EXTERNAL FACTORS AND OUTWARD FOREIGN DIRECT INVESTMENT BY CHINESE FIRMS

By

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Abstract

Drawing on the institutional lens and the global political economy (GPE) perspective, the thesis firstly examines the role of home-government support and interstate relational factors in shaping Chinese multinational enterprises' (MNEs) overseas subsidiary performance. The author tackles two aspects of home-government support: financial support and non-financial policy support. Moreover, their effects under the contingency of interstate relational factors are considered. Using survey data, the findings show that Chinese MNEs' subsidiary performance is positively related to the degree of home-government non-financial policy support but not financial support. The effect of non-financial policy support is moderated by interstate political and economic relations. Stronger interstate political relations augment the impact of non-financial policy support on subsidiary performance, whereas interstate economic relations have a substitutive effect.

The thesis further addresses the role of home-country legitimacy on the level of political risk faced by Chinese MNEs when venturing internationally. Highlighting the notion of legitimacy under the institutional perspective, the author suggests that the level of political risk encountered by Chinese firms is jointly determined by the institutional governance quality and firms' home-country legitimacy with key stakeholders in a host country. While host-country political and regulatory governance quality remain important factors in explaining the political risk faced by Chinese MNEs, their effects tend to diminish due to the lack of social acceptance of a firm's home country with the host-country government, industrial agencies and general public.

Finally, this thesis explores how political risk is conceived by Chinese MNEs when competing in the global arena. Based on qualitative interviews with managers of Chinese firms, the study provides a fine-grained analysis about the way that political risk is perceived by Chinese companies operating in developed and developing host countries, specifically, the European Union (EU) and Africa. The findings reveal that Chinese MNEs perceive that political risk can go beyond the conventional source of host-country political turmoil. The baggage carried by Chinese firms due to different ideologies between their home and host countries, and the host-government's concern over the motives behind these firms' activities, represent a source of political risk arise from firms' home country. The study shows that Chinese MNEs regard their home-country origin and industry-specific restrictions as major political risks in the EU. By contrast, they consider the volatile political environment in some African countries as the main source of political risk. In addition to the sharp contrast of the political and regulatory environments between the EU and Africa, Chinese firms commonly face political risk in both markets due to their own behaviours.

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Workshop Paper

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Acronym List

AIIB	Asian Infrastructure Investment Bank
BIT	Bilateral Investment Treaty
CCPIT	China Council for the Promotion of International Trade
CFA	Confirmatory Factor Analysis
CFI	Comparative Fit Index
CMIN/DF	Minimum Discrepancy Divided by its Degrees of Freedom
DTT	Double Taxation Treaty
EC	European Commission
EIBC	Export-Import Bank of China
EMMNEs	Emerging Market Multinational Enterprises
EU	European Union
FDI	Foreign Direct Investment
GPE	Global Political Economy
ICRG	International Country Risk Guide
IMR	Inverse Mills Ratio
LDCs	Least Developed Countries
MNEs	Multinational Enterprises
MOFCOM	Ministry of Commerce of China
NERI	National Economic Research Institute
NNFI	Non-normed Fit Index
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Squares
POLCON	Political Constraint Index
RCEP	Regional Comprehensive Economic Partnership

RMSEA	Root Mean Square Error of Approximation
RO	Real Option
SD	Standard Deviation
SOEs	State Owned Enterprises
SRMR	Standardized Root Mean Squared Residual
TCE	Transactional Cost Economics
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNGA	United Nations General Assembly
VIF	Variance Inflation Factors
WGI	World Governance Indicators

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1. Introduction

1.1 Overview

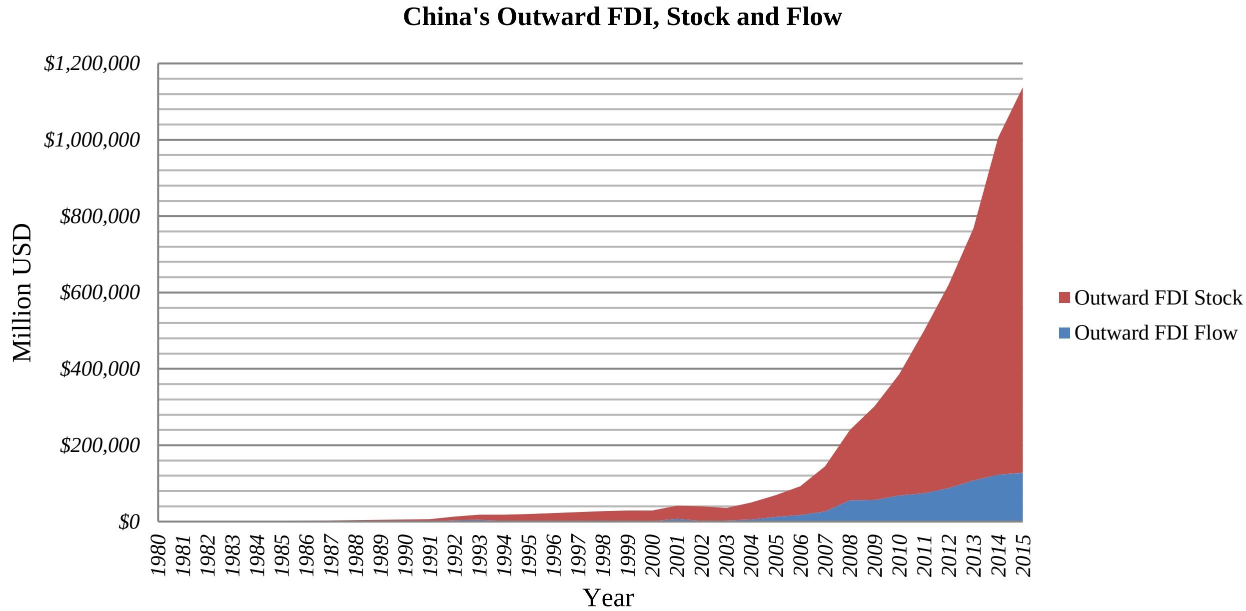
Outward foreign direct investment (FDI) conducted by emerging market multinational enterprises (EMMNEs) has become an important source in stimulating global economic growth. The term ‘emerging markets’ has been defined in various ways by focusing on income levels such as mid- or low-income economies with growth potential, economic size such as Brazil, Russia, India, and China, or geographies such as Central and Eastern Europe, developing Asia, Africa, and Latin America (Financial Times, 2006). In this thesis, the author adopts one of the most broadly used definitions in international business research by understanding emerging markets as countries or economies with lower levels of economic development, institutional governance quality, and standard of living than developed countries and with significant institutional and market reforms (Hoskisson, Eden, Lau & Wright, 2000; Khanna & Palepu, 2010; Marano, Tashman & Kostova, 2017). EMMNEs are firms from these markets that conduct outward FDI to ‘exercise effective control and undertake value-adding activities in one or more foreign countries’ (Luo & Tung, 2007: 482).

The arrival of EMMNEs represents a significant development in international business. Among them, the international expansion of firms from China has attracted much attention. Chinese MNEs expand to a variety of industries worldwide, and the political motivations associated with their investment not only have received significant media coverage and spurred political debates, but also present a strong case for theoretical extension. This thesis uses China as the research setting to examine the role of external contextual forces in shaping Chinese MNEs’ post-entry operations, hence their success. In the next section, the author will explain the research context.

1.2 Research Context

Few emerging markets have received as much attention as China given the country's importance in driving global investment flows, especially the phenomenal growth of its outward FDI in the past few decades. China's FDI outflows have risen from a negligible amount in the 1980s to approximately US$12 billion in 2005, and surged to US$127 billion in 2015 (see Figure 1.1). It is expected that the country will invest US$750 billion more in the next five years, making it one of the world's biggest investors by 2020 (World Economic Forum, 2017). While early Chinese investment focused on energy and natural resource assets, Chinese MNEs have shown growing ambitions by expanding to virtually all sectors and countries around the globe in recent years. According to the Ministry of Commerce of China (MOFCOM), 20,200 Chinese companies set up operations in 188 countries and regions by 2015. Additionally, the number of Chinese MNEs on the Fortune Global 500 list has increased from zero in 1990 to 106 firms in 2015 (The Wall Street Journal, 2016).

Figure 1.1 China's Outward FDI stock and flow 1980 – 2015



Source: www.unctad.org

The rise of Chinese MNEs and their interactions with the external contextual environment has received growing attention. As scholarship tends to be interested in the unique characteristics of Chinese MNEs and their implications (Deng, 2013), investigating the role of external environmental factors in shaping the overseas success of these new players provides an important opportunity to advance knowledge in the field. For this thesis, the author suggests that China serves as an appropriate research setting for the following reasons.

First, the international expansion of Chinese firms has been characterized by substantial home-country government involvement (Buckley, Yu, Liu, Munjal & Tao, 2016; Peng, 2012). Based on the appeals to national interests, the Chinese government announced its 'go global' strategy in the late 1990s to encourage firms to seek opportunities in the international market. Since then, incentives such as low-interest financing, favourable exchange rates and the streamlining of administrative procedures have been introduced to enable Chinese MNEs to undertake outward FDI and enhance their competitiveness in the global marketplace (Luo, Xue & Han, 2010).

Second, the growth of Chinese MNEs has been regarded as an integral part of China's national strategy (Child & Marinova, 2014). As home-country institutions can influence business activities both within and across national boundaries, the Chinese government has actively built up relations with other countries in addition to support at domestic level (Hoskisson, Wright, Filatotchev & Peng, 2013; Luo et al., 2010). International initiatives such as the signing of bilateral economic agreements, the establishment of the Asian Infrastructure Investment Bank (AIIB) and the ongoing negotiation of the Regional Comprehensive Economic Partnership (RCEP) have been undertaken by the Chinese government to accommodate their firms' cross-border operations.

Third, the involvement of the home-country government in Chinese MNEs' foreign expansion has worried regulators and the public in many parts of the world. Recent examples include: some U.S. lawmakers' concern about Chinese Wanda's venture into the American entertainment industry and its potential political motives (The New York Times, 2016); the anti-subsidy investigation launched by the European Commission (EC) targeting a range of products from China (Financial Times, 2015); and public outcry against Chinese investment in some Southeast Asian and African states for the negative impact on local employment opportunities (The Economist, 2015). Hence, the influence of the home-country government may become a double-edged sword for Chinese firms, by offering various supports on the one hand, and imposing political challenges in overseas markets on the other hand.

Overall, the abovementioned aspects indicate that external contextual factors, especially the home-country government, play a key role in shaping Chinese MNEs' operations abroad. Thus, the author suggests that China represents a suitable and important research context not only due to the sheer size of its outward FDI, but also its distinctive home-country institutional background in affecting Chinese MNEs' success in global markets. Next, the author will explicate the research rationale of this thesis.

1.3 Research Rationale

When doing business abroad, firms are exposed to multiple external environments including their home and host countries, as well as the interplay between the two in the international realm (Kostova & Zaheer, 1999). Extant literature has documented how the host-country institutional environment affects Chinese MNEs' overseas expansion, notably locational choices (Kolstad & Wiig, 2012; Quer, Claver & Rienda, 2012), entry strategies (Meyer, Ding, Li & Zhang, 2014), and performance (Liu, Gao, Lu & Lioliou, 2016). However, our understanding about the relationship between home-country institutions and the overseas success of these new players remains limited (Hoskisson et al., 2013). As Child and Marinova (2014) established, the involvement of the Chinese state in firms' foreign expansion demands research to be sensitive to both home- and host-country contexts, and account for the implications of the institutional and political systems in those contexts for cross-border business operations. Therefore, the goal of this thesis is to uncover the importance of the home-country institutional environment and its interplay with other external contextual factors in shaping Chinese MNEs' post-entry operations.

Home-country institutions play a key role in explaining firms' ability to maintain competitive advantages by enabling or constraining the acquisition of strategic resources and capabilities, which ultimately impact performance both at home and abroad (Marano, Arregle, Hitt, Spadafora & Essen, 2016). The lack of established market systems in China has made the Chinese government particularly influential in economic transactions (Child & Rodrigues, 2005). Previous research has suggested that conformity to home-country institutional environment, especially government policies and strategies help Chinese MNEs receive support that allows them to leapfrog into foreign markets (Peng, 2012). However, little has been said about the importance of home-country institutional embeddedness, especially supportive policy in explaining firms' post-entry performance. It has been posited that home-government support is important to boost these new players' competitiveness in global markets (Hoskisson et al., 2013). Yet, the effect of specific supportive measures, for example financial and non-financial incentives, on Chinese MNEs' overseas performance has not been examined in greater depth.

Moreover, extant research has assumed that the impact of institutional forces on MNEs' operations is limited by state boundaries (Makino & Tsang, 2010; Meyer & Thein, 2014). As countries become increasingly interdependent with one another and embedded in the global system, the effectiveness of home-government policies in shaping firms' success in overseas markets may depend on the contextual combination and degree of interaction between firms' home and host-country governments (Child & Marinova, 2014). This implies that the effect of home-country government policies on their firms' operations abroad should be considered in combination with interstate relational factors to allow a comprehensive understanding of their joint impacts on MNEs' international performance (Cuervo-Cazurra, 2011). However, extant research tends to neglect such extra-territorial effects of home-country governments and their interface with interstate relational forces on cross-border business operations. *To address this research gap regarding the role of the home-country government on Chinese firms' international performance, this thesis examines the impact of home-government supportive measures on Chinese MNEs' post-entry performance and their effects under the contingency of interstate relational factors.*

Mainstream literature focusing on developed country MNEs has maintained that the defective institutional governance conditions in many developing countries escalate the level of political risk faced by firms operating in these markets (Globerman & Shapiro, 2003). More recent research has pointed out that firms' home-country origins may generate legitimacy or illegitimacy spill-over effects on cross-border business operations (Stevens & Newenham-Kahindi, 2017). Yet, little is known about the implications of home-country legitimacy for the level of political risk encountered by MNEs operating in the global marketplace.

The underdeveloped home-country institutional environment often leads EMMNEs to experience political challenges that go beyond a host-country's institutional governance conditions (Globerman & Shapiro, 2009; Satyanand, 2010). It has been noted that these new contenders tend to face resistance in the host country (Child & Marinova, 2014). This may largely be ascribed to the lack of acceptance of their home country by host-country interested social stakeholders (Madhok & Keyhani, 2012). Such a legitimacy deficit may generate political consequences as these stakeholders are paramount in issuing firms with the 'social license to stay' and are tightly intertwined with a country's institutional governance rules to influence cross-border investment activities (Stevens, Xie & Peng, 2015). Despite the importance of these legitimacy-granting actors, scant attention has been paid to their role in shaping the level of political risk faced by EMMNEs operating abroad. *To remedy this research gap regarding the implications of home-country legitimacy for the level of political risk encountered by EMMNEs, this thesis investigates the role of a set of legitimacy-granting actors and their interactions with a host-country's governance conditions in shaping Chinese firms' perceived level of such a risk in overseas markets.*

In addition to considering what determines the level of political risk faced by Chinese MNEs venturing abroad, an immediate follow on question is how such a risk is conceived from the viewpoint of these new players. Extant literature has commonly defined political risk as unexpected political changes in the host country that unfavourably influence business operations (Butler & Joaquin, 1998). Empirical research has taken the view for granted to examine how host-country political hazards such as regulatory and government instabilities affect Chinese MNEs' overseas operations (Buckley et al., 2016). A core theme from this line of literature is that Chinese firms tend to exhibit confidence of operating in underdeveloped institutional environments, but that it is fraught with subtle obstacles such as political and regulatory suspicions in developed countries with established market systems (Child & Marinova, 2014). While interesting insights have been generated, the existing literature has mainly drawn from assumptions and theoretical frameworks used to study developed country MNEs (Hoskisson et al., 2013). Yet, a systematic body of analysis of how political risk is understood from Chinese firms' perspective remains absent.

Given the distinctive characteristics of Chinese MNEs, such as substantial home government influence in business operations and their lack of familiarity with international norms, the political issues they experience abroad are more heterogeneous than their developed country counterparts (Bremmer, 2014). It has been recognized that the existing conceptualization of political risk focusing on host-country institutional deficiencies is too narrow to account for the diversity and complexity of issues faced by EMMNEs (Satyanand, 2010). Although calls have been made for more fine-grained analysis of political risk in international business (Stevens et al., 2015), few studies have considered how such a risk is conceived by Chinese MNEs operating in different institutional environments, for example developed and developing countries. *To fill this research gap regarding the conceptualization of political risk from Chinese MNEs' perspective, this thesis uncovers the way that political risk is conceived by these new players when competing in the global arena.*

1.4 Research Questions

This dissertation aims to fulfil the abovementioned research gaps. Specifically, the author intends to investigate the following three research questions:

Q1. Whether and to what extent does home-country government support have an impact on Chinese MNEs' post-entry performance? Whether is their effect contingent upon the strength of interstate relations between firms' home and host countries?

Q2. How can we explain Chinese MNEs' perceived level of host-country political risk in light of their home-country legitimacy with key stakeholders in the host country?

Q3. How is political risk conceived by Chinese MNEs when operating in diverse institutional contexts such as developed and developing countries?

The first research question looks at the effect of home-government support and their interactions with interstate relational factors on Chinese MNEs' overseas subsidiary performance. The second research question addresses the role of home-country legitimacy with host-country interested stakeholders in shaping the level of political risk faced by

Chinese MNEs in international marketplaces. Additionally, the third research question explores how the notion of political risk is conceived from the perspective of these new contenders venturing in foreign markets. In the next section, the author will outline the intended contributions of this research project.

1.5 Potential Contributions

This thesis answers the above research questions by drawing insights from international business, GPE, and risk management literatures. The author intends to make a number of contributions to the research on MNEs in general and Chinese MNEs in particular.

To address research question Q1, this thesis departs from existing research that assumes the immobility of contextual forces, which focuses on examining the impact of home-country government policy on business operations within national borders. Instead, it looks at whether such institutional forces travel abroad with firms and exert extra-territorial influence on their overseas performance. Moving beyond the generic proposition about home-country government support, it complements extant literature by differentiating the impact of two critical aspects of home-government support, namely financial and non-financial policy measures, on EMMNEs' post-entry performance. Moreover, this thesis extends the existing research which builds upon the institutional perspective by incorporating insights from the GPE perspective. While the effect of both home and host-country institutional forces on EMMNEs' foreign expansion has been documented (Cui & Jiang, 2012; Lu et al., 2014), research tends to neglect the fact that countries are embedded in the wider international relational context (Demirbag, McGuinness & Altay, 2010). Hence, the effect of home-country government policies on EMMNEs' activities abroad may be substantially shaped by the strength of relations between a firm's home and host countries. By juxtaposing the institutional perspective with insights from the GPE perspective, we broaden the impact of institutional forces beyond national borders by capturing the importance of interstate cooperation for facilitating cross-border economic activities at transnational level. In doing so, this research expands the theoretical boundary of the institutional perspective to interstate contexts, thus providing insights about the interplay of institutional forces at domestic and interstate levels in shaping EMMNEs' post-entry performance. Additionally, the author examines two types of interstate relations, political and economic relations between firms' home and host countries helps to uncover the different facets of interstate contexts in influencing EMMNEs' post-entry performance. Thus, this study advances existing research on EMMNEs by systematically identifying various boundary conditions at an interstate level through which the impact of home-country government support on the subsidiary performance of EMMNEs varies.

To answer research question Q2, the author highlights the notion of legitimacy under the institutional perspective to discover the role of home-country legitimacy with key stakeholders in the host country in explaining the level of political risk faced by Chinese MNEs in overseas markets. The findings shed new light on the determinants of Chinese firms' perceived level of host-country political risk and fill the research gap in which previous research has mostly overlooked the importance of home-country's social acceptance in determining the political perils faced by firms venturing internationally. In doing so, this research underscores home-country legitimacy as a determinant of MNEs' perceived level of political risk in addition to host-country institutional governance factors. The author uncovers the relevance of MNEs' home-country acceptance when examining political risk in international business research. Additionally, it adds to the existing literature by revealing the interaction effect of a host-country's institutional governance conditions and legitimacy judgement by key stakeholders including host-country government, industrial agencies, and general public in shaping the level of political risk experienced by MNEs.

To address research question Q3, the author adopts a qualitative case study method to analyse how political risk is conceived by Chinese MNEs operating in the EU and Africa. This study departs from previous research, which assumed that political risks faced by EMMNEs are consistent with traditional definitions based on the experience of developed country MNEs by systematically unpacking the concept from Chinese MNEs' perspective. Moreover, it enriches our understanding by revealing that these new players regard political risk as a multidimensional concept which is rooted in a number of home and host country, industry, and firm-behaviour sources. This finding is in stark contrast to the conventional belief that political risk is mostly related to host-country political volatilities. Furthermore, this study finds that Chinese MNEs' perception of political risk varies depending on the external institutional environment. In more developed EU market settings, the home-country identity, industrial regulations and Chinese firms' own behaviours are major sources of political risk. By contrast, political risk is rooted in host-country governance deficiencies and firms' own behaviours for those operating in less developed African markets. These findings provide new insights by highlighting that the boundaries of political risk perceived by Chinese firms are much broader than those derived from developed country MNEs.

1.6 The Structure of the Thesis

The thesis contains five chapters. The main body of the thesis consists of three chapters which aim to address the research questions mentioned in Section 1.4.

Chapter 2 examines the role home-government support and interstate relations on Chinese MNEs' post-entry performance. The author looks at two critical aspects of home-government support, financial and non-financial policy incentives, in explaining Chinese MNEs' overseas performance. Moreover, their effects under the contingency of interstate political and economic relations will be investigated.

Chapter 3 addresses the determinants of Chinese MNEs' perceived levels of political risk in overseas markets. The author looks at how Chinese MNEs' perceived level of host-country political risk can be explained in light of their home-country legitimacy with key stakeholders in the host-country. This chapter considers the role of host-country interested social stakeholders and their interactions with the country's institutional governance conditions in explaining the level of political risk faced by Chinese firms.

In Chapter 4, the author provides an in-depth account about how political risk is conceived from Chinese MNEs' perspective using a qualitative case study approach. This chapter compares Chinese firms operating in institutionally and economically more stable EU member states and those in relatively underdeveloped African countries. The political risk experienced by Chinese MNEs that arise from a variety of country, industry, and firm-behaviour sources will be identified and discussed.

Finally, Chapter 5 concludes the thesis by summarizing the key findings and research outcomes, discussing contributions, as well as pointing out the research limitations. This chapter will also offer the implications of the study for managers and policymakers, and suggest potential avenues for future research.

2. Implications of Home-country Government Support for Chinese MNEs' Post-entry Performance

2.1 Introduction

In this chapter, the author addresses the first research question outlined in Chapter 1 – 'Whether and to what extent does home-country government support have an impact on Chinese MNEs' post-entry performance? Whether is their effect contingent upon the strength of interstate relations between firms' home and host countries?'

The growing importance of emerging economies in the world economy accompanied by the surge of outward FDI by EMMNEs has spurred widespread academic attention (Demirbag & Yaprak, 2015; Luo & Tung, 2007; Keohane & Underdal, 2011; Ramamurti & Singh, 2009). One stream of existing research has focused on the role of home-country institutions, such as governments, in motivating and regulating EMMNEs (Child & Marinova, 2014; Lu, Liu & Wang, 2011; Luo et al., 2010). Findings of existing studies show that home-country government support compensates for EMMNEs' lack of international experience and ownership disadvantages, and helps explain the puzzle concerning why these new contenders have rapidly internationalized in a short period of time (Cui & Jiang, 2012; Hong, Wang & Kafouros, 2015; Lu, Liu, Wright & Filatotchev, 2014). While extant research has enhanced our understanding of whether home-country government support influences the patterns, motivations and entry mode selections of outward FDI by EMMNEs, little attention has been paid to whether home-country government support can be translated into post-entry performance (Globerman & Shapiro, 2009; Hoskisson et al., 2013). This omission limits our understanding of the role of home-country government as a source of competitive advantage through EMMNEs' institutional embeddedness at home and abroad, in shaping their post-entry performance.

Moreover, extant research based on the institutional perspective has traditionally assumed that the impact of institutional forces on MNEs' operations is bounded within national borders, thus providing few insights on institutional impact which resides in the broader international political and economic relations on cross-border business operations (Demirbag et al., 2010). As countries are embedded in the international context, home-government policies in shaping firms' activities abroad are subject to the legitimacy approval of host-country governments (Cuervo-Cazurra, 2011). This implies that the effect of home-country government support on EMMNEs' overseas performance may vary, depending on the level of interaction and strength of interstate relations between firms' home and host countries (Lattemann, Alon, Spigrelli & Marinova, 2017). Therefore, research builds upon the institutional perspective by assuming the immobility of institutional forces overlooks interstate relations and its interaction with domestic institutional support from the home-country government, jointly affecting EMMNEs' post-entry performance. To remedy this omission, we adopt a more holistic framework which considers the interplay between within-country institutional and interstate relational forces in affecting the overseas operations of EMMNEs.

Drawing insights from the GPE perspective, we consider interstate relations as the boundary conditions of EMMNEs' post-entry performance. GPE scholars emphasise the role of a set of commonly accepted rules and norms by a group of countries in governing their relationships with each other (Claes & Knutsen, 2011). While the principles and rules under the international regime may not have any binding or legally enforceable power, they help countries to establish stable mutual expectations about the patterns of behaviours for each other and allow countries to adapt themselves to new situations (Keohane, 1984). They also help promote information flow and reduce uncertainty, as well as facilitating cooperation at intergovernmental level and hence help countries to gain from economic exchanges and pursue national objectives (Keohane & Underdal, 2011).

Both the institutional and the GPE perspectives highlight the impact of rules and norms on cross-border economic exchange. Yet, the latter embraces the importance of institutional forces operating at transnational level in shaping firms' international operations (Keohane, 2005; Ruggie, 1975). A number of international business scholars have pointed out the importance of considering both home-country government support and interstate relations to understand the implications of broad institutional embeddedness for EMMNEs' international success (Child & Marinova, 2014; Li, Newenham-Kahindi, Shapiro & Chen, 2013). This chapter investigates whether home-country government support has an impact on Chinese MNEs' post-entry performance and the extent to which such an impact is contingent on interstate relations between firms' home and host countries. By doing so, it helps to extend our understanding about the joint effect of institutional forces at domestic and interstate level in affecting cross-border business operations.

The chapter is organized as follows: Section 2.2 reviews the existing literature about the role of the home-country government and interstate relations on MNEs' international performance, followed by the theoretical background in Section 2.3. In Section 2.4, a number of hypotheses are developed by leveraging insights from the institutional perspective and GPE perspective. The author describes the sample and variables used in the study in Section 2.5, while the empirical results are presented in the subsequent section. Finally, the findings are discussed in Section 2.7, followed by the conclusion.

2.2 Literature Review

This section reviews extant research regarding the impact of the home-country government and interstate relational factors on MNEs' overseas performance based on the institutional and the GPE perspectives. The aim is to critically evaluate previous research that looked at contextual forces at both domestic and interstate levels in explaining MNEs' international performance.

2.2.1 Institutional perspective and MNEs' international performance

The institutional perspective has become one of the key theoretical lenses in international business research (Bruton, Ahlstrom & Li, 2010; Meyer & Peng, 2016; Wu & Chen, 2014). It integrates distinct intellectual foundations including institutional economics which conceptualizes institutions as incentive structures to enable or constrain economic exchange (North, 1990; Wan, 2005), organizational sociology that regards institutions as pressures for legitimacy on members within a given organizational field (Cui & Jiang, 2012; DiMaggio & Powell, 1983), and the political bargaining perspective which considers institutions as the outcome of bargaining between business and governments (Lecraw, 1984; Li, Peng & Macaulay, 2013). Although these approaches emphasize different aspects of business-environment interactions, they tend to hinge on the point that organizational actions are shaped by contextual forces in the wider institutional environment.

The term 'institution' broadly refers to the regulatory, normative and cognitive structures that define the socially acceptable behaviours within a society (Bruton et al., 2010; North, 1990; Scott, 2003). Regulatory (formal) institutions are codified rules that establish a country's political and regulatory arrangements (Peng, Wang & Jiang, 2008). Normative and cognitive (informal) institutions involve durable beliefs and norms that determine societal structures and behaviours (Kostova & Zaheer, 1999). Research built upon the institutional perspective has examined the impact of regulatory, normative and cognitive forces in shaping cross-border business operations. This review focuses on the regulatory institutional domain, especially the role of the home-country government, given its importance in affecting firms to develop resources and capabilities that allow them to interact with other players in the global marketplace (Cuervo-Cazurra, 2011).

To date, a sizeable body of literature has analysed how host-country government affects MNEs' foreign entry strategies, human resource management practices, survival, and performance (Meyer & Thein, 2014; Peng et al., 2008). In contrast, the effect of the home-country government in shaping firms' international performance has generally been an underappreciated area. Extant research has noted that home government plays a vital role in determining business ownership types, affecting market efficiency, and setting the rules of competition (Hobdari, Gammeltoft, Li & Meyer, 2017). Thus, its relevance in shaping MNEs' success in the global market deserves greater scrutiny. Here, the author provides an account of the role of the home-country government in explaining the international expansion and performance of both developed country MNEs and EMMNEs.

The effect of the home-country government on developed country MNEs' international performance

Previous research focused on MNEs from advanced economies has reached a consensus that well-established home-country political and regulatory systems have enabled these firms to flourish globally. For instance, Aoki (2001) noted the presence of home-government support in explaining the different types of resources available to the U.S. and Japanese companies. Wan and his co-authors observed that the munificent home-country institutional environment in terms of adequate intellectual property protection and antitrust regulations augments developed country MNEs' competitiveness in overseas markets (Wan, 2005; Wan & Hoskisson, 2003). Jackson and Deeg (2008) posited that the different institutional configurations in liberal market economies (U.S., UK, and Canada) and coordinated economies (Germany, Sweden, and Austria) confer firms with different competitive advantages in innovative capabilities and resource access.

In addition to supports that are available at domestic level, the home-country government has been found to influence MNEs' operations outside the country's boundaries. By looking at MNEs from sixteen high-income economies, Elango and Sethi (2007) reported that the well-functioning market systems in these countries tend to generate positive spill-over effects to promote their firms' image and performance when competing globally. Thus, a central theme to emerge from this line of research suggests that home-government support can boost developed country MNEs' international performance both within and across state borders. Table 2.1 provides a summary of previous research that looked at the effect of home-country government support on developed country MNEs' international competitiveness and success.

Table 2.1 A summary of existing research on the relationship between the home-country government and developed country MNEs' international performance

Author(s) (Year)	Theme(s)	Methodology and Sample	Role of the Home Government	Key Findings
Aoki (2001)	How does the home-country institutional environment influence the effectiveness of national innovation system?	Case study. National innovation systems and organizational forms in the U.S. and Japan	Supportive within state borders	Home-government support is a key determinant of resources available to firms. It explains the U.S. and Japanese MNEs' competitive advantages in innovation and organizational capabilities
Wan & Hoskisson (2003)	Determinants of MNEs' overseas performance	Empirical. Panel data on MNEs from six Western European countries	Supportive within state borders	Home-government support in terms of adequate intellectual property protection and anti-trust regulations augments MNEs' overseas performance
Wan (2005)	How does the home-country institutional environment influence MNEs' overseas performance?	Conceptual.	Supportive within state borders	The munificent home-country institutional environment prompts developed country MNEs to develop market capabilities such as superior brands and technologies, which contribute to their performance in the overseas market
Elango & Sethi (2007)	Determinants of MNEs' overseas performance	Empirical. Panel data on MNEs from sixteen high-income economies	Supportive across state borders	The well-established home-country market system plays an important role to promote developed country MNEs' overseas performance

Jackson & Deeg (2008)	How do institutional configurations in liberal market economies (U.S., UK, and Canada) and coordinated market economies (Austria, Germany, and Sweden) affect firms' performance?	Conceptual.	Supportive within state borders	Different institutional configurations in these two types of capitalism have different implications for their MNEs' organizational and innovative capabilities

The effect of the home-country government on EMMNEs' international expansion and performance

Unlike their counterparts from advanced economies, the role of the home-country government in explaining EMMNEs' international expansion and performance tends to be more complicated (Luo et al., 2010; Peng, 2012). Research probing into the impact of EMMNEs' home-country government has provided mixed arguments, which may be classified as an 'institutional escapism' perspective, a 'supportive' perspective, and a 'political' perspective.

The 'institutional escapism' perspective has contended that the institutional weakness of EMMNEs' home countries such as limited property rights protection, government bureaucracy, and poor legal enforcement considerably heighten business costs (Boisot & Meyer, 2008). Outward FDI is a response of EMMNEs to escape from their burdensome home-country environment (Lu et al., 2011). For instance, Boisot and Meyer (2008) showed that local protectionism and adverse domestic policies have prompted Chinese companies to seek for less repressive institutional environments abroad. Kalotay and Sulstarova (2010) noted Russian MNEs invest abroad to guard themselves against domestic interventions. Hoskisson et al. (2013) documented how various restrictions imposed by the home-country government have limited EMMNEs to operate and compete in international markets. Although previous research built upon the institutional escapism view has generated insights about the impact of the home-country government on EMMNEs' international expansion, little attention has been paid to their effect in shaping the performance of these new players in global marketplaces.

In contrast to the 'institutional escapism' view, a second line of research has argued that the home-country government plays a facilitating role to promote EMMNEs' international expansion. Research that rests upon this ‘supportive’ view has maintained that outward FDI from emerging markets has been substantially enabled by the liberalization of regulatory frameworks and supportive policies at home. Kumar (2007) observed that home-government policy reforms have allowed Indian firms to invest in both developed and developing countries. Similarly, Buckley et al. (2007) suggested that the surge of FDI from China has been explained by the country’s capital market imperfections and policy liberalizations. Lu et al. (2014) showed that knowledge and information support offered by home government can enhance Chinese firms’ risk-taking capabilities in foreign markets. Using a sample of Vietnamese companies, Nguyen, Le and Bryant (2013) reported that home-country policy transparency helps to elevate firms’ exporting performance. Therefore, with few exceptions (e.g. Nguyen et al., 2013), research that adopts the ‘supportive view’ has not yet systematically examined the role of home-country government support in shaping EMMNEs’ post-entry performance.

As the institutional environment in many emerging markets evolves, research has recognized that the home-country government plays both positive and negative roles behind the international expansion, hence the success of these new contenders (Peng, 2012; Rui & Yip, 2008). The changing attitudes of EMMNEs’ home-country government toward outward FDI activities to a large extent reflect their national political and economic objectives (Luo et al., 2010). This necessitates assessing the interactions between the home-country government and EMMNEs through a ‘political’ lens. Luo et al.’s (2010) seminal work illustrated the evolution of Chinese state policy toward outward FDI activities and the intention of the government in fostering top MNEs to project the country’s global influence. A number of studies have reported that Chinese firms’ political affiliations and alignment with home-government development agendas affect the support available for their foreign expansions (Buckley et al., 2016; Cui & Jiang, 2012). Additionally, Child and Marinova (2014) pointed out that Chinese outward FDI is an extended arm of the country's foreign policy, thus analysis of home-government support should be sensitive to different combinations of home- and host-country institutional contexts. However, few have explicitly considered the role of the home-country government and its extra-territorial influence in different host-country contexts in affecting EMMNEs' international success. Tables 2.2 and 2.3 present a summary of previous research that investigated the effect of the home-country government in driving EMMNEs' international expansion and success.

Table 2.2 A summary of existing research on the relationship between the home-country government and EMMNEs' international expansion

Author(s) (Year)	Theme(s)	Methodology and Sample	Role of the Home Government	Key Findings
Child & Rodrigues (2005)	How does the home-country institutional environment affect MNEs' international expansion?	Conceptual.	Both supportive and restrictive within state borders	The substantial involvement of state government in Chinese firms' foreign expansion highlight the need of considering the role of the home-country government in the research of EMMNEs
Buckley et al. (2007)	Determinants of FDI outflow	Empirical. Panel data on Chinese outward FDI	Supportive within state borders	Home-government financial support and policy liberalization are key determinants in explaining the surge of Chinese outward FDI
Kumar (2007)	Determinants of FDI outflow	Empirical. Panel data on Indian MNEs	Supportive within state borders	Home-government policy liberalizations have enabled Indian MNEs to invest in both developed and developing countries
Witt & Lewin (2007)	How does the home-country institutional environment affect MNEs' decision to invest abroad?	Conceptual.	Restrictive within state borders	Outward FDI is a response to escape from the misalignment between business objectives and firms' home-country institutional environment

Boisot & Meyer (2008)	How does the home-country institutional environment affect MNEs' decision to invest abroad?	Conceptual.	Restrictive within state borders	Strategic exit from burdensome domestic institutional environment rather than strategic entry into foreign markets may explain the internationalization of many Chinese MNEs
Rui & Yip (2008)	How does the home-country institutional environment affect MNEs' international strategies?	Empirical. Case studies with three Chinese firms	Both supportive and restrictive within state borders	Chinese MNEs not only take outward FDI to overcome constraints, but also augment supports from their home-country government.
Kalotay & Sulstarova (2010)	Determinants of FDI outflow	Empirical. Panel data on Russian outward FDI	Restrictive within state borders	Some Russian MNEs use outward FDI to avoid domestic interventions
Lu et al. (2011)	Determinants of MNEs' motives for outward FDI	Empirical. Questionnaire survey with Chinese private firms	Supportive within state borders	Supportive home-government policies are important motivators for both strategic asset-seeking and market-seeking Chinese outward FDI

Cui & Jiang (2012)	Determinants of MNEs' foreign entry strategies	Empirical. Questionnaire survey with Chinese MNEs	Supportive within and across state borders	Chinese MNEs' political affiliations with their home government increase firms' resource dependency on home-country institutions and influence its image perceived by host-country institutional constituents
Peng (2012)	How does the home-country institutional environment affect MNEs' international expansion?	Conceptual.	Both supportive and restrictive within state borders	Chinese government has played both a positive and a negative role behind Chinese outward FDI
Hoskisson et al. (2013)	How does the home-country institutional environment affect MNEs' international expansion?	Conceptual.	Both supportive and restrictive within state borders	Home-country institutional development exerts considerable influence over the international strategies of firms from emerging economies.
Lu et al. (2014)	Determinants of MNEs' locational strategies	Empirical. Panel data on Chinese MNEs	Supportive within state borders	Home-government support enables Chinese firms' internationalization by supplying information and enhancing firms' risk-taking capabilities in foreign countries
Buckley et al. (2016)	Determinants of MNEs' locational strategies	Empirical. Panel data on Chinese MNEs	Supportive within and across state borders	The industrial and geographical distributions of Chinese outward FDI are influenced by the political and strategic objectives of the Chinese government

Table 2.3 A summary of existing research on the relationship between the home-country government and EMMNEs' international performance

Author(s) (Year)	Theme(s)	Methodology and Sample	Role of the Home Government	Key Findings
Luo et al. (2010)	How does the home-country institutional environment affect MNEs' international success?	Conceptual.	Supportive within and across state borders	Home government influence on Chinese outward FDI need to be considered from a political economy perspective.
Nguyen et al. (2013)	Determinants of MNEs' overseas performance	Empirical. Questionnaire survey with Vietnamese private firms	Supportive within state borders	Home-government policy transparency and information provision augment the export performance of Vietnamese companies
Child & Marinova (2014)	How do contextual forces affect MNEs' international success?	Conceptual.	Supportive within and across state borders	Outward FDI is an extended arm of China's foreign policy which is motivated by the country's strategic interests. Analysis of Chinese MNEs' international success should be sensitive to both home- and host-country institutional contexts

2.2.2 GPE perspective and MNEs' international performance

Technological breakthroughs and globalization have made international economic activities and international political activities more relevant to one another. This has given rise to the GPE perspective which integrates the study of international economics and international politics to look at the mutual interaction of state and market across national boundaries (Gilpin, 2001; O'Brien & Williams, 2013).

While powerful market forces such as trade and investment are motivated to jump across state borders to pursue profit maximization, the objective of the state government is to channel such activities to serve the perceived national interests (Keohane, 2005). The establishment of interstate relations with other countries are important means for the state to influence cross-border economic exchanges (Rangan & Sengul, 2009). Here, the author reviews extant literature about how political and economic relational factors have been leveraged at interstate level to affect MNEs' expansions and success in overseas markets.

The effect of interstate political relations on MNEs' international expansion and performance

Research drawn from the GPE perspective posits that firms respond to international political factors in their investment decisions (Biglaiser & DeRouen, 2007; Desbordes, 2010). Empirical studies examining the role of interstate political relations have shown how military conflict and alliance, as well as foreign policy alignment between firms' home and host countries can affect MNEs' international expansion and performance.

(i) Interstate military conflict and alliance

States step into military conflicts and security alliances for a variety of reasons: to adjust power distributions; to react to threats; to balance security and autonomy; or because of similar or different political ideologies (Arikan & Shenkar, 2013; Li & Vashchilko, 2010).

Studies built upon the GPE-based literature found that the strength of interstate security relations, as indicated by the occurrence of military tensions and formation of security alliances, substantially affects FDI outflows from developed countries. By examining U.S. manufacturing MNEs' global expansions, Nigh (1985) observed that interstate conflicts reduce the flow of U.S. investment to a host country whilst interstate cooperation increase it. Li and Vashchilko (2010) revealed comparable findings where military tensions and security alliances are critical in determining bilateral investment flows from OECD countries to non-OECD countries. Desbordes (2010) similarly reported that the frequency of military conflicts has a negative effect on the U.S. FDI flow into developing countries. Additionally, Makino and Tsang (2011) noted that Vietnam's military engagements with the U.S. and China respectively hampered FDI outflows from these two countries.

Previous research has mainly analysed the effect of interstate military conflict and cooperation on FDI outflows from developed countries. Yet, the role of interstate political relations in shaping MNEs' post-entry performance remains an underexplored area. Additionally, the changing political and economic climates, especially the proliferation of supra-national institutions governing global affairs such as the United Nations (UN) and the growing salience of emerging economies in international affairs, have motivated scholars to consider whether and how foreign policy positions between firms' home and host countries can influence the international expansion and success of MNEs from both developed and developing countries.

(ii) Foreign policy alignment

The affinity of foreign policy positions between countries has been found to play a pivotal role in promoting cross-border investment activities for firms from both developed countries and emerging markets. Using country-level data on U.S. FDI to 126 developing countries, Biglaiser and DeRouen (2007) found that the alignment of foreign policies signified by the presence of U.S. troops in the host country are positively related to their likelihood of receiving investment from the U.S. Dai, Eden and Beamish (2013) posited that the affinity in foreign policy positions indicated by countries' voting patterns at the United Nations General Assembly (UNGA) may increase Japanese MNEs' chances of survival in volatile political environments.

Additionally, the remarkable economic growth of emerging markets and rise of EMMNEs have made them an increasingly important power in today's multi-polar global system. Duanmu (2014) maintained that the shared foreign policy positions between China and the host country has served as useful political leverage to shield Chinese MNEs from host-government expropriation. Gao, Liu and Lioliou (2015) reported that aid donation by the Chinese government has enabled their firms to receive favourable treatment in some underdeveloped African countries.

Thus, despite MNEs investing abroad to pursue profitability, the strength of interstate political relations can substantially shape their expansion and success in foreign markets. The author summarizes existing research about the role of interstate political relations in affecting MNEs' international expansion and performance in Tables 2.4 and 2.5, respectively.

Table 2.4 A summary of existing research on the relationship between interstate political relations and MNEs' international expansion

Author(s) (Year)	Theme(s)	Methodology & Sample	Measurement of Interstate Political Relations	Key Findings
Panel A: Outward FDI by developed country MNEs				
Nigh (1985)	Determinants of FDI outflow	Empirical. Panel data on U.S. manufacturing MNEs to 24 developed and developing countries	Frequency of interstate conflict and cooperation between the U.S. and the host country during a given year	Interstate conflicts reduce U.S. MNEs' investment to a host country whereas interstate cooperation increases it
Biglaser & DeRouen (2007)	Determinants of FDI outflow	Empirical. Panel data on U.S. FDI to 126 developing countries	The presence of the U.S. troops in the host country	Shared foreign policy positions are positively associated with U.S. FDI to a host country
Desbordes (2010)	Determinants of FDI outflow	Empirical. Panel data on U.S. FDI to 20 developing countries	The occurrence and intensity of interstate military events between the U.S. and the host country	Interstate military tensions have a negative effect on U.S. MNEs investing in developing countries

Li & Vashchilko (2011)	Determinants of FDI outflow	Empirical. Panel data on FDI outflow from OECD countries to other OECD countries and non-OECD countries	The occurrence of interstate military conflicts and formation of security alliances between OECD countries and non-OECD countries	Interstate military conflicts are negatively influence outward FDI from OECD countries to non-OECD countries whereas security alliances increase it
Makino & Tsang (2011)	Determinants of MNEs' entry timing	Empirical. Panel data on wholly-owned subsidiaries and joint ventures formed in Vietnam by MNEs from 35 countries and regions	The occurrence of interstate military conflict between MNEs' home countries and Vietnam	Interstate relational factors affect the institutional development in Vietnam. MNEs from home countries that experienced military tensions with Vietnam tend to be latecomers to the country

Panel B: Outward FDI by EMMNEs

Duanmu (2014)	Determinant of FDI outflow	Empirical. Panel data on Chinese outward FDI	Countries' voting pattern at the UNGA	Foreign policy alignments have enabled Chinese MNEs to navigate through host-government expropriation risk

Table 2.5 A summary of existing research on the relationship between interstate political relations and MNEs' international performance

Author(s) (Year)	Theme(s)	Methodology & Sample	Measurement of Interstate Political Relations	Key Findings
Panel A: Outward FDI by developed country MNEs				
Dai et al. (2013)	Determinants of MNEs' likelihood of survival in overseas markets	Empirical. Panel data on wholly-owned subsidiaries and joint ventures formed between Japanese MNEs and local partners in 25 high-risk countries	Countries' voting pattern at the UNGA	Foreign policy affinity may enhance Japanese MNEs' chances of survival in political conflict zones
Panel B: Outward FDI by EMMNEs				
Gao et al. (2015)	How do within-country institutional factors and interstate political relations influence Chinese MNEs' post-entry operations?	Case study. Five Chinese MNEs operating in developed and developing countries	N/A	Aid donations have allowed Chinese MNEs to receive favourable treatment in some underdeveloped African countries. By contrast, ideological differences tend to impose additional barriers to firms' expansion in developed countries.

The effect of interstate economic relations on MNEs' international expansion and performance

While attention has been paid to the impact of interstate political relations on MNEs' expansion and success in foreign markets, cooperation and conflict between countries in international affairs are not mutually exclusive (Desbordes & Vicard, 2009). It is common to see that states collaborate in certain fields but antagonize in other areas. Thus, the quality of interstate economic relations has been suggested to exert critical influence over the effectiveness of international business transactions (Desbordes & Vicard, 2009; Jandhyala & Weiner, 2014). Extant research has considered two economic relational factors – trade dependency and interstate economic agreements – in affecting MNEs' expansion and success in global marketplaces.

(i) Trade dependency

An important consequence of market activities for states is due to the fact that economic interdependence creates a hierarchical, dependent, and power relationships among groups and societies (Gilpin, 2001). The asymmetry of economic power generates vulnerabilities that can be manipulated by those hold relatively stronger power against others (Pfeffer, 1987). This theoretical insight has been extended to economic exchange activities in the international realm (Duanmu, 2014; Rangan & Sengul, 2009).

Despite states desiring autonomy, they may depend on specific other nations to provide them with markets, security, and energy access (Askari, Forrer, Yang & Hachem, 2005; Flores-Macías & Kreps, 2013). Power dependency in these key domains leads them to establish relations with certain other states. Ramamurti's (2001) two-tier bargaining model explained that states possessing greater bargaining powers in the economic and security realms tend to obtain more favourable treatment for their firms operating in the host country. The asymmetrical trading relations generate state-on-state power that has frequently been used by some governments to constrain the behaviours and decisions of their trading partners (Askari et al., 2005). Duanmu (2014) followed this logic by arguing that the asymmetry of trading powers between China and other countries has been exploited by the Chinese government to safeguard their firms' operations in overseas markets.

In relation to MNEs' international performance, Rangan and Sengul (2009) noted that MNEs from home countries with stronger trading powers vis-à-vis the host country tend to enjoy greater economic success there. Hence, a key tenet of research built upon the power dependency lens highlights that the asymmetry of trading power between countries can be manipulated by MNEs' home government to enable their firms' expansion and success abroad.

(ii) Interstate economic agreements

The GPE-based literature has maintained that common membership in socio-economic organizations helps to foster trust and smooth economic activities among participating states (Keohane, 1984; Büthe & Milner, 2008). In a bilateral context, economic cooperation represents an institutionalized commitment to promote investment flows and business operations between countries (Desbordes & Vicard, 2009; Jandhyala & Weiner, 2014). Empirical studies resting upon this argument have shown mixed evidence regarding the role of interstate economic agreements in driving MNEs' expansion and success in foreign countries. Some found that economic cooperation through the presence of interstate economic treaties has a significant and positive effect in attracting FDI from developed countries. For instance, it has been shown that the enforcement of interstate investment agreements helps to stimulate FDI from developed countries by alleviating host-country's defective institutional governance conditions and protecting MNEs from deteriorating interstate political relations

(Desbordes & Vicard, 2009; Egger & Pfaffermayr, 2004; Jandhyala & Weiner, 2014; Neumayer & Spess, 2005). Others have contended that the effect of such agreements on MNEs' foreign expansion is limited in the face of national sovereignty and the protection of environment and society (Berger, Busse, Nunnenkamp & Roy, 2011; Spears, 2010).

Although research has reaped interesting insights about the importance of interstate economic agreements in stimulating investment flows, their impact upon MNEs' post-entry performance has largely been neglected. Additionally, the majority of existing research has examined how the presence of economic treaties helps to explain investment from developed countries. Yet, their effect on firms from emerging markets has received relatively little attention. Given the growing salience of EMMNEs, it highlights the need for understanding the role of interstate economic agreements in shaping the post-entry success of these new players. Tables 2.6 and 2.7 summarize previous research on the role of interstate economic relations in explaining MNEs' international expansion and performance.

Table 2.6 A summary of existing research on the relationship between interstate economic relations and MNEs' international expansion

Author(s) (Year)	Theme(s)	Methodology & Sample	Measurement of Interstate Economic Relations	Key Findings
Panel A: Outward FDI by developed country MNEs				
Egger & Pfaffermayr (2004)	Determinants of FDI outflow	Empirical. Panel data on outward FDI from OECD countries	The enforcement of interstate economic treaties between a pair of countries	The enforcement of interstate economic treaties has a significant positive effect on outward FDI from OECD countries to other OECD and non-OECD countries
Neumayer & Spess (2005)	Determinants of FDI outflow	Empirical. Panel data on outward FDI from OECD countries	The cumulative number of interstate economic treaties developing countries have signed with OECD countries	A higher number of economic treaties signed between a developing country and OECD member states raises FDI to the country
Desbordes & Vicard (2009)	Determinants of FDI outflow	Empirical. Panel data on bilateral FDI stock among OECD countries, and between OECD and non-OECD countries	The enforcement of interstate investment treaty between two countries	The enforcement of interstate economic treaties shield MNEs from deteriorating interstate political relations
Berger et al. (2011)	Determinants of inward FDI	Empirical. Panel data on outward FDI from 14 source countries to 83 developing countries	The presence of bilateral/regional trade agreement, double taxation treaty, and a common currency	The effect of interstate economic agreements in promoting FDI inflow to developing countries tends to be limited

Spears (2010)	How can countries strike a balance between the enforcement of investment treaties and protection of environment and society?	Conceptual	N/A	The implementation of international investment treaties presents considerable challenges to the protection of environment and society.
Jandhyala & Weiner (2014)	Determinants of the level of political risk faced by MNEs in overseas markets	Empirical. Panel data on petroleum reserve-transaction announcements in 45 countries	The presence of interstate investment agreement between countries and membership in the Energy Charter Treaty	The presence of interstate investment agreements lower the degree of political risk faced by MNEs in the host country
Panel B: Outward FDI by EMMNEs				
Duanmu (2014)	Determinants of FDI outflow	Empirical. Panel data on Chinese outward FDI	Degree of export dependence between China and the host country	The degree of export dependence of the host country on China alleviates the expropriation risks faced by Chinese MNEs in the host country

Table 2.7 A summary of existing research on the relationship between interstate economic relations and MNEs' international performance

Author(s) (Year)	Theme(s)	Methodology & Sample	Measurement of Interstate Economic Relations	Key Findings
Ramamurti (2001)	How does the bargaining power between a firm's home and host countries influence its operation abroad?	Conceptual	N/A	The treatment that an MNE receives abroad depends on the bargaining power of its home-country government in interstate security and economic domains in relation to the host-country government.
Rangan & Sengul (2009)	Determinants of MNEs' overseas performance	Empirical. Cross-sectional data on MNEs from 23 home countries	Degree of export dependence between a firm's home and host countries	MNEs from home countries with stronger trading power in relation to the host country enjoy greater success there

In summary, while extant literature has underscored the importance of the home-country government in encouraging EMMNEs to undertake FDI activities, little is known about its role in shaping the post-entry performance of these new contenders. Moreover, a predominant assumption of previous research built upon the institutional perspective was the immobility of contextual forces in affecting cross-border investment (Makino & Tsang, 2011). Yet, the heavy involvement of the home-country government in EMMNEs' international expansion may challenge this conventional wisdom. Despite liberalizations having taken place in the past few decades, state government in many emerging markets remain a key force in directing business activities both within and beyond state borders. Thus, there is the need to complement research built upon the institutional perspective with insights from other research fields such as the GPE perspective to understand the role of the home-country government in explaining EMMNEs' post-entry performance. In this chapter, the author is motivated to look at two questions: (1) whether home-government support can be extended to boost Chinese MNEs' post-entry performance; and (2) whether their effect is subject to the strength of interstate relations between firms' home and host countries.

2.3 Theoretical Background

This study examines the impact of home-government support on Chinese firms' post-entry performance. Furthermore, the strength of their association in the context of interstate relations will be investigated by combining arguments from the institutional perspective and the GPE perspective.

2.3.1 Institutional embeddedness and EMMNEs' post-entry performance

Institutions are defined as a set of external isomorphic pressures that lay down the legitimate norms with respect to how things should be conducted, thereby provide the social structures and create templates for organizational action (DiMaggio & Powell, 1983; Meyer & Peng, 2016). As firms are embedded in the institutional context, conformity to institutional prescriptions of appropriate conduct helps them to gain legitimacy from powerful institutional constituents (Baum & Oliver, 1992). Institutional embeddedness refers to the interconnections or institutional linkages between firms and key institutions in the environment in which they operate (Oliver, 1997). Such embeddedness increases firms' survival and success by conferring resource access and acting as buffers to protect firms from environmental uncertainty (Hung, 2005; Kostova, 1999; Kostova, Roth & Dacin, 2008). More specifically, EMMNEs are embedded in institutional contexts of both home and host countries. Home-country embeddedness implies that EMMNEs can obtain support from their home-country government when their strategy is aligned with their home-country government (Meyer, Mudambi & Narula, 2011). This is particularly the case for Chinese MNEs, given that the Chinese government has adopted the 'going global' strategy as a strategic pathway for economic development at country level and has implemented government policy, including both financial and non-financial support aiming at promoting Chinese firms' international expansion (Lu et al., 2014; Luo et al., 2010). Thus, home-country government support represents an enabler which enhances the international competitiveness of its MNEs.

As emerging economies become increasingly integrated with the global market, the governments of these countries have realized that supporting their firms to become world-class MNEs can project their influence beyond national boundaries (Child & Marinova, 2014). Thus, they become a powerful ally to EMMNEs by not only offering direct support such as providing capital and information, but also indirect support including negotiation of interstate treaties with host-country governments to further enhance their firms' competitiveness when operating in host countries (Hoskisson et al., 2013). However, the impact of home-country institutional environment, such as government support channeled through interstate relations has received little attention due to the assumption that institutional forces tend to be internationally immobile (Meyer et al., 2011; Mudambi & Navarra, 2002). This line of enquiry overlooks the fact that countries are themselves embedded in a broader international context. Interactions and relations between EMMNEs' home and host countries may either enhance or constrain the effectiveness of home-country government support in EMMNE's post-entry operations through institutional embeddedness in host countries (Lattemann et al., 2017). Thus, it is important to unpack the role of home-government support in EMMNEs' international success by bringing in the GPE perspective which takes into account the impact of interstate relations on cross-border business operations (Keohane, 2005).

2.3.2 GPE perspective and EMMNEs' post-entry performance

The GPE perspective concerns the interaction of economic and political phenomena across national borders and proposes that states are self-interested actors who would engage in cooperation with each other if there are sufficient shared interests (Keohane, 1984; O'Brien & Williams, 2013). Cooperation among states is based on mutual desires to increase efficiency of the economic exchange in which they engage (Jandhyala & Weiner, 2014). Without any pre-existed harmony, cross-border economic exchange has been made possible through a process of policy coordination where countries adjust their policies and are brought into conformity with one another so that the adverse consequence of decisions by countries to their counterparts are reduced (Keohane & Underdal, 2011). Therefore, the impact of one government's policies is no longer limited by its national border but can trigger a series of reactions from other countries which will consequently influence the operations of MNEs in those countries (Makino & Tsang, 2011; Ravenhill, 2008).

The GPE scholars propose that a set of rules, norms, and decision-making procedures which have been accepted by a group of countries in regulating their relationships may serve as an important mechanism to facilitate economic cooperation between countries (Keohane & Nye, 1977; Keohane & Underdal, 2011; Ruggie, 1975). These rules and norms provide the basic institutional infrastructure that governs trans-boundary economic activities (Keohane, 2012). As countries are increasingly embedded in the world political and economic systems, adherence to the commonly accepted rules and practices in international arena not only helps them to gain opportunities to cooperate with one another, but also to affect domestic policymaking and is a useful institutional device for governments that wish to solve common problems and pursue complementary interests at interstate level (Claes & Knutsen, 2011). The presence of international relations not only helps to promote communications at intergovernmental level, but also to reduce transaction cost in economic exchanges by dealing with a range of issues when engaging in interstate cooperation (Jandhyala & Weiner, 2014). Hence, engaging in international relations serves as an additional platform for national governments to shape their MNEs' operations in global marketplaces (Li, Meyer, Zhang & Ding, 2017; Ravenhill, 2008). By integrating institutional embeddedness with the GPE perspective, our study expands existing research focusing on within-country institutions by suggesting that interstate relations may interact with domestic institutional forces in affecting EMMNEs' post-entry performance.

2.4 Hypotheses Development

Building upon the theoretical background discussed above, this section develops several hypotheses in relation to the role of home-government supportive measures, namely financial support and non-financial policy support, in shaping Chinese MNEs' post-entry performance, as well as the moderating effects of interstate relational factors.

2.4.1 Home-country government support

From the institutional perspective, a government as the primary actor in the institutional environment plays an important role in shaping economic exchanges through policy instruments (Lu et al., 2014). As governments in emerging economies are supportive to outward FDI, embeddedness in the institutional context of the home country and alignment with the government's macro-level strategy enables EMMNEs to gain home-country government support, including social approval, subsidies, and favorable legislative changes that are important to firms' overseas success (Meyer et al. 2011; Lu, et al., 2011). Due to under-developed market mechanisms, the influence of home-government policies of emerging economies tends to be stronger in affecting their firms' international operations than that from developed countries (Hong et al., 2015). In this study, we investigate both financial and non-financial policies to unpack the effect of home-country government support on EMMNEs' overseas performance.

Home-government financial support

EMMNEs are deemed to have weak ownership advantages and suffer from liability of foreignness in their internationalization process (Luo & Tung, 2007), which leads to difficulties and high costs in securing financial access in host countries (Yiu, Lau & Bruton, 2007). However, home-country government support can compensate for EMMNEs' competitive disadvantages and organizational deficiencies so that they can better compete against their developed country counterparts for two main reasons (Lu et al., 2014). First, as a key institutional device, direct financial support from the home-country government provides valuable financial resources which help EMMNEs overcome financial constraints when venturing abroad (Globerman & Shapiro, 2009). Such support from the home-country government enables EMMNEs to access state funds at below market rates when engaging in international operations (Buckley et al., 2007). Credit support offered by policy banks, for example the Export-Import Bank of China, can provide financial security for Chinese MNEs' global expansion and help them reach global customers, update production lines, and develop distribution networks, thus contributing to growing market share in the international market (The Economist, 2013). Moreover, the provision of valuable financial resources may assist Chinese MNEs to employ host-country skilled personnel and gain access to advanced technologies that complement firms' existing resources. The combined and enlarged resource base helps Chinese MNEs build their competitive advantages and enables them to better serve local customers' needs in overseas markets, which can further boost their overseas performance.

In addition to cheap capital provided by state banks, relaxed control on the financial markets by the home-country government in relation to borrowing and payback terms may satisfy firms' need for easier capital access (Hoskisson et al., 2013). The liberalization of home-country financial markets may give EMMNEs confidence when devoting resources to upgrading their global value chain and developing new products that help to generate higher sales margin abroad. Recently, the Chinese government has updated several financial regulations. For example, the Commercial Bank M&A Loan Risk Management Guidelines (2015) has extended the term of loans issued by China's commercial banks from five to seven years to facilitate Chinese MNEs' overseas investment activities. A longer payback period alleviates firms' financial stress and offers greater financial flexibility to integrate strategic assets acquired abroad with firms' existing ones to create new source of competitive advantage (Commercial Bank M&A Loan Risk Management Guidelines, 2015), hence contributing to firm performance in overseas markets.

Hypothesis 1a: Chinese MNEs' overseas subsidiary performance is positively related to the level of home-country government financial support.

Home-government non-financial policy support

The home-country government not only provides financial support, but also non-financial support. The non-financial policy support of the home-country government refers to schemes aiming at streamlining the administrative process, the provision of information and the protection of firms' overseas rights. Policy support in non-financial forms not only helps firms to reduce operational costs, but also serves as a competence-enhancing device to enhance EMMNEs' international competitiveness (Lu et al., 2014). There are three main channels through which non-financial policy support from EMMNEs' home governments may affect post-entry performance.

First, a supportive home-government policy can help firms cut operational costs and improve efficiency as the streamlining of administrative procedures reduces bureaucracy involved in business activities (Luo et al., 2010). With a more efficient administrative environment, EMMNEs are able to respond to foreign market opportunities quicker without waiting for bureaucratic approval by the home-country government. This helps EMMNEs compete more effectively in the overseas market. For instance, China's 'go-global' strategy has prompted the government to provide a 'one-stop' service to review firms' outward FDI projects. Investments under $1billion no longer need be approved by the home government (Measures for Overseas Investment Management, 2014). This enables Chinese companies to reduce the costs of dealing with multiple state authorities, and dedicate resources for market-related activities such as R&D to develop tailored products and services for the local market, thus contributing to increasing market share abroad.

Second, policy support offered by the home-country government can play a key role in helping firms to enhance their knowledge base, which can help overcome constraints due to the lack of experience as latecomers (Lu et al., 2011). A critical barrier that hinders

EMMNEs' global success is related to the lack of knowledge about foreign markets (Luo & Tung, 2007). By offering effective information service support regarding a host country's industrial and market climates, the home-country government enables its firms to adopt appropriate management and marketing strategies. Guidelines published by the home-country government assist EMMNEs to develop a better understanding about host-country consumers' tastes and demands which enables EMMNEs to overcome the liability of foreignness.

Finally, a home-country government's policy support may enhance EMMNEs' post-entry performance by providing risk-safeguard mechanisms to shield firms from complex host environments and facilitate communications between MNEs and host-country key stakeholders. The presence of home-state agencies abroad can offer two types of support to enhance EMMNEs' operational effectiveness at post-entry stage. First, the provision of stronger diplomatic support safeguards cross-border business operations in the face of increasing international political risks (Gao et al., 2015). The Chinese government has helped firms to develop more effective risk control systems for overseas subsidiaries through its personnel training programmes, and enhanced consular support (MOFCOM, 2016). These provide more effective protection to Chinese MNEs' assets and personnel in overseas markets, and reduce operational costs. Second, home-state agencies abroad can boost EMMNEs' competitiveness by acting as a bridge to link firms with host-country government and business communities so that firms can become better embedded in host markets and work with reliable local partners to pursue success (Li et al., 2017). Diplomatic pressure is regarded as an important means for EMMNEs to gain competitive advantages. For example, an important mission of the Chinese commercial consulates and investment chambers abroad is to help firms communicate with host-country governments and business networks (Foreign Affairs, 2016). This can help Chinese MNEs adapt their operational standards to meet host-country government requirements and collaborate with local suppliers and distributors to develop new products and pre-empt the market.

Hypothesis 1b: Chinese MNEs' overseas subsidiary performance is positively related to the level of home-country government non-financial policy support.

2.4.2 The moderating role of interstate relations

Cross-border business operations imply that MNEs are embedded in multiple institutional environments (Demirbag et al., 2010; Meyer et al., 2011). Differences in institutional pressures between home and host countries make embeddedness challenging as it increases transaction cost for monitoring and coordinating in foreign markets (Buckley & Munjal, 2017). We suggest that the strength of interstate relations between firms' home and host countries enables national governments to coordinate policies, hence moderating the impact of home-country government support on the post-entry performance of EMMNEs. In this study, we consider two new mechanisms at the interstate level. The first is interstate political relations, which is the degree of alignment between a firm's home and host government in international political affairs (Dai et al., 2013). The second is interstate economic relations, such as investment agreements reached at intergovernmental level, which aim to promote mutual economic gains (Jandhyala & Weiner, 2014). Political and economic issues constitute the most important components of interstate relations (Desbordes & Vicard, 2009). This is the main reason why we focus on these two mechanisms.

Interstate political relations

EMMNEs are subject to the jurisdictions of both home and host-country governments that not only regulate domestic policy environments, but also manage interstate political relations which affect cross-border economic activities (O'Brien & Williams, 2013). The political frameworks at domestic and international levels are tightly intertwined and jointly impact on firms’ cross-border operations (Keohane, 2005). Hence, mutual political interests at interstate level may act as an institutional device to reinforce the effectiveness of home-government support on EMMNEs’ post-entry performance.

Interstate political relations and home-government financial support

Governments with favourable political relations are more likely to work in a co-operative manner and reach mutually beneficial agreements in economic affairs as shared foreign policy positions between home and host-country governments promote greater trust and information symmetry at interstate level (Flores-Macías & Kreps, 2013). With stronger political relations at interstate level, countries are more likely to provide preferential treatment to each other (Keohane, 2005). They may engage in more open discussions in the financial policy domain which helps to establish a network for government officials such as finance ministers and central bank directors with regular patterns of interaction. This enables the home-country government to communicate with the host-country government more effectively in relation to the various kinds of financial support that it offers to firms, thus enhancing the understanding and acceptance of such support by the host country (Ikenberry & Lim, 2017). Good interstate political relations can prompt a host-country government to develop a positive attitude towards MNEs from these partner countries (Cuervo-Cazurra, 2011). Chinese MNEs often carry the identity of their home-country government in the eyes of host countries, especially when they receive direct financial support from the government (Cui & Jiang, 2012). This has raised national security concerns in some countries as they suspect that Chinese MNEs may come with a political agenda (Globerman & Shapiro, 2009), thus creating challenges for Chinese MNEs being embedded in the local institutional context. However, countries with good political relations tend to have established trust through past interactions (Gao et al., 2015). This helps to alleviate concerns over national security (Li & Vashchilko, 2010) and negative views about Chinese MNEs receiving support from the home-country government. As a result, home-government financial support may be seen in a positive light in host countries and thereafter reach its full potential. In particular, the trust between home- and host-country governments based on close interstate political relations may create a favourable business climate which helps EMMNEs acquire strategic assets in the host countries without raising political and public concerns, thus ensuring smooth operations and avoiding disruption.

Additionally, with the presence of close interstate political relations, the policies followed by one government may be viewed by the other as conducive to the realization of its own interests (Keohane & Underdal, 2011). Hence, the host government may be more willing to cooperate by introducing incentives to accommodate firms' home-government financial supportive schemes. For example, good interstate political relations may prompt the host government to adopt an MNE's home-country currency as a method of payment that helps to avoid exchange risk and reduces transaction cost in cross-border operations. In the context of Chinese MNEs, host-country governments with favourable interstate political relations with China may be willing to cooperate with the Chinese government in monetary issues such as the internationalization of RMB (Financial Times, 2015). Chinese MNEs can benefit from such cooperation at interstate level as it lowers the cost associated with exchange rate fluctuations if RMB is accepted as the trading currency, and this can further boost the positive effect of the financial support offered by their home-country government on post-entry performance.

> **Hypothesis 2a:** The positive relationship between home-government financial support and Chinese MNEs' overseas performance is stronger when there are stronger political relations between China and the host country.

Interstate political relations and home-government non-financial policy support

With stronger political relations at interstate level, countries are likely to adjust their behaviours to the preference of each other and intergovernmental coordination can take place among subunits of governments (Keohane, 2005). This facilitates home-country government interacting or communicating with the host government more effectively which enables the home-country government agencies to gather up-to-date information regarding host markets (Ikenberry & Lim, 2017). This knowledge can then be passed onto EMMNEs investing in these countries, thus enlarging their knowledge base and helping them better understand local markets. In this regard, closeness in political relations between home and host countries may motivate the host country government to provide updated information about the host country market and economic development, thus complementing home-country government policy support and further enhancing the effectiveness of home-country government policy support on the post-entry performance of EMMNEs.

In addition, when there is a greater degree of foreign policy alignment between countries, it promotes more institutionalized commitments at intergovernmental level (Li & Vashchilko, 2010), which enhance the effectiveness of the risk-safeguard mechanism provided by the home-country government. The host-country government may pay greater attention to the issues brought by the home-country government agencies as it may help to enhance political co-operation. Previous research posited that the co-operative interplay between firms' home and host-country governments in the international political system can be useful leverage to protect cross-border operations (Cuervo-Cazurra, 2011). Thus, favourable political relations enable local Chinese embassies to negotiate with the host-country government more effectively for the protection of Chinese MNEs' overseas assets and personnel safety.

Furthermore, close political relations between home and host countries may result in endorsement of EMMNEs by the host countries (Li et al., 2017). The favourable attitude of the host-country government towards EMMNEs increases the possibility of these firms being accepted by other local stakeholders (Ang. Benischke & Doh, 2015), thus helping attract potential partners for collaboration as well as enabling them to tap into valuable local resources. This suggests that quality interstate political relations enhance EMMNEs' embeddedness in a host country which complements the non-financial support from the home country and makes EMMNEs more able to exploit local market opportunities, thus boosting post-entry performance (Andersson, Forsgren & Holm, 2002; Heidenreich, 2012).

Hypothesis 2b: The positive relationship between home-government non-financial policy support and Chinese MNEs' overseas performance is stronger when there are stronger political relations between China and the host country.

Interstate economic relations

International economic exchanges are characterized by both common and conflicting interests on multiple crucial economic issues where countries may worry about being exploited (Keohane, 1984). Although international institutions such as the World Trade Organization have been effective in promoting non-discrimination and market liberalization, the difficulty of reaching deals and monitoring state behaviours incurs considerable costs for cooperation at multilateral level (Keohane & Underdal, 2011). As a result, governments started negotiating economic agreements at interstate level that allow them to identify common interests and compromise on an acceptable scale.

Given the growing interdependence between countries in today's world political economy, favourable interstate economic relations as exemplified by the enforcement of economic agreements allow national governments to organize their activities in a mutually beneficial way (Jandhyala & Weiner, 2014). The most prevalent interstate economic treaties are bilateral investment treaties (BITs) and double taxation treaties (DTTs) (Sauvant & Sachs, 2009). Accordingly, BITs are signed between pairs of countries to encourage and protect investments between them (Ginsburg, 2005). Similarly, DTTs are used to harmonize the calculation methods and definitions on tax subjects, mitigate the uncertainty faced by investors in foreign fiscal systems, and reduce administrative complexities (Barthel, Busse & Neumayer, 2010). As a specific institutional link between the home and host countries, interstate economic treaties may enhance EMMNEs' post-entry performance through defining legal rights and liabilities, reducing uncertainty, and providing reliable information (Zong, Lu & Wang, 2012), thus reinforcing the positive impact of the financial and non-financial support from the home-country government.

Interstate economic relations and home-government financial support

In order to promote outward FDI, emerging economy governments have actively signed BITs and DTTs with other countries. The enforcement of such treaties specifies the legal rights and liabilities between signatory states. BITs typically include a 'national treatment' clause that entitles foreign firms from signatory countries to be treated equally in comparison with domestic firms (Jandhyala & Weiner, 2014). Such a clause creates institutional conditions through which EMMNEs are better able to be embedded in the local context, thus reducing the liability of foreignness. It also confers EMMNEs with the legal rights of participating in the host-country's financial market and receiving financial support from host-country FDI promoting agencies (Sauvant & Sachs, 2009). These can reduce Chinese MNEs' costs of accessing overseas assets. As financial support offered by the Chinese government can attach certain political conditions and/or performance requirements (Luo et al., 2010), gaining access to the host-country financial market may alleviate firms' reliance on home-country government financial support and serves as an alternative source of financial resources.

Furthermore, DTTs provide MNEs with the immediate benefit of cost saving. Standardisation of tax definitions and solidification of tax jurisdictions between treaty partners may help firms to alleviate the burden of paying tax to both their home and host countries (Blonigen & Davies, 2004). Compared with financial support from the home-country government, DTTs may be a better received option internationally as some host governments consider subsidies provided by the home-country government to be a source of unfair competition (Globerman & Shapiro, 2009). In this regard, effective BITs and DTTs can facilitate economic exchanges between EMMNEs and local firms in host countries, thus enhancing local embeddedness of EMMNEs. As a result, BITs and DTTs can act as substitutes for home-country government support. Favourable economic conditions at interstate level reduce the importance of home-country financial support for EMMNEs' post- entry performance.

Hypothesis 3a: The positive relationship between home-government financial support and Chinese MNEs' overseas performance is weaker when there are stronger economic relations between China and the host country.

Interstate economic relations and home-government non-financial policy support

Interstate economic agreements cover a wide range of crucial economic issues between countries (Keohane, 1984). These treaties or agreements provide extensive and effective protection for foreign investors with regard to admission and establishment conditions, treatment of foreign investments once established, dispute settlement, and double taxation avoidance (Büthe & Milner, 2008). The specification of dispute settlement mechanisms and right to compensation in the event of nationalization reduces uncertainty facing EMMNEs when operating in the host country (Sauvant & Sachs, 2009). As most treaties have specific clauses to govern disputes between investors and the host-country government, they have enabled firms to seek arbitration and compensation without the need to involve the home-country government in the process (Jandhyala & Weiner, 2014). The adoption of an arbitrational approach under economic treaties may reduce the need for diplomatic support from local Chinese embassies, thus easing political scepticism. As a result, the risk-safeguard mechanism provided by home-government support can be replaced by well-defined bilateral treaties. This suggests that good interstate economic relations may reduce the importance of non-financial policy support from home-country government in affecting Chinese firms' overseas performance.

In addition, the enforcement of interstate economic treaties can be an alternative channel for firms seeking to obtain more detailed and country-specific information, which can reduce their reliance on information provided by the home government. A typical BIT between signatory states provides information regarding MNEs' entitlement of national treatment, the rights of profit repatriation, and compensational mechanisms in the event of nationalization (Sauvant & Sachs, 2009). Similarly, the implementation of DTTs between countries can effectively inform firms on tax matters covering a wide range of issues including tax relief on specific projects and dispute settlement procedures between firms and host-country tax bureaus (Barthel et al., 2010). Hence, the presence of interstate economic treaties may provide more specific information regarding the host-country's investment and taxation policies than the general guidance from EMMNEs' home-country government. Thus, the presence of interstate economic relations in the forms of BITs and DTTs enables EMMNEs to access an alternative source of information in the host country and reduces Chinese MNEs' reliance on home-country government information support.

Hypothesis 3b: The positive relationship between home-government non-financial policy support and Chinese MNEs' overseas performance is weaker when there are stronger economic relations between China and the host country.

2.5 Sample and Data

2.5.1 Sample

The hypotheses are tested using survey data on Chinese enterprises' outward FDI collected by the China Council for the Promotion of International Trade (CCPIT) in 2011. The sample contained firms from 16 provinces and municipalities across China and provided a wide coverage of geographical diversity.[1] The survey targeted firms that have already engaged in outward FDI. Therefore, the data obtained from this survey offers a suitable context to analyse overseas subsidiary performance of Chinese companies.

Due to cost and administrative constraints, 2,000 firms that were the CCPIT's membership enterprises, and also appeared on the MOFCOM's registration list for their outward FDI activities, were approached. The target respondents were those in charge of firms' international strategy and investment activities. A total of 365 questionnaires were received which covered 14 industrial sectors. Responses that were either incomplete or not applicable were eliminated; for example, firms operating abroad mainly through setting up export agencies or foreign wholly-owned subsidiaries in China. This provided us with 183 observations. To examine the relevance of interstate political and economic relations, the author excluded outward FDI flowing to the British Virgin Islands, Hong Kong, and Macao as they are not members of the UNGA. As a result, the survey yielded 148 observations as our final sample.

2.5.2 Measurements

Overseas subsidiary performance. The dependent variable is the overseas subsidiary performance of a Chinese firm. As Hult et al. (2008) suggested, since objective financial data

[1] The sample firms are located in Beijing, Shanghai, Tianjin, Chongqing, Shangdong, Guangdong, Jiangsu, Zhejiang, Fujian, Henan, Hubei, Hunan, Hebei, Heilongjiang, Yunnan and Shaanxi.

are not easily accessible in emerging markets, the use of perceptual data becomes appropriate as such a measure helps us understand the values and priorities that corporate executives place on specific objectives. The construct was operationalised by asking the respondents to provide their satisfaction with their firm's most recently established overseas branches on a 7-point Likert scale (1 = very dissatisfied, 7 = very satisfied) regarding three items: (i) sales growth, (ii) local market share growth, and (iii) sales margin growth.

Home-country government financial support. Home-country government financial support was measured by the actual level of support the sample firms received from home-country governments in terms of financial and capital access in their overseas investment (1= very low support, 7= very high support).

Home-country government non-financial policy support. Home-government non-financial policy support was operationalised by asking the respondents to evaluate the level of policy support that they received during overseas expansion on a 7-point scale in terms of: (i) simplifying the approval of foreign investment, (ii) simplifying procedures for demonstrating firms have sufficient capital in foreign investment projects, (iii) investment guidelines by industries, (iv) the protection of firms' rights overseas, and (v) investment guidelines by countries.

Interstate political relations. Following previous research (Dai et al., 2013), this study adopted Voeten, Strezhnev and Bailey's (2013) Affinity of Nations Index to capture interstate political relations between China and a host country.[2] This index is based on countries' voting behaviours in the UNGA in 2010. States with good political relations tend to share more similar foreign policy positions in international affairs and it should be reflected in their

[2] The Affinity of Nations Index was first developed by Gartzke (2006) and updated by Voeten, Strezhnev and Bailey from 2008 onwards: http://pages.ucsd.edu/~egartzke/htmlpages/data.html [Accessed 15 June 2017]

voting behaviours at the UNGA (Knill, Lee & Mauck, 2012). Within the index, the affinity between any two countries at any point in time falls in the range of -1 to 1. In which, -1 indicates that two countries' voting behaviours at the UNGA are completely dissimilar and 1 suggests that they are identical (Gartzke, 2006; Voeten et al., 2013). Hence, the higher values indicate a stronger political relationship between two countries (Dai et al., 2013).

Interstate economic relations. This study measures interstate economic relations as the number of BITs and DTTs enforced between China and a host country. Data on BITs were drawn from the database of United Nations Conference on Trade and Development (UNCTAD) [3]. DTTs data were extracted from the China Commerce Yearbook 2011.

Control variables. At a country level, research has found that EMMNEs tend to enjoy greater prevalence when operating in other underdeveloped institutional environments (Liu et al., 2016). Thus, this study controls for host-country risk using the World Governance Indicators (WGI) in 2010 (Kaufmann, Kraay & Mastruzzi, 2009). [4] The WGI reports the institutional governance quality for 215 economies annually and covers six dimensions: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption (Globerman & Shapiro, 2003). The WGI scores are on a scale between -2.5 to 2.5, where higher scores indicate better governance quality. To allow for a comprehensive interpretation, the author rescaled the index by using 2.5 minus the original scores for all observations. Hence, for this analysis, 0 means best governance quality while 5 indicates the most risky environment. Furthermore, following previous research (Wu & Chen, 2014), the author employs the marketization index published by China's National Economic Research Institute (NERI) to capture the degree of

[3] BIT data are available at: http://investmentpolicyhub.unctad.org/IIA/CountryBits/42#iiaInnerMenu [Accessed 15 June 2017]

[4] The WGI scores are available at: http://info.worldbank.org/governance/wgi/index.aspx#reports [Accessed 15 June 2017]

regional marketization given the heterogeneities of institutional development within China (Fan, Wang & Zhu, 2010). The index reports the relative position of each province in the progress towards a market-based economy compared to other provinces. It covers five dimensions including the importance of regional government in resource allocation, the percentage of non-state-owned sectors in the regional economy, regional government control on price setting and inter-regional trade barriers, the mobility of capital, investment, and labour, and the development of legal supporting institutions in the region (Fan, Wang & Zhang, 2001). In addition, it is recognized that investment agreements signed at the multilateral level provide mechanisms to protect foreign investors (Büthe & Milner, 2008). Thus, the present study includes a dummy variable by assigning 1 if a multilateral investment agreement has been enforced between China and a host country and 0 otherwise. The data has been drawn from the UNCTAD database.[5]

At industry level, this study includes a dummy variable by differentiating manufacturing and non-manufacturing companies (Brouthers, 2002). Moreover, a host country's degree of industry competition is measured using three items from the survey: (i) difficulties of obtaining raw materials, (ii) technology for innovation, and (iii) completion of upstream and downstream industries in the host market.

At firm level, the author measures firm size as the natural logarithm value of total employees (Cui & Jiang, 2012). Existing research shows that MNEs may benefit from their previous international and host-country experiences (Delios & Beamish, 2001). Thus, a firm's international experience is captured by the number of years that it has engaged in international activities (Lu, Zhou, Bruton & Li, 2010). Host-country experience is measured

[5] Multilateral investment agreement data are available at http://investmentpolicyhub.unctad.org/IIA/CountryOtherIias/42#iiaInnerMenu [Accessed 15 June 2017]

as the number of years that a firm has operated in a host country (Wu & Lin, 2010). Moreover, this study accounts for the effect of state ownership using a dummy variable by assigning value 1 to state-owned enterprises (SOEs) and 0 otherwise. Finally, effective risk assessment may allow MNEs to employ appropriate strategies to manage potential hazards in their overseas operations (Holburn & Zelner, 2010; Satyanand, 2010). Thus, a dummy variable is used by assigning value 1 if firms have adopted risk assessment strategies and 0 otherwise. (See Appendix 1 for a summary of questionnaire survey items).

2.6 Empirical Results

2.6.1 Common method bias

As some variables were drawn from the same survey respondents, this may entail a threat of common method bias (Podsakoff & Organ, 1986). In addition to introducing objective measurements, such as host-country risk, interstate political relations and economic relations as well as the regional marketization index, the author tested for this potential issue by performing the Harman single-factor test (Podsakoff, Mackenzie, Lee & Podsakoff, 2003). The result indicates that the single factor model demonstrated a poor fit to the data, which only accounted for 10% of the variance. Therefore, common method bias is unlikely to be a major concern in this study.

2.6.2 Construct reliability and validity

Descriptive statistics and variable correlations are presented in Table 2.8 and variance inflation factors (VIF) are well below the acceptable level of 10 (Neter, Wasserman & Kutner, 1985). Thus, it indicates no multicollinearity issue. The reliability of multi-item constructs has been assessed by examining their internal consistency with Cronbach's alpha. The internal consistency values for all constructs were above 0.70, ranging from 0.766 to 0.975. The author conducted confirmatory factor analysis (CFA) to test the convergent and discriminant validities for these multi-item constructs. The result of the CFA model fits the data well (see Table 2.9), with all indices meeting their respective criteria ($\chi^2(113) = 186.188$; $p<0.001$; CMIN/DF=1.65; CFI=0.97; RMSEA=0.06; NNFI=0.97; SRMR=0.04). Table 2.10 reports the CFA results, which support convergent validity.

Table 2.8 Correlation matrix

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Performance	3.91	0.81														
2. Home-government financial support	3.23	0.85	0.14													
3. Home-government policy support	5.05	1.21	0.42**	0.18*												
4. Interstate political relations	0.61	0.57	0.09	-0.02	-0.12											
5. Interstate economic relations	1.56	0.61	-0.06	-0.09	-0.02	0.19*										
6. Regional marketization	9.36	1.41	0.15	0.34**	0.04	-0.01	-0.10									
7. Ownership	0.26	0.44	-0.11	-0.16	-0.05	0.05	0.07	-0.16								
8. Local experience	2.86	2.47	0.10	-0.02	-0.08	0.04	0.12	-0.12	-0.02							
9. Industry dummy	0.49	0.50	0.24**	0.07	0.09	0.08	0.10	0.16*	-0.29	0.05						
10. Risk assessment	0.86	0.35	0.26**	0.16	0.22**	0.05	0.02	-0.03	-0.03	0.14	0.05					
11. Firm size	6.29	2.19	0.15	0.03	0.12	0.13	0.15	0.16*	0.29**	0.04	0.23**	0.06				
12. Host-country industry competition	3.20	0.96	0.13	-0.07	0.25**	-0.23	0.29**	-0.07	-0.07	0.00	0.13	0.12	0.03			
13. Host-country risk	2.07	1.17	0.13	-0.09	-0.12	0.64**	-0.26	-0.07	-0.04	-0.07	-0.05	0.00	-0.11	-0.34		
14. Multilateral investment treaty	0.31	0.46	-0.10	0.09	-0.15	0.21**	0.29**	0.15	-0.06	-0.01	0.08	0.11	0.16	0.11	-0.06	
15. International experience	7.73	6.78	0.06	-0.06	-0.04	0.04	0.21*	0.02	0.12	0.29**	0.24**	0.19*	0.31**	0.10	-0.07	0.05

Sample = 148

*P<0.05; **P<0.01; ***P<0.001

Table 2.9 CFA model

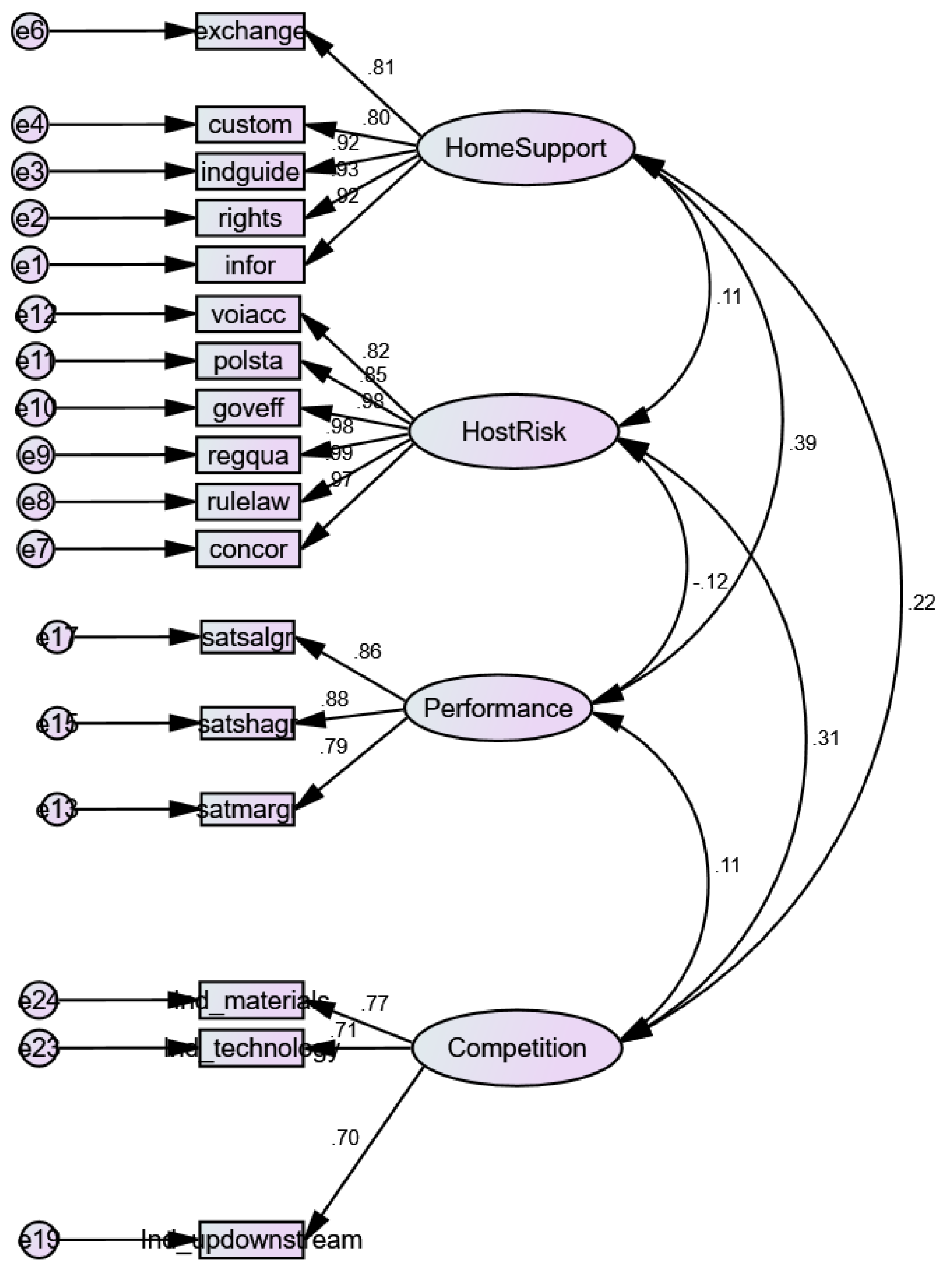


Table 2.10 Measurement model and CFA results

Constructs	*Operational Measures of Construct*	*Factor Loadings*	*t-value*
Chinese firms' overseas performance			
(Cronbach's alpha=0.880)	Satisfaction with sales growth	0.86	11.12
	Satisfaction with local market share growth	0.88	11.21
	Satisfaction with sales margin growth	0.79	Fixed
Home-country government policy support			
(Cronbach's alpha=0.943)	Simplifying procedures for demonstrating firms have sufficient capital in foreign currency	0.81	14.05
	Simplifying the approval of foreign investment	0.80	13.56
	Investment guidelines by industries	0.92	19.13
	Protection of firms' rights overseas	0.93	19.65
	Investment guidelines by countries	0.92	Fixed
Host-country risk			
(Cronbach's alpha= 0.975)	Voice and accountability	0.82	16.54
	Political instability	0.85	18.57
	Government effectiveness	0.98	38.48
	Regulatory quality	0.98	37.86
	Rule of law	0.99	45.38
	Control of corruption	0.97	Fixed
Host-country industry competition			
(Cronbach's alpha=0.766)	Obtaining raw materials	0.77	6.77
	Obtaining technology	0.71	6.68
	Completion of upstream and downstream industries	0.70	Fixed

Additionally, the discriminant validity for those multi-item constructs was tested to make sure that each of them captured phenomena that others did not. Accordingly, the variance extracted for any construct in a pair of comparisons should be greater than 0.50 and larger than the squared correlations between the two constructs (Hair, Black, Babin, Anderson & Tatham, 2006). As shown in Table 2.11, the variance extracted ranges from 0.73 to 0.94. Thus, the author suggests that these results provide evidence for discriminant validity.

Table 2.11 Discriminant validity

	Host-country industry competition	Host-country risk	Performance	Home-country government policy support
Host-country industry competition	(0.73)			
Host-country risk	0.31	(0.94)		
Performance	0.11	-0.12	(0.85)	
Home-country government policy support	0.22	0.11	0.39	(0.88)

2.6.3 Hypotheses tests and results

The results using the ordinary least squares (OLS) regression are presented in Table 2.12. Model 1 in Table 2.12 is a baseline model. Model 2 introduces the independent variables, home-government financial support and non-financial policy support. The moderating variables were included one by one in Model 3 and Model 4. Finally, Model 5 is a full model with all the variables.

For the control variables, the degree of regional marketization is significant and positively related to firms' overseas performance in Model 1, Model 4, and Model 5 ($\beta=0.09$, $p<0.05$), and at the 10% significance level in Model 2 and Model 3. A firm's local experience in a host country is significant and positively associated with a firm's overseas performance at the 5% significance level in Model 4 and Model 5, and at the 10% significance level in Model 2 and Model 3. The industry effect is significant at the 5% significance level in Model 1 and Models 3-5, and reaches 10% significance level in Model 2. A firm's risk assessment is positively related to their overseas performance at the 1% significance level in Model 1 and at the 5% significance level in Models 2-5. Firm size only reaches the 10% significance level in Model 1 and becomes insignificant when the main and interactive variables are included. The level of host-country industry competition is positively associated with Chinese firms' overseas subsidiary performance at the 5% significant level in Model 1, but drops to the 10% significance level in Model 4 and Model 5. The level of host-country risk is positively related to Chinese MNEs' post-entry performance at the 10% significance level in Model 1, and increases to the 5% significance level in Models 2-5. Additionally, the enforcement of multilateral investment agreement is negatively related to subsidiary performance at the 5% significance level in Model 1, but only reaches the 10% significance level in Model 4 and Model 5.

For the independent variables, as home-country government financial support is statistically insignificant, Hypothesis 1a is not supported. By contrast, non-financial policy support is positive and statistically significant in Model 2 ($\beta=0.23$, $p<0.001$) and Model 5 ($\beta=0.41$, $p<0.05$) when all the variables are included. Thus, it lends support for Hypothesis 1b that Chinese MNEs' overseas subsidiary performance is positively related to the level of home-country government non-financial policy support.

For the interaction effect between home-government financial support and interstate political relations, the coefficient of the interaction term in Model 3 and Model 5 is statistically insignificant. Hence, Hypothesis 2a is not supported. The interaction effect between non-financial policy support and interstate political relations is positive and statistically significant in Model 3 ($\beta=0.24$, $p<0.05$) and Model 5 ($\beta=0.27$, $p<0.05$). This suggests that favourable interstate political relations strengthen the positive impact of non-financial policy support on subsidiary performance, thus supporting Hypothesis 2b.

With regard to the joint effect of home-government financial support and interstate economic relations, the interaction terms are positive but statistically insignificant in Model 4 and Model 5 which does not support Hypothesis 3a. For Hypothesis 3b, the interaction terms between non-financial policy support and interstate economic relations are negative and statistically significant in Model 4 ($\beta=-0.23$, $p<0.01$) and Model 5 ($\beta=-0.24$, $p<0.01$). This suggests that the impact of supportive schemes in the non-financial domain is weakened given strong interstate economic co-operation. There is a substitutive effect between home-government non-financial policy support and interstate economic relations. Thus, the results are consistent with Hypothesis 3b.

Table 2.12 Result of regression analysis

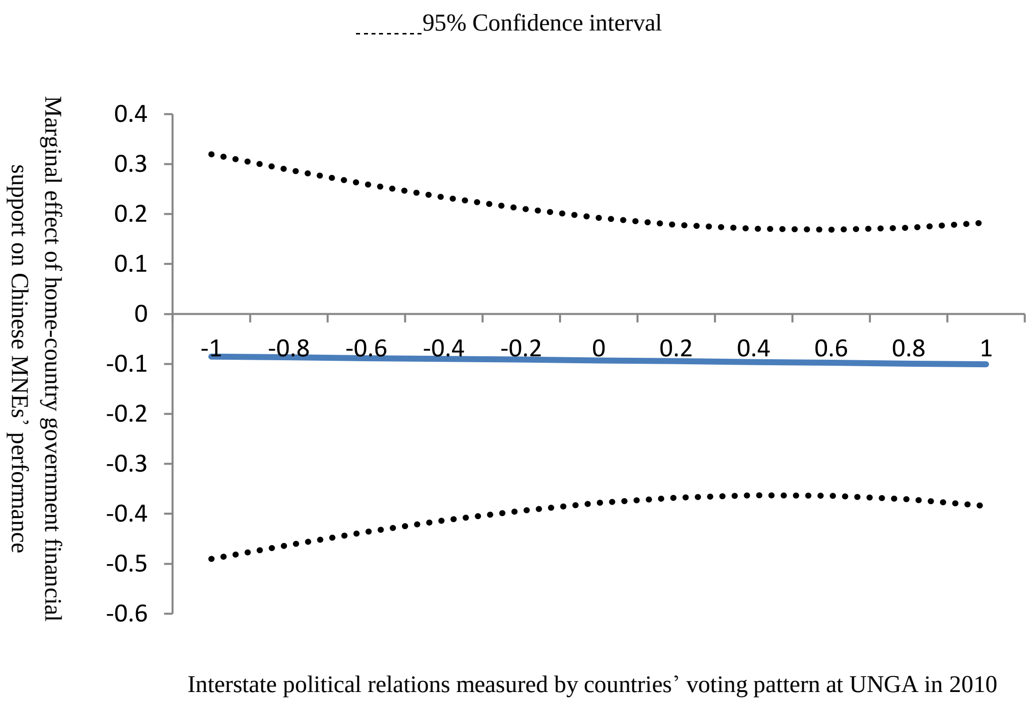
	Model 1	Model 2	Model 3	Model 4	Model 5
Main Variable					
Home-country government financial support		0.02	0.02	-0.09	-0.09
		(0.08)	(0.09)	(0.14)	(0.14)
Home-country government non-financial policy support		0.23***	0.05	0.58***	0.41*
		(0.05)	(0.10)	(0.14)	(0.16)
Moderators					
Interstate political relations	-0.02	-0.06	-1.40*	0.03	-1.39*
	(0.17)	(0.16)	(0.66)	(0.16)	(0.64)
Interstate economic relations	-0.03	-0.01	0.01	0.92Ɨ	0.97*
	(0.12)	(0.12)	(0.12)	(0.47)	(0.47)
Interactions					
Home-country government financial support * Interstate political relations			0.02		-0.01
			(0.10)		(0.10)
Home-country government non-financial policy support * Interstate political relations			0.24*		0.27*
			(0.12)		(0.11)
Home-country government financial support * Interstate economic relations				0.06	0.07
				(0.10)	(0.09)
Home-country government non-financial policy support * Interstate economic relations				-0.23**	-0.24**
				(0.08)	(0.08)
Control Variables					
Degree of marketization	0.09*	0.09Ɨ	0.09Ɨ	0.09*	0.09*
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Ownership	-0.08	-0.04	-0.03	-0.01	-0.01
	(0.16)	(0.15)	(0.15)	(0.15)	(0.15)
Local experience	0.03	0.04Ɨ	0.04Ɨ	0.05*	0.05*
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Industry dummy	0.28*	0.26Ɨ	0.26*	0.26*	0.27*
	(0.14)	(0.13)	(0.13)	(0.13)	(0.13)
Risk assessment	0.58**	0.38*	0.36*	0.44*	0.42*
	(0.18)	(0.18)	(0.18)	(0.18)	(0.17)
Firm size	0.06Ɨ	0.04	0.04	0.05	0.05
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
International experience	-0.01	-0.01	-0.01	-0.01	-0.01
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Host-country industry competition	0.16*	0.09	0.10	0.12Ɨ	0.12Ɨ
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)
Host-country risk	0.16Ɨ	0.17*	0.19*	0.16*	0.19*

	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Multilateral investment agreement enforced	-0.32*	-0.19	-0.18	-0.25Ɨ	-0.24Ɨ
	(0.14)	(0.14)	(0.14)	(0.14)	(0.14)
Observations (N)	148	148	148	148	148
R-square	0.17	0.26	0.28	0.29	0.31

ƗP < 0.10; *P < 0.05; **P < 0.01; ***P<0.001

To avoid overstating or understating the interaction results, the author follows previous research to evaluate the marginal effects of independent variables at different values of moderators through plotting graphic displays (Brambor, Clark & Golder, 2006; Chizema, Liu, Lu & Gao, 2015; Kingsley, Noordewier & Vanden Bergh, 2017). Figure 2.1 depicts the marginal effect of home-country government financial support on Chinese MNEs' overseas performance when interstate political relations between China and the host country become stronger. The lower and higher 95 percent confidence lines fall on different sides of the zero-line. This corroborates the result of OLS regression analysis – Hypothesis 2a, which proposes favourable interstate political relations enhance the positive impact of home-government financial support on Chinese MNEs' overseas subsidiary performance is not supported.

Figure 2.1 The moderating effect of interstate political relations on the relationship between Chinese MNEs' overseas subsidiary performance and home-government financial support



As shown in Figure 2.2, there is an upward slope for the marginal effect of home-government non-financial policy support on Chinese firms' overseas performance when interstate political relations between China and the host country become stronger. The lower 95% confidence line goes above the zero-line, when the voting pattern is greater than -0.2. This indicates that when the voting pattern exhibits a high degree of similarity and is greater than -0.2, the positive impact of home-government non-financial policy support on Chinese MNEs' subsidiary performance becomes more significant when interstate political relations become stronger. Hence, Figure 2.2 lends further support for Hypothesis 2b, which postulates stronger interstate political relations augment the positive effect of home-country government non-financial policy support on the overseas subsidiary performance of Chinese firms.

Figure 2.2 The moderating effect of interstate political relations on the relationship between Chinese MNEs' overseas subsidiary performance and home-government non-financial policy support

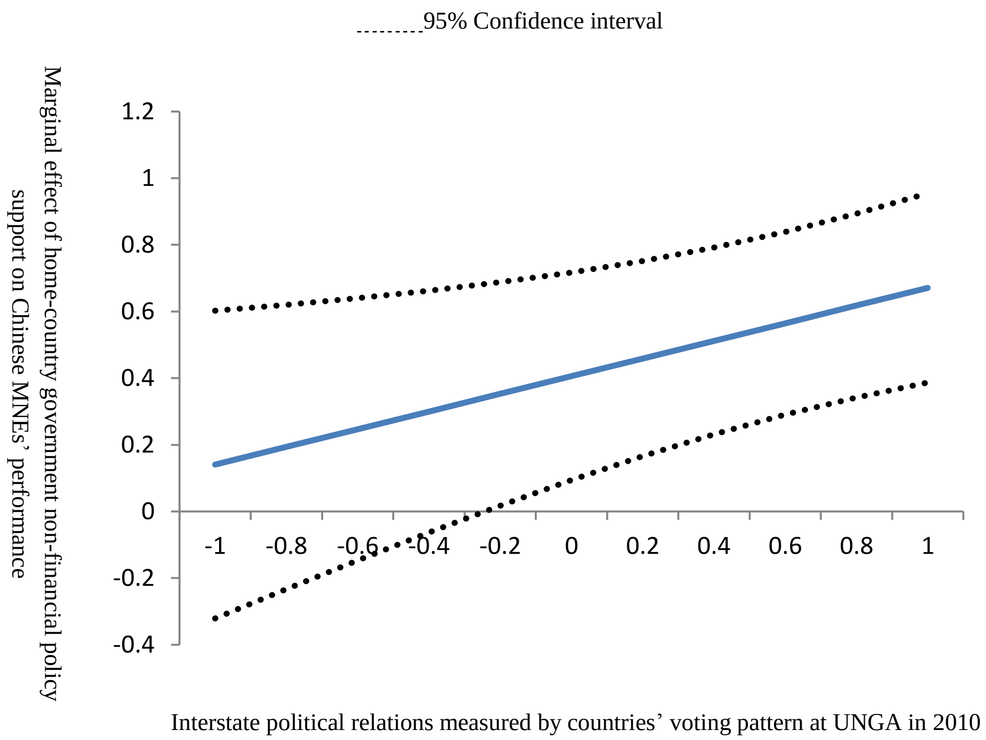
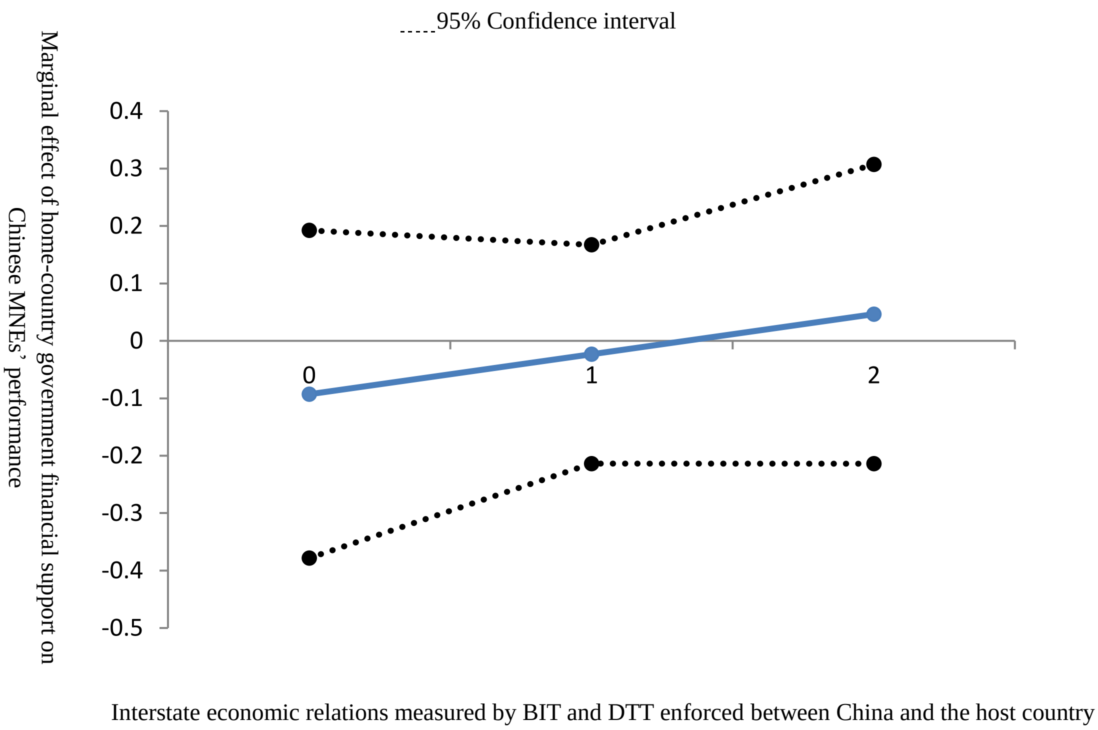


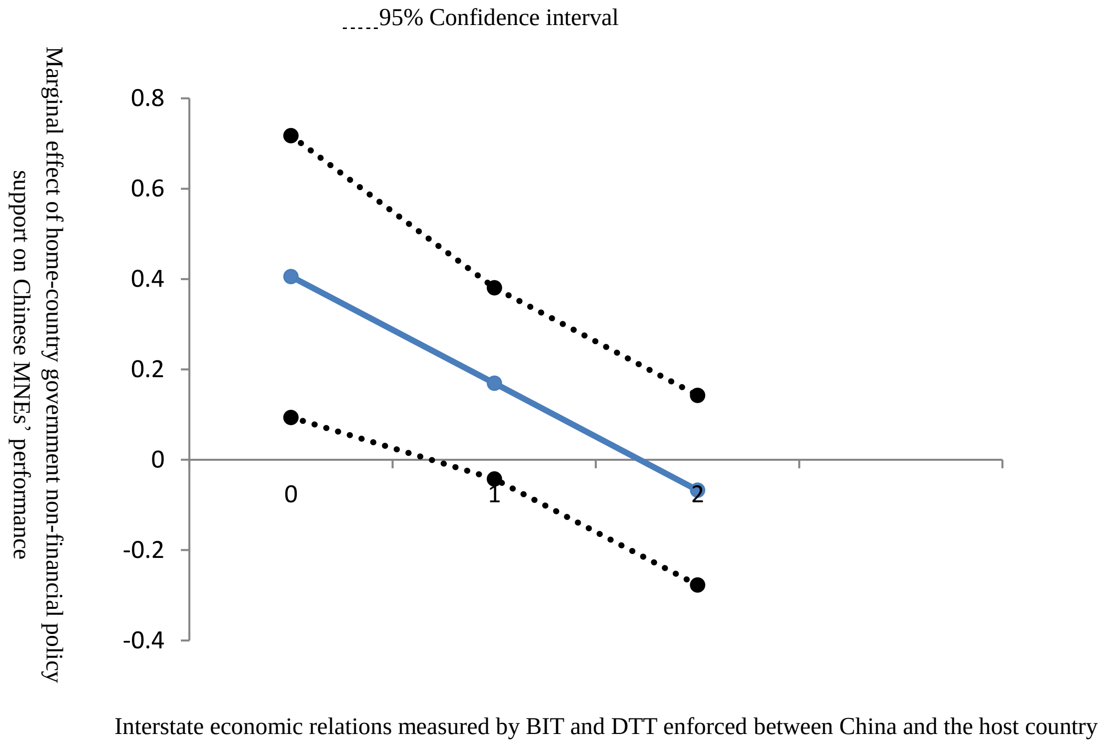
Figure 2.3 presents the marginal effect of home-government financial support on Chinese MNEs' post-entry performance when the degree of interstate economic relations between China and the host country becomes more favourable. The higher and lower 95% confidence lines do not locate on the same side of the zero-line. Hence, the plotting result is consistent with the OLS regression analysis – Hypothesis 3a, which posits the positive impact of home-government financial support on Chinese MNEs' overseas performance is diminished in the face of stronger interstate economic relations, does not receive support.

Figure 2.3 The moderating effect of interstate economic relations on the relationship between Chinese MNEs' overseas subsidiary performance and home-government financial support



As shown in Figure 2.4, the marginal effect of home-government non-financial policy support on Chinese firms' overseas performance diminishes when both BIT and DTT have been enforced between China and the host country. The downward slope corresponds to Hypothesis 3b, indicating that there is a substitutive effect between non-financial policy support and the strength of interstate economic relations on Chinese MNEs' post-entry performance. Specifically, when interstate economic relations are equal to 1, the marginal effect of non-financial policy support on subsidiary performance becomes insignificant. This suggests that as the degree of interstate economic relations becomes stronger, the impact of home-government non-financial policy support on firms' overseas performance becomes negligible.

Figure 2.4 The moderating effect of interstate economic relations on the relationship between Chinese MNEs' overseas subsidiary performance and home-government non-financial policy support.



2.6.4 Robustness checks

To deal with the issue of potential selection bias, the author employs Heckman's (1976) two-step estimation to test the robustness of the results. In the first stage, a probit model is used to estimate the probability of Chinese MNEs entering countries with high political risks. The inverse Mills ratio (IMR) was generated by regressing firms' characteristics and home-government financial support and non-financial policy support on host-country risk. Due to the absence of classification on countries' governance quality under the WGI index, this study used China's governance score in 2010 as a benchmark (WGI, 2010). Under the WGI's six dimensions in 2010, China scored -1.63 for voice and accountability, -0.66 for political stability, 0.10 for government effectiveness, -0.22 for regulatory quality, -0.33 for rule of law, and -0.60 for control of corruption. Firstly, their mean was calculated (-0.55). Additionally, the author uses 2.5 to subtract the mean value, i.e. 2.5- (-0.55) = 3.05 to allow comprehensive interpretation. For the present study, countries scored equal or higher than 3.05 indicate greater risk.

In the second stage, Chinese MNEs' overseas subsidiary performance was estimated by including IMR as a regressor to capture the potential sample selection bias. As reported in Table 2.13, the IMR coefficient reaches only 10% significance level in Model 1 and becomes insignificant when all the variables are introduced. This indicates the absence of such bias. The coefficient of the independent variable, home-government non-financial policy support, and its interactions with interstate political and economic relations remain similar to those reported in the initial OLS regression.

Table 2.13 Robustness test

	Model 1	Model 2	Model 3	Model 4	Model 5
Main Variable					
Home-country government financial support		-0.07	-0.09	-0.15	-0.15
		(0.32)	(0.33)	(0.34)	(0.34)
Home-country government non-financial policy support		0.21**	0.03	0.58***	0.39*
		(0.07)	(0.11)	(0.15)	(0.16)
Moderators					
Interstate political relations	-0.03	-0.01	-1.40*	0.02	-1.39*
	(0.17)	(0.16)	(0.66)	(0.16)	(0.64)
Interstate economic relations	0.00	-0.01	0.01	0.92ł	0.96*
	(0.12)	(0.12)	(0.12)	(0.47)	(0.47)
Interactions					
Home-country government financial support * Interstate political relations			0.02		-0.01
			(0.10)		(0.10)
Home-country government non-financial policy support * Interstate political relations			0.24*		0.26*
			(0.12)		(0.11)
Home-country government financial support * Interstate economic relations				0.06	0.07
				(0.10)	(0.10)
Home-country government non-financial policy support * Interstate economic relations				-0.23**	-0.24**
				(0.08)	(0.08)
Control Variables					
Inverse Mills Ratio (IMR)	2.01ł	1.53	1.69	0.89	0.99
	(1.12)	(4.92)	(4.87)	(4.83)	(4.77)
Degree of Marketization	0.10*	0.11	0.11	0.11	0.11
	(0.05)	(0.09)	(0.09)	(0.09)	(0.09)
Ownership	-0.06	-0.04	-0.04	-0.01	-0.01
	(0.16)	(0.15)	(0.15)	(0.15)	(0.15)
Local experience	-0.02	0.00	-0.01	0.02	0.02
	(0.04)	(0.15)	(0.15)	(0.15)	(0.15)
Industry dummy	0.49**	0.42	0.45	0.35	0.37
	(0.18)	(0.55)	(0.54)	(0.54)	(0.53)
Risk assessment	0.95**	0.72	0.73	0.64	0.64
	(0.27)	(1.09)	(1.08)	(1.07)	(1.05)
Firm size	-0.09	-0.07	-0.09	-0.02	-0.02
	(0.09)	(0.37)	(0.36)	(0.36)	(0.36)
International experience	-0.01	-0.01	-0.01	-0.01	-0.01
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Host-country industry competition	-0.26	-0.23	-0.26	-0.07	-0.08
	(0.25)	(1.04)	(1.03)	(1.02)	(1.01)

Host-country risk	0.18*	0.17*	0.19*	0.16*	0.19*
	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Multilateral investment agreement enforced	-0.32*	-0.19	-0.18	-0.25Ɨ	-0.24Ɨ
	(0.14)	(0.14)	(0.14)	(0.14)	(0.14)
Observations (N)	148	148	148	148	148
R-square	0.18	0.26	0.28	0.29	0.31

ƗP < 0.10; *P < 0.05; **P < 0.01; ***P<0.001

2.7 Discussion

The international expansion of Chinese MNEs has been enabled considerably by their home-government policy support (Hoskisson et al., 2013). However, we have limited understanding about the implications of home-government supportive measures for the post-entry performance of these new players.

This chapter uncovers the impact of home-government financial support and non-financial policy impetus on Chinese firms' overseas performance and the extent to which their effects are moderated by interstate political and economic relations. Empirical evidence shows that supportive home-government policies in non-financial domains enhance Chinese MNEs' overseas subsidiary performance, whereas financial support does not have any significant impact on their post-entry success. This suggests that the supportive schemes provided by EMMNEs' home-country government tend to have different implications for firms' post-entry operations. Non-financial policy measures, such as information support, streamlining of administrative process and increasing protection in overseas markets can directly enhance Chinese firms' efficiency and reduce operational costs. This provides contrasting evidence to MNEs from developed countries which traditionally rely on market-based advantages such as superior managerial and technological resources to pursue international success (Hong et al., 2015; Peng, 2012). In addition, the importance of home-government financial support in facilitating Chinese firms' to undertake initial international expansion has been reported by previous studies (Buckley et al., 2007; Hoskisson et al., 2013). However, the result of the present research indicates that such support cannot be transferred into market and technological competencies to enhance firms' competitiveness at post-entry stage.

To validate the results from this study, the author conducted fieldwork interviews with managers of Chinese MNEs that have engaged in foreign market expansion. Findings from the interviews are largely consistent with the empirical analysis by revealing that home-government financial and non-financial measures have differential impacts at the post-entry stage. For instance, one interviewee, who is in charge of a Chinese telecommunication firm's international expansion, reflected that: "We would like to see more help in the form of information provision and diplomatic support from the Chinese government but not much financial assistance as this may create the impression with the host country that we are doing business for the Chinese government." Similar responses have been revealed by several other interviewees. Overall, the results of the present analysis complement previous studies by demonstrating that home-country government support affects not only Chinese MNEs' motives of international expansion (e.g. Luo et al., 2010), but can also be extended to explain their overseas subsidiary performance.

The findings of the present study also provide empirical support for the view that interstate relations can interact with domestic institutional forces to influence cross-border business operations (Cuervo-Cazurra, 2011; Witt & Lewin, 2007). Specifically, the author finds that interstate political relations can serve as a promoting device to augment the positive link between home-government non-financial policy support and EMMNEs' international success. Existing studies predominantly stress the relevance of within-country institutions on MNEs' operational effectiveness (Makino & Tsang, 2011). However, it has been argued that the cross-border exchange of goods, services, and resources with another country can raise political concerns (Globerman & Shapiro, 2009). This is particularly true with Chinese firms, which are often considered to carry their home-country identity and political missions with their outward FDI (Child & Marinova, 2014; Cui & Jiang, 2012). Therefore, investing in countries with good interstate political relations with their home country can help firms minimise negative images associated with their national identities, as home-country government support may be seen as less intrusive in these countries. Furthermore, the

Chinese government and embassies are more likely to be influential in countries with closer interstate political relations. As such, they can provide more effective protection and diplomatic assistance for their firms when needed.

Previous research has argued that the presence of interstate economic agreements facilitates the flow of cross-border investment (Desbordes & Vicard, 2009; Jandhyala & Weiner, 2014). The results of the present study suggest that the enforcement of interstate economic treaties and non-financial policy support offered by the home-country government substitute each other in affecting Chinese MNEs' overseas success. Stronger interstate economic relations provide firms with an alternative channel to access host-country information and markets, which reduce the importance of home-government non-financial policy support. When favourable interstate economic relations are in place, firms can gain access to direct economic benefits, such as tax reduction and tariff exemption. Additionally, interstate economic treaties provide country-specific information which can be more beneficial than generic guidelines issued by the home-country government. Therefore, strong interstate economic relations can replace the promotional measures of the home-country government in helping firms achieve overseas success.

2.8 Summary

Despite increasing attention to the role of the home-country government in the international expansion of EMMNEs, limited research has examined the interaction effect between home-government support and interstate relations on EMMNEs' post-entry performance. As these contextual factors jointly determine resources and institutional support available to EMMNEs (Child & Marinova, 2014), examining their interface helps to address the missing link between domestic and international environmental forces in explaining EMMNEs' international success. Adopting the institutional perspective and the GPE perspective, this chapter investigates the effects of home-government financial and non-financial support under the contingency of interstate relations on the subsidiary performance of Chinese MNEs. Based on survey data, the author found that home-government non-financial support positively affects the overseas performance of Chinese MNEs. The findings further reveal that there is a complementary effect between interstate political relations and home-country government non-financial support, but interstate economic relations are substituted for the importance of home-government non-financial support with regard to Chinese firms' overseas subsidiary performance. Taken together, this chapter sheds new light on a 'missing factor' – interstate relations – in affecting the subsidiary performance of Chinese MNEs.

3. Implications of Home-country Legitimacy for the Level of Political Risk Faced by Chinese MNEs Abroad

3.1 Introduction

Having analysed the effect of home-country government support on Chinese MNEs' post-entry performance, the author tackles the role of home-country legitimacy in explaining the level of political risk encountered by these firms in overseas markets. This chapter investigates the second research question – 'How can we explain Chinese MNEs' perceived level of host-country political risk in light of their home-country legitimacy with key stakeholders in the host country?'

The rise of EMMNEs and the political challenges associated with their international expansion have attracted increasing research interest. Extant literature in this field has mainly looked at the importance of host-country institutional governance conditions to EMMNEs' foreign expansion but provided mixed evidence. Some found that EMMNEs tend to enter and operate in politically risky contexts (Buckley et al., 2016; Jiménez, 2010), whereas others reported that these new players tend to follow their developed country counterparts by avoiding underdeveloped institutional environments (Guo, Wang & Tung, 2014). Given the inconclusive findings of previous research, one may question the extent to which the traditional way of understanding political risk is still valid for EMMNEs. Yet, little attention has been paid to investigating what determines the level of political risk encountered by these new contenders competing in the global arena.

A small but growing body of research has recognized that there may be factors other than host-country political and regulatory governance conditions that can influence the political risks experienced by these new players (Bremmer, 2014; Globerman & Shapiro, 2009). This stream of literature suggests that the current conception of political risk is too narrow and does not adequately account for the issues experienced by EMMNEs (Satyanand, 2010). As extreme political hazards such as direct expropriation fade away, EMMNEs are now facing more sophisticated issues that remain underexplored (Meyer & Peng, 2016). For example, it has been suggested that EMMNEs' expansion may be obstructed by the host government and public for political and social reasons (Fiaschi, Giuliani & Nieri, 2016). However, despite calls for a deeper understanding of political risk in cross-border business operations (Stevens et al., 2015), research has been mostly silent on factors that affect the level of political risk faced by EMMNEs in global marketplaces.

International business scholars have pinpointed the need to understand political challenges faced by EMMNEs from a broader perspective by taking into account their distinctive home-country institutional characteristics (Child & Marinova, 2014). While a number of studies have examined the effect of host-country governance conditions on firms' foreign market success (Meyer & Thein, 2014), the implications of the home-country institutional environment for EMMNEs' post-entry operations has received scant attention.

Existing studies based upon the institutional perspective have pinpointed the importance of legitimacy judgements by a country's interested social stakeholders such as professional associations, consumers, and media in shaping firms' survival (Fiaschi et al., 2016). For firms doing business abroad, while regulatory requirements can be fulfilled by obeying a host country's institutional governance framework, acquiring legitimacy, i.e. social acceptance, can be more challenging as it involves implicit societal values and norms (Webb, Tihanyi, Ireland & Sirmon, 2009). Additionally, as a country's institutional governance rules and its underlying societal values can interact in multi-faceted ways, the legitimacy judgements made by these social stakeholders towards an MNE may either reinforce or constrain the effectiveness of explicitly stated laws (Meyer & Peng, 2016). Yet, despite the relevance of legitimacy, little is known about its role and interplay with a host country's institutional governance conditions in shaping the level of political risk faced by EMMNEs.

This chapter addresses the above research gaps by examining the relationship between Chinese MNEs' home-country legitimacy with key stakeholders in a host country and their perceived level of host-country political risk. The underdeveloped home-country institutional environment, such as lower levels of economic development and standard of living, and weak institutional governance conditions implies a legitimacy deficit for EMMNEs, which may be translated into political challenges when they operate abroad (Marano et al., 2017). Thus, the role of home-country legitimacy needs to be better understood to develop a holistic understanding about the political risk faced by MNEs competing globally. This study extends our knowledge by highlighting the relevance of home-country legitimacy in shaping the level of political risk experienced by Chinese firms.

The remainder of the chapter is organized as follows. Section 3.2 reviews the literature on political risk in international business drawing from the institutional perspective, followed by the theoretical background in Section 3.3. Section 3.4 develops a number of hypotheses. The sample and methodology is described in Section 3.5. Empirical results are then presented, followed by discussion of the main findings in Section 3.7. Section 3.8 concludes.

3.2 Literature Review

This section provides an account of how existing research has examined the effect of external contextual forces on MNEs' perceived level of political risk in international markets by drawing insights from the institutional perspective. The goal is to systematically reveal shortcomings as well as innovative insights from the literature.

3.2.1 Institutional perspective and political risk

In expanding overseas, MNEs face enormous risks in both economic and social domains. Research has traditionally adopted economic perspectives such as the resource-based view to emphasize the possession of valuable assets in helping firms to overcome the risks associated with international operations (Barney, 1991; Child & Rodrigues, 2005; Wu & Chen, 2014). A predominant assumption from this line of literature is that the presence of a stable political and regulatory framework supports firm actions (Brouthers, 2002). Yet, political events over the past several decades including the Cold War, revolutions, and terrorist attacks have profoundly changed the way that MNEs perceive their external environment (Casson & Lopes, 2013; Kobrin, 1979). This has pointed to the need to consider the role of external contextual forces in shaping cross-border business transactions (Kostova & Hult, 2016; Meyer & Peng, 2005; 2016). The institutional perspective has thus emerged as a key theoretical perspective to explain the political hazards faced by MNEs in international marketplaces.

Unlike traditional economic perspectives, the institutional perspective looks beyond firm-level factors by highlighting a country's macro institutional conditions such as political, social, and legal rules that establish the basis for production and exchange (Peng et al., 2008; Scott, 2003). Research has drawn from this lens to analyse host-country governance conditions, for example political and regulatory infrastructure, in affecting both developed country MNEs' and EMMNEs' perceived level of political risk in overseas markets.

Host-country governance conditions and developed country MNEs

For MNEs from advanced economies, the weak governance conditions in many developing countries represent a critical source of political risk (Alon & Herbert, 2009; Casson & Lopes, 2013; Simon, 1984; Slangen & van Tulder, 2009). A poorly developed governance infrastructure featuring an unstable political regime and weak regulatory enforcement has been an unfortunate characteristic of many developing countries, which discourage investment confidence (Kobrin, 1979; Darendeli & Hill, 2016; Oh & Oetzel, 2011). Previous research has adopted a number of conceptual frameworks to look at the impact of host-country political and regulatory conditions on the level of political hazards faced by developed country MNEs.

Globerman and Shapiro (2003) suggested that host countries with effective governance infrastructure measured by the WGI index tend to imply lower degree of political hazards, thus are more likely to receive FDI from the U.S. Similarly, Slangen and van Tulder (2009) adopted this framework to argue that defective governance conditions in the host country denote greater political risk faced by Dutch MNEs. Using a sample of 83 developing countries covering 1984 to 2003, Busse and Hefeke (2007) found that a higher level of political risk measured by the International Country Risk Guide (ICRG) index significantly reduced FDI inflow to these countries. Additionally, Delios and Henisz (2003) showed that Japanese MNEs tend to report less political obstacles in countries with greater constraints on their government's ability to alter existing policies captured by the political constraint index (POLCON). Thus, a common theme running across this strand of research is that a host country with strong governance conditions characterized by a transparent regulatory system, a stable political environment, and credible policy commitment reduces the degree of political risk faced by developed country MNEs.

Host-country governance conditions and EMMNEs

The rapid growth of EMMNEs has prompted research to understand the factors that influence the level of political risk being experienced by these new contenders when venturing abroad. Following analytical frameworks originating from developed country MNEs, research has modelled the role of host-country political and regulatory arrangements in shaping these new competitors' perceived level of political risk. While some maintained that hazardous political situations in the host country are top concerns for EMMNEs (Duanmu & Guney, 2009; Guo et al., 2014; Satyanand, 2010), others suggested that these new players tend to report fewer such risks when venturing into an underdeveloped institutional context. For instance, a number of studies have found that Chinese MNEs perceive lower degree of political risk in countries with weak political and regulatory conditions (Buckley et al., 2016; Kolstad & Wiig, 2012; Liu et al., 2016; Quer et al., 2012). Similarly, Jiménez (2010) noted that Spanish MNEs have reported fewer political obstacles when operating in countries with corruption, discretionary policymaking, and weak protection of property rights. Furthermore, Cuervo-Cazurra and Genc (2008) documented that EMMNEs tend to view operating in underdeveloped institutional contexts as representing a source of opportunity rather than political hazards. Hence, there has been inconsistent evidence regarding the role of host-country governance conditions on the level of political risks faced by these new competitors. (See Table 3.1 for a summary of existing research about the role of host-country governance conditions on the level of political risk faced by MNEs).

Moreover, although some studies suggest that EMMNEs face fewer political obstacles in countries with 'difficult' governance conditions (Cuervo-Cazurra & Genc, 2008; Jiménez, 2010; Liu et al., 2016; Ringov, 2012), this does not imply that they are shielded from changing external circumstances. International business scholars have recognized that the analysis of EMMNEs should be sensitive to both home and host-country contexts (Child & Marinova, 2014; Stevens & Newnham-Kahindi, 2017). EMMNEs' underdeveloped home-country institutional and economic environments may represent additional sources of political barriers to undermine these firms' acceptance, hence survival in overseas markets (Fiaschi et al., 2016; Marano et al., 2017). However, the political implications of home-country institutions for the international success of these new players have received little theoretical and empirical attention.

While the impact of host-country institutional governance arrangements has already been discussed, existing research has not yet provided a comprehensive account about the political hazards faced by EMMNEs. Focusing on a host-country's institutional governance conditions allows us to understand why operating in one country denotes a higher level of political risk than another (Stevens et al., 2015). Yet, it does not adequately explain why these new players tend to experience political issues that often go beyond the host country's political and regulatory governance factors (Satyanand, 2010). Hence, a growing body of literature has considered the relevance of legitimacy, i.e. an organization's degree of social acceptance, in affecting business operations within and across state borders.

Table 3.1 A summary of existing research on the relationship between host-country institutional governance conditions and MNEs' perceived level of political risk

Author(s) (Year)	Theme(s)	Methodology and Sample	Measurement of Political Risk	Key Findings
Panel A: Outward FDI by developed country MNEs				
Delios & Henisz (2003)	Determinants of MNEs' foreign entry strategies	Empirical. Panel data on 665 Japanese manufacturing MNEs	POLCON index	Japanese MNEs' foreign entry decision is negatively related to a host country's likelihood of political change
Globerman & Shapiro (2003)	Determinants of FDI outflow	Empirical. Panel data on U.S. FDI flow to developed and developing countries	WGI indicators	U.S. FDI is unlikely to flow to host countries with underdeveloped governance conditions
Busse & Hefeker (2007)	Determinants of FDI inflow	Empirical. Panel data on FDI flow into developing countries	ICRG index	A host country's government stability, control of corruption, ethnic tensions, internal and external conflicts, law and order, democratic accountability of government, and quality of bureaucracy are key determinants of FDI inflows to developing countries
Slangen & van Tulder (2009)	Determinants of MNEs' foreign entry strategies	Empirical. Questionnaire survey with Dutch MNEs	WGI indicators	Dutch MNEs are more likely to enter countries with underdeveloped governance conditions using joint ventures than wholly-owned subsidiaries

Casson & Lopes (2013)	How MNEs perceive and manage risk	Conceptual.	N/A	Host-country government policy change, discrimination against foreign investors, wars, international sanctions, independent movement, and radical social upheavals are major sources of political risk faced by U.S. and European MNEs in high-risk countries

Panel B: Outward FDI by EMMNEs				
Buckley et al. (2007)	Determinants of FDI outflow	Empirical. Panel data on Chinese FDI outflow	ICRG index	Chinese FDI is likely to flow to host countries with a high level of political risk
Cuervo-Cazurra & Genc (2008)	Determinants of MNEs' overseas performance	Empirical. Panel data on EMMNEs investing in least developed countries (LDCs)	WGI indicators	EMMNEs are likely to show greater competitiveness than developed country MNEs when operating in LDCs
Duanmu & Guney (2009)	Determinants of FDI outflow	Empirical. Panel data on Chinese and Indian MNEs	ICRG index	Chinese FDI is likely flow to host countries with good institutional environments

Satyanand (2010)	How MNEs perceive and manage risk	Conceptual.	N/A	EMMNEs tend to perceive higher level of political risk in underdeveloped institutional environments than developed country MNEs. EMMNEs tend to encounter political risk beyond host country’s governance conditions
Quer et al. (2012)	Determinants of FDI outflow	Empirical. Panel data on Chinese MNEs	ICRG index	Chinese MNEs are unlikely to be discouraged by host countries with high levels of political risk
Guo et al. (2014)	Determinants of FDI outflow	Empirical. Panel data on Chinese FDI outflow	China’s political risk index	Impact of host-country political risk and Chinese FDI’s locational choice vary with time. Chinese investment shows an irregular locational pattern during 2004-2006 but directed to low risk countries since 2007. By 2011, the proportion of Chinese FDI in high risk countries was lower than the world average.
Buckley et al. (2016)	Determinants of FDI outflow	Empirical. Panel data on Chinese MNEs	ICRG index	Chinese MNEs are likely to invest in countries with a high level of political risk
Liu et al. (2016)	Determinants of MNEs’ overseas performance	Empirical. Questionnaire survey with Chinese MNEs	WGI indicators	Chinese MNEs are likely to achieve greater performance in countries with high level of political risk

3.2.2 Legitimacy and political risk

Research rests upon the institutional perspective which has long argued that firms need to gain legitimacy from a range of social groups and actors including government, business partners, customers, and the general public to increase their chances of survival (Meyer & Peng, 2016; Webb et al., 2009). Inability to establish legitimacy with any of these groups may undermine business operations and entail political hazards such as regulatory speculation, conflicts between interested political parties, and consumer boycotts (Kostova & Zaheer, 1999).

Previous studies looking at firms operating in the domestic context have uncovered the importance of gaining (losing) legitimacy from key social stakeholders in affecting the level of political risk being imposed on business operations. For instance, Deephouse (1996) established the relevance of gaining regulatory and public endorsements in allowing U.S. commercial banks to avoid interference from the external political environment. Ahlstrom, Bruton and Yeh (2008) posited that the lack of legitimacy of Chinese private firms and entrepreneurs in the early reform period exposed them to considerable political and social scepticism. Additionally, Marquis and Qian (2014) used a sample of Chinese publicly listed companies to explicate the importance of establishing legitimacy with the state government in enabling business operations. Thus, past research suggested that gaining or losing legitimacy from interested social stakeholders plays a critical role in determining the level of political obstacles faced by firms operating in the domestic context. The political implications of legitimacy can become more salient for MNEs venturing into the international market context (Stevens et al., 2015).

Legitimacy and developed country MNEs

MNEs represent a more complex organizational form than purely domestic firms as they are exposed to multiple external environments and interested stakeholders (Meyer & Peng, 2016). Research through the institutional lens has observed that failure to obtain legitimacy from key social actors in the host country can lead MNEs to experience political obstacles which jeopardize business survival and success (Fiaschi et al., 2016).

Kostova and Zaheer (1999) observed that the inability to gain acceptance among the local community in India has exposed some U.S. MNEs to intense political opposition. Bucheli and his co-authors postulated that MNEs' ties with political elites no longer ruling the host country can generate problems of legitimacy for firms when the host country experiences significant social and institutional changes (Bucheli & Kim, 2012; Bucheli & Salvaj, 2013). Stevens et al. (2015) suggested that U.S. companies' inability to align business objectives with the Chinese government's long-term agenda has triggered political interventions in business operations. Taken together, a key message revealed by this line of literature suggests that the political risk faced by MNEs can be heightened as they are exposed to a broader range of host-country social stakeholders that apply varying criteria to evaluate what is legitimate practice.

Legitimacy and EMMNEs

The establishment or deterioration of legitimacy with host-country interested social stakeholders has been found to be a key determinant in shaping the level of political risk experienced by developed country MNEs. Yet, limited theoretical and empirical attention has examined its effect on EMMNEs' perceived level of such risk when competing abroad.

International business literature has established that firms conducting business abroad carry the image of their home countries (Cuervo-Cazurra, 2011; Hobdari et al., 2017). The lower levels of economic and institutional development in many emerging markets have made the establishment of legitimacy a particular hurdle for EMMNEs (Marano et al., 2017). Existing research has reported that EMMNEs' home-country legitimacy deficit can make their products and safety standards subject to resistance by host-country customers (Madhok & Kayhani, 2012). Marano et al. (2017) suggested that EMMNEs from less institutionally developed countries are likely to encounter scepticism in host countries about these firms' ability to conduct legitimate business. By comparing Chinese, Indian, and developed country MNEs operating in East Africa, Stevens and Newenham-Kahindi (2017) showed that home-country origin may generate legitimacy or illegitimacy spill-over effects to influence the political risk being imposed on firms' operations in the host country.

While research has highlighted the relationship between legitimacy and MNEs' international expansion, its role in affecting the level of political risk faced by EMMNEs has been underexplored. The weaker political and regulatory governance conditions of the home country, lower levels of economic development and standard of living compared with advanced economies can become political baggage that travels abroad with these new contenders (Globerman & Shapiro, 2009). Yet, the theoretical importance of home-country legitimacy in explaining EMMNEs' perceived level of political risk has not been systematically investigated. With few exceptions (e.g. Stevens & Newenham-Kahindi, 2017), the majority of existing research has examined firms from developed countries. However, the political implication of legitimacy for these new players operating in the international context remains an underexplored area. Table 3.2 summarizes research that looks at the effect of legitimacy on the level of political risk encountered by MNEs from both developed and emerging markets.

Table 3.2 A summary of existing research on the relationship between MNEs' legitimacy and their perceived level of political risk in the host country

Author(s) (Year)	Theme(s)	Methodology and Sample	Measurement of Political Risk	Key Findings
Panel A: Outward FDI by developed country MNEs				
Kostova & Zaheer (1999)	How MNEs' legitimacy affects their perceived level of political risk	Conceptual.	N/A	U.S. MNEs' legitimacy with host-country social stakeholders critically affects the political risk faced by these firms in the local market.
Bucheli & Kim (2012)	How MNEs' legitimacy affects their perceived level of political risk	Case study. United Fruit Company in Central America	N/A	U.S. MNEs' alliance with political elites or political systems no longer ruling the host country entails problems of legitimacy for firms when macro-level institutional or political regime changes take place.
Bucheli & Salvaj (2013)	How MNEs' legitimacy affects their perceived level of political risk	Case study. International Telephone and Telegraph Company in Chile	N/A	U.S. MNEs' ties with political elites no longer ruling the host country can lead firms to experience a loss of reputation and illegitimacy when the host country experiences significant social and institutional changes.

Stevens et al. (2015)	How MNEs' legitimacy affects their perceived level of political risk	Case study. Google and Yahoo in China	N/A	U.S. MNEs' legitimacy influences host-government motivations to intervene, hence the level of political risk that these firms faced in China.
Panel B: Outward FDI by EMMNEs				
Madhok & Kayhani (2012)	How MNEs' legitimacy influences their international expansions	Conceptual.	N/A	EMMNEs' underdeveloped home-country institutional and economic environments can deter their access to resources and markets in the host country.
Marano et al. (2017)	Determinants of EMMNEs' corporate social responsibility reporting intensity	Empirical. Panel data of 157 EMMNEs	N/A	The less developed home-country institutional environment can lead EMMNEs to face scepticism in host countries about these firms' ability to conduct legitimate business.
Stevens & Newenham-Kahindi (2017)	How MNEs' legitimacy influences the political risk that they encounter abroad	Case study. Chinese, Indian, American and European MNEs in East African countries.	N/A	Home-country origin can generate within-country and across-country legitimacy or illegitimacy spill-over effects to influence the political risk faced by MNEs.

In sum, extant research that builds upon the institutional perspective has mainly analysed the impact of host-country institutional governance conditions on the level of political perils faced by MNEs. Yet, the complicated political issues faced by EMMNEs in the international market have called for complementing extant literature with an alternative conceptual lens (Buckley et al., 2007; Stevens et al., 2015). Although previous research has commonly noted the role of legitimacy in determining firms' prosperity, its relevance in shaping EMMNEs' perceived level of political risk in overseas markets has not been adequately investigated. The underdeveloped home-country institutional environment implies 'legitimacy deficit' and represents political liability when EMMNEs venture into the international marketplace (Marano et al., 2017). This is different from the traditional host-country political and regulatory governance deficiencies that have been reported by their developed country counterparts. Yet, as existing research on EMMNEs is largely rooted in theoretical models of developed country firms (Child & Marinova, 2014), we know little about the political implications of home-country legitimacy for EMMNEs' perceived level of host-country political risk. Therefore, this chapter is prompted to provide a more comprehensive account of the determinants of MNEs' perceived level of political risk in light of their home-country legitimacy with key stakeholders in the host country.

3.3 Theoretical Background

This chapter builds upon the institutional perspective to capture factors that determine Chinese MNEs' perceived level of political risk when competing in the international marketplace. Moreover, the role of legitimacy and its interactions with host-country institutional governance conditions will be examined.

The institutional perspective brings together several lines of research with shared interest in the role of contextual forces in shaping firms' strategies and behaviours (see Meyer & Peng, 2016 for review). In this study, we define institutions as the shared norms and rules that determine socially acceptable behaviours for members within an organizational field (Kostova et al., 2008). The core idea is that firms adapt their behaviours according to a country's regulatory, normative and cognitive systems that may not grant them efficiency, but make them more acceptable in the eyes of key stakeholders (Bruton et al., 2010).

While regulatory forces are composed of explicitly stated laws, normative and cognitive forces include more implicit and taken-for-granted values and norms (Scott, 2003). The relationships among these institutional forces are complex and endogenous (Bruton et al., 2010). Political and regulatory reforms may be made to accept what are viewed as legitimate practices by influential social actors (Webb et al., 2009). The institutional governance framework may reinforce a society's values and impact individual mindsets and behaviours (Bruton et al., 2010). Therefore, MNEs not only have to comply with host-country political and regulatory governance rules, but also make sense of those widely shared societal values to obtain a legitimate status to operate.

Unlike changes of political and regulatory regimes that are observable, the underlying societal norms are more implicit and part of the 'deep structures' of a country (Gersick, 1990). Hence, it is more difficult for outsiders to grasp. In addition to regulatory compliance, MNEs are subject to the continuous evaluations by interested social stakeholders in the host country. Their assessment about MNEs' legitimacy is a process characterized by bounded rationality (Kostova & Zaheer, 1999). The lack of information about a particular MNE may prompt them to use stereotypes by referring to the legitimacy or illegitimacy of certain classes of organizations to which the MNE is perceived to belong (Bitektine, 2011). Such stereotypes are largely rooted in a host-country's long-established assumptions about MNEs from specific industries and/or home countries (Cuervo-Cazurra, 2011). Thus, although a strong governance framework on the surface may foster a transparent and equal playing field, MNEs may perceive these to be only as important as the acceptance or resistance by key stakeholders in the host country (Trevino, Thomas & Cullen, 2008).

Given the growing interest in understanding the relationship between legitimacy and political risk (Stevens & Newenham-Kahindi, 2017; Stevens et al., 2015), it presents important opportunities for conceptual and empirical examination. Thus, this study complements extant research focus on host-country governance conditions by underscoring the role of legitimacy in affecting MNEs' perceived level of political risk in foreign markets.

Existing literature has defined legitimacy in a number of different ways. For example, legitimacy has been defined as the acceptance of an organization by its environment which is vital for organizational success (Fiaschi et al., 2016), as social actors accept the organization's means and ends as desirable, proper, and appropriate (Suchman, 1995), and as an organization's structure and activities congruent with the social actors' values and expectations (Cui & Jiang, 2012). Yet, they tend to converge on gaining acceptance from social stakeholders; this constitutes the most critical element of legitimacy. MNEs, as socially-embedded actors, have to obtain acceptance for their existence from host-country interested stakeholders (Boddewyn, 2016). Unlike formal laws, which have a legally-binding power, the legitimacy conferred by these stakeholders is a social contract in nature (Stevens et al., 2015). Yet, the granting or withholding of such 'social license' may profoundly affect the political risk faced by MNEs as it represents an alternative mechanism to a host country's governance framework that either enables or hinders firms' survival (Cui & Jiang, 2012).

It has been established that firms' responses toward external environmental pressures may vary depending on the availability of alternative legitimating mechanisms (Kostova et al., 2008). The legitimacy judgement made by host-country interested stakeholders provides a viable legitimating channel that may reduce the impact of institutional governance arrangements on MNEs' perceived level of political hazards (Stevens et al., 2015). An MNE with a lower degree of legitimacy in the eyes of social stakeholders may limit the effectiveness of established rules and laws in the host country. In other words, the legitimacy assessment by host-country social stakeholders may moderate the influence of institutional governance conditions on MNEs' perceived level of political risk. Despite the importance of legitimacy, its role and the interaction with host-country governance rules have not been adequately understood.

This study examines the role of legitimacy in affecting the level of political risk faced by Chinese MNEs abroad. The unique home-country institutional environment of Chinese firms can substantially affect their degree of acceptance by host-country legitimacy-granting actors, thus generating political consequences. By underscoring the notion of legitimacy under the institutional perspective, the present study allows us to develop better understanding about the importance of social acceptance and its interplay with a host-country's governance rules in shaping the level of political risk faced by MNEs in the global arena.

3.4 Hypotheses Development

Based on the theoretical assumptions and arguments discussed above, we can see that the establishment of legitimacy in the host country may have critical implications for the level of political risk faced by MNEs operating abroad. Here, the author develops a number of hypotheses concerning the relevance of the host-country institutional governance conditions and its interactions with a range of legitimacy-granting actors in affecting Chinese MNEs' perceived level of political risk.

3.4.1 Direct effect of host-country institutional governance conditions

A country's institutional governance conditions cover 'public institutions and policies created by governments as a framework for economic, legal, and social relations' (Globerman &

Shapiro, 2003: 20). It includes the process by which governments are selected and monitored, governments' competences to formulate and implement policies, and the extent to which citizens and governments respect the institutions that govern economic and social interactions (Kaufmann et al., 2009). A robust institutional governance framework is paramount in determining a country's attractiveness to inward FDI (Oh & Oetzel, 2011). For Chinese MNEs venturing abroad, the author suggests that strong host-country institutional governance arrangements alleviate Chinese firms' perceived level of political risk for two reasons.

First, on the host country side, a favourable institutional governance framework helps to promote inward FDI (Globerman & Shapiro, 2003). A 'positive' governance framework involves an impartial and transparent legal system that protects property rights, strong enforcement of court decisions, and creditable policy commitment that favours competition for both domestic and foreign companies (Lu et al., 2014). The presence of these conditions can provide institutional support to boost MNEs' operational confidence (Oh & Oetzel, 2011). Hence, Chinese firms' perceived level of host-country political risk may be reduced in countries characterized by strong institutional governance conditions.

Second, on the home country side, the 'institutional escapism view' provides that firms respond to the misalignment between their business objectives and home-country institutional environment through outward FDI (Lu et al., 2011). The international expansion of Chinese MNEs has largely been deemed as a response to such misalignment (Boisot & Meyer, 2008). The burdensome domestic institutional governance conditions as exemplified by inconsistent legal interpretations and political instability can increase Chinese MNEs' perceived level of political risk at home, hence prompt them to escape abroad in search of favourable treatment and efficient governance conditions (Luo & Tung, 2007). Therefore, Chinese firms' perceived level of political risk may be reduced in host-countries with a strong institutional governance framework. Although some research has reported that Chinese MNEs tend to be indifferent or prompted by operating in underdeveloped institutional contexts (Liu et al., 2016), empirical evidence suggests that host-country institutional governance arrangements matter on these firms' perceived level of political risk. Based on survey data, the World Investment and Political Risk Report (2009) showed that EMMNEs, especially those from China, worry most about the breach of contract, war and civil turbulence, and transfer and convertibility restrictions taking place in the host country. Hence,

Hypothesis 1: The stronger the host-country institutional governance conditions, the lower the level of political risk perceived by Chinese MNEs.

3.4.2 The moderating role of legitimacy

Extant research drawn from the institutional perspective tends to focus on host-country political and regulatory governance factors. Yet, a country's institutional governance conditions and legitimacy judgements by interested social stakeholders may interact with each other to influence cross-border business operations (Kostova & Zaheer, 1999; Trevino et al., 2008). At least two factors explain their interdependence. First, the political and legislative framework may be implemented to account for the broader sociocultural norms and technological trends in society (Webb et al., 2009). Second, interested social groups may lobby successfully for shifts in a country's established laws to account for their interests (Estrin & Prevezer, 2011). Thus, a country's institutional governance framework and the legitimacy evaluation by key social stakeholders may interact to affect the level of political risk encountered by MNEs.

This chapter looks at a range of legitimacy-granting actors in affecting Chinese MNEs' perceived level of political risk in the host country. Legitimacy represents an overall evaluation by some groups of observers towards organizational activities, but there is no need for a consensus of opinion within or across these groups (Suchman, 1995). This implies that the issuing or denying of a legitimate status to MNEs are dependent upon specific contexts or audiences (Henisz & Zelner, 2005). As gaining legitimacy from certain institutional constituents may have more profound influence in alleviating the political hazards faced by MNEs (Darendeli & Hill, 2016), it is fundamental to identify key social groups and actors in the host country. A central set of such stakeholders are host-country governments who possess the power in determining the existence of MNEs within their borders (Bitektine, 2011: 152). A second group of key stakeholders are host-country industrial agencies which set the entry and operational barriers for different industries (García-Canal & Guillén, 2008). Another vital group of legitimacy-conferring actors are the general public in host countries who can influence MNEs' survival through societal values and expectations (Deephouse, 1996). This study considers Chinese MNEs' legitimacy in the eyes of these three sets of stakeholders and their interactions with host-country governance conditions on firms' perceived level of political risk.

Chinese MNEs' home-country government legitimacy with host-country government

The institutional lens recognizes that firms conducting business abroad not only need to respond to within-country institutional forces, but also the interplay of their home and host countries in the international arena (Makino & Tsang, 2011). MNEs are often viewed as informal representatives of their home countries or home-country governments, hence receiving country-specific treatment when expanding to overseas markets (Cuervo-Cazurra, 2011).

The literature on legitimacy has noted that a firm's home-country origin may have important implications for its international expansion (Stevens & Newenham-Kahindi, 2017). The condition of bounded rationality can make people judge particular events by referring to their experiences with similar events that fall into the same cognitive category (Kostova & Zaheer, 1999). The host-country government may evaluate an MNE's legitimacy or illegitimacy by associating the firm with its home country in general and home-country government in particular (Cuervo-Cazurra, 2011). The high degree of legitimacy enjoyed by an MNE's home-country government with the host-country government because of the trustworthy and friendly interstate political relations may generate positive legitimacy spill-over effect into cross-border business operations (Stevens & Newenham-Kahindi, 2017). Firms are likely to benefit from the legitimacy of their home-country government, being awarded with preferential treatment. On the contrary, the lack of legitimacy of an MNE's home government can lead the firm to be perceived as detrimental, being imposed with country-specific restrictions by the host government (Cuervo-Cazurra, 2011).

Governments' actions in signalling what are socially acceptable practices can be as powerful as codified laws (Marquis & Qian, 2014). Their judgement towards the legitimacy or illegitimacy of MNEs' home-country governments may act as an alternative institutional device which offsets the relevance of explicitly stated rules and laws to enable or deter firms' access to resources and information (Stevens et al., 2015). Thus, the legitimacy of MNEs' home-country governments in the eyes of host-country governments may compromise the role of institutional governance rules in shaping the political hazards experienced by MNEs.

Although Chinese MNEs may venture abroad in pursuit of more efficient institutional environments, the image of their home country is not always separable from firms (Madhok & Kayhani, 2012). Governments of host countries tend to associate Chinese MNEs with their home-country origin, which can have a broad impact on the legitimate status of these new competitors (Stevens & Newenham-Kahindi, 2017). The greater legitimacy enjoyed by the Chinese government with certain host-country governments because of the shared views in foreign policies may foster a more conducive political environment. Governments of these countries tend to view Chinese MNEs as more acceptable and bring desirable resources such as capital and employment opportunities (Cuervo-Cazurra, 2011). Such positive legitimacy spill-over effect enables Chinese MNEs to receive favourable treatment and concessions which reduce their reliance on explicitly stated rules. Conversely, the weak legitimacy of the Chinese government in the eyes of some host-country governments due to the lack of trust and co-operation in international political affairs may expose Chinese firms to hostile treatment and speculation (Child & Marinova, 2014). Hence, we posit that:

> **Hypothesis 2:** A high degree of Chinese MNEs' home-government legitimacy in the eyes of the host-country government will reduce the importance of the institutional governance framework in shaping firms' perception about host-country political risk.

Chinese MNEs' legitimacy in host-country regulated industries

In addition to the macro-level political and regulatory frameworks that apply to all foreign investors, firms doing business abroad have to account for the requirements set by host-country industrial agencies. The political science literature has maintained that governments are not unitary actors but consist of many individuals and subunits with varying interests (Kistruck, Morris, Webb & Stevens, 2015). When a country's overall governance framework cannot adequately accommodate their goals, they may compete with macro-level governance rules by signalling their own norms and standards of legitimacy (Helmke & Levitsky, 2003). While laws may be established at national level to regulate all foreign investments, considerations over the competitiveness of domestic firms may prompt industrial agencies to set policies targeting different sectors. Hence, industry-specific incentives and restrictions may serve as a competing mechanism for legitimacy to a host-country's macro-level governance framework.

While industrial policies may affect every sector of the economy, their impact can be more salient for firms in regulated industries such as natural resources, extraction, telecommunications, banking, and utilities (García-Canal & Guillén, 2008). Unlike MNEs in more liberalized sectors which primarily compete on the merit of market demands, those in regulated industries are critically dependent on munificent industrial policies in the host country (Henisz & Zelner, 2001). Instead of relying on governance rules that apply to all foreign investors, firms in regulated industries may perceive gaining acceptance from host-country industrial agencies as an alternative legitimating channel to enable their survival.

Although host countries' overall governance conditions may play a key role in Chinese MNEs' perceived level of political risk, their influence may be constrained by the presence of industry-specific policies for those operating in regulated sectors. Given the prominent role of industrial agencies in setting a wide array of industry-specific requirements, their assessment about Chinese firms' motives and influence on the local economy may become a viable legitimating instrument that reduces the relevance of macro-level governance frameworks for those in regulated industries (Bremmer, 2014).

> **Hypothesis 3:** The importance of host-country institutional governance frameworks in shaping Chinese MNEs' perception about political risk will be reduced for firms operating in regulated industries.

Chinese MNEs' legitimacy with the general public in the host country

As societies are composed of groups that may have different opinions about what is socially acceptable practice, a firm's legitimacy is subject to the assessment of interested social groups including local communities, consumers, and other members of civil society (Webb et al., 2009). These actors are constituents of the institutional environment, which defines, diffuses, and enforces prevailing norms and requirements of acceptable business conduct (Deephouse, 1996; Fiaschi et al., 2016). MNEs thus need to align activities with the expectations of these key stakeholders to gain the right to do business.

The lack of acceptance by the general public in the host country not only risks an MNE's brand value, but also induces political consequences. The literature on legitimacy has contended that government requires legitimacy for themselves from their own constituents and stakeholders (Henisz, Zelner & Guillén, 2005). The way that the public reacts to governmental regulations targeting a firm or specific group of firms may substantially augment or lessen the effectiveness of such regulations (Prno & Slocombe, 2012). When the general public in the host country view an MNE as less legitimate, the government tends to be reluctant to enforce rules in favour of the firm as doing so may trigger public anger and damage the government's own legitimacy. Conversely, when firms enjoy greater legitimacy with the general public in the host country, the government is less likely to implement a regulatory framework against business operations as it may cause key social stakeholders to withdraw their support for the government (Stevens et al., 2015). Therefore, demands exerted by the general public in the host country may act as a competing mechanism to institutional governance rules in shaping MNEs' perceived level of political risk.

Chinese MNEs venture abroad in search of more efficient institutional environments, but at the same time they face unique legitimacy challenges (Madhok & Keyhani, 2012). The lack of established reputation and an underdeveloped home-country institutional environment may lead the general public in the host country to engage in 'adverse institutional attribution' when assessing firms' legitimacy (Ramachandran & Pant, 2010: 247). The lower level of economic development and standards of living at home may lead the host country's consumers to distrust EMMNEs' product quality and safety standards (Klein, 2002). Moreover, host-country civil societies may be wary of EMMNEs due to their reluctance to engage in environmental and labour rights protection (Fiaschi et al., 2016). Additionally, host-country media may be suspicious towards the activities of EMMNEs because of the lack of transparency and weak corporate governance disclosure (Marano et al., 2017). These controversies can make the general public in the host country perceive EMMNEs as harmful to the local economy and environment. As a result, they may lobby their government to introduce specific requirements targeting Chinese MNEs that hinder the effectiveness of host-country institutional governance conditions.

Hypothesis 4: A low degree of Chinese MNEs' legitimacy in the eyes of the general public in the host country will reduce the importance of the institutional governance framework in shaping firms' perception about host-country political risk.

3.5 Data and Measurement

3.5.1 Sample

To test the abovementioned hypotheses, the author employs the same CCPIT survey data as the previous chapter. Sample selection criteria and characteristics have been described in Section 2.5.

3.5.2 Measurement of variables

Chinese MNEs' perceived level of host-country political risk

The dependent variable is Chinese MNEs' perceived level of host-country political risk. It was operationalized by asking the respondents to evaluate the political environment of their companies' most recently established overseas branch on a 7-point scale (1 = very risky, to 7 = very safe) regarding the following items: (i) the implementation of rules and laws in the host country, (ii) the protection of private property in the host country, (iii) the settlement of commercial disputes in the host country, and (iv) the control of corruption and bribery in the host country.

Host-country institutional governance conditions

To operationalize host-country institutional governance conditions, the author follows previous research by using the WGI index (Globerman & Shapiro, 2003; Liu et al., 2016). Details of the WGI index including dimensions being included, geographical coverage, and ranking method have been described in Section 2.5.2.

Chinese MNEs' home-country government legitimacy with the host-country government

As conceptual and empirical understanding about the role of legitimacy in shaping the political risk faced by MNEs remain at an early stage (Stevens et al., 2015), Chinese firms' legitimacy is captured by following previous research and fieldwork interviews with managers of Chinese companies that are active in conducting outward FDI. Evidence from the interviews consistently revealed that Chinese MNEs' legitimacy in the eyes of host-country interested stakeholders, such as government and the general public plays a key role in explaining the political perils that firms experience in overseas markets.

The political hazards faced by MNEs have evolved from a narrow focus on host-country political and regulatory factors to the global interplay between firms' home- and host-country governments (Child & Marinova, 2014). Favourable and trusting political relations between home and host countries may help MNEs to be perceived as more acceptable whereas they may be imposed with discriminatory treatment as interstate political relations become hostile (Cuervo-Cazurra, 2011). Evidence from our interviews corroborated these arguments. For example, one interviewee disclosed that: "The way [the host-country government] sees China and the Chinese government can fundamentally affect how we are treated. Of course, it would enhance our degree of acceptance if they have a good impression towards our country." A similar response was provided by another manager from a Chinese food processing firm: "We thought that European countries would promote fair competition but it is not the case in reality. No matter whether we are private or state-owned, [some European country governments] don't really trust us and think the Chinese government stands behind us." Therefore, this study measures Chinese MNEs' home-country government legitimacy in the eyes of host-country government by the strength of interstate political relations. The survey respondents were asked to evaluate the importance of political relations between China and the host country to their investment on a 7-point scale (1 = very unimportant, 7 = very important).

Chinese MNEs' legitimacy in host-country regulated industries

MNEs in regulated industries, including natural resources, telecommunication, utilities, petroleum, and financial services, may be subject to a higher degree of political intervention than those in less-regulated industries (García-Canal & Guillén, 2008). The present study adopts a dummy variable to distinguish Chinese firms operating in the abovementioned regulated industries (1) and otherwise (0).

Chinese MNEs' legitimacy with the general public in the host country

Previous research has highlighted the importance of acquiring acceptance from a broad set of social stakeholders in addition to the government (Bucheli & Salvaj, 2013; Deephouse, 1996). Evidence from our fieldwork interviews supports this argument. For instance, one manager who is in charge of a Chinese textile company's international strategy reflected that: "It is crucial to let the locals [in Egypt] accept our specific payroll and reward policies. Otherwise, it can cause big damage to our image and lead to public outcry against us." Other interviewees provided similar responses. Thus, Chinese MNEs' legitimacy in the eyes of the general public in the host country is captured by asking the respondents to evaluate the reaction of the general public in the host country to firms' investment (1 = very low degree of negative reaction; 7 = very high degree of negative reaction).

Control variables

A number of country-level factors may influence Chinese MNEs' perceived level of political risk abroad. First, coastal provinces in China have been offered more policy incentives to attract FDI since the earlier days of economic reform. Hence, market-supporting institutions in these places are more established and firms tend to receive more support than inland regions. Following previous research (Wu & Chen, 2014), this study employed the marketization index to measure the regional market-based policy heterogeneities in China (Fan et al., 2010). Second, it has been found that the Chinese government has played an active role in helping Chinese MNEs to deal with hazardous political situations in overseas markets (Luo et al., 2010). The present analysis has controlled for Chinese MNEs' home-government support using six items from the survey: (i) financial and capital access, (ii) simplifying the approval of foreign investment, (iii) simplifying the procedures for demonstrating firms have sufficient capital in foreign investment projects, (iv) the provision of investment guidelines by industries, (v) the protection of firms' rights in overseas markets, and (vi) the provision of investment guidelines by countries. The respondents were asked to evaluate these items on a 7-point scale (1 = very low support; 7 = very high support).

At industry level, this study has controlled the degree of host-country industry competition using three items from the survey: (i) difficulty of obtaining raw materials, (ii) difficulty of obtaining technology for innovation, and (iii) completeness of upstream and downstream industries in the host country.

As larger companies may enjoy advantages of establishing ties with relevant political stakeholders, firm size is controlled using the natural logarithm value of firms' total number of employees (Deephouse, 1996). Moreover, MNEs with greater international and country-specific experiences may cope with risky political situations more effectively (Delios & Beamish, 2001). This study measures a Chinese firm's international experience as the number of years it has engaged in international activities. Country-specific experience is operationalized by the number of years that it has been established in a host country (Wu & Lin, 2010). Furthermore, effective risk assessment may allow MNEs to employ more appropriate strategies to manage the political hazards in overseas markets (Holburn & Zelner, 2010). The author employs a dummy variable to capture Chinese MNEs' risk assessment by assigning the value of 1 to firms that have employed risk assessment strategies and 0 otherwise. Additionally, Chinese MNEs' perception of host-country political risk may be affected by their degree of affiliation with the home-country government (Cui & Jiang, 2012). The present study controls for the effect of state ownership using a dummy variable and assigning value 1 to SOEs and 0 otherwise. (See Appendix 2 for a summary of questionnaire survey items).

3.6 Results

3.6.1 Common method bias

Since a number of variables have been taken from the questionnaire, it may result in the possibility of common method bias (Podsakoff et al., 2003). To deal with this issue, the author employed the objective measurement of WGI to capture host-country governance quality. Moreover, Harman single-factor test has been performed to examine common method variance. The result of Harman single-factor test indicates that the single-factor model shows a poor fit to the data. Hence, the issue of common method bias does not pose a major threat to this study.

3.6.2 Construct reliability and validity

Descriptive statistics and variable correlations are displayed in Table 3.3. To identify potential multicollinearity, this study looked at the VIF for all the variables. The results of VIF for all the variables were well below the acceptable level of 10 (Neter et al., 1985), which indicates no multicollinearity. Moreover, the author performed the reliability test for those multi-item constructs, home-government support, host-country governance quality, Chinese MNEs' perceived level of host-country political risk, and degree of host-country industry competition, to look at their internal consistency with Cronbach's alpha. The values of internal consistency for these constructs were from 0.766 to 0.975. Therefore, the reliabilities of our multi-item constructs have met the recommended level of 0.70 (Pallant, 2005). Furthermore, this study conducted CFA to examine the convergent and discriminant validities of these multi-item constructs. The CFA model shows a good fit with the data (see Table 3.4). All indices meet their respective criteria ($\chi^2(146)=247.380$; $P<0.001$; CMIN/DF=1.69; CFI=0.97; NNLI=0.96; RMSEA=0.07; SRMR=0.05). The CFA test supports the convergent validities of our multi-item constructs. The results are presented in Table 3.5.

Table 3.3 Correlation matrix

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1. Chinese MNEs’ perceived level of host-country political risk	4.57	1.23												
2. Host-country institutional governance conditions	0.44	1.17	0.42**											
3. Chinese MNEs’ home-government legitimacy	4.12	1.62	0.01	0.02										
4. Chinese MNEs’ legitimacy in host-country regulated industries	0.49	0.50	0.21*	0.05	0.12									
5. Chinese MNEs’ legitimacy with the general public in the host country	3.31	1.44	-0.07	-0.12	0.24**	-0.15								
6. Degree of marketization	9.36	1.41	0.10	0.07	0.01	0.16*	-0.06							
7. Ownership	0.26	0.44	-0.08	0.04	-0.04	-0.29	0.01	-0.16						
8. International experience	3.01	5.42	-0.01	-0.10	-0.04	0.11	-0.10	0.05	0.03					
9. Local experience	2.86	2.47	0.01	0.07	0.06	0.05	0.15	-0.12	-0.02	-0.13				
10. Risk assessment	0.70	0.46	0.22**	0.05	-0.09	0.20*	0.00	0.11	-0.18	0.08	0.22**			
11. Firm size	6.29	2.19	0.10	0.11	-0.14	0.22**	0.00	0.16*	0.29**	0.24**	0.04	-0.03		
12. Host-country industry competition	3.21	0.94	0.42**	0.34**	0.13	0.14	0.19*	-0.07	-0.08	-0.26	0.00	0.04	0.03	
13. Home-country government support	4.59	1.09	0.29**	0.10	0.04	0.10	0.16*	0.02	-0.04	0.04	-0.08	0.05	0.13	0.22**

Sample = 148

*P<0.05; **P<0.01; ***P<0.001

Table 3.4 CFA model

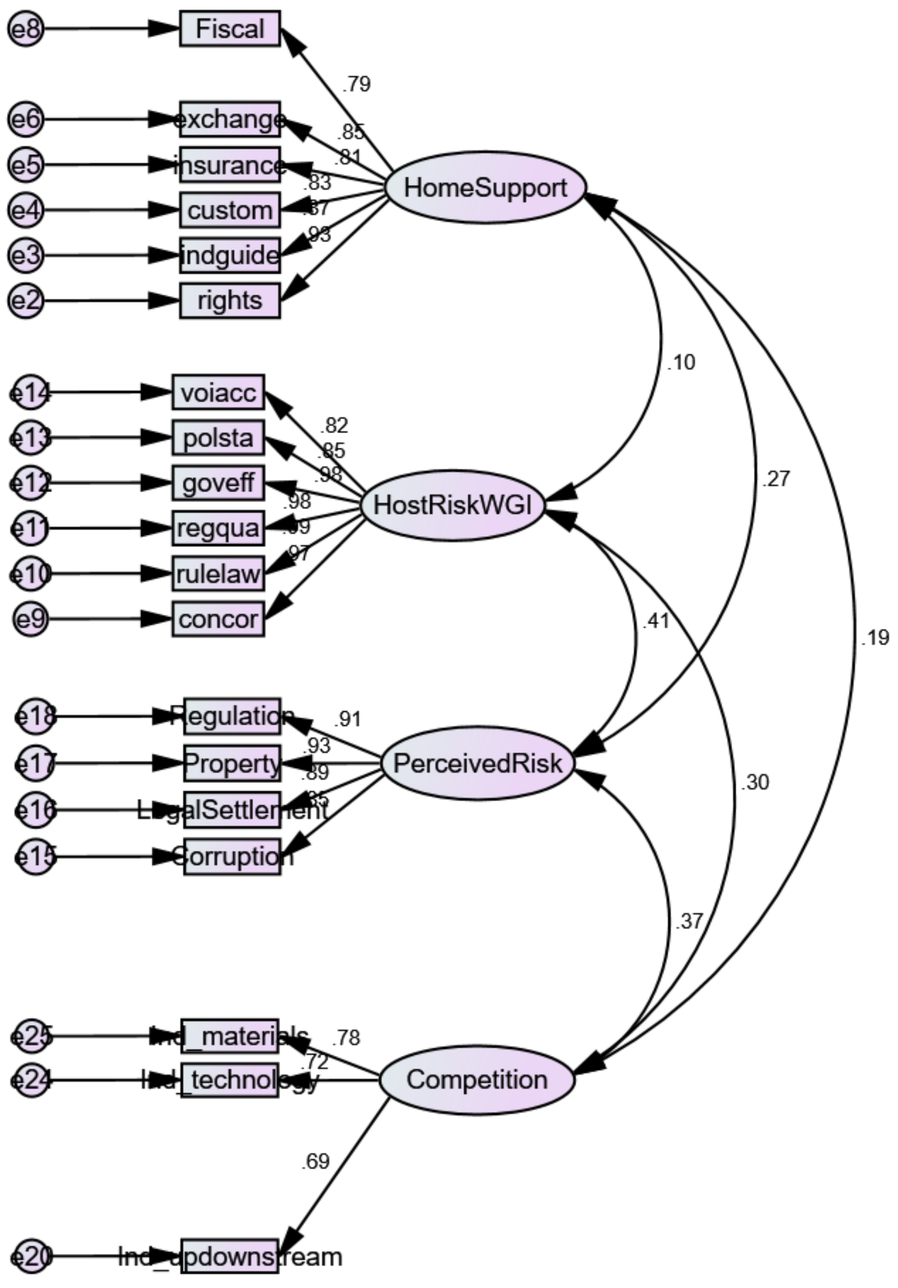


Table 3.5 Measurement model and CFA results

Constructs	*Operational Measures of Construct*	*Factor Loadings*	*t-value*
Chinese MNEs' perceived level of host-country political risk			
(Cronbach's alpha=0.940)	Implementation of rules and laws in the host country	0.91	15.18
	Protection of private property in the host country	0.93	15.88
	Settlement of commercial disputes in the host country	0.89	14.68
	Control of corruption and bribery in the host country	0.85	Fixed
Home-country government support			
(Cronbach's alpha=0.938)	Financial and capital access	0.79	13.28
	Simplifying the approval of foreign investment	0.85	15.78
	Provision of investment guidelines by countries	0.81	13.91
	Simplifying the procedures for demonstrating sufficient capital in foreign investment projects	0.83	14.84
	Provision of investment guidelines by industries	0.87	16.79
	Protection of firms' rights in overseas markets	0.93	Fixed
Host-country institutional governance conditions			
(Cronbach's alpha=0.975)	Voice and accountability	0.82	16.55
	Political instability	0.85	18.56
	Government effectiveness	0.98	38.46
	Regulatory quality	0.98	37.79
	Rule of law	0.99	45.50
	Control of corruption	0.97	Fixed
Host-country industry competition			
(Cronbach's alpha=0.766)	Difficulty of obtaining raw materials	0.78	6.71
	Difficulty of obtaining technology for innovation	0.72	6.80
	Completion of upstream and downstream industries	0.69	Fixed

In addition to the test of convergent validities, the discriminant validities in relation to the above multi-item constructs have been considered to make sure that each of them captured the phenomena that others did not. Following previous research, the value of variance extracted for any construct in a pair of comparisons should be greater than 0.50 and greater than the squared correlations between the two constructs (Lyles, Li & Yan, 2014). Table 3.6 reports the results of discriminant validity test. The variance extracted values ranged from 0.73 to 0.94, with all values greater than their corresponding inter-construct squared correlations (Hair et al., 2006). Thus, the discriminant validities of our multi-item constructs are supported.

Table 3.6 Discriminant validity

	Chinese MNEs' perceived level of host-country political risk	**Home-country government support**	**Host-country institutional governance conditions**	**Host-country industry competition**
Chinese MNEs' perceived level of host-country political risk	(0.896)			
Home-country government support	0.272	(0.847)		
Host-country institutional governance conditions	0.407	0.100	(0.935)	
Host-country industry competition	0.367	0.186	0.304	(0.728)

3.6.3 Hypotheses tests and results

This study employs the OLS regression to test the hypotheses. The results are presented in Table 3.7. Model 1 in Table 3.7 contains only the control variables. In Model 2, the independent variable, host-country institutional governance quality, and the direct effects of the moderators include Chinese MNEs' home-government legitimacy, Chinese MNEs' legitimacy in host-country regulated industries, and Chinese MNEs' legitimacy in the eyes of the host-country public are introduced. Models 3–6 tested the hypothesized interaction effects.

For the control variables, a firm's risk assessment strategy is positively related to their perception about host-country political risk at 5% significance level in Models 1, 2, 5, and 6. But its level of significance dropped to 10% in Models 3 and 4. The degree of host-country industry competition is positively associated with Chinese MNEs' perception about host-country political risk at the 0.001% significance level across all models. Additionally, there is a positive association between the level of home-country government support and Chinese firms' perception about host-country political risk at the 5% level of significance in Models 1–4 and 6, and 1% significance level in Model 5.

In relation to the independent variable – host-country institutional governance conditions – it shows a positive sign to Chinese MNEs' perception about host-country political risk in all models ($p<0.01$ in Models 2, 4, 5; $p<0.001$ in Models 3 and 6). Thus, it lends support to Hypothesis 1, that the stronger the host-country institutional governance conditions, the lower the level of political risk perceived by Chinese MNEs. Moreover, the direct effects of our moderators in Model 2 are not statistically significant which rules out the effect of reverse interaction between the independent variable and moderators.

Hypothesis 2 concerns the interaction effect between host-country institutional governance conditions and Chinese MNEs' home-government legitimacy with host-country government. As shown in Table 3.7, the interaction term is negative and statistically significant in Model 3 and remains at the same level of significance in Model 6 when all the variables are included. This suggests that higher degrees of home-government legitimacy in the eyes of the host government will reduce the importance of institutional governance conditions in affecting Chinese MNEs' perceived level of political risk. Hence, Hypothesis 2 is supported.

For the interaction effect between institutional governance conditions and Chinese MNEs' legitimacy in host-country regulated industries, the coefficient of the interaction term in

Model 4 is negative but statistically insignificant. It remains the same sign with only 10% significance level in Model 6. Thus, Hypothesis 3, that Chinese MNEs operating in regulated industries will reduce the importance of host-country institutional governance conditions in shaping firms' perceived level of political risk, does not receive support in the OLS regression.

With regards to the joint effect between host-country institutional governance conditions and Chinese MNEs' legitimacy in the eyes of the general public in the host country, their interaction term shows a negative sign at the 5% significance level in Models 5 and 6. Therefore, it lends support to Hypothesis 4, which posits that low degree of Chinese MNEs' legitimacy with the general public in the host country will reduce the importance of institutional governance conditions in shaping firms' perceived level of political risk.

Table 3.7 Result of OLS regression

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Main Variable						
Host-country institutional governance conditions		0.28**	0.77***	0.37**	0.63**	1.14***
		(0.08)	(0.20)	(0.11)	(0.18)	(0.25)
Moderators						
Chinese MNEs' home-country government legitimacy		-0.01	0.02	-0.01	-0.01	0.02
		(0.05)	(0.06)	(0.05)	(0.05)	(0.05)
Chinese MNEs' legitimacy in host-country regulated industries		0.17	0.19	0.26	0.22	0.36Ɨ
		(0.19)	(0.19)	(0.21)	(0.19)	(0.21)
Chinese MNEs' legitimacy with the general public in the host country		-0.09	-0.08	-0.07	-0.05	-0.02
		(0.07)	(0.06)	(0.06)	(0.06)	(0.07)
Interactions						
Host-country institutional governance conditions * Chinese MNEs' home-country government legitimacy			-0.12*			-0.09*
			(0.05)			(0.05)
Host-country institutional governance conditions * Chinese MNEs' legitimacy in host-country regulated industries				-0.19		-0.26Ɨ
				(0.15)		(0.15)
Host-country institutional governance conditions * Chinese MNEs' legitimacy with the general public in the host country					-0.09*	-0.09*
					(0.05)	(0.05)
Control Variables						
Degree of marketization	0.08	0.05	0.06	0.06	0.03	0.06
	(0.07)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Ownership	-0.02	0.00	-0.04	-0.01	0.01	-0.04
	(0.22)	(0.22)	(0.22)	(0.22)	(0.22)	(0.22)
International experience	0.01	0.01	0.01	0.01	0.01	0.01
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Local experience	0.00	0.00	-0.01	0.00	-0.01	-0.01
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Risk assessment	0.48*	0.43*	0.38Ɨ	0.39Ɨ	0.48*	0.39*
	(0.20)	(0.19)	(0.19)	(0.20)	(0.19)	(0.19)
Firm size	0.02	0.00	0.01	0.00	0.01	0.01
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Host-country industry competition	0.51***	0.41***	0.42***	0.39***	0.39***	0.38***
	(0.10)	(0.11)	(0.10)	(0.11)	(0.11)	(0.10)
Home-country government support	0.20*	0.21*	0.21*	0.21*	0.21**	0.20*
	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Observations (N)	148	148	148	148	148	148
R-square	0.23	0.30	0.33	0.31	0.32	0.35

ƗP < 0.10; *P < 0.05; **P < 0.01; ***P<0.001

3.6.4 Robustness checks

Robustness checks have been conducted to test the validity of the OLS regression results. First, the author considered the significance of those conditional hypotheses by examining the marginal effect of the independent variable host-country institutional governance conditions on Chinese MNEs' perceived level of political risk at different values of the moderating variables. To interpret the significance of the interaction effects, this study follows Brambor et al. (2006) who pointed out that the effect of an interaction term should not be determined merely by looking at the magnitude and significance of its coefficient alone. As the regression results report only the marginal effect of the independent variable by assuming the interaction term is zero, it is necessary to consider the marginal effect of a change in the independent variable on the dependent variable when the moderating term has different values (Chizema et al., 2015; Kingsley et al., 2017). The marginal effects have been plotted to show a change in host-country institutional governance conditions on Chinese MNEs' perceived level of political risk at different values of the moderating variables. The plotting graphs are explained and displayed below.

Figure 3.1 presents the marginal effect of host-country institutional governance conditions on Chinese MNEs' perceived level of political risk when Chinese MNEs' home-government legitimacy in the eyes of the host government becomes greater. As displayed in Figure 3.1, the marginal effect of host-country governance conditions on Chinese MNEs' perceived level of political risk diminishes as the Chinese government enjoys a higher degree of legitimacy with the host-country government. The downward slope corresponds to Hypothesis 2, suggesting that high degree of Chinese government legitimacy in the eyes of the host government reduces the relevance of institutional governance conditions in affecting Chinese MNEs' perception about host-country political risk. Specifically, as the Chinese government degree of legitimacy reached a score of 7, the marginal effect of institutional governance conditions on Chinese firms' perception about host-country political risk becomes insignificant. This suggests that as the home-country government enjoys a higher degree of legitimacy with the host-country government, the conditions of host-country institutional governance in shaping Chinese firms' perceived level of political risk may become negligible. Thus, it lends further support to Hypothesis 2.

Figure 3.1 Marginal effect of host-country institutional governance conditions on Chinese MNEs' perceived level of political risk at different levels of Chinese MNEs' home-government legitimacy with host-country government

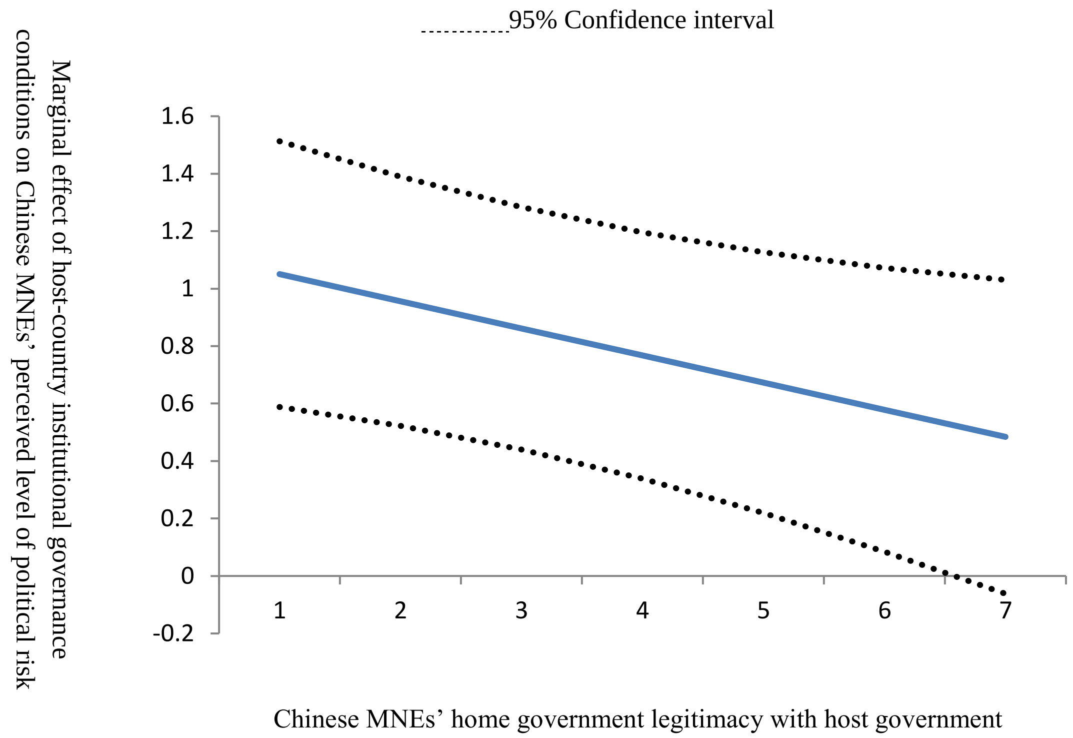


Figure 3.2 shows the marginal effect of host-country governance conditions on Chinese MNEs' perceived level of political risk for firms in less-regulated (more liberalized) industries and regulated industries. As Figure 3.2 illustrated, the upper and lower bounds of 95% confidence intervals are located on the same side of the zero-line. The downward slope suggests that the positive effect of institutional governance arrangements on Chinese MNEs' perceived level of host-country political risk becomes weaker for firms in regulated industries. Although the interaction term between host-country governance conditions and Chinese MNEs' legitimacy in host-country regulated industries was not significant in the OLS regression, the marginal effect of institutional governance conditions in shaping Chinese firms' perceived level of host-country political risk was reduced for those in regulated industries. Thus, this finding provides support to Hypothesis 3.

Figure 3.2 Marginal effect of host-country institutional governance conditions on Chinese MNEs' perceived level of political risk for firms operating in less-regulated industries and regulated industries

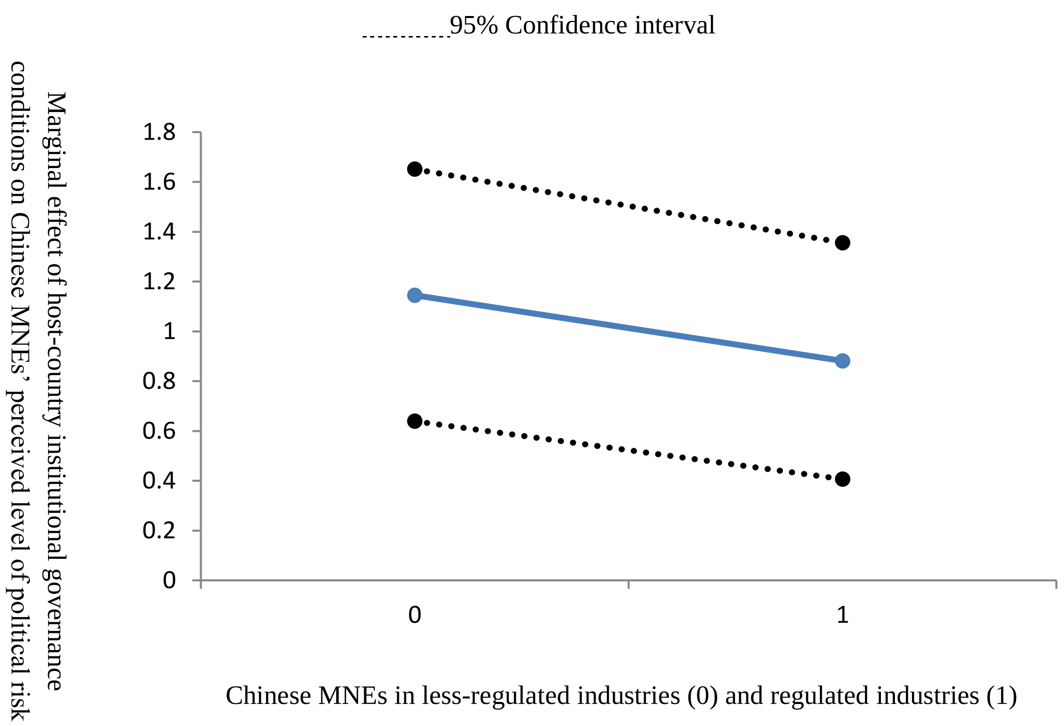
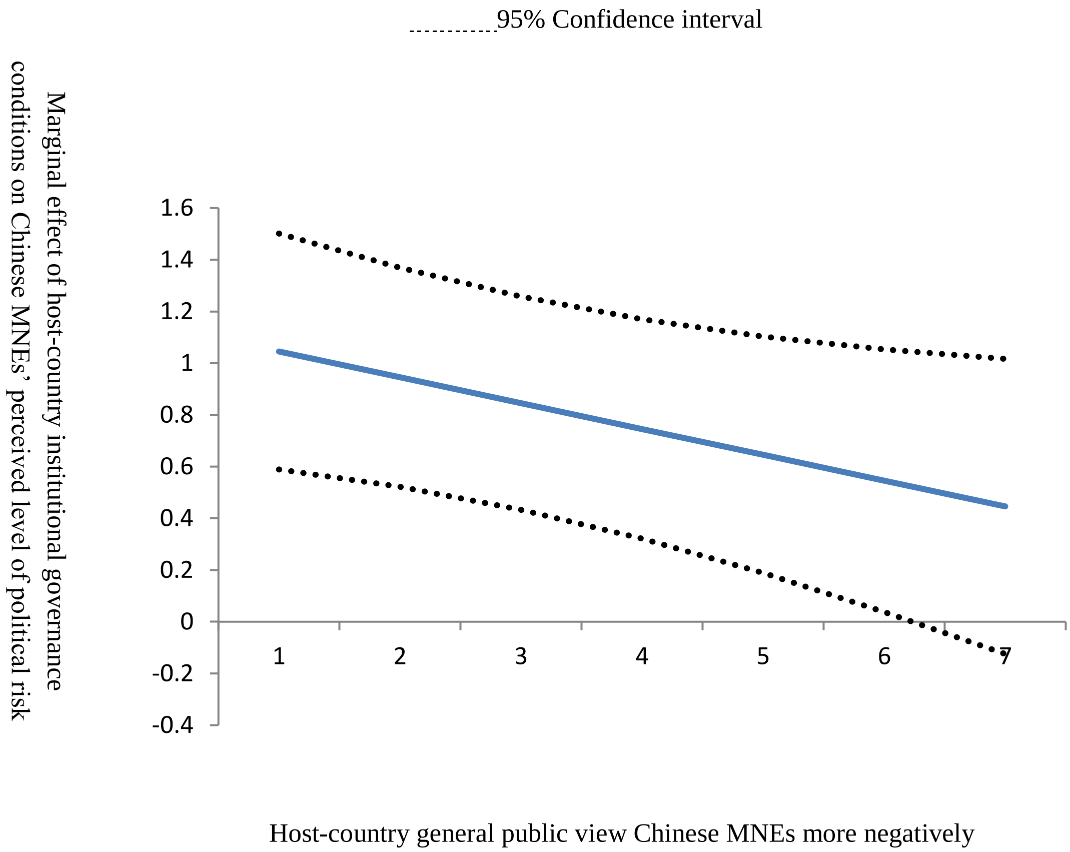


Figure 3.3 presents the marginal effect of host-country governance conditions on Chinese MNEs' perceived level of political risk at different levels of Chinese MNEs' legitimacy with the general public in the host country. The plotting graphic in Figure 3.3 suggested that the importance of the host-country governance framework in shaping firms' perception about host-country political risk is reduced when the general public in the host country view Chinese MNEs more negatively. Thus, it lends support to Hypothesis 4.

Figure 3.3 Marginal effect of host-country institutional governance conditions on Chinese MNEs' perceived level of political risk when the general public in the host country view Chinese firms more negatively



Second, the author examined the robustness of results from the OLS regression to the alternative measure of Chinese MNEs' home-country government legitimacy with host-country government. The Affinity of Nations Index (Gartzke 2006; Voeten et al., 2013) has been used to capture Chinese firms' home-government legitimacy with the host-country government. The results are reported in Table 3.8.

As observed in Models 1 to 6, the signs and coefficients of the control, independent, and conditional variables are similar to the initial OLS regression in Table 3.7. Thus, our hypotheses are robust to alternative measures of Chinese MNEs' home-government legitimacy with the host-country government.

Table 3.8 Robustness tests – Alternative measure of Chinese MNEs' home-country government legitimacy with the host-country government

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Main Variable						
Host-country institutional governance conditions		0.23*	1.47*	0.32*	0.58**	2.04**
		(0.10)	(0.59)	(0.12)	(0.20)	(0.62)
Moderators						
Chinese MNEs' home-country government legitimacy		-0.15	1.92Ɨ	-0.13	-0.12	1.99*
		(0.20)	(1.01)	(0.21)	(0.20)	(0.98)
Chinese MNEs' legitimacy in host-country regulated industries		0.19	0.23	0.27	0.22	0.41Ɨ
		(0.19)	(0.19)	(0.21)	(0.19)	(0.21)
Chinese MNEs' legitimacy with the general public in the host country		-0.09	-0.08	-0.08	-0.05	-0.01
		(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Interactions						
Host-country institutional governance conditions * Chinese MNEs' home-country government legitimacy			-1.29*			-1.29*
			(0.61)			(0.60)
Host-country institutional governance conditions * Chinese MNEs' legitimacy in host-country regulated industries				-0.18		-0.29Ɨ
				(0.15)		(0.15)
Host-country institutional governance conditions * Chinese MNEs' legitimacy with the general public in the host country					-0.09*	-0.12*
					(0.05)	(0.05)
Control Variables						
Degree of marketization	0.08	0.05	0.04	0.06	0.03	0.05
	(0.07)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Ownership	-0.02	0.01	-0.04	0.00	0.02	-0.06
	(0.22)	(0.22)	(0.22)	(0.22)	(0.22)	(0.22)
International experience	0.01	0.01	0.01	0.01	0.01	0.01
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Local experience	0.00	0.00	-0.02	0.00	-0.01	-0.03
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Risk assessment	0.48*	0.44*	0.48*	0.40*	0.48*	0.48*
	(0.20)	(0.19)	(0.19)	(0.19)	(0.19)	(0.19)
Firm size	0.02	0.01	0.00	0.01	0.02	0.00
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Host-country industry competition	0.51***	0.41***	0.38***	0.39***	0.39***	0.35**
	(0.10)	(0.11)	(0.11)	(0.11)	(0.10)	(0.10)
Home-country government support	0.20*	0.21*	0.23**	0.20*	0.21*	0.23**
	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Observations (N)	148	148	148	148	148	148
R-square	0.23	0.30	0.32	0.31	0.32	0.35

ƗP < 0.10; *P < 0.05; **P < 0.01; ***P<0.001

A third concern is that the results of the present research may be subject to potential selection bias. To deal with this issue, this study performed Heckman's (1976) two-stage test. In the first stage, a probit model is employed to estimate the likelihood of Chinese MNEs entering countries with an underdeveloped institutional environment. The author generates the IMR by regressing firms' characteristics and home-country government support on host-country institutional governance conditions. Due to the absence of classification about countries' institutional governance quality, this study adopts the mean value of China's governance score under the WGI's six dimensions in 2010 as a benchmark (WGI, 2010).[6] Hence, for the present research, countries scored no greater than -0.55, indicating weak governance quality.

In the second stage, the author examines Chinese MNEs' perception about host-country political risk by accounting for IMR as a regressor that captures the potential sample selection bias. As shown in Table 3.9, the coefficient of IMR is insignificant in all models. Thus, it suggested the absence of potential selection bias. In addition, the coefficient of the independent variable, its interactions with Chinese firms' home-government legitimacy in the eyes of host government, Chinese firms' legitimacy in host-country regulated industries, and Chinese firms' legitimacy with the general public in the host country remain similar to those in the initial OLS regression.

[6] Under the WGI's six dimensions in 2010, China received a score of -1.63 for voice and accountability, -0.66 for political stability, 0.10 for government effectiveness, -0.22 for regulatory quality, -0.33 for rule of law, and -0.60 for control of corruption. We adopted their sum of average -0.55 as a benchmark.

Table 3.9 Robustness tests – Sample selection bias

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Main Variable						
Host-country institutional governance conditions		0.28**	0.77***	0.37**	0.63**	1.15***
		(0.08)	(0.20)	(0.11)	(0.18)	(0.26)
Moderators						
Chinese MNEs' home-country government legitimacy		-0.01	0.02	-0.01	-0.01	0.02
		(0.05)	(0.06)	(0.05)	(0.05)	(0.05)
Chinese MNEs' legitimacy in host-country regulated industries		0.39	0.34	0.56	0.52	0.74
		(1.00)	(0.98)	(1.01)	(0.99)	(0.98)
Chinese MNEs' legitimacy with the general public in the host country		-0.09	-0.08	-0.07	-0.05	-0.02
		(0.06)	(0.06)	(0.07)	(0.07)	(0.07)
Interactions						
Host-country institutional governance conditions * Chinese MNEs' home-country government legitimacy			-0.12*			-0.09*
			(0.05)			(0.05)
Host-country institutional governance conditions* Chinese MNEs' legitimacy in host-country regulated industries				-0.19		-0.27Ⱡ
				(0.15)		(0.16)
Host-country institutional governance conditions* Chinese MNEs' legitimacy with the general public in the host country					-0.10*	-0.10*
					(0.05)	(0.05)
Control Variables						
Inverse Mills Ratio (IMR)	-1.34	1.51	1.02	2.13	2.15	2.65
	(1.42)	(7.04)	(6.89)	(7.04)	(6.96)	(6.84)
Degree of marketization	0.05	0.07	0.07	0.09	0.06	0.10
	(0.07)	(0.11)	(0.11)	(0.12)	(0.11)	(0.11)
Ownership	0.05	0.00	-0.04	-0.01	0.01	-0.05
	(0.24)	(0.22)	(0.22)	(0.23)	(0.22)	(0.22)
International experience	0.01	0.01	0.01	0.01	0.01	0.01
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Local experience	0.02	-0.03	-0.02	-0.04	-0.05	-0.06
	(0.05)	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)
Risk assessment	0.72*	0.13	0.18	-0.04	0.05	-0.14
	(0.32)	(1.42)	(1.39)	(1.43)	(1.41)	(1.39)
Firm size	0.12	-0.12	-0.07	-0.17	-0.16	-0.19
	(0.11)	(0.55)	(0.54)	(0.55)	(0.55)	(0.54)
Host-country industry competition	0.78*	0.10	0.21	-0.38	-0.04	-0.15
	(0.29)	(1.44)	(1.41)	(1.44)	(1.42)	(1.40)
Home-country government support	0.17Ⱡ	0.25	0.23	0.25	0.26	0.26
	(0.09)	(0.18)	(0.19)	(0.18)	(0.18)	(0.18)
Observations (N)	148	148	148	148	148	148
R-square	0.24	0.30	0.33	0.31	0.32	0.35

ⱠP < 0.10; *P < 0.05; **P < 0.01; ***P<0.001

3.7 Discussion

This study aims to advance our knowledge of political risk in international business literature. It addresses the research question 'How can we explain Chinese MNEs' perceived level of host-country political risk in light of their home-country legitimacy with key stakeholders in the host country?' Existing research presents a gap in this area, as most attention has been devoted to how host-country governance arrangements influence cross-border business operations. To the extent that any international expansion involves at least two countries – firms' home and host countries – the role of the home country in shaping MNEs' perceived level of political risk has not been systematically investigated.

This chapter extends research on the relationship between contextual forces and MNEs' international success by unveiling the implications of home-country legitimacy for the level of political risk faced by Chinese MNEs. Legitimacy has been regarded as a central notion under the institutional perspective as it helps to justify an organization's role in the social system and maintain continued support from important social stakeholders (Deephouse, 1996; Marano et al., 2017). The condition of bounded rationality has led host-country social stakeholders to assess firms' legitimacy using cognitive shortcuts (Bitektine, 2011). As a result, their legitimacy judgements towards MNEs are largely dependent upon other firms that are perceived to belong to the same cognitive categories (Kostova & Zaheer, 1999). An important cognitive attribute is firms' home-country origin as it not only signals product quality, but also reflects the degree of firms and their home-country's social acceptance in the host country. The political implications of home-country legitimacy can be particularly salient for EMMNEs owing to their weakly developed home-country institutional environments. By looking at outward FDI from China, this study tests the impact of host-country governance conditions on Chinese MNEs' perceived level of political risk, as well as the moderating effects of firms' legitimacy with host-country interested stakeholders.

Research built upon the institutional perspective maintains that firms need to conform to the external isomorphic pressures to legitimately survive within an organizational field (Meyer & Peng, 2016). Yet, the presence of alternative legitimating mechanisms may change firms' responses towards such pressures without having to be isomorphic (Kostova et al., 2008). Our study indicates that the legitimacy judgements made by a host-country's interested social stakeholders serve as viable legitimating devices to compete with the country's governance rules in shaping MNEs' perceived level of political risk. The asymmetry of information can prompt host-country social stakeholders to assess MNEs' legitimacy based on their home-country origins. Such legitimacy judgements provide an alternative channel in conferring or withholding firms' 'social license to operate' (Boddewyn, 2016), which reduces the relevance of a country's institutional governance rules in determining the political risk faced by MNEs.

Using survey data on Chinese MNEs in 2011, this study empirically tested the direct effect of host-country institutional governance conditions on the level of political risk perceived by Chinese firms. The results show that host-country institutional governance arrangements remain a key predictor of the level of political hazards experienced by Chinese MNEs abroad. This finding departs from previous research which maintained that Chinese MNEs tend to be indifferent or proactive to locate their investment in risky political contexts (e.g. Buckley et al., 2016; Quer et al., 2012). The finding of this study suggests that the lack of acceptance within host-country interested social groups and actors can lead Chinese firms to face higher levels of political risk at post-entry stage. This issue has also emerged from our fieldwork interviews. One interviewee reflected that: "Our understanding of political risk was far too superficial and general when making the investment decisions. We did not account for many social and political issues once our company was on the ground." Additionally, the findings of this study indicate that the legitimacy judgements made by host-country government, industrial agencies, and social public can limit the effectiveness of governance rules in explaining Chinese MNEs' perceived level of political risk. Hence, it complements extant research by unveiling the interaction between a country's institutional governance rules and the legitimacy assessment made by key social stakeholders in affecting cross-border business survival and operations.

3.8 Summary

The political risk faced by EMMNEs has been and continues to be a key topic in international business research. A sizable body of literature has looked at the impact of host-country political and regulatory conditions on these firms' international expansion and success. However, little has been said about the importance of EMMNEs' home country in shaping their perceived level of political risk in overseas markets. By underscoring the notion of legitimacy under the institutional perspective, this chapter investigates the role of home-country legitimacy in explaining Chinese MNEs' perceived level of such a risk when competing in the global arena. Chinese firms' weakly developed home-country institutional environment can undermine their social acceptance in the host country. Such home-country legitimacy deficit with host-country interested stakeholders can reduce the effectiveness of explicitly stated rules and laws, which ultimately augment the political risk faced by Chinese firms. This chapter uncovers the implications of home-country legitimacy for Chinese MNEs' perceived level of political risk in overseas markets. As firms' perception of their external environment, including political risk may change over time, it is necessary to systematically explore the extent of their conceived political risk in overseas markets using a longitudinal dataset. Additionally, our sample firms are relatively new to international marketplaces (mean value of international experience = 3.01 years and host-country experience = 2.86 years, as presented in Table 3.3). This demands us to conduct systematic examination with firms that have sufficient length of internationalization in order to capture the effect of time on perceived political risk from EMMNEs' perspective.

4. Conceptualizing Political Risk from Chinese MNEs' Perspective

4.1 Introduction

After uncovering the effect of home-country legitimacy on the level of political risk encountered by Chinese MNEs, one may question the way that these new players perceive political risk in overseas markets? This chapter systematically addresses the third research question of the thesis – 'How is political risk conceived by Chinese MNEs when operating in diverse institutional contexts such as developed and developing countries?'

How is political risk perceived by EMMNEs doing business abroad? Extant research drawing on the experience of developed country MNEs has commonly defined political risk as the unexpected change of the 'rules of the game' by host-country governments that can adversely affect business operations (Butler & Joaquin, 1998; Casson & Lopes, 2013; Daredeli & Hill, 2016). While this line of enquiry has generated insights regarding how EMMNEs respond to and manage host-country political risk (Buckley et al. 2007; Cuervo-Cazurra & Genc, 2008; Liu et al. 2016; Ringov, 2012), extant research implicitly assumes the notion is universal, and EMMNEs face the same types of political risk as their developed country counterparts. Thus, our knowledge about how political risk is conceived from the viewpoint of these new contenders remains limited.

The flourish of EMMNEs in general and Chinese firms in particular has generated much interest to understand the variety of political challenges that they have encountered abroad. Existing literature in this field can be divided into two streams. The first stream of research looks at the impact of political risk on Chinese MNEs when venturing into other developing host countries. Drawing on conceptual models of developed country MNEs, this stream of research assumes that these new players are tempted by, and show greater competitiveness, in risker political environments (Liu et al., 2016; Quer et al., 2012). A second, small but growing stream of research concerns Chinese MNEs expanding into more advanced economies. Although these countries are renowned for their well-established market systems and institutions, this does not imply that firms operating in these contexts are shielded from changing external circumstances (Bremmer 2014; Globerman & Shapiro, 2009). However, extant literature has mainly applied the established concept of political risk based on MNEs from developed countries. Little attention has been devoted to the fundamental issue of how Chinese MNEs perceive political risk in overseas marketplaces, given their unique attributes such as the involvement of home country in firms' international expansions (Hoskisson et al., 2013; Peng 2012). Thus, this study explicitly examines the question as to how Chinese firms perceive political risk when operating in diverse institutional environments, including developed and developing host countries.

To address the above research question, the author systematically explores the political risk perceived by Chinese MNEs operating in the EU and in African countries employing a qualitative case study approach. While much has been reported about the political obstacles faced by Chinese MNEs in international marketplaces (Globerman & Shapiro 2009; Kang & Jiang, 2012), the EU as the world largest single market, and Africa as an increasingly important economic power, have not been thoroughly investigated. Therefore, the present study focuses on these two regions.

The rest of this chapter is organized in the following way. Section 4.2 provides an account of how risk has been understood in previous research, with particular attention paid to the meaning and theoretical boundaries of political risk. Section 4.3 introduces the research methodology, followed by the findings of this study in Section 4.4. Section 4.5 draws on the findings to discuss the way that political risk is framed by Chinese MNEs and derives propositions accordingly. Section 4.6 concludes the chapter.

4.2 Literature Review

To understand how political risk is conceived by Chinese MNEs, this section starts by reviewing existing literature concerning the notion, especially its nature and definition. Furthermore, the author looks at the boundary conditions when conceptualizing political risk.

4.2.1 What is risk?

While scholars have generally recognized the critical role of risk in affecting MNEs' international operations, little agreement has been reached with regard to the conceptualization and scope of risk (Buckley 2016; Casson & Lopes, 2013; Liesch, Welch & Buckley, 2011; Miller, 1992). Extant literature has offered various definitions. One stream of research uses a statistical probability approach to define risk as the quantifiable probability that events will occur and influence business operations (Knight 1921; Jakobsen, 2010). The other looks at the potential loss vis-à-vis the potential gain of a decision, and frames risk as the negative variation in business outcomes (March & Shapira, 1987). Yet, another group of researchers focuses on the unknowability of the external environment and defines risk as significant contingencies that reduce performance predictability (Miller, 1992; 2007).

Confusion about the notion of risk goes further as research has often used the terms *risk* and *uncertainty* interchangeably (Buckley, Chen, Clegg & Voss, 2016). Some studies have treated risk and uncertainty as a composite variable and label them as synonymous (Alvarez & Barney, 2005). This has resulted in misconceptions about their roles in international business as risk and uncertainty are related but distinct concepts (Liesch et al., 2011; McKelvie, Haynie & Gustavsson, 2011). While both can arise from firms' external environments, their underlying assumptions and their impact on MNEs' international operations are different (Buckley, 2016; Friedmann & Kim, 1988).

Under Knight's (1921) statistical metaphor, risk refers to a set of possible outcomes, and the likelihood of each occurring can be calculated, whilst uncertainty refers to outcomes where the likelihood of each taking place is unknown. Yet, this approach has been challenged due to its neglect of the role of decision makers (Miller, 2007). Hence, the emphasis of human judgement in the decision-making process has given rise to research that distinguishes risk and uncertainty by drawing on transactional cost economics (TCE). Studies anchored within TCE assume that decision-makers are bounded-rational, and the lack of information makes them hesitate to make decisions or act under uncertain situations (Buckley & Carter, 2004; Williamson, 1985).

Additionally, another group of researchers drawing on the real option (RO) theory assumes that decision-makers are rational and risk-averse, thus being able to choose among a set of future states with relevant information (Billitteri, Lo Nigro & Perrone, 2013). It has been suggested that decision-makers are not strictly rational since they are bounded by cognitive limitations, but this does not imply that they are irrational (Miller, 2007; Payne, Bettman & Johnson, 1993). Rather, when decision-makers have accumulated more information they can convert some uncertainties to risk, hence allowing them to make decisions and take action (Sarasvathy, 2001). This evolving view of managerial rationality is a key step which can help bridge the existing research on risk and uncertainty, drawing on the seemingly contradictory TCE and RO perspectives. Hence, the conversion from uncertainty to risk may be moderated by the possession of information (Buckley, 2016). When there is more information available, firms can make investment decisions. Thus, it may be more appropriate to conceive of uncertainty as a general environmental phenomenon, whilst risk is investor- and investment-specific (Liesch et al., 2011; March & Shapira, 1987). As Friedmann and Kim (1988) suggested, risk cannot exist without the presence of an organizational entity or activity in a host country, but uncertainty as an environmental character can. This corresponds to Kobrin's

(1979) argument that research on political risk in MNEs' international operations should focus on the impact of political events upon firms rather than the events per se. Thus, this study follows previous research (Casson & Lopes, 2013; Friedmann & Kim, 1988) by focusing exclusively on political risk. Table 4.1 offers a summary of how risk has been defined in previous literature.

Table 4.1 A summary of existing research on the definition of risk

Key studies	Main arguments and findings	Theoretical approach(es)
Knight (1921)	Risk refers to the quantifiable probability that an event will occur	Statistical probability
March & Shapira (1987)	Negative variation in business outcomes	Decision-making science
Williamson (1985)	Bounded rationality of decision makers and information asymmetry make them hesitate to act under uncertain situations.	TCE
Billitteri et al. (2013)	Decision makers are rational and risk averse, but are able to choose among a set of future possible outcomes with relevant information.	RO
Kobrin (1979) Friedmann & Kim (1988) Sarasvathy (2001) Buckley (2016)	Decision-makers are neither rational nor irrational because the accumulation of information allows them to take actions. Uncertainty is a general environmental phenomenon, but risk is investment- and/or project-specific.	Management and international business literature

4.2.2 What is political risk?

Although the term 'political risk' appears frequently in international business literature, agreement about its definition remains limited (Butler & Joaquin, 1998; Casson & Lopes, 2013; Kobrin, 1979). Research in the field can be generally divided into two groups. The first group assumes an adversarial relationship between the government and business (Alon & Herbert, 2009). Research built upon this assumption has offered a variety of definitions. For example, political risk has been defined as host government interference with MNEs' operations (Butler & Joaquin, 1998; Casson & Lopes, 2013), as constraints imposed on firms from specific countries or industries (Arikan & Shenkar, 2013; Robock, 1971), and as discontinuities occurring in the business environment due to political changes (Fitzpatrick, 1983).

More recent literature tends to assume a co-operative relationship between MNEs and host-country governments by underscoring the potential for mutual gain (Darendeli & Hill, 2016; Jiménez, Osorio & Palmero-Cámara, 2015; Stevens & Newenham-Kahindi, 2017), as political interference in MNEs' operations, tempted by short-term gains, may jeopardize the government's own objectives, such as economic growth generated as a result of FDI (Luo, 2001). This group of researchers suggests that the perceived political risk by MNEs depends on whether their business objectives are consistent with the host government's long-term political, economic and social agendas (Boddewyn, 2016; Stevens et al., 2015). Firms may perceive a lower degree of political risk when their activities are more aligned with the government's long-term goals (Henisz & Zelner, 2005; Marquis & Qian, 2014). Thus, this strand of research regards political risk as a complex and multidimensional phenomenon that may arise from a variety of host- and home-country sources (Child & Marinova, 2014; Stevens et al., 2015). MNEs are not only affected by governmental actions and political changes in host countries, but are also increasingly under scrutiny from host-country stakeholders regarding, for example, whether they acknowledge their corporate social responsibilities towards natural environmental protection, sustainable development and fair treatment for local employees (Marano et al., 2017; Meyer & Peng, 2016; Scherer, Palazzo & Seidl, 2013). The author summarizes how the notion of political risk has been defined in existing research in Table 4.2.

Table 4.2 A summary of existing research on the definition of political risk

Key studies	Assumption	Main arguments and findings
Robuck (1971)	Adversarial business-government relations	Political risk can be imposed on either all foreign investors or firms from selected countries, industries, and/or undertaking specific activities
Fitzpatrick (1983)	Adversarial business-government relations	Discontinuities in the business environment due to external political changes
Butler & Joaquin (1998)	Adversarial business-government relations	Host-country government interference with MNEs' operations
Steven et al. (2015)	Cooperative business-government relations	MNEs' perceived political risk depends on whether their business objectives are aligned with the host-country's long-term political, economic and social interests

4.2.3 Conceptualization of political risk

While research on the role of political risk in MNEs' international success has progressed, its conceptualization and theoretical boundaries remain a fragmented and narrowly defined area (Jakobsen, 2010; Sottilotta, 2015). In this study, the author considers how political risk has been conceptualized when MNEs operate in heterogeneous institutional and industrial contexts.

Institutional boundaries of political risk for developed country MNEs and EMMNEs

Initial research has adopted the above-mentioned definitions to capture how political risks are perceived by developed country MNEs. Several conceptual frameworks have been proposed to examine the political perils faced by American, European and Japanese MNEs in developing countries. Simon (1984) noted that political risk in a host country depends on its stage of institutional and economic development. MNEs tend to face non-violent political hazards, such as unfavourable legal rulings and stringent entry requirements, in countries with well-established socio-political and economic systems (Bremmer, 2014; Simon, 1984). By contrast, more severe risks, such as the overthrow of political regimes, wars, and expropriations are likely to occur in host countries with an underdeveloped socio-political and economic environment (Busse & Hefeker, 2007; Casson & Lopes, 2013). Jensen (2008) maintained that MNEs investing in developing countries with democratic regimes tend to face a lower degree of political risk and are less likely to experience expropriation and political violence risks. Drawing from the political science literature, a number of studies proposed that hostile political relations between home and host countries may impose political obstacles on developed country MNEs' overseas operations (Desbordes & Vicard, 2009; Li & Vashchilko, 2010).

In addition, the rapid growth of FDI conducted by EMMNEs has stimulated research to analyse how these new players perceive political risk in overseas markets (Buckley et al., 2007; Liu et al., 2016; Quer et al. 2012). This newer stream of research suggests that the types of political risk faced by EMMNEs tend to be more heterogeneous than those of developed country MNEs (Satyanand, 2010). A number of studies have found that EMMNEs are not discouraged, but show a greater willingness to expand into risky environments (Buckley et al., 2016; Cuervo-Cazurra & Genc, 2008). By contrast, for those expanding into developed countries, EMMNEs tend to face stringent government investigation and political opposition (Child & Marinova, 2014; Globerman & Shaprio, 2009; Satyanand, 2010). Moreover, such hurdles are more intensive for SOEs than private firms (Cui & Jiang, 2012; Meyer et al., 2014; Hobdari et al., 2017). A significant portion of these risks arise from EMMNEs' country-of-origin (Globerman & Shapiro, 2009), which has been largely overlooked in the existing literature (Stevens & Newenham-Kahindi, 2017). Yet the adoption of conceptual frameworks based on developed country MNEs' experience may lead researchers to oversimplify the way that political risks are perceived by EMMNEs. As the rapid internationalisation of EMMNEs may challenge the existing theories of internationalisation (Liu, Buck & Shu, 2005; Ramasamy, Yeung & Laforet, 2012), it is important to re-conceptualize political risk from the perspective of these new players. A summary of existing research concerning the institutional boundaries of political risk for developed country MNEs and EMMNEs is presented in Table 4.3.

Table 4.3 A summary of existing research on the institutional boundaries of political risk for MNEs

Author(s) (Year)	Institutional Boundaries and Sources of Political Risk	Methodology and Sample	Key Findings
Panel A: Outward FDI by developed country MNEs			
Simon (1984)	Host-country sourced political risk	Conceptual. Political risk faced by MNEs in South Africa was used as examples	The level of political risk faced by MNEs depends on a host-country's level of economic development and the degree of openness in the political system
Busse & Hefeker (2007)	Host-country sourced political risk	Empirical. Panel data on FDI inflow to developing countries	Host-country government stability, internal and external conflict, corruption, ethnic tensions, law and order, democratic accountability of government, and quality of bureaucracy are key determinants of FDI inflows to developing countries
Jensen (2008)	Host-country sourced political risk	Empirical. Cross-sectional data on 134 countries and 28 interviews with investors, political risk insurers, consultants, and lawyers	The presence of democratic institutions and constraints placed on executives in democratic regimes lead to lower levels of expropriation risk faced by MNEs
Desbordes & Vicard (2009)	Interstate relational sourced political risk	Empirical. Panel data on bilateral FDI stock among OECD countries, and between OECD countries and non-OECD countries	Political risk can arise from deteriorating interstate political relations

Li & Vashchilko (2010)	Interstate relational sourced political risk	Empirical. Panel data on FDI outflow from OECD countries to other OECD countries and non-OECD countries	Political risk can arise from deteriorating interstate political relations

Panel B: Outward FDI by EMMNEs			
Cuervo-Cazurra & Genc (2008)	Host-country sourced political risk	Empirical. Panel data on EMMNEs investing in LDCs	EMMNEs show greater capabilities in dealing with defective host-country institutional conditions
Globerman & Shapiro (2009)	Political risk can arise from a variety of sources	Conceptual. Chinese MNEs in the U.S. were used as examples	Chinese MNEs face stringent investigations and political opposition in the U.S. due to economic and national security concerns
Satyanand (2010)	Political risk can arise from a variety of sources	Conceptual. Chinese MNEs in the U.S.	Host-country political volatilities are top concerns for EMMNEs. They face political risk from other sources such as sudden policy shift and protectionist pressure in developed countries
Quer et al., (2012)	Host-country sourced political risk	Empirical. Panel data on Chinese MNEs investing abroad	Chinese MNEs are unlikely to be discouraged by host-country political volatilities

Child & Marinova (2014)	Political risk can arise from a variety of sources	Conceptual.	The political risk faced by Chinese MNEs abroad depends upon different combinations of home- and host-country contexts, taking into account how the political and institutional systems in those contexts affect cross-border business operations
Meyer et al. (2014)	Political risk can arise from a variety of sources	Empirical. Cross-sectional data on listed Chinese MNEs investing abroad	Chinese SOEs face greater political pressures due to their weak legitimacy of state ownership in countries with strong technological endowment and rule of law than private firms
Buckley et al. (2016)	Host-country sourced political risk	Empirical. Panel data on Chinese MNEs investing abroad	Chinese MNEs are likely to invest in countries with a high level of political risk

Industrial boundaries of political risk for developed country MNEs and EMMNEs

Political risk can be experienced either by all firms of an entire country or by those from selected countries, industries, or those undertaking specific activities (Desbordes, 2010; Robock, 1971). While extant literature has yielded insights into the political risks associated with the host-country's macro environment, research on industry-related political risks is still at an early stage (Alon & Herbert, 2009; Lawton & McGuire, 2005). Existing studies have examined developed country MNEs operating in key regulated industries, such as extraction, petroleum, banking, telecommunications and utilities, and reported that these industries are subject to greater government intervention than those more liberalized industries with fewer restrictions, and thus exposed those MNEs to a higher degree of political risk (Doh, Teegen & Mudambi, 2004; García-Canal & Guillén, 2008). Yaprak and Sheldon (1984) showed that MNEs operating in natural resources and financial service industries experienced a higher degree of political risk than those in technologically dynamic industries. Jakobsen (2010) found that in the global aluminium industry, substantial political risks are present in developing host countries despite their welcoming attitude to FDI. Despite previous research showing that operating in key regulated industries may have important political implications (Bremmer, 2014), an in-depth examination of how such industry-related political risks are perceived by EMMNEs is absent. The author summarizes research on the industrial boundaries of political risk for developed country MNEs and EMMNEs in Table 4.4 below.

Table 4.4 A summary of existing research on the industrial boundaries political risk for MNEs

Author(s) (Year)	Industrial Boundaries and Sources of Political Risk	Methodology and Sample	Key Findings
Panel A: Outward FDI by developed country MNEs			
Yaprak & Sheldon (1984)	Industry-sourced political risk	Conceptual	MNEs in natural resources and financial service industries face a higher degree of political risk than those in technologically dynamic industries
Doh et al. (2004)	Industry-sourced political risk	Empirical. International telecommunication projects in emerging markets	MNEs in regulated sectors tend to be influenced by the degree of host-country trade policy liberalization, sector openness, and investment policy hazards
García-Canal & Guillén (2008)	Industry-sourced political risk	Empirical. Panel data on Spanish firms operating in regulated industries in Latin American countries	MNEs in regulated industries tend to vary in their responses toward host-country political risk depending on firms' ownership form and foreign market experience
Jakobsen (2010)	Industry-sourced political risk	Conceptual	MNEs in regulated industries face industry-specific sets of political risks in addition to host-country political volatilities
Panel B: Outward FDI by EMMNEs			
Bremmer (2014)	Industry-sourced political risk	Conceptual	Governments in both developed and developing countries have become wary of opening more industries to MNEs

To summarize, extant research has offered insightful explanations regarding the role of political risk in MNEs' international success. Despite the progress in this area, we still know little about: (1) how the notion is conceived by EMMNEs operating in different institutional environments; and (2) the way that EMMNEs operating in different industries perceive political risk in overseas markets. Drawing on developed country MNEs' experience, conventional wisdom holds that firms tend to associate developed countries with a stable and pro-FDI political environment and to perceive more radical political risks in developing countries (Casson & Lopes, 2013). As Aulakh (2007) noted, research on EMMNEs has mostly reflected theories of developed country firms and deductive inference, rather than a systematic body of analysis. To date, we have limited knowledge regarding the way that these new players perceive political risk in countries with different levels of institutional development. Additionally, research which systematically addresses the more nuanced aspects of the notion, for example, industry-related political risks associated with EMMNEs' overseas operations has received little attention. Thus, it presents us with the opportunity to fulfil these research gaps and contribute to the research in this area by consolidating current thinking and exploring the concept of political risk from EMMNEs' perspective.

4.3 Research Methodology

This study employs the qualitative case study method to explore Chinese MNEs' perception of political risks when operating in the EU and African countries. Inductive theorizing can generate a deeper understanding of the phenomena being examined than deductive inference (Doz, 2011). Hence, it provides the basis for theory building (Buckley & Lessard, 2005). The objective of this chapter is to: (1) enrich the understanding of political risk from the perspective of Chinese MNEs and; (2) delineate the boundary conditions of perceived political risk by Chinese MNEs in different institutional and industrial contexts. Qualitative exploratory research is particularly effective in opening the 'black box' of what lies behind the phenomenon and helping to answer the *how* and *why* questions (Doz, 2011: 583). In particular, the use of qualitative data enables us to better understand the neglected aspects of risk perception by Chinese MNEs, thus helping us to draw new theoretical insights, and systematically re-conceptualize the notion of political risk based on the experience of Chinese firms.

4.3.1 Sampling

Following Yin (2003), two criteria have been used to select the sample firms and interviewees. First, the length of internationalization should be sufficient for us to collect meaningful information on firms' perception of political risk. Therefore, we selected firms with an overseas presence of at least five years to allow us to explore the issues related to political risk that they have encountered (Gao et al. 2015). Second, the interviewees need to be familiar with their companies' international strategies and operations. Thus, those who worked in the international investment department of the corporate headquarters, or were responsible for international operations, were considered to be the most appropriate participants. The unit of analysis in this study is individual Chinese firms that operate in the EU and African countries. These two markets are our research contexts which enable us to compare and contrast the perceptions of political risk of the sample firms.

Potential companies were approached through contacts in government agencies, academic institutions, and the author's personal networks. Initial communication with the interviewees was made to explain the nature of this study, with the promise of anonymity. This research included a variety of firms with different ownership forms (SOEs vs. private-owned firms), various lengths of international experience and different industries in order to capture the variations in perceived political risks by these firms. Eighteen companies agreed to participate in the study. The author then checked their suitability and excluded two operating outside the EU or Africa. As a result, the sample consisted of sixteen companies that have an established presence in the EU and/or African countries. Detailed characteristics of the sample companies are presented in Table 4.5.

Table 4.5 Sample characteristics

Firm(s)	Interviewee(s)	Industry	Host country(ies)	Years of international operation	Ownership
A	A1; A2	Aircraft leasing	Ireland	5 years	SOE
B	B1; B2	Telecommunication – Operator	Spain; UK	10 years	SOE
C	C1	Telecommunication – Equipment provider	Austria, Belgium, Germany, Netherlands, Spain, Sweden, UK	11 years	Private
D	D1	Oil prospecting	Angola, Uganda	11 years	SOE
E	E1	Telecommunication – Equipment provider	Austria, France, Germany, Ireland, Italy, Netherlands, Sweden, UK	15 years	Private
F	F1; F2	Real estate; Hospitality	Spain, UK	5 years	Private
G	G1; G2	Agriculture – Dairy	Ireland, Netherlands	6 years	SOE
H	H1	Manufacturing – Infrared camera	Germany, Ireland	8 years	Private
I	I1; I2	Manufacturing – Textile	Egypt	7 years	Private
J	J1; J2	Manufacturing – Elevator	Egypt	9 years	Private
K	K1; K2	Manufacturing – Personal care	Nigeria; Tanzania	8 years	Private
L	L1; L2	Construction	Rwanda; Tanzania; Uganda	7 years	SOE
M	M1; M2	Construction	Angola; Congo; Mauritius; Poland; Rwanda; Tanzania; UK	25 years	SOE
N	N1	Pharmaceutical	Netherlands; South Africa	20 years	Private
O	O1; O2	Agriculture – Dairy and Beverage	France; UK	8 years	SOE
P	P1; P2	Construction	Algeria; Angola; Cameroon; Sudan; Tunisia	5 years	SOE

Sample = 16 firms

4.3.2 Data collection

Re-conceptualizing political risk requires the consideration of a multitude of factors (Alon & Herbert, 2009). Hence, the interview guide for this study was structured around the broad theme of how Chinese MNEs perceive political risk in their overseas operations. Based on five pilot interviews with industrial experts, the author revised the interview guide in order to avoid inappropriate questions. Semi-structured interviews were carried out to encourage the interviewees to provide their opinions regarding the questions. (Appendix 3a and 3b presents the interview questions).

The author conducted two rounds of interviews to safeguard the reliability of the data. Over a four-month period, sixteen face-to-face interviews were conducted in the first round. At the end of these interviews, the author asked the interviewees to introduce colleagues who could also participate in this research. A total of eleven interviewees provided their colleagues' contact information and those people were interviewed in the second round. In total, this study included twenty-seven interviews. The interviews were conducted in Mandarin (24) and English (3) and were recorded. The length of interviews varied from fifty minutes to three and a half hours. All interviews were transcribed within 24 hours to minimize information loss. The author also collected archival data from multiple sources, including corporation websites, television interviews and newspapers. In addition, government agencies and professional associations, such as the Industrial Development Authority in Ireland, the Medicines and Healthcare Product Regulatory Agency in the UK, the Dutch Dairy Association in the Netherlands, and the Chinese General Chamber of Commerce in Africa, have been contacted to enquire about specific investment policies. These data complement the information from the interviews and facilitate an in-depth understanding of the political risks faced by the sample firms in overseas markets.

4.3.3 Data analysis

The author started by coding and analysing each interview transcript, i.e. within-case analysis. As this study compares Chinese MNEs in European and African markets, transcripts were classified into two groups according to their host region. For companies having a presence in both, the author coded their European and African operations separately. Within-case analysis was followed by cross-case analysis that aimed at classifying emerging categories.

Each interview transcript was studied for similarities and differences (Glaser & Strauss, 1967). The author merged similar codes into the same first-order category and continued coding the transcripts in this manner until no further distinct or shared patterns could be detected. Alongside developing first-order categories, linkages among these categories were identified that could lead to the development of more theoretically-oriented second-order themes. This study then distilled the second-order themes into more aggregated dimensions, which enabled us to understand how Chinese MNEs view political risk at country, industry and firm level.

Figures 4.1a and 4.1b provide an overview of the data structure. As the author coded Chinese MNEs operating in the EU and African countries in two groups, a three-step process in data analysis was used in each group (Gioia, Corley & Hamilton, 2013). As shown in Figure 4.1a, for Chinese MNEs operating in the EU, we identified thirteen categories in the first-order analysis. In the second-order codes, we identified six themes. We then distilled these themes into three theoretical dimensions: home-country sourced political risks, industry-sourced political risks, and firm-behaviour sourced political risks. Figure 4.1b reported the types of political risk encountered by Chinese MNEs in African countries. We identified nine categories in the first-order analysis, while the second-order codes were classified into four themes. Finally, we aggregated these themes into two theoretical dimensions: host-country sourced political risks and firm-behaviour sourced political risks.

Figure 4.1a Political risks in developed countries (EU)

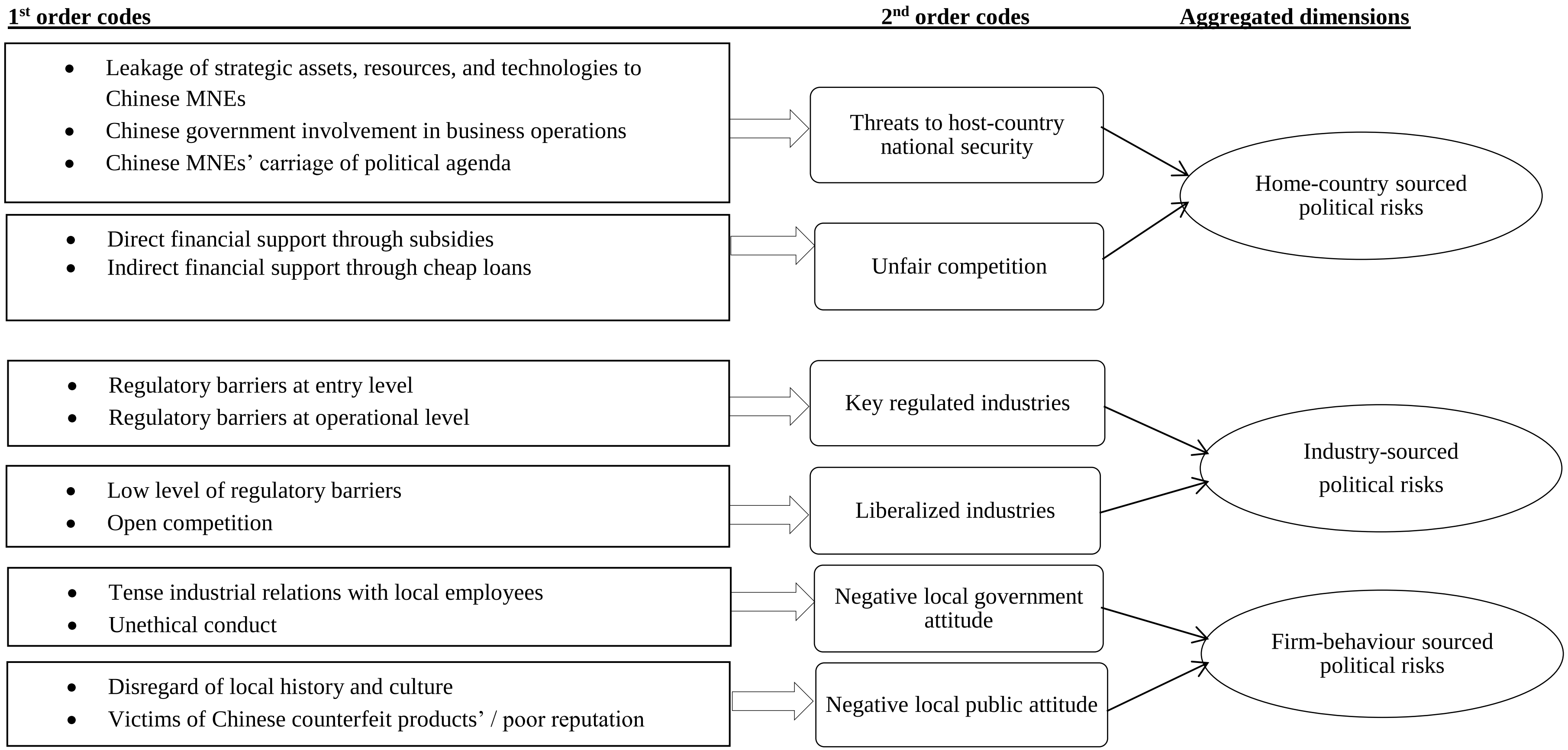
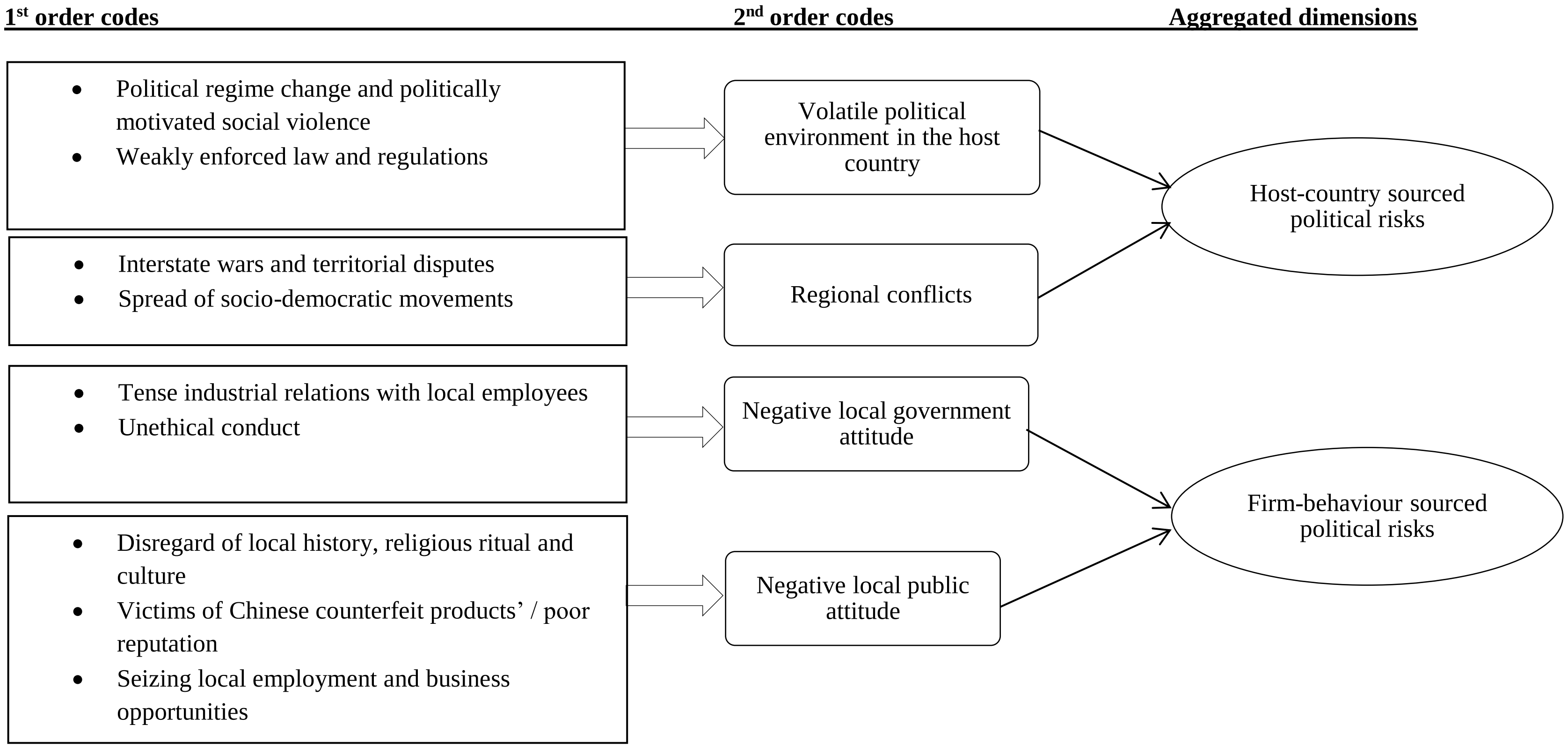


Figure 4.1b Political risk in developing countries (Africa)



4.4 Findings

Political risks perceived by Chinese MNEs in their European and African operations can arise at country, industry, and firm-behaviour levels. At the country level, the evidence reveals that Chinese MNEs perceive political risks differently in European and African markets. While the more stable institutional environment in the EU has presented MNEs with opportunities, the 'baggage' that Chinese MNEs carry from home has subjected them to subtler and more implicit home-country sourced political risks. By contrast, the volatile institutional context in Africa has exposed Chinese MNEs to more drastic political changes, and hence the political risks that they face have tended to arise from the unstable political and regulatory environment in the host country. The industrial context can have important implications for Chinese MNEs' venturing into the European market. Chinese MNEs operating in more regulated sectors face a wider array of rules imposed by the host country and the EU than those in more liberalized industries. At firm level, a common type of political risk faced by Chinese MNEs in overseas markets largely resulted from their own inappropriate behaviour.

4.4.1 Home-country sourced political risks in the EU

Findings from the interviews revealed that differences in ideologies, concerns over national security, and competition for economic dominance can put Chinese MNEs under political pressure even when expanding into developed countries where well-established market institutions provide a sound environment. The 'hand' of the home-country government can travel abroad with its MNEs and acts as a political barrier to firms' overseas expansion. For Chinese MNEs venturing into the EU, their home-country origin was considered by our interviewees to be a major source of political risk, impeding their firms' overseas operations. Such home-country sourced political risks mainly result from potential threats to the host-country's national security as perceived by the host-country government, and the unfair financial advantages conferred by the home-country government.

Threats to the host-country's national security

The evidence reveals that host government concerns over the national security of strategic assets, ongoing competition for economic dominance, and different political ideologies have made Chinese MNEs subject to substantial political and regulatory screening. The view of our interviewees was that host governments were concerned about losing strategic resources and technologies to Chinese competitors, which in turn could undermine their country's economic security and competitiveness. For example, the demand for high-quality food products has prompted Chinese MNEs to enter the European dairy sector. This has posed significant threats to the availability of some dairy products for European consumers and thus has led some EU member states to introduce additional purchase quotas and regulatory screening for acquisitions proposed by Chinese companies. Similarly, the capability of reverse engineering and economies of scale possessed by Chinese MNEs allow them to enter the European market at lower costs. This represents a critical threat to the host-country's competitiveness. Hence, stricter regulations on Chinese MNEs have been introduced by the EU to secure their technological assets.

"European (country) governments are very suspicious of us. They do not want to waive these industries into the hands of Chinese firms because they do not want to see customers or products from China occupy their market." (Firm O, Interviewee O1)

Moreover, the free market economy is the dominant economic ideology in the EU where most business transactions are shaped by market-based mechanisms. It is therefore difficult for the policymakers of these countries to accept the excessive involvement of the Chinese government in business activities when that involvement could harm free-market competition. As our interviewees reflected, the appointment of government officials and the heavy involvement of the Chinese government in FDI projects are likely to result in barriers to Chinese investment being approved by the host government.

"When we met the mayor of XXX (a French city), we were asked by a French official about whether our project needs to be approved by the Chinese government and whether there will be Chinese officials sitting on the executive board. … As you know, Western countries are sensitive to, and very averse about political involvement in commercial activities." (Firm O, Interviewee O2)

In addition, Chinese MNEs are perceived to be linked to China's national objectives and interests. They are considered not only as commercial entities, but also as carriers of home-government political missions. This has made the EU member states wary of Chinese MNEs as they may pose threats to host countries by spreading competing political ideologies. Many interviewees suggested that the competing political ideologies between European countries and China have resulted in greater political resistance with regard to Chinese MNEs in the belief that they represent the Chinese government.

"When we conduct business in European countries, some of their governments are very cautious because they think that the Chinese government stands behind us." (Firm C, Interviewee C1)

This is especially salient with regard to Chinese SOEs, which are more likely to cause EU government concerns and political opposition than their private counterparts. This has largely resulted from Chinese SOEs' closer affiliation with their home government.

"We can access the European market but merely doing property investment. We cannot bid for infrastructure or national security-related projects in these countries. Their (EU members) governments will not allow Chinese companies, especially SOEs, to enter these industries because they are concerned about our political intentions and links with the Communist Party at home." (Firm M, Interviewee M2)

Unfair competition

In addition to concerns over national security, Chinese MNEs' access to funds provided by the home-country government has been a controversial issue as it is considered an unfair advantage for Chinese MNEs. Such access to financial support at home has been perceived by the host-country government to harm market competition. Thus, it could trigger host-government speculation regarding capital offered by the Chinese government, which in turn could become a source of political risk. Home-government subsidies and cheap loans are deemed a key source of unfair advantage that can distort market competition within the EU. It is well known that the ambition to establish world-class MNEs has prompted the Chinese government to offer subsidies to boost Chinese firms' competitiveness so that their products can be sold at lower prices in overseas markets. However, the subsidies violate the EU competition rules and put other companies at a greater competitive disadvantage. Several cases have been filed by the EC targeting Chinese products and firms including textiles, solar-panels, steel, and high-tech products that are subsidized by the Chinese government. As our interviewee explained, anti-subsidy investigations launched by the EC represent an important political obstacle that has discouraged them for further investment.

"We would like to expand our investments in Europe. But the anti-subsidy case filed by the EC has discouraged us and made us feel very uncomfortable." (Firm E, Archive)

In addition, the financial market imperfections in China enable Chinese MNEs to access cheap finance that reduces their costs. Chinese policy banks have launched low-interest loans and export credit schemes to foster the competitiveness of Chinese high-tech, electronic, and manufacturing equipment firms. Such cheap funds have been perceived as unfair competition and against free-market competition. A number of our interviewees indicated that the EU host-country governments tended to be suspicious of their companies' source of funds. Cheap finance from the home government thus constitutes a home-country sourced political risk faced by Chinese MNEs in Europe.

"Abundant capital provision from China is not an absolute advantage but a drawback sometimes. We have been asked by the French government to explain whether we have got cheap loans from China. Some governments in the EU are very cautious that Chinese firms' cheap capital access can damage the market order and put other firms in a disadvantaged position." (Firm O, Interviewee O2)

4.4.2 Host-country sourced political risks in African countries

Chinese MNEs were prompted by the opportunities presented in African countries, such as first-mover advantages and less sophisticated consumer demands. However, the volatile political environments within and across some African states have imposed daunting challenges on Chinese MNEs. Our evidence shows that radical conflicts at national and regional levels have been Chinese MNEs' major sources of political concern.

Volatile political environment in the host country

The changing political regimes in some countries can cause social unrest, thus putting foreign MNEs' personnel and asset safety at greater risk. In almost all of our interviews, a change of political regime is considered to be a critical issue for Chinese MNEs operating in Africa. Several interviewees reflected that their firms were reluctant to undertake investment initiatives in countries where governments were unstable, primarily due to security concerns.

"For Africa, our main worry is still about risk and associated safety issues of our personnel, financial and non-financial assets. There are nearly 400,000 Chinese people in Angola. If a civil war takes place, it would be impossible to evacuate all of our workers. … The general election in African countries can be another sensitive time and there may be curfews. Our construction sites would be closed. Our workers are told to limit their outdoor activities" (Firm M, Interviewee M1).

The volatile political and regulatory environment in the host country can also take the form of a poorly enforced legal framework that subjects Chinese MNEs to inconsistent interpretations of investment regulations. The weakly enforced regulatory frameworks in some African countries have exposed Chinese MNEs to risks, such as a breach of contract by the host government and discretionary legal enforcement by local judiciary bodies. Many of our interviewees indicated that their African operations have been subject to the cancellation of payments and discretionary interpretation of regulations by the host-country government.

"The police and judiciary in Sudan have great discretion and are very tough towards foreign companies. Various fees and fines can be levied on us for different reasons whenever they want." (Firm P, Interviewee P2).

Regional conflicts

Beside a generally volatile political environment within the host country, conflicts at interstate and regional levels are regarded by our interviewees as another source of political risk when venturing into Africa. Political shocks, such as the outbreak of interstate wars and territorial disputes, have led Chinese MNEs to suffer significant loss.

"The separation of North Sudan and South Sudan has caused wars at the border and territorial disputes. Many of our construction sites were located in South Sudan, but now we cannot go back." (Firm P, Interviewee P2)

The spill-over of socio-democratic conflicts at the regional level can result in greater turmoil across neighbouring states that in turn can expose Chinese MNEs to political risk and disrupt their operations. One example that was repeatedly pinpointed by our interviewees was the spread of the 'Arab Spring' across the region of North Africa. The socio-political movement has reshaped the political environment of the region. The overthrow of political regimes and associated social unrest that took place simultaneously in several countries has seriously affected the proper functioning of market institutions. As a result, such regional-wide political shocks have exposed Chinese MNEs' operations to extensive risks.

"We have seen a major deterioration of the social and political environment in North Africa in recent years. Riots during the 'Arab Spring' in 2011 affected our exports to other countries in the region." (Firm I, Interviewee I1)

4.4.3 Industry-sourced political risks in the EU

Despite the progress in global market liberalization, industrial regulations and restrictions remain in place to oversee MNEs' activities in most countries. While such restrictions can potentially affect the operations of all sectors, their impact on the 'key industries', including telecommunications, utilities, pharmaceuticals, healthcare, energy and financial services are particularly salient (García-Canal & Guillén, 2008) as these industries are heavily regulated by the government. As a result, the demand and supply of goods and services in these industries can be influenced by government policies such as product safety rules, entry requirements and capacity control. Thus, the industrial sectors in which MNEs operate can have important implications for firms' perceived risk in overseas markets. Evidence from our interviews indicates that Chinese MNEs operating in more liberalized industries hold very different views from those operating in more regulated industries in the EU.

Regulated industries

The European Single Market Act came into force in the 1980s and resulted in a number of industries being regulated at the regional level to ensure internal market prosperity (EC, 2012). For MNEs seeking opportunities in some of the abovementioned regulated sectors, restrictions have been levied at both market entry and operational levels. At market entry level, rules of entry, product testing requirements and the conversion of industrial standards have been imposed by the EC and other relevant authorities to regulate investment from outside the EU. The evidence reveals that such restrictions have resulted in Chinese MNEs having to face more complicated registration issues, which in themselves represent an important form of market entry barrier. For example, the herbal medicine sector has been regulated by the EC regarding product testing standards and registration procedures since 2004. Yet, the sophisticated procedures of registration have made Chinese pharmaceutical firms subject to greater market entry barriers and obliged them to incur much higher costs in order to market their products.

"The registration process for herbal medicines is extremely complex in the EU and we have to pay huge fees to test our products. Maybe the testing procedures are feasible for medicines from Western countries because there is normally only one single ingredient in their products. But for Chinese medicines there are often multiple ingredients and we have to pay testing fees for each one. This is unaffordable for us." (Firm N, Interviewee N1)

Restrictions can also be imposed at the operational level to regulate business activities. For Chinese MNEs, the enforcement of output limits has made them subject to a higher degree of political intervention. A well-known example was the milk quota restriction that was introduced in 1980s which aimed to regulate competition within the European dairy sector. The milk quota system was still in place at the time of our interviews. As one interviewee noted, the output quantity restrictions imposed by the EU authority constituted a key political obstacle to their expansion in the European dairy industry.

"Our plant in Ireland is limited by the EU milk quota restrictions. Once we exceed the quota, there will be a risk of fines. So, we only keep one production line in Europe." (Firm G, Interviewee G1)

Liberalized industries

In the past few decades, de-regulation has taken place in most industries in the EU and has resulted in reduced regulatory barriers and simplified administrative procedures. For Chinese MNEs operating in more liberalized industries characterized by fewer regulatory restrictions and policy interventions, the well-established market and industry infrastructure has provided them with a sound environment which has facilitated these firms' operations in the EU.

“Our businesses are in real estate and entertaining. These are consumption industries. There aren’t many policy restrictions from the UK or other European country governments.”
(Firm F, Interviewee F1)

Furthermore, the enforcement of the Single Market Act, which promotes the free movement of goods and services, has provided an open ground for firms to compete within the EU (EC, 2012). The open market established by the Single Market Act is regarded as an important advantage by the majority of the interviewees. As one interviewee explained, the Single Market Act has facilitated their company’s access to a greater consumer base across the EU member states at much lower risk.

“We manufacture our products in Ireland and can export to other EU states without worrying about tax or tariffs thanks to the free movement in the EU.” (Firm H, Interviewee H1)

4.4.4 Firm-behaviour sourced political risks in both markets

Despite the stark contrast in institutional environments between the EU and African states, our evidence revealed that the inappropriate behaviour of a small number of Chinese MNEs, such as ignorance of sustainable development, a lack of respect towards the local culture and hostile industrial relations, can trigger adverse local responses, thus exposing all Chinese MNEs to political risks in both markets. As our interviewees regularly pointed out, such inappropriate practices and behaviour have led to negative attitudes towards some Chinese MNEs by the host government and the general public.

Negative local government attitude

A lack of professional training can lead some Chinese MNEs to run the risk of violating local Employment Acts and engaging in unethical conduct. Such inappropriate behaviour can lead to a poor opinion about all Chinese MNEs in the eyes of the local government, which could be followed by more stringent regulatory treatment of all Chinese MNEs investing in the local market. For example, tense industrial relations with local employees experienced by Chinese MNEs in both European and African markets can result in legal disputes. This may undermine the host government's intention of attracting Chinese investment in order to generate greater economic prosperity and employment opportunities. The host government may come to view Chinese MNEs as exploiting the local labour force rather than contributing to economic growth, especially in African countries. Such a negative attitude may lead to a stricter regulatory environment in which Chinese MNEs' operate.

"Managing industrial relations is critical because it can drag us into trouble with the French government if we cannot get along with the local employees. For example, we had a problem of paying pensions to local staff and it almost took us to court. This can potentially damage our image with the French government and result in more regulations imposed on our business." (Firm O, Interviewee O2)

"Injuries and accidents at our construction sites can make the Rwandan government think that Chinese companies do not care about protecting the local workers. They would certainly view this very unfavourably." (Firm L, Interviewee L2)

The weakly enforced regulatory framework in China has provided some Chinese MNEs with opportunities to exploit institutional voids and get away with unethical behaviour. However, such conduct is not tolerated by governments in the EU and African countries. As a result, tougher and sometimes dyadic-specific treatments have targeted unethical business practices which can form a critical source of political risk faced by all Chinese MNEs.

"The degree of enforcement of the EC Act (Directive on Herbal Medicinal Products) varies in different member states…In some countries like the UK and Netherlands, the governments did not introduce many restrictions. But a number of counterfeits were found to be supplied by firms from China. They used toxic ingredients and caused serious side effects. After these scandals were reported, the UK government imposed stricter rules to regulate herbal medicines." (Firm N, Interviewee N1)

"There are many Chinese construction workers in Africa and they have a lot of troubles due to their behaviour. So the biggest issue that we have now is to get working visas for our workers because many African country governments have implemented a quota system to restrict the number of Chinese workers, which has caused problems with our operations there." (Firm M, Interviewee M1)

Negative local public attitude

The disregard of local history, culture and religious rituals has frequently been mentioned by the interviewees as a critical issue that has caused Chinese MNEs trouble in European and African markets. Such ignorance can make the local public view these firms as socially irresponsible, hence damaging the overall image of Chinese MNEs and can result in the boycotting of Chinese products. Political activities can be organized by local interested parties to influence their government's attitude against Chinese MNEs' operations. As one of the interviewees from Firm F explained, negligence of the host-country's history and culture by a small number of Chinese MNEs can lead to local public aversion. As a result, they may lobby the government to impose stricter regulations on all Chinese MNEs or protest against their operations.

"Our company has not realized the importance of having good public relations in Europe, so the locals tend to see us as disrespectful to their culture which can cause problems. The local public have voting power, so their attitude towards us to a great extent can influence their government's attitude especially at the time of a general election. When the locals do not like us, they can lobby the government to suspend our operations. The government would also view us more negatively and treat our operations unfavourably." (Firm F, Interviewee F2)

"There were some Chinese businessmen who disregarded the local culture and religious rituals, which gave the locals a very bad impression and caused negative feedback towards all Chinese firms. Some local stakeholders have already attempted to persuade their government to put stricter controls on us." (Firm I, Interviewee I1)

Furthermore, a lack of attention to local economic development by some Chinese MNEs, as well as the loss of business opportunities and profits by the locals, have triggered adverse responses from the local interested public, and thus caused social disapproval of Chinese MNEs. As a result, the host-government's sensitivity towards Chinese MNEs' inappropriate conduct may be augmented by these local interested parties.

"Overall, the relationship between our company and the local African people has become increasingly unfavourable. In countries like Tanzania, the locals are very hostile to us because they cannot gain from doing business with us. They think that the Chinese have taken all the profits away from them." (Firm L, Interviewee L2)

The lack of protection over intellectual property rights at home has provided some Chinese MNEs with the incentive to produce and sell counterfeit products. However, when expanding into overseas markets, the adoption of home-country practices can harm their reputation and cause greater distrust of their products among the local public. Such inappropriate practices lead to a negative view of Chinese companies by the host-country public. Public sentiments and distrust towards counterfeit products supplied by a small number of Chinese companies can prompt the local consumer associations and media to lobby their government to more carefully control all Chinese MNEs' operations by introducing new legislation or stricter requirements on Chinese products. This has occurred in both markets.

"Selling counterfeit products by a few Chinese firms has damaged the reputation of Chinese medicines and the European consumers do not trust us anymore. A number of new regulations have been introduced in the Netherlands to inspect medicines from China after those scandals had been reported." (Firm N, Interviewee N1)

"There were some Chinese businessmen who sold counterfeit products to African consumers. So now we are not trusted by the locals and it has brought us many problems from their government." (Firm M, Interviewee M1)

4.5 Discussion

This chapter focuses on the way that Chinese MNEs conceive political risks when expanding into the EU and Africa. The findings suggest that their perceived political risks are related to country, industry and firm-behaviour. Such risks are more complex than those reported by developed country MNEs. Hence, it highlights the importance of unpacking the notion of political risk from the viewpoint of these new players. In this section, the author draws on the findings from the multiple case studies to discuss how Chinese MNEs perceive political risk and derive propositions accordingly.

Propositions

Home-country sourced political risks

While the existing literature on political risk tends to focus on host-country factors, the rise of Chinese MNEs has challenged this conventional wisdom (Child & Marinova, 2014). Since MNEs cannot always separate themselves from the image and influence of their home country when expanding abroad (Fiaschi et al., 2016; Stevens & Newenham-Kahindi, 2017), it is important to take into account the impact of country-of-origin on the political risks faced by Chinese MNEs in foreign marketplaces. The country-of-origin, or home-country origin, refers to 'the country where the corporate headquarters of the company marketing the product or brand is located' (Johansson, Douglas & Nonaka, 1985: 391) and host-country governments are likely to react to the country-of-origin of MNEs (Stevens et al. 2015). Host-country governments may encourage MNEs from certain countries as they bring desirable resources; equally, they may be wary of other nationalities due to potential threats to a host-country's national security and competitiveness (Cuervo-Cazurra 2011). Thus, the home-country origin of EMMNEs can have critical implications for the way that they are perceived by the governments of both developed and developing countries.

Our findings complement extant research by revealing that Chinese MNEs' perceived political risks in the EU tend to originate from their home-country origin as they are treated as representatives of their home country (Desbordes, 2010). Concerns over national security that result from political resistance and competing economic interests can make the host government seek to ring-fence their national strategic assets from Chinese investment. Furthermore, access to home-government financial support can lead the host government to fear the unfair competition associated with investment by Chinese MNEs. Such concerns have resulted in extra scrutiny from the EU member governments. Hence, Chinese MNEs are exposed to risks caused by their 'Chinese' label, representing a critical and endogenous source of political risk in developed countries.

Additionally, the evidence shows that political scrutiny has been more intensively exercised by host-country governments in the EU on Chinese SOEs than private firms due to their close affiliation with the Chinese government. This is consistent with Globerman and Shapiro's (2009) observation that Chinese SOEs are more likely to face government speculation in the U.S. than their private counterparts. This reinforces the view that SOEs not only serve the economic purpose, but more importantly, the ideological purpose of projecting their home-government political and economic influence in overseas markets (Cuervo-Cazurra, Inkpen, Musacchio & Ramaswamy, 2014).

> **Proposition 1:** Chinese MNEs are likely to encounter political risks when a host-country government perceives them as posing potential threats to national security and competitiveness.

Host-country sourced political risks

Despite the increasing integration of global economic activities, the volatile political environment remains a critical concern that inhibits economic efficiency and national competitiveness in the developing world (Jakobsen, 2010). The frequently changing political regimes and the weak legal framework in some developing countries can lead to the deterioration of living standards and loss of life. Moreover, regional political turbulence can profoundly disrupt social and economic activities. As a result, MNEs operating in these markets tend to face severe political turmoil and inconsistent regulatory treatment which can jeopardize their operations (Darendeli & Hill, 2016).

Our findings explicitly show that Chinese MNEs' perceived political risks in African markets mainly result from exogenous political shocks and events. Such turmoil at domestic and regional levels represents a significant political challenge and can undermine firms' operational confidence. The findings are consistent with the view that host-country political volatilities tend to be a top concern for MNEs from both advanced and developing countries (Satyanand, 2010). This concern may be explained by the traditional bargaining mechanism which suggests that the host-government's bargaining power tends to increase vis-à-vis MNEs once the latter's capital is sunk in the host country (Jakobsen, 2010). The authoritarian political environment and discretionary policymaking process in some African states have enabled Chinese MNEs to negotiate favourable terms before their entry. Yet, they have tended to underestimate the costs when the 'rules of the game' in the host country are changed at the post-entry stage (García-Canal & Guillén, 2008). Findings from this study suggest that Chinese MNEs at the post-entry stage mainly perceive political risk in Africa as stemming from the volatile political environment in the host country and the region. This shows that Chinese MNEs' perceptions of political risk in Africa are similar to developed country MNEs (Casson & Lopes, 2013). Thus, the traditional way of conceptualizing political risk by focusing on the deficiencies of a developing host-country's political and regulatory environment is still relevant to Chinese MNEs operating in such a country.

Proposition 2: Chinese MNEs are likely to encounter political risks in a developing host country with a volatile political environment and regional conflict.

Industry-sourced political risks

During the last few decades, technological changes and the reduction of trade barriers in most parts of the world have encouraged MNEs from virtually all industries to participate in international competition. However, such global economic integration does not replace the importance of national governments in regulating industrial policies and business activities. Industry-related regulations are still enacted by national governments to supervise and sometimes intervene in business operations. The impact of such policy interventions is particularly striking for MNEs operating in regulated industries (Holburn & Zelner, 2010). Hence, industry-related regulations levied by the host-country government represent a key source of political risk for foreign MNEs (García-Canal & Guillén, 2008).

Our findings revealed that the enforcement of industrial policies by the EU can be a mixed blessing for Chinese MNEs. On the positive side, several waves of de-regulation by the EU member states have allowed Chinese MNEs to compete on more equal terms within the EU. On the other hand, those operating in regulated industries are subject to restrictions imposed at the regional level which has resulted in greater entry barriers and operational complexities. It is recognized that MNEs in highly regulated industries require greater research attention (Holburn & Zelner, 2010). Yet, extant literature has mainly focused on developed country MNEs expanding into the regulated industries of developing host countries (Bremmer, 2014). The implication of industry-related political risks for EMMNEs has received scant attention. The findings from our research help to fill this gap by showing that industrial restrictions imposed by the EU can substantially affect Chinese MNEs' expansion into those regulated industries. Thus, our findings not only confirm that the traditional conceptualization of industry-related political risks still applies to Chinese MNEs, but also highlight the role of regional institutions in regulating foreign investment activities.

> **Proposition 3:** Chinese MNEs operating in more regulated industries are likely to encounter a higher degree of industry-sourced political risks than in more liberalized industries.

Firm-behaviour sourced political risks

Extant literature has stressed that the different levels of economic development between developed and developing countries have created contrasting environments, and hence different political risks for MNEs to deal with (Jakobsen, 2010). A more nuanced aspect of political risk that stems from firms' own behaviour has been under-explored. Our findings indicate that by importing unsuitable home-country practices, Chinese MNEs have commonly experienced firm-behaviour related political risks regardless of the stage of economic development of the host countries. While Chinese MNEs are prompted by the opportunities presented in European and African markets, inappropriate or self-destructive behaviour by a few Chinese firms may drag them into hostile relations with the host government. They may be perceived as failing to deliver their promise of boosting local economic growth, thus making their presence less acceptable in the eyes of the government (Fiaschi et al., 2016). The failure to achieve legitimacy, i.e. aligning business objectives with the political and economic agenda of the host-country government, can motivate the latter to intervene in business activities (Henisz & Zelner, 2005). Specifically, unacceptable conduct by a small number of Chinese MNEs can prompt the local government to take political and regulatory actions. In other words, when firms are deemed to be untrustworthy with regard to self-regulation, the host-country government can impose rules in order to maintain market order and regulate firms' behaviour. This has become an extra layer of political risk faced by Chinese MNEs in both developed and developing countries.

Our findings further suggest that the host-country government's evaluation of MNEs can be reinforced by the attitude of the public. As the government consists of individual policymakers and branches (Zelner, Henisz & Holburn, 2009), these constituents constantly interact with other interested stakeholders, including consumers, political parties and media. Hence, the way that these social groups and actors perceive Chinese MNEs can subsequently influence government and policymakers. Ignorance of the local norms by Chinese MNEs can undermine their social approval. Such unfavourable responses from the local interested parties can exert a powerful influence over government decisions through lobbying and demonstrations. As a result, the political risks faced by Chinese MNEs are heightened through the interplay between the government and the public.

Proposition 4: Chinese MNEs are likely to encounter political risks when the government and public in a host country are critical of their behaviour.

4.6 Summary

The notion of political risk has occupied a central place in the study of MNEs' international expansion and success. This study investigates an under-explored yet fundamental question as to how Chinese MNEs perceive political risk in the EU and Africa. It complements extant research that has largely drawn on conceptual models of developed country MNEs. Using a qualitative analysis approach, the author finds that political risks can root in a set of country, industry and firm-behaviour sources for Chinese MNEs operating in both markets. The findings reveal that the way that Chinese MNEs perceive political risk is substantially different from their developed country counterparts. Therefore, this chapter develops a more complete conceptualization of political risk from the viewpoint of Chinese MNEs.

5. Conclusion

This chapter concludes the thesis by discussing the main findings, contributions, as well as implications for managers and policymakers. It also acknowledges the research limitations and suggests potential avenues for future research. The chapter consists of four sections. Section 5.1 summaries the main findings of this study. Section 5.2 highlights the major contributions. Section 5.3 provides the research implications for the business and policymaking communities. Finally, Section 5.4 discusses the limitations and points to directions for future research.

5.1 Summary of the Main Findings

This thesis examines the relationship between external environmental forces and Chinese MNEs' post-entry operations, hence success. Chinese MNEs have become increasingly active players in conducting outward FDI over the past few decades. Their home-country institutions play a critical role in shaping the global expansion and success of these new contenders. In this thesis, the author attempts to uncover the importance of home-country institutions by looking at the implications of home-country government support for Chinese MNEs' post-entry performance (Chapter 2); examining the role of home-country legitimacy in shaping Chinese MNEs' perceived level of political risk in overseas markets (Chapter 3); and conceptualizing the notion of political risk from the perspective of these new players (Chapter 4). The main findings of each chapter will be discussed in the following parts.

5.1.1 Main findings from the study of home-country government support on Chinese MNEs' post-entry performance

Chapter 2 examines the impact of home-country government financial and non-financial policy support on Chinese firms' overseas performance and the extent to which their effects are moderated by interstate political and economic relations. The research has obtained several interesting findings. First, empirical evidence from this study shows that supportive home-government policies in non-financial domains enhance EMMNEs' overseas subsidiary performance, whereas financial support does not have such an impact. This suggests that the supportive schemes provided by the home-country government have different implications for firms' post-entry operations. Non-financial policy measures, such as information support, streamlining of administrative process and increasing protection in overseas markets can directly enhance Chinese firms' post-entry performance through increasing efficiency and reducing operational costs. Unlike developed country MNEs, EMMNEs rely substantially on government support to build their competitive advantages and pursue international growth (Hong et al., 2015). This finding complements previous research (e.g. Luo et al., 2010; Lu, et al., 2014) by demonstrating that home-country government non-financial support not only motivates firms to undertake outward FDI but also generates a performance-enhancing effect. Such support in the forms of information provision and institutional protection for overseas business is vital for newcomers like EMMNEs to compete in the global marketplace. It also implies that EMMNEs may not lack financial resources, but face challenges in understanding of host countries due to the lack of foreign market knowledge. Home-country government non-financial support helps address their weakness in post-entry operations, thus improving firm performance.

Second, this research pays particular attention to the role of interstate relations in EMMNEs' cross-border operations and finds empirical support for the view that interstate relations can interact with domestic institutional environmental forces to influence cross-border business operations (Cuervo-Cazurra, 2011). Specifically, interstate political relations can serve as a promoting device to augment the positive link between home-country government non-financial policy support and EMMNEs' international success. The findings reflect the fact that firms are embedded in both home and host countries, and thus their international activities are influenced by interactions between governments at interstate levels (Child & Marinova, 2014). Existing studies predominantly stress the relevance of within-country institutions for MNEs' operational effectiveness (Makino & Tsang, 2011). However, government involvement in firms' cross-border operations can raise political concerns (Globerman & Shapiro, 2009) and makes EMMNEs suffer from the liability of country of origin. This is particularly true with Chinese firms, which are often considered to carry their home-country identity and political missions with their outward FDI (Cui & Jiang, 2012). Therefore, investing in countries with good interstate political relations with their home country can help firms minimise negative images associated with their national identities, as home-country government support may be seen as less intrusive or represents a positive signalling in these countries. Furthermore, the Chinese government and embassies are more likely to be influential in countries with close interstate political relations. As such, they can provide protection and help for their firms when needed. Our findings imply that strong interstate political relations serve as an institutional device to amplify the effect of home-country government policy support which helps EMMNEs embed in the local institutional environment. Increased local embeddedness enables these firms to gain public support and have greater access to local knowledge and market know-how, thus enhancing subsidiary performance.

Third, the findings of this research also suggest that interstate economic treaties and non-financial policy support by the home-country government substitute each other in affecting Chinese MNEs' overseas success. When strong interstate economic relations are in place, firms can gain access to economic benefits, such as tax reduction and tariff exemption. Additionally, interstate economic treaties serve as an alternative source of country-specific information which can be more beneficial than the guidelines issued by the home-country government. Therefore, strong interstate economic relations can replace the promotional measures of home-country government in helping firms achieve overseas success.

5.1.2 Main findings from the study of home-country legitimacy on the level of political risk faced by Chinese MNEs abroad

Chapter 3 investigates the question 'How can we explain Chinese MNEs' perceived level of host-country political risk in light of their home-country legitimacy with key stakeholders in the host country?' The author leverages insights from the institutional perspective to pinpoint the role of home-country legitimacy in shaping Chinese firms' perceived level of such risk in overseas markets. The results show that Chinese MNEs' social acceptance in the host country can have important political implications for firms' survival and success.

The author finds that backwardness of the home-country institutional environment can undermine Chinese MNEs' acceptance among host-country social stakeholders including government, industrial agencies, and the general public. As a result, these legitimacy-granting actors tend to withhold from firms the 'social license to stay', which can be translated into political challenges to obstruct Chinese MNEs' survival abroad.

Our findings further reveal that a host-country's institutional governance conditions and the legitimacy judgements of influential social groups and actors are closely intertwined to affect cross-border investment activities. The legitimacy of Chinese firms' home government with host government provides an alternative channel to explicitly stated governance rules and laws in determining firms' access to resources and markets, hence their perceived level of political risk. Moreover, the legitimacy evaluation of host-country industrial agencies tends to offset the relevance of institutional governance rules on firms operating in regulated industries. Additionally, the effectiveness of a host-country's governance conditions in shaping Chinese MNEs' perceived level of political risk can be limited owing to the lack of acceptance of these firms amongst the general public in the host country.

5.1.3 Main findings from the study of conceptualizing political risk from Chinese MNEs' perspective

Chapter 4 explores how the notion of political risk is conceived from the viewpoint of Chinese MNEs. The study employed a multiple case study method to analyse the heterogeneous types of political risk faced by Chinese firms operating in institutionally more stable and economically more advanced EU markets versus less-developed African countries. The findings show that the way Chinese MNEs perceive political risk considerably departs from their developed country counterparts. These new contenders tend to view political risk as a multidimensional concept and can arise from a broad array of country, industry, and firm-related sources.

At country level, this study finds that although the well-established market system in the EU has created opportunities for MNEs to pursue growth, Chinese firms are exposed to implicit political pressures due to the 'baggage' they carry from home. The host-country government concerns over the threats to national security and distortion of market competition due to Chinese MNEs' home-government involvement have subjected these firms to home-country sourced political risk in the EU. In contrast, the volatile political regimes in some African states and regional turmoil have exposed Chinese MNEs to host-country sourced political risk. These findings indicate that the conventional analysis of political risk needs an overhaul as Chinese firms' unique home-country institutional background can have critical implications for the way that they perceive political risk in international markets.

In addition, the findings of this chapter corroborate the arguments from Chapter 3 which highlights the importance of home-country acceptance in shaping the way that MNEs' perceive political environment in overseas markets. In particular, as emerging markets evolve, and EMMNEs' international experience develops, their perception of political risk in international marketplaces may change over time. Adopting the qualitative research method enables the author to systematically conceptualize the notion of political risk from these new contenders' perspective. In doing so, it helps to develop a holistic account of political risk and validate the results obtained in Chapter 3 based on cross-sectional data analysis. The findings from Chapter 4 complement those of Chapter 3, showing that Chinese MNEs with longer exposure in overseas markets perceive a different degree of political risk compared with those with shorter international exposure.

At industry level, our findings reveal that the industrial contexts can considerably influence Chinese companies' perception of political risk in the European market. Firms operating in liberalized industries tend to hold very different views from those in key regulated industries with regards to the enforcement of the European Single Market Act and its associated industrial regulations. On the one hand, reforms of industrial policies and privatization that have taken place in the EU have created a level of playing field for Chinese MNEs in liberalized industries that seek further expansion and market base. On the other hand, restrictions introduced by the EU regional and national authorities have imposed greater entry and operational barriers for Chinese MNEs operating in regulated industries. As a result, they tend to regard such obstacles as industry-sourced political risks.

In addition, despite the contrasting institutional environments and stages of economic development between the EU and African markets, a common type of political risk has been reported by Chinese firms related to their own behaviours. The findings show that the ignorance of local economic development, hostile industrial relations, and lack of respect for local culture by some Chinese MNEs can damage the overall image and reputation of Chinese investment in both markets. Hence, the host-country government and public tend to develop negative attitudes and impose tougher treatments towards Chinese MNEs, which give rise to firm-behaviour sourced political risk.

5.2 Research Contributions

5.2.1 Contributions from the study of home-country government support on Chinese MNEs’ post-entry performance

This study focuses on the role of home-country government support on Chinese firms’ overseas subsidiary performance and it makes three contributions to the existing literature. First, it goes beyond examination of what motivates EMMNEs to undertake outward FDI by focusing on their post-entry performance. More specifically, the author differentiates the generic home-country government support into financial and non-financial policy measures. Thus, the findings not only advance our knowledge of the importance of the home-country government, but also the differing impact of supportive measures in shaping EMMNEs’ post-entry success. In particular, the findings of this research contribute to a better understanding of the factors affecting EMMNEs’ overseas success. As EMMNEs are in the early stage of internationalization, they rely more on government non-financial support to compensate for the lack of knowledge about host countries. Knowledge provision and institutional protection are more important elements than financial support in shaping the post-entry performance of EMMNEs.

Second, this study broadens the existing research on EMMNEs by combining insights from the institution perspective in terms of institutional embeddedness and the GPE perspective. Our integrative framework offers a broader perspective for understanding the origins of a firm’s competitive advantage and allows us to capture the impact of interconnection between domestic institutions and interstate relations. Thus, this approach enables us to expand the theoretical boundary of the institutional perspective to interstate contexts. Firms operating across state borders face multiple institutional pressures that arise from home and host countries, as well as their interplay in the international realm (Meyer & Peng, 2016). Extant research drawing on the institutional perspective has focused on the impact of within-country contextual forces by assuming such contextual factors are internationally immobile (Demirbag et al., 2010; Makino & Tsang, 2011). The present research addresses this omission by bringing in the GPE perspective which emphasises that countries are embedded in the broader international context, and thus interstate relations can augment the effectiveness of domestic policy (Jandhyala & Weiner, 2014). The author proposes and finds empirical evidence that the institutional influence of the home-country government can be channeled through interstate political and economic relations that affect firms' overseas activities. By bridging the institution perspective with the GPE perspective, this thesis moves beyond identifying the direct effect of the domestic institutional environment by highlighting its interface with interstate relational factors in explaining EMMNEs' post-entry performance. In an international context, interstate relations may serve as a specific institutional link between countries that influence EMMNEs' institutional embeddedness in host countries, thus indirectly affecting cross-border business operations. This thesis complements existing research in this area by showing that EMMNEs' international success not only directly links to their home-country government support, but also is indirectly related to the strength of interstate political and economic relations.

Third, the findings reveal that home-country government non-financial policy support interacts with interstate political and economic relations in different ways to influence EMMNEs' post-entry performance. While there is a complementary effect between interstate political relations and home-government non-financial policy support, interstate economic relations substitute for the impact of home-government supportive policies. Thus, this research systematically delineates the moderating effects of interstate political and economic relations in EMMNEs' international success. The impact of home-country government support on EMMNEs' post-entry performance is not universal but depends on interstate contextual factors. The findings offer a more nuanced understanding of the heterogeneous effects of interstate relational factors (Makino & Tsang, 2011), and shed new light on existing research by highlighting the importance of taking into account the distinct effects of different elements of interstate relations on EMMNEs' post-entry performance.

5.2.2 Contributions from the study of home-country legitimacy on the level of political risk faced by Chinese MNEs abroad

By looking at the relationship between home-country legitimacy and Chinese MNEs' perceived level of political risk in overseas markets, this study contributes to the research in this area in two main ways. First, while a voluminous literature has examined the effect of host-country political and regulatory arrangements on the level of political risk experienced by MNEs, research has mostly been silent regarding the role of home-country institutions. This study captures the importance of home-country legitimacy in shaping the level of political risk experienced by Chinese firms venturing abroad. The findings imply that the weakly developed home-country institutional environment can generate negative spill-over effect on Chinese companies' social acceptance in the host country, which heightens their perceived political risk. The present research complements existing literature that focuses on host-country governance conditions by showing that home-country legitimacy is a key determinant in explaining EMMNEs' perceived level of political risk when competing in the global arena. Thus, it offers a holistic account of contextual forces, especially home-country institutions in shaping MNEs' survival and success in the international marketplace.

Second, the author delineates the role of a range of host-country legitimacy-granting actors and their interactions with the country's institutional governance arrangements in affecting cross-border business operations. The research identified the moderating effects of legitimacy judgements by host-country government, industrial agencies, and the general public on the relationship between the country’s institutional governance conditions and Chinese MNEs’ perceived level of political risk. The findings enhance our understanding about the interdependence between a host country’s institutional governance framework and firms’ social acceptance in shaping their operations, hence success abroad.

5.2.3 Contributions from the study of conceptualizing political risk from Chinese MNEs’ perspective

By systematically exploring the heterogeneous types of political risk perceived by Chinese MNEs in the global marketplace, this study advances international business literature in a number of ways. First, it departs from mainstream research and challenges the assumption that political risks are exogenous and result from a host-country’s volatile political and regulatory environment. Our findings suggest that political risk can arise endogenously from MNEs’ home-country identity and firms’ own inappropriate behaviours. The present study contributes to extant literature by revealing how specific characteristics of the home country can influence the way that Chinese firms frame political risks in foreign markets. In doing so, it highlights the theoretical importance of reconceptualising political risk from the perspective of Chinese MNEs.

Secondly, focusing on Chinese MNEs operating in the EU and in African countries, this study finds that these new players tend to encounter more subtle and complex political risks than developed country MNEs which are grounded in a wide array of home and host country, industry and firm-behaviour sources. This enriches the existing research on political risk which overly focuses on host-country political turmoil or industry characteristics. Thus, our reconceptualization of political risk provides a more complete understanding of its multidimensional nature and complex components.

Third, by examining Chinese MNEs operating in developed and developing countries, this study finds that the boundary of political risk from the viewpoint of Chinese firms is broader than developed country MNEs and varies with the external contextual environments. Despite the well-established regulatory systems and market supporting institutions in the EU, these new contenders still face political risks that are rooted in their home-country origin and regional industrial regulations. By contrast, the less-developed African markets have imposed more traditional host-country sourced political perils on Chinese companies. Some Chinese MNEs' inappropriate practices represent a common concern that can lead these new players to encounter political obstacles in both markets. Thus, this study shows that the boundary of political risk analysis should be expanded to reflect the perspective of Chinese MNEs.

5.3 Implications for Managers and Policymakers

5.3.1 Implications from the study of home-country government support on Chinese MNEs' post-entry performance

This study has a number of implications for practitioners and policymakers. For managers, first, our findings show that Chinese MNEs' overseas performance is boosted by home-government non-financial policy support but not financial support. This suggests that Chinese firms should leverage non-financial supportive measures to enhance their overseas performance while reducing reliance on cheap finance from the home government. Second, the findings from this study indicated that the impact of non-financial policy impetus is moderated by interstate political and economic relations. This implies that Chinese firms should utilize various non-financial schemes such as diplomatic and information support when operating in countries that have good political relations with China. Additionally, they should develop a better understanding of the interstate economic treaties enforced between China and other countries. The presence of BITs and DTTs may help Chinese firms to obtain more specific information regarding host-country investment and taxation policies compared with the general guidelines provided by the home government.

For policymakers, the findings from the present research suggest that the Chinese government may consider increasing the degree of non-financial policy support such as the streamlining of administrative processes, enhancing diplomatic protection, facilitating communications between Chinese MNEs and host government, and offering personnel training to enable their firms to compete globally. Moreover, active engagement at interstate governmental levels is desirable as it may be used as institutional leverage to extend the influence of domestic policy support in helping Chinese MNEs to achieve international success. Establishing favourable political relations with the host country may augment the effectiveness of non-financial policy support across national borders, which helps to boost the confidence of firms seeking to operate in overseas markets. Additionally, the enforcement of BITs and DTTs with clauses to deal with investment and tax matters can provide firms with alternative channels of information access which enhance their commercial orientation.

5.3.2 Implications from the study of home-country legitimacy on the level of political risk faced by Chinese MNEs abroad

This study provides several implications for the business and policymaking communities. First, the research draws attention to the role of Chinese MNEs' acceptance among host-country interested social groups and actors. The author finds that the legitimacy evaluations made by the industrial agencies and general public may compete with the institutional governance framework in the host country to affect Chinese MNEs' perceived level of political risk. This implies that firms should develop better understanding of industry-specific policies and engage in legitimacy-building activities such as corporate social responsibility programmes in addition to conforming to explicitly stated laws and rules in the host country.

Second, the evidence suggests that the legitimacy of the Chinese MNEs' home-country government with the host-country government reduces the relevance of institutional governance rules in facilitating or constraining firms' access to markets and resources, hence their perceived degree of political risk. This suggests that Chinese MNEs should negotiate for preferential treatment when operating in countries that regard their home-country government with a greater degree of legitimacy.

Third, for home-country policymakers, the author finds that the weakly developed home-country institutional environment can have a detrimental impact on Chinese MNEs' acceptance in the host country. This implies that policymakers in China should consider enhancing domestic governance quality because doing so can generate positive spill-over effect to promote Chinese firms' legitimacy when competing globally. For host-country policymakers, the findings from the present research indicate that host-country governments tend to judge MNEs' legitimacy using cognitive shortcuts and associating Chinese firms with their home country. This suggests that host-country policymakers should pay attention to Chinese MNEs' business competences rather than merely considering the legitimacy of their home country.

5.3.3 Implications from the study of conceptualizing political risk from Chinese MNEs' perspective

By understanding political risk from the viewpoint of Chinese MNEs, this study provides several managerial and policy implications. First, host-country governments' concerns about their national security and the financial support granted to Chinese MNEs by the Chinese government have exposed these companies to home-country sourced political risks when venturing into more advanced economies, like the EU. As Chinese MNEs unavoidably carry the shadow of their home government, the Chinese government should consider providing firms with support in more internationally acceptable ways, such as updated information about a host-country's market trends, instead of direct subsidies and/or cheap loans.

Second, policymakers and governments of host countries should consider establishing stable political environments and/or consistent policies to accommodate cross-border business operations. A policy framework that clearly lists strategic industries that are sensitive to FDI may serve as an effective information guide to channel Chinese MNEs' investment activities.

Third, Chinese MNEs should adopt comprehensive risk assessment strategies when expanding overseas. In developed host countries with well-established market systems, they should pay attention to those implicit aspects of political risk, such as speculations and restrictions imposed by both the host-country and regional authorities. When operating in a developing country with a volatile political environment, they need to implement effective risk management strategies, for example purchasing political risk insurance to protect their business interests.

Fourth, Chinese companies should provide more training for their personnel and avoid exporting unsuitable behaviours to their operations abroad since inappropriate conduct can lead to adverse attitudes towards Chinese investment by the host-country government and public. They may consider investing in public relations to build a more positive image in overseas markets.

5.4 Limitations and Future Research Recommendations

This section points out the limitations of the thesis, which presents opportunities for future research. Issues such as research context, data availability, and measurement of variables will be considered.

First, the present study has focused on outward FDI by Chinese MNEs. Thus, the findings may be specific to Chinese firms operating in international marketplaces. Future research may consider extending the sample to include firms from other emerging markets such as India, Russia, and Brazil. Owing to their varying stages of institutional and economic developments, a comparative study of EMMNEs from different home countries would allow us to identify possible variations among these new competitors and verify whether our findings are particular to the Chinese context.

Second, when investigating the implications of home-government support for Chinese MNEs' post-entry performance in Chapter 2, a number of variables have been operationalized using perceptual measures. For example, the author measured firms' overseas subsidiary performance by the degree of managerial satisfactions towards their companies' most recently established overseas branches. Given the multidimensional characteristics of business performance and possibility of memory bias (Hult et al., 2008), the use of objective measurement by drawing from home-country stock market data may complement our research and provide a holistic understanding of Chinese MNEs' performance abroad. Future study may consider utilizing Chinese-listed companies' overseas investment information, especially their annual reports, to measure firms' performance with objective financial measures. Moreover, the study used survey data to capture the actual level of support that firms received from their home-country government. As government at various levels (e.g. central and local) exerts different degrees of influence on Chinese MNEs' operations abroad, it is worthwhile to differentiate their impacts upon firms' post-entry performance. Related to this, attention may be directed to Chinese MNEs' headquarters-subsidiary links and how this relation influences the effect of home-government support. Hence, future research may consider utilizing databases that include richer information about Chinese-listed companies' relationship with the home-country government to examine their influence in explaining firms' post-entry performance. Additionally, the author only considered two facets of interstate relations, i.e. political and economic relations on Chinese firms' international performance. As an overall representation of the relationship between a pair of countries, the conceptualization of interstate relations should span the whole range of relational factors taking into account that interstate cooperation and conflict are not mutually exclusive (Desbordes, 2010). Hence, a more fine-grained measurement of interstate relations merits the attention of future studies.

Thirdly, as research about the implications of home-country legitimacy for the political risk faced by MNEs remains at an early stage (Stevens & Newenham-Kahindi, 2017), the author only addressed the overall legitimacy of Chinese MNEs in Chapter 3. As Kostova and Zaheer (1999) established, the legitimacy of an MNE as a whole and its overseas subsidiaries is subject to the evaluations of different stakeholders. It is worthwhile for international business researchers to explore their interface, for example how the legitimacy of an MNE as a whole may generate spill-over effect to affect the post-entry success of its overseas subsidiaries, and vice versa. Moreover, the legitimacy of Chinese MNEs and their home-country government have both been measured using single items from the questionnaire survey. Because the legitimacy of MNEs is subject to the judgements of a broad set of institutional constituents, future research may consider developing a more fine-grained measurement of legitimacy. In addition, this thesis used cross-sectional data to examine Chinese MNEs' perceived level of host-country political risk. Future research may consider adopting a longitudinal approach to investigate how EMMNEs' perception of the external political environment evolves over time.

Fourth, with regards to the conceptualization of political risk in Chapter 4, the author focused on the notion of political risk but did not consider an equally important and related concept: uncertainty. Thus, future research endeavours could address how EMMNEs perceive and manage uncertainty in different institutional settings. In addition, the present study is based on qualitative analysis, thus we are unable to draw any statistical inference regarding whether firm size, age and international experience can moderate the perceptions of political risk by EMMNEs. Future research could test the propositions derived from this study by accounting for the relevance of these firm characteristics.

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Appendix

Appendix 1: Survey Items

Dependent variable:

Chinese MNEs' overseas subsidiary performance (7-point likert scale 1=very dissatisfied, 7= very satisfied).

(1) Sales growth

(2) Local market share growth

(3) Sales margin growth

Independent variable(s):

Home-country government financial support (7-point likert scale 1=very low support, 7=very high support).

(1) Financial and capital access for overseas investment

Home-country government non-financial policy support (7-point likert scale 1=very low support, 7=very high support).

(1) Simplifying the approval of foreign investment

(2) Simplifying procedures for demonstrating firms have sufficient capital in foreign currency

(3) Investment guideline by industries

(4) Protection of firms' rights in overseas markets

(5) Investment guideline by countries

Control variable(s):

Ownership: A dummy variable assigns value 1 to SOEs and 0 otherwise

Industry: A dummy variable assigns value 1 to manufacturing firms and 0 otherwise

Risk assessment: A dummy variable assigns value 1 if firms have adopted risk assessment strategies and 0 otherwise

Firm size: Number of total employees (logged)

International experience: Number of years a firm has engaged in international activities

Local experience: Number of years that a firm has operated in a host country

Host-country industry competition: (7-point likert scale 1= very low degree of competition, 7=very high degree of competition)

(1) Difficulties of obtaining raw materials
(2) Technology for innovation
(3) Completion of upstream and downstream industries

Appendix 2: Survey Items

Dependent variable:

Chinese MNEs' perceived level of political risk in the host country: (7-point likert scale 1=very risky, 7=very safe)

(1) Implementation of rules and laws

(2) Protection of private property

(3) Settlement of commercial disputes

(4) Control of corruption and bribe

Moderator(s):

Chinese MNEs' home-country government legitimacy with host-country government

(1) Importance of political relations between China and the host country to firms' overseas investment (7-point likert scale 1=very unimportant, 7=very important)

Chinese MNEs' legitimacy in host-country regulated industries

(1) Dummy variable: Assigning value 1 to firms operating in regulated industries include natural resources, telecommunication, utility, petroleum, and financial services; and 0 otherwise

Chinese MNEs' legitimacy with host-country general public

(1) Reactions of host-country public to firms' investment (7-point likert scale 1= very low degree of negative reaction, 7=very high degree of negative reaction)

Control variable(s):

Ownership: A dummy variable assigns value 1 to SOEs and 0 otherwise

Risk assessment: A dummy variable assigns value 1 if firms have adopted risk assessment strategies and 0 otherwise

Firm size: Number of total employees (logged)

International experience: Number of years a firm has engaged in international activities

Local experience: Number of years that a firm has operated in a host country

Host-country industry competition: (7-point likert scale 1=very low degree of competition, 7=very high degree of competition)

(1) Difficulties of obtaining raw materials
(2) Technology for innovation
(3) Completion of upstream and downstream industries

Home-government support: (7-point likert scale 1=very low support, 7=very high support)

(1) Financial and capital access for overseas investment
(2) Simplifying the approval of foreign investment
(3) Simplifying procedures for demonstrating firms have sufficient capital in foreign currency
(4) Investment guideline by industries
(5) Protection of firms’ rights in overseas markets
(6) Investment guideline by countries

Appendix 3a: Interview Questions (English)

1. Could you talk about your company's history of conducting overseas investment? For example, when you start doing business abroad? Where is your overseas subsidiary located and in which industry?
2. How do you think about the political and social environment in the host country?
3. How does the local political and social environment influence your firms' operations?
4. Could you give us some examples about the political and regulatory challenges that your company have encountered abroad?
5. As a Chinese MNE (SOE/private firm), how does the host-country government treat your company?
6. How the locals treat your company?

Appendix 3b: Interview Questions (Chinese)

1. 能否请您介绍一下贵公司海外投资的历史? 比如贵公司是从什么时候开始进行海外业务？贵公司海外分支机构设立在哪个国家，哪个行业？
2. 贵公司觉得这个国家的政治和社会环境怎么样？
3. 当地的政治和社会环境对贵公司开展业务有哪些影响？
4. 能否请您介绍一下贵公司在海外投资时遇到过哪些政治和法律方面的问题？
5. 作为一家中国（国有/私营）企业，当地政府是如何看待贵公司的？
6. 当地民众是如何看待贵公司的？