because of its simplicity but also its effectiveness in circumventing many endogeneity issues arising when I make comparisons between heterogeneous samples (Meyer, 1995). I also employed the fixed-effects method given my dataset included firms over multiple periods. I used the same framework to test the moderating effects of *Recently-appointed PS Status* (*H2*) and *PS-CEO Duality* (*H3*). The full model is as follows:

$$\begin{aligned}
 ROE = & \alpha + \beta_1 Treatment + \beta_2 Time + \beta_3 Recently-appointed PS Status + \beta_4 PS-CEO Duality \\
 & + \beta_5 Treatment \times Time + \beta_6 Treatment \times Recently-appointed PS Status \\
 & + \beta_7 Time \times Recently-appointed PS Status + \beta_8 Treatment \times PS-CEO Duality \\
 & + \beta_9 Time \times PS-CEO Duality + \beta_{10} Recently-appointed PS Status \times PS-CEO Duality \\
 & + \beta_{11} Treatment \times Time \times Recently-appointed PS Status \\
 & + \beta_{12} Treatment \times Time \times PS-CEO Duality + Y'X + \varepsilon ,
 \end{aligned}$$

where α is the constant and X is a vector of control variables. In my estimation, the coefficients of interest are β_5 , β_{11} , and β_{12} , which test Hypotheses 1, 2, and 3 respectively. Model 1 is the baseline model including only the control variables while Model 2 includes the two-way interaction of treatment and time, and tests the main effect of the anti-corruption campaign. Model 3 is the full model that includes all the interaction terms and tests all hypotheses. However, as I controlled the fixed-effects of *Firm* and *Year*, the variables *Treatment* and *Year* were dropped in those models, making it impossible for us to draw the interaction plot in further analysis. Therefore, I also conducted a random-effect analysis in Model 4 but included the fixed-effects of *Listed Stock Exchange*, *Region*, and *Industry*. Nonetheless, the Hausman test (Hausman & Taylor, 1981) indicates that the random-effects model and the fixed-effects model are statistically different ($p = 0.000$) and only supports for the fixed-effects model. Hence, all the below analyses are based on the results of Model 3. However, I also used results of Model 4 for the interaction plots for two reasons. First, variables *Treatment* and *Year* are dropped in the fixed-effects model, making it impossible to draw the interaction plot. Second, significant tests for hypotheses are similar for those two models so I could use the results of Model 4 as a reference.

I took the R-square (within) as the measure of fit for every model as I used the fixed-effect method in regression analysis (StataCorp, 2007). In order to address the potential problem of multicollinearity concerns arising from the interaction terms, I followed Aiken, West, and Reno (1991) and mean-centered all the variables before creating the interaction terms. The mean variance inflation factor (VIF) of Model 3 is as small as 3.19, well below the rule-of-thumb value of 10. There are only two variables with a VIF value larger than 10 and the largest value is 17.98 from *Financial Leverage*. Therefore, multicollinearity does not pose a major problem in my analysis. The full model is statistically significant and substantial in explaining *ROE* variances of the

sampled Chinese listed firms ($R^2 = 0.781$, $F = 104.81$, $p = 0.000$). Table 3 shows the results of all regression models. All the statistical significance tests are two-tailed.

----- Insert Table 3 Here -----

Hypothesis 1 argues that the anti-corruption campaign, as a form of external environment threat perceived by Party Secretaries, will exert enormous stress and anxiety and make them rigid or unable to act and deal with the change. As a result, firm performance will decline. The threat-rigidity effect is predicted to be the strongest in central SOEs which bear the initial brunt. In comparison, such impact will be less severely felt in POEs where the Party Secretary has little power or local SOEs where the implementation of central government policies is largely discounted and the top-down campaign is poorly executed given the short time span covered by my study. Hence, equity being constant and other things being equal, central SOEs will experience more firm performance decline when compared with other firms after the anti-corruption campaign. In consistency with the hypothesis, the result reveals a significant negative coefficient of the interaction term of *treatment* and *time* ($\beta_{Treatment \times Time} = -0.265$, $p = 0.005$) on *ROE*.

Generally, after the anti-corruption campaign started, the *ROE* of central SOEs dropped an additional 0.265 as compared with other firms across all the examined years. This effect is large in that the political event on average leads to more than 26.5% of equity losses, given equity being constant other things being equal. The inclusion of interaction term of *Treatment* and *Time* was able to explain additional 0.1% of the variance of *ROE* ($F = 7.91$, $p = 0.005$). In addition, as 98% percent of *ROE* (excluding the 1% at both ends) fall between -0.780 and 0.419, an absolute value of 0.265 makes up 22.1% (or 0.265 divided by 1.199) of the range of *ROE*. Therefore, Hypothesis 1 has a strong effect size.

In order to better illustrate the effect of the anti-corruption campaign, I followed Aiken, West, and Reno (1991) and drew the interaction plot in Figure 1. As the variables *Treatment* and *Time* are omitted due to the inclusion of firm- and year-fixed effects, I used the results of the random-effects in Model 4 as an approximation. As is shown in Figure 1, *ROE* drops by 0.326 (from -0.057 to -0.383) for central SOEs, far more than the 0.077 drop in *ROE* value (from -0.112 to -0.189) for other firms.

----- Insert Figure 1 Here -----

Hypothesis 2 considers the boundary condition in which the Party Secretaries of central SOEs were appointed for the first time in or after 2013, when the anti-corruption campaign started. As explained earlier, such political promotion indicates greater trust by the central government, which nurtures stronger feelings of competence and security, and alleviates the perception of threat. As a result, the threat-rigidity effect will be reduced. Therefore, Hypothesis 2 predicts that the effect of the anti-corruption campaign on the performance of central SOEs will be less negative when the Party Secretary is appointed for the first time in or after the anti-corruption campaign has started. Consistent with the hypothesis, I find a significant positive coefficient for the three-way interaction term of *Treatment*, *Time*, and *Recently-appointed PS Status* ($\beta_{treatment \times Time \times Recently-appointed PS Status} = 0.458, p = 0.009$). Hence, Hypothesis 2 is supported.

In general, central SOEs led by a Party Secretary with a recently-appointed status will experience a 0.458 increase in *ROE* after the anti-corruption campaign compared with those without such a Party Secretary. The statistics show that 38.9% of central SOEs appointed a new Party Secretary after the anti-corruption campaign. This impact is large in that a recently-appointed Party Secretary can bring about an increase in returns amounting to 45.8% of equity, equity being constant and other things being equal.

To better illustrate the moderating effect, I drew the interaction plot in Figure 2 based on the results of the random-effect Model 4. I used the one standard deviation above and below the mean of the variables to represent high and low values. As is shown in Figure 2, *ROE* drops by 0.363 (from -0.085 to -0.448) for those central SOEs without a recently-appointed Party Secretary but increases by 0.115 (from -0.192 to -0.077) for other firms without a recently-appointed Party Secretary, thus generating a *ROE* change difference at 0.478 or 39.9% (0.478 divided by 1.199) of the range of *ROE* (excluding the 1% extremes at both ends).

----- Insert Figure 2 Here -----

Hypothesis 3 argues that if the Party Secretary is also appointed as CEO, it will deliver a strong signal of trust from the central government. Therefore, it will reduce the depletion of sense of security and the level of perceived threat. As a result, the threat-rigidity effect of the anti-corruption campaign on firm performance will be alleviated. Hence, Hypothesis 3 predicts that the effect of the anti-corruption campaign on the performance of centrals SOEs will be less negative when there is *PS-CEO duality*. Consistent with my prediction, the results show a significant positive coefficient for the three-way interaction term of *Treatment*, *Time*, and *PS-CEO Duality* ($\beta_{Treatment \times Time \times PS-CEO Duality} = 0.410, p = 0.014$). Hence, Hypothesis 3 is supported.

Generally, central SOEs whose Party Secretaries also hold the CEO position will have a 0.410 increase in *ROE* after the anti-corruption campaign than those without such Party Secretaries. In the matched sample, 14.2% central SOEs have such a duality arrangement. Such a duality arrangement will lead to a return increase about 41.0% of equity, equity being constant and other things being equal. As is shown in Figure 3, *ROE* drops by 0.331 (from -0.001 to -0.332) for central SOEs without *PS-CEO Duality* but increases by 0.039 (from -0.145 to -0.106) for those with the

presence of *PS-CEO Duality*, which leads to a *ROE* change difference at 0.37 or 30.9% (0.37 divided by 1.199) of the range of *ROE* (excluding the 1% extremes at both ends).

----- Insert Figure 3 Here -----

Robustness Check

I also conducted several tests to check the robustness of my analysis and address some concerns. First, I eliminated all the POEs in my sample, and set all central SOEs as the *Treatment* group and local SOEs as the *Control* group. This is to address the concern that my selection of POEs may be biased as I only selected those globalizing POEs due to the large number of listed Chinese POEs and my constrained resources. The full model is statistically significant and substantially explains *ROE* variances of Chinese listed SOEs ($R^2 = 0.786$, $F = 105.42$, $p = 0.000$). Also, all my hypotheses are supported at very high significant levels ($\beta_{Treatment \times Time} = -0.258$, $p = 0.006$; $\beta_{Treatment \times Time \times Recently-appointed PS Status} = 0.461$, $p = 0.009$; $\beta_{Treatment \times Time \times PS-CEO Duality} = 0.408$, $p = 0.015$). All significant tests are two-tailed.

Second, I replaced the dependent variable *ROE* with another commonly used performance variable, return on sales or *ROS*. *ROS* provides insights into how much profit is generated per unit of sales and a higher ratio indicates greater efficiency. *ROS* has been widely used to measure firm performance (e.g., Chen, Delmas, & Lieberman, 2015; Kim, Hoskisson, & Lee, 2015; Quigley & Hambrick, 2015). The full model is statistically significant and substantial in explaining *ROS* variances of the sampled firms ($R^2 = 0.778$, $F = 103.19$, $p = 0.000$). The results still support Hypothesis 1 and 2 ($\beta_{treatment \times time} = -0.020$, $p = 0.037$; $\beta_{treatment \times time \times recently-appointed PS status} = 0.035$, $p = 0.051$). However, the coefficient of the three-way interaction term of *treatment*, *time*, and *PS-CEO duality* is not statistically significant. All significant tests are two tailed. Overall, the results of the two tests largely support the robustness of my analysis.

DISCUSSION

Contributions and Implications

By examining the performance differences between Chinese central SOEs and other listed firms before and after the anti-corruption campaign, my study has been able to make the following contributions. First, my study has enriched the research on corruption and business ethics by examining the negative impact of anti-corruption campaigns on firm performance in the short-term, therefore complementing the existing literature that takes a long-term view and emphasizes the positive impact. Contrary to the common prediction in the existing literature, my study has shown that an anti-corruption campaign does exert an overall negative effect on the economic performance of central SOEs in the short term. I have also examined some boundary conditions that could alleviate or even reverse this negative impact. By so doing, my study has deepened our understanding of the negative effects of an anti-corruption campaign, at least in the short-term.

Second, my study has contributed to the literature of corruption and business ethics by introducing behavioral perspectives, including the threat-rigidity thesis and the social exchange theory, and by focusing on the behavior of firm leaders in response to external environmental changes (as manifested in an anti-corruption campaign), thus providing a micro-macro link that offers a holistic understanding of the timely issue. Previous studies of the effects of corruption efforts predominantly base their arguments on economic models that seldom take the behavioral factors of individuals into consideration, which can lead to severe cognitive biases and potential moral hazards that ultimately counteract or even undermine the effects the campaign aims to bring about. Specifically, I have found that although the anti-corruption campaign is predicted to eradicate the negative effects of corruption, it may also impose enormous threat perceived by a Party Secretary that disables her/him to act or deal with the political event. As a result, there are

widely observed cases of a do-nothing attitude on the part of party leaders, suspension of new projects approvals, and inaction with regard to economic activities. However, if the government signals trust to Party Secretaries, they will act reciprocally which alleviates the negative effects. My study has demonstrated the necessity of incorporating behavioral perspectives into research on corruption and business ethics, or even social issues in management in a broader sense such as emission limitation on firms (which also exerts a form of external changes or even threats to some traditional industries) to reduce greenhouse effects. Moreover, it is equally important to come up with mechanisms aligning the interests of firm leaders and policymakers.

Third, my study has also contributed to the corporate governance literature by examining the unique dual-governance system in Chinese SOEs. The dual-governance system in Chinese SOEs adds complexities in the analyses of firm outcomes, strategic decision-making, and corporate social responsibility. My study has examined a unique governance system which is drastically different from those in the West and many other capitalist economies, and that has shaped many influential global SOEs, and therefore enriches the study of the diversity of corporate governance systems.

In addition, my study can also provide some practical implications for policy makers and firm leaders. My study has highlighted the significant crowding-out effects of Party Secretaries' intrinsic motivation arising from the anti-corruption campaign that leads to worsening firm performance. In order to cushion such negative shocks, policy makers must take measures to carefully preserve the intrinsic motivation of most non-corrupt Party Secretaries while carrying out the campaign. One possible approach is to send strong signals of trust and nurture the sense of security, either in the form of political promotion (as in the case of granting the Party Secretary status) or granting more power (as in the case of assigning the CEO role).

Limitations and Future Research

As with most research works, this paper has its limitations but they can serve as stepping stones for future studies. First, my study took an indirect approach in measuring the mediating mechanism between the anti-corruption campaign and worsening economic performance of central SOEs, i.e. the threat perceived by Party Secretaries, by finding moderators that possibly affect such a mediator. An ideal way would be to assess the level of Party Secretaries' intrinsic motivation directly, which future research may undertake. However, I also understand the great difficulty in approaching Party Secretaries of central SOEs and asking them to take surveys, not only because of the lack of network resources but also the political sensitivity of the issue itself.

Another interesting research direction may be to examine the long-term effects of the anti-corruption campaign on Chinese firms. Although traditional literature overwhelmingly emphasizes the negative effects arising from corruption, it remains to be seen whether anti-corruption efforts will bring about positive changes in the long-term. The few studies that discover conditional positive effects of corruption argue that corruption makes up for weak institutional quality (Brockman et al., 2013; Méon & Sekkat, 2005; Méon & Weill, 2010) and deficient governance quality (Aidt et al., 2008; Méndez & Sepúlveda, 2006). Hence, there are still a lot of questions regarding whether countries that implement strict anti-corruption campaigns without significantly improving malfunctioning institutional settings can achieve faster economic growth and enjoy better firm performance. However, I could not examine the long-term effects in this study as the anti-corruption campaign is still in its early stage and I only had data covering three years after the campaign. Future research on relevant issues can further deepen our understanding and help us better deal with corruption.

CONCLUSION

In this study, I draw from the behavioral perspectives of the threat-rigidity thesis and social exchange theory to analyze the short-term effects of an anti-corruption campaign on the performance of Chinese listed firms. I focus on the threat perceived by Party Secretaries from an anti-corruption campaign that results in their rigidity and inability to act, which leads to a do-nothing attitude at work and ultimately worsening firm performance. By testing my hypotheses on the firm-level data for Chinese listed SOEs and listed globalizing POEs, I corroborate the threat-rigidity effect arising from the anti-corruption campaign itself. Such negative effects are alleviated when the Party Secretary is first appointed after the campaign has been initiated, or when the Party Secretary also holds the position of CEO. My study bridges the macro- and micro-perspectives and enhances our holistic understanding of issues related to corruption and business ethics as well as corporate governance in the Chinese context.

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TABLE 1. STATISTICS SUMMARY FOR MATCHED COMPARISONS

Pre-anti-corruption Campaign Firm Characteristics	Group	Observations	Mean	SD	p-value (t-test)	p-value (KS-test)
Industry Adjusted ROE	Treated	1297	-0.263	1.295	0.400	0.163
	Matched	1297	-0.205	1.599		
Firm Size	Treated	1297	1.36E+10	9.79E+10	0.000	0.000
	Matched	1297	2.96E+10	1.23E+11		
Firm Age	Treated	1297	13.772	4.348	0.928	1.000
	Matched	1297	13.756	4.361		
Industry	Treated	1297	40.155	15.829	0.846	0.568
	Matched	1297	40.034	15.875		

TABLE 2. DESCRIPTIVE STATISTICS AND CORRELATIONS

Variables	N	Mean	SD	1	2	3	4	5	6	7	8	9
1. ROE	6635	0.161	9.214									
2. Treatment	6635	0.346	0.476	-0.004								
3. Time	6635	0.394	0.489	0.000	0.005							
4. Recently-appointed PS Status	4634	0.389	0.488	0.031	-0.013	0.775						
5. PS-CEO Duality	4533	0.157	0.364	0.007	-0.051	0.050	0.033					
6. PS Tenure	4633	4.490	3.389	-0.012	-0.017	0.106	0.019	0.015				
7. PS Gender	4667	0.959	0.199	0.082	-0.011	0.008	0.017	0.044	0.022			
8. PS Education	4597	4.678	0.655	0.023	0.079	0.069	0.080	-0.042	0.055	0.035		
9. PS Overseas	4655	0.052	0.222	0.016	0.108	-0.019	-0.013	0.007	0.110	0.037	0.077	
10. CEO Tenure	6587	4.309	3.302	0.027	-0.046	0.122	0.090	0.089	0.440	0.011	0.072	0.007
11. CEO Gender	6589	0.964	0.187	0.086	0.052	-0.028	0.000	0.048	0.010	0.029	0.010	0.035
12. CEO Education	6510	4.700	0.647	0.021	0.107	0.024	0.063	-0.099	0.008	0.017	0.318	0.101
13. CEO Overseas	6585	0.076	0.265	0.014	0.099	-0.044	-0.039	-0.016	-0.022	-0.088	0.068	0.282
14. Board Size	6635	13.750	3.055	-0.041	0.057	-0.043	-0.052	-0.042	0.093	0.076	0.068	0.057
15. Board Age	6632	50.185	3.367	-0.013	0.057	0.155	0.095	0.009	0.162	0.041	0.028	0.111
16. Insiders Size	6635	4.643	2.023	-0.006	-0.097	0.000	0.010	-0.010	0.138	0.061	-0.002	-0.038
17. New Directors	6634	2.489	3.234	-0.041	-0.012	0.029	0.075	-0.008	-0.156	-0.020	-0.006	-0.032
18. Firm Size	6634	22.373	1.509	0.015	0.087	0.123	0.122	-0.092	0.024	0.046	0.145	0.201
19. R&D Intensity	6635	0.009	0.035	-0.002	0.126	0.476	0.375	0.030	0.134	-0.014	0.078	0.003
20. Labor Intensity	6635	0.016	0.040	-0.044	-0.091	-0.007	-0.009	0.067	-0.007	0.033	-0.067	-0.109
21. Ownership Concentration	6623	0.573	0.159	0.025	0.042	-0.003	-0.013	-0.003	-0.142	0.061	0.088	0.049
22. Institutional Ownership	6635	0.438	0.229	0.036	0.026	0.157	0.135	0.059	0.013	0.024	0.089	0.055
23. Financial Leverage	6635	1.559	24.419	-0.776	0.018	-0.032	-0.031	-0.006	-0.017	-0.026	-0.020	-0.002
24. Operational Efficiency	6635	0.993	1.347	-0.294	0.024	0.150	0.132	-0.063	-0.010	-0.121	-0.065	-0.120
25. Market-to-book Ratio	6546	3.953	115.388	-0.673	-0.003	-0.028	-0.026	0.012	-0.016	-0.011	-0.028	-0.006
26. Subsidy Intensity	6635	0.013	0.163	0.022	-0.027	0.102	0.070	-0.014	0.037	-0.003	0.022	-0.039

TABLE 2 (CONTINUED)

10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
0.038															
0.069	0.034														
-0.049	0.038	0.095													
0.075	0.014	0.003	0.003												
0.103	0.034	0.069	0.119	0.087											
0.145	-0.041	-0.038	-0.002	0.391	0.049										
-0.136	0.033	0.025	-0.051	0.155	-0.137	0.008									
0.011	0.029	0.228	0.148	0.311	0.432	0.156	0.057								
0.068	0.011	0.037	0.017	-0.028	0.119	-0.053	0.019	-0.035							
-0.038	-0.010	-0.128	-0.072	-0.075	-0.171	-0.024	-0.015	-0.356	0.079						
-0.124	0.035	0.081	0.147	0.111	0.086	-0.066	0.053	0.313	-0.010	-0.084					
0.047	0.016	0.046	0.077	0.082	0.170	-0.102	0.007	0.275	0.080	-0.119	0.469				
-0.022	-0.017	-0.021	0.008	0.081	0.021	0.034	0.032	0.087	-0.059	-0.028	0.017	0.003			
0.000	-0.074	-0.035	-0.060	-0.158	0.012	-0.062	0.033	-0.175	0.149	0.207	-0.254	-0.169	0.090		
-0.012	-0.008	-0.028	0.003	0.036	-0.009	0.004	0.026	-0.022	-0.041	0.015	0.018	-0.003	0.951	0.030	
0.017	0.027	0.061	-0.025	-0.072	-0.021	0.001	-0.032	-0.118	0.089	0.081	-0.033	-0.030	0.005	0.127	0.071

Note: Correlations with an absolute value greater than .051 are significant at the $p < .05$ level.

TABLE 3. RESULTS OF REGRESSION MODELS

Variables	Model 1		Model 2		Model 3		Model 4	
	b	s.e	b	s.e	b	s.e	b	s.e
Treatment							-0.069	0.055
Time							-0.078	0.048
Treatment $\times$ Time (<i>H1</i>)			-0.094 [†]	0.060	-0.265**	0.094	-0.254**	0.092
Moderators								
Recently-appointed PS Status					0.072	0.058	0.101*	0.046
PS-CEO Duality					-0.047	0.061	-0.034	0.044
Treatment $\times$ Recently-appointed PS Status					0.135	0.096	0.134	0.093
Time $\times$ Recently-appointed PS Status					0.154	0.100	0.100	0.086
Treatment $\times$ PS-CEO Duality					-0.046	0.124	-0.024	0.091
Time $\times$ PS-CEO Duality					0.136	0.109	0.168	0.107
Recently-appointed PS Status $\times$ PS-CEO Duality					-0.106	0.115	-0.111	0.110
Treatment $\times$ Time $\times$ Recently-appointed PS Status (<i>H2</i>)					0.458**	0.176	0.499**	0.177
Treatment $\times$ Time $\times$ PS-CEO Duality (<i>H3</i>)					0.410*	0.166	0.380*	0.156
Controls								
PS Tenure	-0.014 [†]	0.007	-0.015*	0.007	-0.013 [†]	0.007	-0.013*	0.006
PS Gender	-0.087	0.153	-0.072	0.153	-0.055	0.153	0.126	0.101
PS Education	0.032	0.038	0.031	0.038	0.035	0.038	-0.004	0.026
PS Overseas	-0.136	0.125	-0.158	0.125	-0.132	0.125	-0.035	0.080
CEO Tenure	0.006	0.008	0.006	0.008	0.008	0.008	0.006	0.006
CEO Gender	0.799***	0.188	0.793***	0.188	0.760***	0.188	0.388***	0.112
CEO Education	0.023	0.039	0.025	0.039	0.017	0.039	-0.032	0.027
CEO Overseas	-0.055	0.101	-0.062	0.101	-0.074	0.101	-0.041	0.076
Board Size	-0.017	0.011	-0.017	0.011	-0.018 [†]	0.011	-0.019**	0.007
Board Age	-0.011	0.010	-0.011	0.010	-0.009	0.010	-0.015*	0.006

Insiders Size	-0.007	0.016	-0.007	0.016	-0.009	0.016	-0.003	0.009
New Directors	-0.003	0.005	-0.003	0.005	-0.002	0.005	-0.004	0.005
Firm Size	0.169**	0.057	0.174**	0.057	0.172**	0.057	0.139***	0.020
R&D Intensity	-0.604	1.066	-0.252	1.089	-0.152	1.089	-1.066	1.004
Labor Intensity	4.216	2.874	3.973	2.877	3.843	2.869	0.747	1.802
Ownership Concentration	-0.553*	0.274	-0.595*	0.275	-0.600*	0.275	-0.304*	0.131
Institutional Ownership	0.177†	0.101	0.179†	0.101	0.181†	0.101	0.065	0.081
Financial Leverage	-0.279***	0.009	-0.279***	0.009	-0.278***	0.009	-0.220***	0.007
Operational Efficiency	-2.087***	0.174	-2.092***	0.174	-2.081***	0.174	-1.537***	0.130
Market-to-book Ratio	0.047***	0.002	0.047***	0.002	0.047***	0.002	0.032***	0.002
Subsidy Intensity	1.440	0.886	1.392	0.886	1.440	0.884	0.088	0.755
Constant	0.059	0.070	0.067	0.070	0.085	0.078	-0.151	0.184
Firm-fixed Effects Included	Y		Y		Y		N	
Listed Board-fixed Effects Included	N		N		N		Y	
Region-fixed Effects Included	N		N		N		Y	
Industry-fixed Effects Included	N		N		N		Y	
Year-fixed Effects Included	Y		Y		Y		N	
Observations	1470		1470		1470		1470	
N	314		314		314		314	
R-squared (within)	0.776		0.777		0.781		0.765	
Change in R-squared	--		0.001*		0.004**		--	
F-statistics	139.60***		135.04***		104.81***		46.99***	

Note: All t-tests are two-tailed; †p<0.10; *p<0.05; **p<0.01; ***p<0.001. Model 1-3 are the fixed-effects models while Model 4 the Random-effects Model. All analyses are based on the results of Model 3.

FIGURE 1. THE MAIN EFFECT OF THE ANTI-CORRUPTION CAMPAIGN

Note: All slope difference tests significant at $p < 0.001$ level. The interaction plot is based on the results of Model 4.

FIGURE 2. THE MODERATING EFFECT OF RECENTLY-APPOINTED PS STATUS

Note: All slope difference tests significant at $p < 0.01$ level. The interaction plot is based on the results of Model 4.

FIGURE 3. THE MODERATING EFFECT OF PS-CEO DUALITY

Note: All slope difference tests significant at $p < 0.001$ level. The interaction plot is based on the results of Model 4.