Impact of political connections on Chinese export firms' performance – Lessons for other emerging markets

Abstract

This paper explores the differences in the impact of political connections on the performance of Chinese exporter and non-exporter firms and among three types of exporter firms; private-owned (POE), local state-owned (LSOE) and central state-owned (CSOE). Our sample has 7,326 firm-year observations from 1,945 firms listed on Shanghai and Shenzhen stock exchanges during 2006-2010 period. Using export sales, ratio of export to total sales and return on assets as the performance indicators, we find significant positive effects of political connections on Chinese firms' decisions to enter export markets and on their subsequent export performance. We also find significant differences in these effects based on the type of firm ownership (i.e., POE, LSOE and CSOE). Besides extending research linking political connections and export performance, our study would also help researchers, managers and policy-makers in the emerging markets understand the pros and cons of using political connections to drive export performance.

Keywords: China; emerging markets; export performance; political connections; private-owned; state-owned enterprise

1. Introduction

Political connections are defined as informal social connections between firms and government officials and regulatory agencies such as tax authorities, securities commission, and stock exchanges (Li, Zhou, & Shao, 2009; Peng & Luo, 2000). Connections between firms and politicians are quite common and are highly valued by investors, as reflected by the significant stock market premium attached to politically connected firms (Boubakri, Mansi, & Saffar, 2013; Brockman, Rui, & Zou, 2013; Cingano & Pinotti, 2013). Hence, it is not surprising to see growing research on the impact of political connections on a wide range of topics, ranging from cost of debt (Bliss & Gul, 2012) and equity capital (Boubakri, Guedhami, Mishra, & Saffar, 2012) to initial public offers (Francis, Hasan, & Sun, 2009) and firm valuations (Ang, Ding, & Thong, 2013; Goldman, Rocholl, & So, 2009; Wu, Wu, & Liu, 2008); and from corporate performance (Deng & Zeng, 2009; Du & Girma, 2010; Li, Meng, Wang, & Zhou, 2008), mergers and acquisitions (Brockman et al., 2013) and diversification (Li, He, Lan, & Yiu, 2012) to corporate governance (Fan, Wong, & Zhang, 2007), social costs and responsibility (Cingano & Pinotti, 2013) and internationalization of emerging market firms (Du & Luo, 2016).

Notwithstanding the invaluable contribution of all these studies, there is still no consensus about the long term impact of political connections on the value of a firm and its export performance. For example, some studies show that firms with higher levels of political connections are likely to enjoy better protection and more privileges such as easier access to export and import licenses, favorable bank loans and lucrative public contracts, which would lead to better export performance (Du & Girma, 2010). Moreover, larger, older and more efficient firms seem to have better survival prospects than smaller, younger and inefficient ones, possibly due to their better understanding and ability to engage with the political system (Liang,

Ren, & Sun, 2015). In fact, political connectedness also has a significant influence on mergers and acquisition (M&A) activities (Brockman et al., 2013) and foreign subsidiary ownership through foreign direct investments (FDI) (Pan, Teng, Supapol, Lu, Huang, & Wang, 2014). For example, Haier, an erstwhile Chinese state-owned firm, has grown from its humble beginnings with sales of just RMB3.5 million in 1984 to become the world's largest home appliance maker with sales of RMB200 billion in 2014, supported by its exports performance followed by rapid international expansion, with acquisitions such as Fisher & Paykel from New Zealand in 2012.

In contrast, others argue that political connections may hamper internationalization of emerging market firms by reducing the dependence constraints imposed by local governments and foreign firms, whereas development of formal institutions may help the emerging market firms to move from building political connections to internationalization and reduce the negative impact of political connections in this process (Du & Luo, 2016). Moreover, research also shows that export-oriented firms that enjoy access to finance and are engaged in innovative activity, may not need a high level of political connections (Du & Girma, 2010). Recent research also shows a decline in the impact of executives' political connections and a rise in the state control on Chinese state-owned firms' degree of globalization (Liang et al., 2015); whereas others highlight the rise of 'born-global' firms that are able to enter international markets quite rapidly, relying on their innovative and flexible style of management (Andersson, Danilovic, & Huang, 2015) as well as government support to new and innovative technologies (Zhang & Dai, 2013), rather than depend on political connections alone. Firms may also experience opportunism in international markets (Verbeke, Ciravegna, Lopez, & Kundu, 2018), which their political connections may not be able to protect them against through state (government) support. We

argue that this lack of protection or support against competitive forces would deter politically connected firms from entering export markets and keep focusing on their domestic markets.

Besides providing such mixed evidence about the impact of political connections on the firms' decision to enter exports markets and their subsequent performance, most of these studies do not distinguish between different types of firms, such as private or public sector firms or between different types of performance indicators, such as sales and financial outcomes (Aksoy & Ng, 2014; Liang et al., 2015). Hence, despite the growing evidence that exporting activity has a positive impact on growth but a negative impact on profitability (e.g., Lu and Beamish 2006), it is not clear what drives the firms' emphasis on exports revenues versus profitability and which types of firms are more likely to sacrifice their profitability in order to improve their export revenues (Carneiro, Farias, da Rocha, & da Silva, 2016). It is expected that political connections should exert different effects on the corporate performance of exporters with different ownership structure types (central SOE, local SOE, or POE).

In this paper, we address these research gaps by not only exploring the impact of political connections on the firms' decision to enter exports markets and on their subsequent export performance but also the differences in these effects among three types of exporter firms - private-owned (POE), local state-owned (LSOE) and central state-owned (CSOE). We use export sales, ratio of export to total sales and return on assets as performance indicators for firms listed on the Shanghai and Shenzhen stock exchanges (except finance firms) for a five-year period (2006-2010) with 1,945 firms and 7,326 firm-year observations. Our data are from China Stock Market and Accounting Research (CSMAR, 2019) database as well as the notes of accounts in the financial statements and annual reports of these firms.

This study extends the scant current research on the link between political connections and export performance in the emerging markets by providing useful insights about the factors that influences export performance. We first explore how political connections may influence the decision of a firm to export or not. We hypothesize that, a firm can better seek financial rent and enhance profits for domestic sales (versus international sales) through their political connections. Thus a politically connected firm will tend to take the easier path and focus more in the domestic market, leading to an inverse relationship between political connections and the probability to export at firm level. In this case, conditional to a firm's decision to export, the marginal effect of political connections should be larger for centrally connected firms compared with locally connected firms. It is because international markets cannot be easily penetrated unless the political influence is at the national level. This is our second hypothesis. Finally, it is logical to question whether the effect of political connections on export would result in any change in financial performance of a firm. Thus, our third hypothesis explores the relationship between firm types (i.e., POE, LSOE, and CSOE) and financial performance for our exporter subsample.

2. Theoretical background and hypotheses

2.1 Political connections (PC)

Political connections are defined as informal social connections with officials at various levels of administration in the local, state or central government and regulatory agencies such as tax authorities, securities commission, and stock exchanges (Li, Zhou, & Shao, 2009; Peng & Luo, 2000). Using data from 47 countries, Faccio (2006) defines a politically connected firm as having at least one of its large shareholders (with at least 10% shares holding), or one of its top managers (e.g. chairperson, CEO, or vice-president) as a parliament member, or a minister, or

closely related to a top politician. Similarly, Cheng and Leung (2016) define board political connections as the ratio of directors who have served as the officers in central government, local governments or military and as the representatives in People's Congress and/or People's Political Consultative Conference to the total number of directors.

Prior research on political connections shows that it generally has a positive effect on firm value albeit with some exceptions (Ang et al., 2013). For example, using data from the S&P 500 companies, Goldman et al. (2009) show positive abnormal stock returns for firms after the announcement of a politically connected individual's nomination to their boards and an increase in the value of firms associated with the winning candidate's party in the 2000 US presidential elections. Similarly, Mian and Khwaja (2005) find that politically connected banks (mostly public) in Pakistan are able to borrow 45 percent more and have 50 percent higher default rates compared to non-politically connected banks (mostly private) and this may cost up to 0.3 to 1.9 percent of GDP every year. However, Fan et al. (2007) find that firms with politically connected CEOs underperform by almost 18% on stock returns and show poorer growth in earnings, sales, and returns on sales, in a post-IPO three-year period.

Similarly, in a large-scale study of 1,046 individual-controlled Chinese firms during 1999-2004, Wu et al. (2008) find that firms with local government political connections have a higher market valuation than those with central government political connections but there is no significant relationship between political connections and market valuation per se. Moreover, local government political connections have a stronger positive effect on the market value in provinces with higher governmental intervention in the local economy. Political connections also help firms get short-term loans from banks (Wu et al., 2008), lower cost of equity capital from

the stock market (Boubakri et al., 2012) as well as corporate bailouts (Faccio, Masulis, & McConnell, 2006) and fiscal subsidies (Minggui, Yafu, & Hongbo, 2010) from the governments.

Researchers explain these findings by arguing that a corrupt political environment enhances a politically connected firm value because through politicians, connected firms are able to extract rents from the public and the competitors, and in a quid-pro-quo these politicians usually receive a share of the extracted rents in the form of personal payoffs or campaign contributions with fairly low perceived personal or social risks (Claessens, Feijen, & Laeven, 2008; Cooper, Gulen, & Ovtchinnikov, 2010). Similarly, a recent study of post-IPO firms shows that political connections may increase firm value even in a country with very low levels of political corruption (e.g., Singapore) because it may supposedly reflect good governance rather than rent-seeking by politically connected directors (Ang et al., 2013).

Interestingly, Li, Poppo and Zhou (2008) show that managerial ties have a monotonic positive effect on the performance of domestic firms and a curvilinear (inverted U-shaped) impact for foreign firms. Hence, compared with domestic firms, foreign firms experience a distinct disadvantage due to their relative lack of managerial ties and political connections. Managerial ties are also less effective in highly competitive markets but may help improve firm performance under greater structural uncertainty. Similarly, Li, Zhou and Shao (2009) show differences in the impact of different types of managerial ties, wherein political ties hinder and business ties strengthen the positive effect of a foreign firm's differentiation positioning on its profitability. Moreover, foreign firms may benefit from their use of business ties but their profitability may suffer if they rely too heavily on their political ties. Overall, these studies support the contingency view of managerial ties that the unconditional use of managerial ties may not be very productive, especially as the markets become more heterogeneous.

2.2 Export performance of Chinese firms

Early research on the patterns and motivations for internationalization by Chinese firms shows that they were trying to overcome competitive disadvantages by using, both 'inward' (e.g., original equipment manufacturing (OEM) and joint venture at home) and 'outward' (e.g., acquisitions and organic expansion abroad) internationalization strategies (Child & Rodrigues, 2005). In this process, they faced challenges such as latecomer disadvantage and poor country-of-origin image that they tried to overcome with the proactive help from the Chinese government and close connections between the entrepreneurs and institutions (Xiao, Jeong, Moon, Chung, & Chung, 2013). As a result, internationalization by Chinese firms (e.g., CIMC, Haier, and Lenovo) has been aided (especially at critical stages in their development) by institutional factors such as state sponsorship, funding support and financial underwriting, delivered through the close 'relational framework' with government agencies (Voss, Buckley, & Cross, 2010; Warner, Ng, & Xu, 2004). In fact, the government support and domestic industrial structure continue to drive outward FDI by Chinese firms, much more than their technological and marketing resources (Wang, Hong, Kafouros, & Boateng, 2012). However, most of these studies focus on upstream internationalization strategies such as foreign direct investment (FDI) through green-field projects, wholly owned subsidiaries, mergers and acquisitions or joint ventures, and there is little research on the institutional factors that have driven the upsurge in the export performance of Chinese firms in the last few decades (Aksoy & Ng, 2014; Deng, 2012).

In addition, prior research on the performance of exporters in Western developed countries typically focuses on objective factors such as export coordination, dependence and experience (Cadogan, Diamantopoulos, & Siguaw, 2002), effects of plant characteristics, spillovers from neighboring exporters, entry costs, and government export promotion expenditures (Bernard &

Jensen, 2004), the interplay among available resources, capabilities, competitive strategy and intensity (Morgan, Kaleka, & Katsikeas, 2004) as well as export propensity and intensity (Ganotakis & Love, 2012). In contrast, export performance of Chinese firms is linked to several objective and subjective factors, which have either positive (labor input, state ownership and vertical specialization) or negative (capital and technology inputs) effects on export performance (Yi, Zhong, & Zheng, 2012). Others use the resource-based and institutional perspectives to show that the match between market orientation capabilities and export channel structures (Keh, Ren, Hill, & Li, 2013) or a combination of managerial ties (Li, Poppo, & Zhou, 2008; Li, Zhou, & Shao, 2009) and export market orientation (Chung, 2012) that influence export performance.

Similarly, knowledge transfer by returnee entrepreneurs has a positive effect on export orientation and performance aided by their international background and global networks (Filatotchev, Liu, Buck, & Wright, 2009). In fact, there is growing evidence that personal networks play an important role in the internationalization of SMEs from both developed and emerging markets by helping them identify and capitalize on new business opportunities (Ciravegna, Lopez, & Kundu, 2014; Ciravegna, Majano, & Zhan, 2014). Firms can also leverage networks to minimize the risk of importer opportunism by gaining access to information that may not be easily available otherwise (Verbeke et al., 2018).

2.3 Political connections and export performance

As described above, political connections have played a major role in unleashing the entrepreneurial spirits and fueling business activity in an emerging economy like China and the exemplary export performance of Chinese firms has led to its unprecedented economic growth in the last few decades (Aksoy & Ng, 2014). Chinese entrepreneurs with political connections are

known as the 'red capitalists' (Dickson, 2003) and they have many advantages over other entrepreneurs, including better access to resources controlled by the government such as business licenses, bank loans, land, and discretionary government policies such as tax benefits and the waiver of "extralegal" fees (Li, Meng, Wang, & Zhou 2008). All these may be particularly relevant for Chinese export firms as they need to compete globally by keeping their prices low compared to their competitors from other countries and to control their production and operation costs at the same time to remain profitable. However, there is little research on the connections between the political connections of Chinese firms and their export performance (Qiao, Fung, & Ju, 2013; Du & Luo, 2016). We address this gap by exploring the impact of political connections on Chinese firms' decision to enter the exports market and their export performance.

Private firms in emerging markets with transition economies such as China face several institutional difficulties that may impose huge costs on them and hurt their performance. In such an environment, having political connections can help reduce these costs by managing these difficulties and thus improve firm performance (Li, Meng, Wang, & Zhou, 2008). For example, production subsidies provided by the government stimulate export activity, especially for those Chinese firms that are profit-making, are in capital intensive industries and are located in non-coastal regions (Girma, Gong, Görg, & Yu, 2009). In fact, the impact of these subsidies is similar across different ownership structures, such as SOEs, collectives and private-owned firms. Politically connected firms may also engage in more risk-taking and opportunistic behaviors as the state (government) support due to their closer ties to the government could lead to them making less conservative investment choices (Boubakri et al., 2013).

Therefore, we expect Chinese firms to show a stronger impact of political connections on their performance in the domestic markets than in the international markets because it is easier to

get special privileges and protection in the domestic market using political connections, whereas international markets are affected by factors outside the sphere of domestic political influence (Aaby & Slater, 1989; Salomon & Shaver, 2005), such as firm characteristics (Christensen, Da Rocha, & Gertner, 1987; Czinkota & Johnston, 1983), internationalization (Cooper & Kleinschmidt, 1985; Mascarenhas, 1986) and marketing (Cavusgil & Zou, 1994; Dominguez & Sequeira, 1993) strategies. For example, in the Chinese electronics industry (CSMAR, 2019), Tian Jin Global Magnetic Card Co Ltd (a local SOE based in Tianjin) with high level of political connections shows very low average export sales (RMB 3.87 million) during 2006-2010, compared to Shenzhen Huakong Seg Co Limited (a local SOE based in Shenzhen) with low level of political connection but very high average export sales (RMB 334 million). From these findings it is clear that politically connected firms may not feel motivated to enter the exports markets or to improve their exports performance. Therefore, we hypothesize:

H1. Political connections have a negative effect on a firm's decision to export.

2.4 Exports performance and firm ownership type

Past research shows significant differences in the way private and state-owned firms operate, based on their internal characteristics, structures and decision-making processes Boyne (2002, p. 101-102). For example, state-owned firms tend to be relatively more bureaucratic with formal procedures for decision making, making them less flexible and more risk-averse than their private-owned counterparts and more reliant on their political connections (Bozeman and Kingsley, 1998; Farnham and Horton, 1996). These characteristics of public agencies reflect 'the lack of rewards or incentives for successful innovations and the penalties for violation of established procedures' (Fottler, 1981, p. 5). Bureaucratic structures may also stem from the

11

requirements of monitoring bodies and from demands for accountability in the public sector, which further highlights their dependence on connections with politicians and civil servants. Rainey, Backoff, and Levine (1976, p.238) supports this notion by arguing that, 'the coercive nature of most government actions might be cited as a fundamental justification for constitutional checks and balances and extensive formal control mechanisms'.

Managers in state-owned firms also have less freedom to react to the circumstances faced by them, possibly because of their greater dependence on their political masters. Public managers also have the costs of hierarchy (rules and red tape) without the benefits (the freedom and power to manage their subordinates) and the additional burden (of political connections and favors for the politicians and government officials). Public managers' discretion on personnel issues may also be low because rules on hiring, firing and promotion are inflexible and subject to political influence. For example, 'public employees enjoy greater job security because the procedures for taking greater punitive actions are so complex and time consuming that few people choose to pursue them' (Baldwin, 1987, p. 183). By contrast, Allison (1979, p. 462) claims that "private management proceeds much more by direction or the issuance of orders to subordinates by superior managers with little risk of contradiction". Weinberg (1983, p. 107) also notes that "Public sector executives are often described as being, at best, wielders of influence or umpires and, at worst, reactive captives of ungovernable jurisdictions. Private sector executives, on the other hand, are often assumed to be able to formulate and carry out "rational" strategies because they control tightly structured hierarchical organizations".

According to Davis and North (1971, p. 6), institutional framework is "the set of fundamental political, social, and legal ground rules that establishes the basis for production, exchange, and distribution". The resource dependent theory argues that firms are dependent on external

environment and linkages between firms and important sources of external dependency can reduce the risk and uncertainty faced by the firms (Pfeffer and Salancik, 1978). Government policy and regulation is a major force in the external environment (Hillman, Zardkoohi, & Bierman, 1999). Tan, Li, and Xia (2007, p. 787) propose that there is a unique institutional structure in China which "*is characterized by all firms being controlled by hierarchically structured governments, including: (1) the central government, (2) provincial governments, (3) municipal or prefectural governments, (4) county governments, (5) township governments.*" This control system shows the governments at different levels forms a pyramid-like power hierarchy with the central government at the top level and various local governments at lower levels of the hierarchy. In this power hierarchy, the government units at the higher level have more resources and ability to provide privileges to the firms under their control. Hence, central state-owned firms are likely to be offered the best resources and privileges due to direct linkage with the central government.

In this context, there is growing evidence that Chinese state-owned companies have benefited from their political connections to grow their international businesses due to greater access to government subsidies (Eckaus, 2006; Girma et al., 2009), higher position on the value chain with their vertical specialization (Yi et al., 2012), increased focus on profitability (Berger & Martin, 2011) and their manufacturing infrastructure (Gouvea, Mahto, & Montoya, 2013). For example, in the Chinese chemical industry (CSMAR, 2019), Tangshan Sanyou Chemical Industries (a central SOE based in Hebei) shows a much higher average annual exports sales (RMB 530 million) during 2006-10, compared to Jilin Chemical Fibre Stock, a local SOE based in Jilin (RMB 273 million) and Zhejiang Transfar Co Ltd., a POE based in Hangzhou (RMB 38 million), despite having similar levels of political connections. Similarly, government-linked companies and Khazanah firms in Malaysia have also outperformed others (Mitchell & Joseph, 2010).

Based on the above findings, it is clear that central SOEs may have a greater ability to capitalize on political connections. Prior research also shows that large state-owned firms are able to perform better in exports markets due to their ability to leverage their existing strategic resources such as brands and market share, in addition to the political connections and support they are able to garner from their central governments (Christensen et al., 1987; Dominguez & Sequeira, 1993; Ganotakis & Love, 2012). Hence, we argue that the impacts of political connections on export performance should vary across different types of ownership structure. Therefore, we expect central SOEs in China to show a stronger positive effect of political connections on their export performance, than the local SOEs and POEs (Liang et al., 2015; Xiao et al., 2013). Accordingly, we hypothesize as follows:

H2: Political connections have a stronger impact on export performance of Chinese central state-owned firms than local state-owned and private-owned firms.

2.5 Profitability of export firms and ownership type

While government-firm linkage can be created through ownership structure (state-owned firms vs private-owned firms), there are other ways the firms can establish linkages with the government units. Resource dependency theory suggests that board of directors can be a useful channel through which the firms can absorb the crucial elements of environmental uncertainty (Hillman, Cannella, & Paetzold, 2000). Hence, many firms, particularly the private-owned firms, develop their ties with the government units through the recruitment of politicians to become politician-directors because it could help them improve their performance. However, empirical evidence for the impact of political connection on corporate performance is mixed.

Many studies show that firm with political connections have better corporate performance (Fisman, 2001) and obtain different forms of government-related benefits such as preferential interest rate for bank loans, favorable tax treatments (Adhikari, Derashid, & Zhang, 2006; Claessens et al., 2008). By showing negative market reaction for the announcement of government sell-off and positive market response for the firms managed by former government officials after the disposal announcement of government shares, Calomiris, Fisman, and Wang (2010) provide evidence that personal political connection can be a substitute for institutional connection due to government ownership. Others show the costs of being politically connected, such as limited opportunities for investors to diversify risk (Faccio, 2006). Fan et al. (2007) show firms with politically connected CEOs are less likely to have strong governance characteristics and professionalism. There are more asymmetric information problems, poorer earnings quality and less accurate analyst forecasts for politically connected firms (Chaney, Faccio, & Parsley, 2011; Chen, Ding, & Kim, 2010). Firms without political connections outperform the politically connected firms in their post-overseas IPO performance (Hung, Wong, & Zhang, 2012).

Prior research on the export performance of small and medium firms also suggests that the entrepreneurial orientation of such firms motivates them to take fewer risks and focus on their bottom-line rather than look for unbridled expansion that larger SOEs may be able to indulge in (Levy, Berry, & Nugent, 2012; Li, Zhao, Tan, & Liu, 2008). In fact, past research shows that exports may help firms grow their business revenues in international markets but it could be at the cost of their profitability (Lu & Beamish, 2006). However, there is hardly any research on the factors that drive firms' decisions to focus on exports growth or profitability and which types of firms are more likely to sacrifice their profitability just to grow their export revenues (Carneiro et al., 2016). In this context, we explore whether the impact of political connections on export

would lead to any change in corporate performance of firms with different ownership structure. We argue that the use of political connections is likely to make export firms resort to greater risk-taking, which may help them grow their business but with an adverse impact on their profitability (Boubakri et al., 2013).

Specifically, we expect the relatively larger Chinese state-owned firms to exhibit this negative impact on their profitability to a greater extent compared to the private-owned Chinese firms because unlike these SOEs, most private-owned firms have no such cushion or support due to their limited political connections (Boubakri, Cosset, & Saffar, 2008). Hence, they are expected to use their scarce resource more judiciously and profitably compared to the state-owned firms resulting in a better return on their assets (Fan et al., 2007; Qiao et al., 2013; Westhead, Wright, & Ucbasaran, 2001). For example, in the Chinese pharmaceutical and biological products industry (CSMAR, 2019), Hualan Biological Engineering Inc (a POE based in Henan) shows a much higher average profitability (ROA = 20.3%) compared to Shanghai Shyndec Pharmaceutical (a central SOE based in Shanghai, ROA = 11.9%) and Shandong Lukang Pharmaceutical (a local SOE based in Shandong, ROA = 0.94%) during 2006-10, despite similar levels of political connections. Based on this discussion, we offer our final hypothesis:

H3: Private-owned Chinese export firms show a stronger profitability (return on assets) compared to both local and central state-owned firms.

< Insert Figure 1 about here >

3. Methodology

3.1 Sample

We test all our hypotheses (Figure 1) using data for firms (except financial services) listed on the Shanghai and Shenzhen stock exchanges during a five-year period over 2006-2010. Our final sample consists of 1,945 firms with 7,326 firm-year observations. We use financial indicators such as firm size, leverage, profitability from the China Stock Market and Accounting Research (CSMAR, 2019) database and the information on export sales and government subsidies from the notes of accounts of financial statements. We identify the political connections of the firms' directors from their biographic descriptions in the annual reports and use this information to develop our measures of political connections, as described in the next section.

3.2 Measures

3.2.1 Dependent variables (DV)

We use export performance and return on assets as our performance indicators. We have three measures of export performance. *Export Dummy* is a dummy coded 1 if the firm has export sales and 0 otherwise. This measure differentiates exporter and non-exporter. *Exports Sales Value* is the logarithm of the export sales value, which indicates the level of exports (Czinkota & Johnston, 1983). *Exports to Total Sales* is the ratio of export sales to total sales, which measures the level of export intensity (Dominguez & Sequeira, 1993). Finally, we use *Return on Assets*, the ratio of net income to total assets, as an indicator of firm's profitability.

3.2.2 Independent Variables

Our political connections measure takes into account the political relationships of all board members (chairperson, CEO, executive directors and independent directors). In China, a full-time executive like a CEO or chairperson of board (which in almost all cases are full-time position) cannot be a full time government official at the same time. Therefore, we classify political relationship as being "former" government officials for the full-time executives and directors. However, for political party posts in People's Congress and People's Political Consultative Conference (PPCC) which are honorary positions, full-time executives are allowed to hold these positions and happened frequently. For independent non-executive directors of the board, it is then possible to be a full-time official in the government offices.

We categorize political connections into three types based on the position held currently or in the past, 1) was an official in administrative hierarchy in governments (county, city, provincial or central); 2) currently a representative in People's Congress (county, city, provincial or national); or 3) currently a committee member in Chinese People's Political Consultative Conference (county, city, provincial or national). In this study, we use *PCQ*, as the measure of political connections, the ratio of the number of political connections held by the board members to total number of board members. We treat the political relationships at all levels (county, city, province, and national) equally. In other words, *PCQ* reflects the average political relationship per board director. The higher the value of *PCQ*, the more politically connected a firm should be.

Subsidy is the logarithm of the sum of grants, incentive, compensation fee, tax break, rebate and relief provided by the governments. We use total of different forms of subsidies provided by the Chinese government to a firm because there is no separate publicly available data on export subsidies. *FTZ* is a dummy coded 1 if the firm is situated in the free trade zones and 0 otherwise. Firms located in free trade zones enjoy preferential treatment for export activities. *FTZ* is defined

18

by including a total of 19 designated areas: five special economic zones in Shenzhen, Zhuhai, Shantou, Xiamen, and entire island province of Hainan, as well as 14 coastal development zones in Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, and Beihai.

We follow Wang, Wong, and Xia (2008) in defining the three types of ownership in China. Central SOE is a firm which is owned by the central government or its agencies (e.g., Ministry of Finance, State-owned Assets Supervision and Administration Commission (SASAC)). Local SOE is a firm controlled by local governments or their agencies (Finance Bureau). POE (private-owned enterprise) is a firm whose ultimate controlling shareholder is non-government unit. *POE* and *LocalSOE* represent the type of firms in our models. *LocalSOE* is a dummy coded 1 if the firm is controlled by a local government and its agencies and 0 otherwise. *POE* is a dummy coded 1 if the firm is a private-owned enterprise and 0 otherwise.

Prior research shows that various firm characteristics may influence its decision to enter the export market and its subsequent export performance, including firm size, age and resources, marketing strategy, competitive pressure, and production capacity, although the influence of marketing strategy and advertising spends on export performance shows mixed evidence (Benvignati, 1990; Cavusgil & Zou, 1994). We use marketing expense to total assets (*META*) as measure of marketing effort. Aaby and Slater (1989) show that firm competencies are important for export performance. Christensen et al. (1987) show that larger firms are more likely to export and the larger the firm, the greater the volume of overseas sales. *Total Assets* is operationalized as the logarithmic value of the total assets.

Das (1994) reports a negative relation between export performance and firm age, suggesting that more mature firms are less successful in export activity. *Firm Age* is the logarithm of the number of years since its establishment. There are several ways the Chinese government helps export activities. One is through the provision of 'free money' (cheap debt) by the Chinese government banks acting as the investment arms of the Chinese central government to provide funding support to central government development programs (Lacey, 2011). Government subsidies can also be in the form of free or low cost loans (Haley & Haley, 2013). Long-term liabilities (mainly bank loans) are significantly related to SOE exports (Eckaus, 2006). *Leverage* is debt to total assets ratio. *MTBR* is ratio of market to book values of equity.

Cooper and Kleinschmidt (1985) find that export intensity is positively related to technological advantage. Total factor productivity (*TFP*) is a measure of the efficiency of all inputs, particularly the input due to technological innovation and improvements, to production. To measure *TFP*, we regress total sales (proxy for output) on number of employees (proxy for labor input) and fixed assets (proxy for capital input) within each industrial sector for each year between 2006 and 2010 to predict the expected production level of each firm. *Sales* is the logarithm of total sales. *Number of Employees* is the logarithm of the number of employees. *Fixed Assets* is the logarithm of the value of fixed asset. The difference between the actual and expected production levels is our *TFP* measure.

$$Sales = \alpha_0 + \beta_1 Number\ of\ Employees + \beta_2 Fixed\ Assets + \mathcal{E} \qquad (1)$$

Mascarenhas (1986) suggests that home market competition can be a motivation for international expansion. The entry to WTO is not without a cost. One of the principles of the WTO is the trade liberalization agreement among the member states. There should be bilateral

free trade and substantiation of fair trade between countries. Since other WTO member states can get access to the Chinese market, competition within the Chinese market becomes more intense between China and other countries. Hence, firms may need to look to international market due to saturated domestic market and Herfindahl index is commonly used as an indicator of level of competition. We use Herfindahl index to measure competitiveness. *Herfindahl* is calculated using sales to measure the firm proportion relative to the industry, which is computed by:

$$Herfindahl\ Index = \sum_{i=1}^{N} S_i^2 \qquad (2)$$

S_i is the proportion of firm's sales to industry sales. The higher the index value, the less competitive the industry the firm is in. Salomon and Shaver (2005) find a difference in export sales between domestic-owned vs foreign-owned firms. Hence, we include *FSR* (percentage of shares held by foreign investors) to examine if export sales is contingent on foreign ownership. To control for industry effects and the changes in export performance over time during the five-year sample period, we include industry and year dummies in the models.

4. Data analysis and findings

We analyzed the data using multiple regression analysis with EViews 7.0 software. Table 1 shows the descriptives (mean, standard deviation and correlations for all the measures).

< Insert Table 1 about here >

As our dependent variable (*Export Dummy*) is a binary variable, we use logit model for our multiple regression analysis (Table 2). As shown in column 2, *PCQ* has a negative coefficient (β = -1.21, p < .01) for *Export Dummy*, hence political connections have a negative effect on the Chinese firms decision to enter export markets. Thus, H1 is supported. Among the control

variables, it is interesting to note a significant negative impact of firm age (β = -.24, p < .01) and Herfindahl index (β = -3.77, p < .01) on the firms' decision to export. In other words, older firms and those with greater market power are more likely to operate in domestic markets whereas younger firms and those with lesser market power are more likely to seek export markets.

< Insert Table 2 about here >

To test H2, we compare the impact of political connections on the export performance of the three types of firms (private, local state-owned and central state-owned). For this, we use the interaction terms *PCQ*POE* and *PCQ*LocalSOE* to our model with our second (*Export to Total Sales Ratio*) and third (*Exports Sales Value*) DVs. As shown in the second column of Table 2, *PCQ* has a significant positive coefficient (β = .20, p < .05) and both the interaction terms, *PCQ*POE* (β = -.19, p < .01) and *PCQ*LocalSOE* (β = -.04, p < .05), have significant negative coefficients with *Export to Total Sales Ratio* as DV. Similarly, *PCQ* also has a significant positive coefficient (β = 2.04, p < .01) and both the interaction terms, *PCQ*POE* (β = -2.08, p < .01) and *PCQ*LocalSOE* (β = -1.61, p < .01) have significant negative coefficients for *Export Sales Values* as DV. From both these results, it is clear that the impact of *PCQ* on export performance, is significantly lower for the private-owned and local state-owned firms compared to the central state-owned firms. Thus H2 is also supported. Among the control variables, *FTZ* (β = .06, P < .01 and .28, p < .01) has significant positive effects on both the DVs, whereas *Total Assets* (β = .74, p < .01), leverage (β = .82, p < .01) and *TFP* (β = .25, p < .01) only have significant positive effects on *Export Sales Value*.

Finally, to test H3, we conduct multiple regression analysis with the fourth DV (*Return on Assets*) only for those firms with exports sales. As shown in the last column of Table 2, both

POE (β = .01, p < .01) and *LocalSOE* (β = .01, p < .05) have significant positive coefficients. Hence, both private and local state-owned firms seem to have a significantly higher profitability compared to the central state-owned firms during the 2006-10 period. Thus, H3 is also supported. Among the control variables, *META* (β = .07, p < .05), *Total Assets* (β = .02, p < .01), *MTBR* (β = .01, p < .01) and *TFP* (β = .01, p < .01) show a positive effect, whereas *Firm Age* (β = -.01, p < .01), *Leverage* (β = -.13, p < .01) and *FSR* (β = -.03, p < .05) show a negative effect. Overall we find support for all our hypotheses. Next, we discuss the implications of these results.

5. Discussion and implications

In this paper, we investigate the impact of political connections of private and state-owned (local and central) firms in China on their export performance during 2006-10, a period in which the world economy slowed down as a result of the global financial crisis. Using secondary data available in public domain, we show that political connections have a negative effect on the Chinese firms' decision to enter export markets (H1) and have a stronger positive effect on the Chinese central state-owned (vs. private and local state-owned) export firms (H2). We also find that private-owned Chinese exporting firms have a stronger profitability (measures as return on assets) compared to local and central state-owned exporting firms during the 2006-10 period (H3). In other words, our findings show that firms with strong political connections may not be motivated to enter export markets because they would need to face competitive forces that they are shielded from in their domestic markets by their political connections. However, among the firms that decide to export, central SOEs are able to better leverage their political connections compared to local SOEs and POEs; whereas POEs are able to better utilize their scarce resources, as evident from their better profitability compared to local SOEs and central SOEs.

23

Our research provides the first clear evidence about the declining influence of the Chinese exporter firms' political connections on their exports performance, as measured by a variety of operational and financial indicators, including exports sales value, exports to total sales ratio and return on assets. These findings reflect the underlying sentiment expressed by other researchers albeit in not such unequivocal terms. For example, in a recent study, Liang et al. (2015) show that political connections had a stronger impact on the early stage of Chinese SOEs' globalization (i.e., the decision to go global) than the later stage (i.e., the degree of globalization) and the state-ownership controls may have a stronger influence on the degree of globalization of Chinese SOEs, especially after the recent domestic governance reforms.

According to Liang et al. (2015), the diminishing role of political connections and the increasing impact of state ownership control reflects the evolving relationship between the state and the managers as well as the shifting dynamics of state control in globalizing Chinese SOEs. We acknowledge Liang et al.'s (2015) important contribution and extend their study by showing that political connections have a lower impact on not only the Chinese SOE's decision to go global or the degree of globalization but even the exports performance (both operational and financial) of all types of Chinese exporter firms, including private as well as local and central state-owned firms. This finding is important not only for exporter firms in China but also in other emerging markets (Gouvea et al., 2013), by showing that the large state-owned exporters firms in these countries may not be able to rely on their political connections to continue to grow their export businesses forever and they would need to look for other ways to support their growth.

In this context, we find two very important trends in our data, which coincide with the decline in the role and importance of political connections, namely the rise in the influence of Free Trade Zones (FTZ) and a corresponding decline in the impact of subsidies, on the export

performance of Chinese exporter firms during the 2006-10 period. Specifically, *FTZ* has a positive effect on all the three performance indicators used in our study, including *Export Dummy* (β = .18, p < .01), *Export to Total Sales Ratio* (β = .06, p < .01), and *Exports Sales Value* (β = .28, p < .01); whereas *Subsidy* has only a small positive effect on *Export Dummy* (β = .05, p < .01) and no significant impact on *Exports Sales Value* (β = -.01, ns) and *Export to Total Sales Ratio* (β = .00, ns) during the same period. These findings provide a clear lesson to the exporter firms in China and other emerging markets that they can no longer rely on short-term handouts from their domestic governments in the form of subsidies, which tend to benefit larger firms and those with political connections (Haley & Haley, 2013; Minggui et al., 2010). Instead, smaller exporter firms in the emerging markets are more likely to benefit from long-term institutional support such as the free trade zones that provide the necessary infrastructure and incentives to all the firms located in that zone and not just those with political connections, thus leveling the playing field among the different types of firms (Aksoy & Ng, 2014; Yi et al., 2012).

We also find that the gaps in the performance of Chinese central SOEs with the POE and local SOEs are also narrowing down and the private-owned export firms even show a better profitability (as reflected by their return on assets) than the local and central state-owned firms, during the 2006-10 period. These findings also echo recent research showing that Chinese firms with lower levels of political connections have a better exports performance (share of exports in total sales) compared to those with higher levels of political connections (Du & Girma, 2010). Du and Girma (2010) explain their results by arguing that export-oriented firms with easy access to finance and high degree of innovation are more likely to survive in the export marketing in the longer run rather than those with access to domestic political connections and the associated short-term benefits such as easier access to short-term bank loans (Chen, Shen, & Lin, 2014),

25

government subsidies (Haley & Haley, 2013), equity capital (Boubakri et al., 2012; Francis et al., 2009), export and import licenses (Liang et al., 2015) and other preferential treatments.

Prior research shows that in the absence of strong political connections, newer (mostly private-owned) Chinese export firms find other ways to gain a foothold and grow their presence in the exports market (Deng, Hofman, & Newman, 2013), by entering high-tech businesses that need flexibility (Yi et al., 2012) and innovation (Guan & Ma, 2003) that are generally the weak spots for large SOEs, and by acquiring foreign knowledge through returnee entrepreneurs (Filatotchev et al., 2009) or inter-firm collaboration and recruitment (Chen & Tan, 2015). Smaller export firms also tend to be more entrepreneurial, innovative and proactive, which helps them capitalize on even the smallest opportunities (Li, Zhao, Tan, & Liu, 2008). In fact, small and medium firms have well-recognized advantages against their larger counterparts, including "large-scale employment generation, income growth, entrepreneurial training, technical and allocative efficiency, lower degrees of wage inequality and greater flexibility in the face of changing demand patterns, trade policies and macroeconomic conditions" (Levy et al., 2012). Hence, it seems quite reasonable for the governments in the other emerging markets (e.g., India, Brazil and Mexico) to provide greater incentives to their small and medium enterprises to enter the exports market or improve their exports performance (Nguyen, Le, & Bryant, 2013).

We also find that the private-owned Chinese export firms have been more profitable (as measured by their return on assets) compared to their local or central state-owned counterparts. This is a very encouraging finding for the proponents of moving away from the dominance of a few large state-owned enterprises in the exports market (e.g., Yi et al., 2012). In this context, past research introduced the idea of born-global firms as early adopters of internationalization (Cavusgil & Knight, 2015; Knight & Cavusgil, 2004). Born-global firms are able to expand into

26

foreign markets and achieve superior performance within a short time span from their birth (start), facilitated by their innovative culture, knowledge and entrepreneurial capabilities. Most of these young firms lack past experience and financial, human, and tangible resources, which probably prompts them to use innovative strategies in order to succeed in diverse international markets within a short time span (Knight, 2015).

While early research on born-global firms focused on the developed countries, recent evidence shows a growth in their numbers even in the emerging markets (Guillén & Garcia-Canal, 2009), including Brazil (Dib, Da Rocha, & Da Silva, 2010), Russia (Shirokova & McDougall-Covin, 2012), India (Elango & Pattnaik, 2007; Javalgi & Todd, 2011; Kim, Basu, Naidu, & Cavusgil, 2011), China (Andersson et al., 2015; Zhang & Dai, 2013; Zhang, Tansuhaj, & McCullough, 2009; Zhou, Wu, & Luo, 2007), Malaysia (Kaur & Sandhu, 2014) and even Vietnam (Thai & Chong, 2008). Others suggest that many born-global firms may eventually become 'micro-multinationals', which are "small- and medium-sized firms that control and manage value-added activities through constellation and investment modes in more than one country" (Dimitratos, Johnson, Slow, & Young, 2003, p. 165). Our findings suggest that this process may have already started with Chinese private-owned firms as they improve their exports performance and show a significantly lower dependence on domestic political connections compared to local and central state-owned firms. SMEs in other emerging markets could learn from the experiences of these born-global and mostly private-owned Chinese firms in order to shorten their own experience curves and leapfrog into international markets successfully despite a lack of political connections in their domestic markets.

6. Limitations and future research

Our paper has a few limitations that future research may address. First, we only use data for the 2006-10 period due to limited availability of the firm performance and political connections information before 2006 and after 2010. Hence, future studies could use the data for the 2011-15 period to update and further validate our findings. Second, we use a single quantitative measure of political connections (PCQ), however not all political connections may be equally strong and hence, the strength of political connections may explain additional variance in all the dependent variables. Future research may include measures of both quantity and strength of political connections to provide additional insights. Third, we take a cross-sectional view in this paper but it is possible that the impact of PCQ and all the other variables may undergo a significant change over time. Future research may use a longitudinal analysis to unravel the changing role of political connections vis-à-vis other financial and market-based resources. Finally, this paper uses China as its research setting and despite the useful implications of our results, these may not be generalizable to the other emerging markets. Hence, future research may test our model with data from the other emerging markets to assess the generalizability of our findings.

References

Aaby, N.-E. & Slater, S.F. (1989). Management influences on export performance: A review of the empirical literature 1978-1988. *International Marketing Review*, 6(4), 7-26.

Adhikari, A., Derashid, C., & Zhang, H. (2006). Public policy, political connections, and effective tax rates: Longitudinal evidence from Malaysia. *Journal of Accounting and Public Policy*, 25(5), 574-595.

Aksoy, M.A. & Ng, F. (2014). Increased export performance and competitiveness of developing countries: Mainly a China story? *Robert Schuman Centre for Advanced Studies Research Paper No. RSCAS*.

Allison, G. T. (1979). Public and private administrative leadership: Are they fundamentally alike in all unimportant respects? In Shafritz, J. and Hyde, A. (Eds), Classics of Public Administration. Belmont: Wadsworth, Chapter 43, 457-474.

Andersson, S., Danilovic, M., & Huang, H. (2015). Success factors in Western and Chinese born global companies. *iBusiness*, 7(1), 25-38.

Ang, J.S., Ding, D.K., & Thong, T.Y. (2013). Political connection and firm value. *Asian Development Review*, 30(2), 131–66.

Baldwin, J. N. (1987). Public versus private: Not that different, not that consequential. Public *Personnel Management, 16*(2), 181-193.

Benvignati, A.M. (1990). Industry determinants and differences in US intrafirm and arms-length exports. *The Review of Economics and Statistics*, 72(3), 481-88.

Berger, B. & Martin, R.F. (2011). The growth of Chinese exports: An examination of the detailed trade data, *International Finance Discussion Papers (Number 1033)*: Board of Governors of the Federal Reserve System.

Bernard, A.B. & Jensen, J.B. (2004). Why some firms export. *Review of Economics and Statistics*, 86(2), 561-69.

Bliss, M.A. & Gul, F.A. (2012). Political connection and cost of debt: Some Malaysian evidence. *Journal of Banking & Finance*, 36(5), 1520-27.

Boyne, G.A. (2002). Public and private management: What's the difference? *Journal of Management Studies*, 39(1), 97-122.

Boubakri, N., Cosset, J.-C., & Saffar, W. (2008). Political connections of newly privatized firms. *Journal of Corporate Finance*, 14(5), 654-73.

Boubakri, N., Guedhami, O., Mishra, D., & Saffar, W. (2012). Political connections and the cost of equity capital. *Journal of Corporate Finance*, 18(3), 541-59.

Boubakri, N., Mansi, S.A., & Saffar, W. (2013). Political institutions, connectedness, and corporate risk-taking. *Journal of International Business Studies*, 44(3), 195-215.

Bozeman, B. & Kingsley, G. (1998). Risk culture in public and private organizations. *Public Administration Review*, 58(2), 109-118.

Brockman, P., Rui, O.M., & Zou, H. (2013). Institutions and the performance of politically connected M&As. *Journal of International Business Studies*, 44(8), 833-52.

Cadogan, J.W., Diamantopoulos, A., & Siguaw, J.A. (2002). Export market-oriented activities: their antecedents and performance consequences. *Journal of International Business Studies*, 33(3), 615-26.

Calomiris C.W., Fisman, R., & Wang, Y. (2010). Profiting from government stakes in a command economy: Evidence from Chinese asset sales. *Journal of Financial Economics*, 96(3), 399-412.

Carneiro, J., Farias, I., da Rocha, A., & da Silva, J.F. (2016). How to measure export performance? Scholars' vs. practitioners' answers. *Journal of Business Research*, 69(2), 410-417.

Cavusgil, S.T. & Knight, G. (2015). The born global firm: An entrepreneurial and capabilities perspective on early and rapid internationalization. *Journal of International Business Studies*, 46(1), 3-16.

Cavusgil, S.T. & Zou, S. (1994). Marketing strategy-performance relationship: an investigation of the empirical link in export market ventures. *Journal of Marketing*, 58(1), 1-21.

Chaney, P., Faccio, M., & Parsley, D. (2011). The quality of accounting information in politically connected firms. *Journal of Accounting and Economics*, 51(1-2), 58-76.

Chen, C.J.P., Ding, Y., & Kim, C. (2010). High-level politically connected firms, corruption, and analyst forecast accuracy around the world. *Journal International Business Studies*, 41(9), 1505-1524.

Chen, P.-L. & Tan, D. (2015). Foreign knowledge acquisition through inter-firm collaboration and recruitment: Implications for domestic growth of emerging market firms. *International Business Review*, 25(1), 221-232.

Chen, Y.-S., Shen, C.-H., & Lin, C.-Y. (2014). The benefits of political connection: Evidence from individual bank-loan contracts. *Journal of Financial Services Research*, 45(3), 287-305.

Cheng, L.T.W., & Leung, T.Y. (2016). Government protection, political connection and management turnover in China. *International Review of Economics & Finance,* 45 (September), 160-176.

Child, J. & Rodrigues, S.B. (2005). The internationalization of Chinese firms: A case for theoretical extension? *Management and Organization Review*, 1(3), 381-410.

Christensen, C.H., Da Rocha, A., & Gertner, R.K. (1987). An empirical investigation of the factors influencing exporting success of Brazilian firms. *Journal of International Business Studies*, 18(3), 61-77.

Chung, H.F.L. (2012). Export market orientation, managerial ties, and performance. *International Marketing Review*, 29(4), 403-23.

Cingano, F. & Pinotti, P. (2013). Politicians at work: The private returns and social costs of political connections. *Journal of the European Economic Association*, 11(2), 433–65.

Ciravegna, L., Lopez, L., & Kundu, S. (2014). Country of origin and network effects on internationalization: A comparative study of SMEs from an emerging and developed economy. *Journal of Business Research*, 67(5), 916-923.

Ciravegna, L., Majano, S.B., & Zhan, G. (2014). The inception of internationalization of small and medium enterprises: The role of activeness and networks. *Journal of Business Research*, 67(6), 1081-1089.

Claessens, S., Feijen, E., & Laeven, L. (2008). Political connections and preferential access to finance: The role of campaign contributions. *Journal of Financial Economics*, 88(3), 554-580.

Cooper, M.J., Gulen, H., & Ovtchinnikov, A.V. (2010). Corporate political contributions and stock returns. *Journal of Finance*, 65(2), 687-724.

Cooper, R.G. & Kleinschmidt, E.J. (1985). The impact of export strategy on export sales performance. *Journal of International Business Studies*, 16(1), 37-55.

CSMAR (2019), China Stock Market & Accounting Research Database. (Available at: us.gtadata.com. Last accessed on 18 May, 2019).

Czinkota, M.R. & Johnston, W.J. (1983). Exporting: does sales volume make a difference? *Journal of International Business Studies*, 14(1), 147-53.

Das, M. (1994). Successful and unsuccessful exporters from developing countries: some preliminary findings. *European Journal of Marketing*, 28(12), 19-33.

Davis, L., & North, D. (1971). *Institutional Change and American Economic Growth*, Cambridge: Cambridge University Press.

Deng, J. & Zeng, Y. (2009). Can political connection improve the performance of private enterprises. *Chinese Industrial Economics*, 2, 98-108.

Deng, P. (2012). The Internationalization of Chinese Firms: A Critical Review and Future Research. *International Journal of Management Reviews*, 14(4), 408-27.

Deng, Z., Hofman, P.S., & Newman, A. (2013). Ownership concentration and product innovation in Chinese private SMEs. *Asia Pacific Journal of Management*, 30(3), 717-34.

Dib, L.A., Da Rocha, A., & Da Silva, J.F. (2010). The internationalization process of Brazilian software firms and the born global phenomenon: Examining firm, network, and entrepreneur variables. *Journal of International Entrepreneurship*, 8(3), 233-53.

Dickson, B. J. (2003). *Red capitalists in China*. Cambridge, UK: Cambridge University Press.

Dimitratos, P., Johnson, J., Slow, J., & Young, S. (2003). Micromultinationals: New Types of Firms for the Global Competitive Landscape. *European Management Journal*, 21(2), 164-74.

Dominguez, L.V. & Sequeira, C.G. (1993). Determinants of LDC exporters' performance: A cross-national study. *Journal of International Business Studies*, 24(1), 19-40.

Du, J. & Girma, S. (2010). Red capitalists: Political connections and firm performance in China. *Kyklos*, 63(4), 530-45.

Du, X. & Luo, J.H. (2016). Political connections, home formal institutions, and internationalization: Evidence from China. *Management and Organization Review*, 12(1), 103-33.

Eckaus, R.S. (2006). China's exports, subsidies to state-owned enterprises and the WTO. *China Economic Review*, 17(1), 1-13.

Elango, B. & Pattnaik, C. (2007). Building capabilities for international operations through networks: a study of Indian firms. *Journal of International Business Studies*, 38(4), 541-55.

Faccio, M. (2006). Politically connected firms. *American Economic Review*, 96(1), 369-86.

Faccio, M., Masulis, R.W., & McConnell, J. (2006). Political connections and corporate bailouts. *Journal of Finance*, 61(6), 2597-635.

Fan, J.P.H., Wong, T.J., & Zhang, T. (2007). Politically connected CEOs, corporate governance, and Post-IPO performance of China's newly partially privatized firms. *Journal of Financial Economics*, 84(2), 330-57.

Farnham, D. and Horton, S. (1996). Managing public and private organizations. In Farnham, D. and Horton, S. (Eds), Managing The New Public Services. London: Macmillan.

Filatotchev, I., Liu, X., Buck, T., & Wright, M. (2009). The export orientation and export performance of high-technology SMEs in emerging markets: The effects of knowledge transfer by returnee entrepreneurs. *Journal of International Business Studies*, 40(6), 1005-21.

Fisman, R. (2001). Estimating the value of political connections. *American Economic Review*, 91(4), 1095-1102.

Fottler, M.D. (1981). Is management really generic? *Academy of Management Review*, 6(1), 1-12.

Francis, B.B., Hasan, I., & Sun, X. (2009). Political connections and the process of going public: Evidence from China. *Journal of International Money and Finance*, 28(4), 696-719.

Ganotakis, P. & Love, J.H. (2012). Export propensity, export intensity and firm performance: The role of the entrepreneurial founding team. *Journal of International Business Studies*, 43(8), 693-718.

Girma, S., Gong, Y., Görg, H., & Yu, Z. (2009). Can production subsidies explain China's export performance? Evidence from firm-level data. *The Scandinavian Journal of Economics*, 111(4), 863-91.

Goldman, E., Rocholl, J., & So, J. (2009). Do politically connected boards affect firm value? *Review of Financial Studies*, 22(6), 2331-60.

Gouvea, R., Mahto, R.V., & Montoya, M. (2013). BRIC national export performance: a portfolio approach. *Journal of Chinese Economic and Business Studies*, 11(1), 47-58.

Guan, J. & Ma, N. (2003). Innovative capability and export performance of Chinese firms. *Technovation*, 23(9), 737-47.

Guillén, M.F. & Garcia-Canal, E. (2009). The American model of the multinational firm and the "new" multinationals from emerging economies. *The Academy of Management Perspectives*, 23(2), 23-35.

Haley, U.C.V. & Haley, G.T. (2013). *Subsidies to Chinese Industry: State Capitalism, Business Strategy, and Trade Policy*. New York, NY: Oxford University Press.

Hillman, A.J., Cannella, A.A., & Paetzold, R.L. (2000) The resource dependence role of corporate directors: Strategic adaptation of board composition in response to environmental change. *Journal of Management Studies*, 37(2), 235-256.

Hillman, A.J., Zardkoohi, A., & Bierman, L. (1999). Corporate political strategies and firm performance: Indicators of firm-specific benefits from personal service in the US government. *Strategic Management Journal*, 20(1), 67-81.

Hung M., Wong, T.J., & Zhang, T. (2012). Political considerations in the decision of Chinese SOEs to list in Hong Kong. *Journal of Accounting and Economics*, 53(1-2), 435-449.

Javalgi, R.R.G. & Todd, P.R. (2011). Entrepreneurial orientation, management commitment, and human capital: The internationalization of SMEs in India. *Journal of Business Research*, 64(9), 1004-10.

Kaur, S. & Sandhu, M.S. (2014). Internationalisation of born global firms: Evidence from Malaysia. *Journal of the Asia Pacific Economy*, 19(1), 101-36.

Keh, H.T., Ren, R., Hill, S.R., & Li, X. (2013). The beautiful, the cheerful, and the helpful: The effects of service employee attributes on customer satisfaction. *Psychology & Marketing*, 30(3), 211-26.

Kim, D., Basu, C., Naidu, G.M., & Cavusgil, E. (2011). The innovativeness of born-globals and customer orientation: learning from Indian born-globals. *Journal of Business Research*, 64(8), 879-86.

Knight, G. (2015). Born Global Firms: Evolution of a Contemporary Phenomenon.In Zou, Shaoming, Hui Xu, & Linda Hui Shi, (Eds.), *Entrepreneurship in International Marketing*: Emerald Group Publishing Limited, 3-19.

Knight, G.A. & Cavusgil, S.T. (2004). Innovation, organizational capabilities, and the born-global firm. *Journal of International Business Studies*, 35(2), 124-41.

Lacey, S. (2011). How China dominates solar power. *The Guardian - Australian Edition* http://www.theguardian.com/environment/2011/sep/12/how-china-dominates-solar-power.

Levy, B., Berry, A., & Nugent, J.B. (2012). *Fulfilling the export potential of small and medium firms*: Springer Science & Business Media.

Li, H., Meng, L., Wang, Q., & Zhou, L.-A. (2008). Political connections, financing and firm performance: Evidence from Chinese private firms. *Journal of Development Economics*, 87(2), 283-99.

Li, J.J., Poppo, L., & Zhou, K.Z. (2008). Do managerial ties in China always produce value? Competition, uncertainty, and domestic vs. foreign firms. *Strategic Management Journal*, 29(4), 383-400.

Li, J.J., Zhou, K.Z., & Shao, A.T. (2009). Competitive position, managerial ties, and profitability of foreign firms in China: An interactive perspective. *Journal of International Business Studies*, 40(2), 339-52.

Li, W., He, A., Lan, H., & Yiu, D. (2012). Political connections and corporate diversification in emerging economies: Evidence from China. *Asia Pacific Journal of Management*, 29(3), 799-818.

Li, Y., Zhao, Y., Tan, J., & Liu, Y. (2008). Moderating effects of entrepreneurial orientation on market orientation-performance linkage: Evidence from Chinese small firms. *Journal of small business management*, 46(1), 113-33.

Liang, H., Ren, B., & Sun, S.L. (2015). An anatomy of state control in the globalization of state-owned enterprises. *Journal of International Business Studies*, 46(2), 223-40.

Lu, J.W. & Beamish, P.W. (2006). SME internationalization and performance: Growth vs. profitability. *Journal of International Entrepreneurship*, 4(1), 27-48.

Mascarenhas, B. (1986). International strategies of non-dominant firms. *Journal of International Business Studies*, 17(1), 1-25.

Mian, A.R. & Khwaja, A.I. (2005). Do Lenders Favor Politically Connected Firms? Rent Provision in an Emerging Financial Market. *Quaterly Journal of Economics*, 120(4), 1371-411.

Minggui, Y., Yafu, H., & Hongbo, P. (2010). Political Connections, Rent Seeking, and the Fiscal Subsidy Efficiency of Local Governments [J]. *Economic Research Journal*, 3, 65-77.

Mitchell, H. & Joseph, S. (2010). Changes in Malaysia: Capital controls, prime ministers and political connections. *Pacific-Basin Finance Journal*, 18(5), 460-76.

Morgan, N.A., Kaleka, A., & Katsikeas, C.S. (2004). Antecedents of export venture performance: A theoretical model and empirical assessment. *Journal of Marketing*, 68(1), 90-108.

Nguyen, T.V., Le, N.T.B., & Bryant, S.E. (2013). Sub-national institutions, firm strategies, and firm performance: A multilevel study of private manufacturing firms in Vietnam. *Journal of World Business*, 48(1), 68-76.

Pan, Y., Teng, L., Supapol, A. B., Lu, X., Huang, D., & Wang, Z. (2014). Firms' FDI ownership: The influence of government ownership and legislative connections. *Journal of International Business Studies*, 45(8), 1029-43.

Peng, M.W. & Luo, Y. (2000). Managerial ties and firm performance in a transition economy: The nature of a micro-macro link. *Academy of Management Journal*, 43(3), 486-501.

Pfeffer, J. & Salancik, G. (1978). *The External Control of Organization: A Resource-dependence Perspective*. New York: Harper & Row.

Qiao, P., Fung, H.G., & Ju, X. (2013). Effects of Social Capital, Top Executive Attributes and R&D on Firm Value in Chinese Small and Medium-sized Enterprises. *China & World Economy*, 21(4), 79-100.

Rainey, H.G., Backoff, R.W., & Levine, C.H. (1976). Comparing public and private organizations. *Public Adminitsration Review*, 36(2), 233-244.

Salomon, R. & Shaver, J.M. (2005). Export and domestic sales: Their interrelationship and determinants. *Strategic Management Journal*, 26(9), 855-71.

Shirokova, G. & McDougall-Covin, P. (2012). The role of social networks and institutions in the internationalization of Russian entrepreneurial firms: Do they matter? *Journal of International Entrepreneurship*, 10(3), 177-99.

Tan J., Li S., & Xia. J. (2007). When iron fist, visible hand, and invisible hand meet: Firm-level effects of varying institutional environments in China. *Journal of Business Research*, 60, 786-794.

Thai, M.T.T. & Chong, L.C. (2008). Born-global: The case of four Vietnamese SMEs. *Journal of International Entrepreneurship*, 6(2), 72-100.

Verbeke, A., Ciravegna, L., Lopez, L.E. & Kundu, S.K. (2018). Five Configurations of Opportunism in International Market Entry. *Journal of Management Studies*, https://onlinelibrary.wiley.com/doi/abs/10.1111/joms.12355

Voss, H., Buckley, P.J., & Cross, A.R. (2010). The impact of home country institutional effects on the internationalization strategy of Chinese firms. *Multinational Business Review*, 18(3), 25-48.

Wang, C., Hong, J., Kafouros, M., & Boateng, A. (2012). What drives outward FDI of Chinese firms? Testing the explanatory power of three theoretical frameworks. *International Business Review*, 21(3), 425-38.

Wang, Q., Wong, T.J., & Xia, L. (2008). State ownership, the institutional environment, and auditor choice: Evidence from China, *Journal of Accounting and Economics* 46, 112-134.

Warner, M., Ng, S.H., & Xu, X. (2004). 'Late development'experience and the evolution of transnational firms in the People's Republic of China. *Asia Pacific Business Review*, 10(3-4), 324-45.

Weinberg, M.W. (1983). Public management and private management: a diminishing gap? *Journal of Policy Analysis and Management*, 3(1), 107-115.

Westhead, P., Wright, M., & Ucbasaran, D. (2001). The internationalization of new and small firms: A resource-based view. *Journal of Business Venturing*, 16(4), 333-58.

Wu, W., Wu, C., & Liu, X. (2008). Political connection and market valuation: evidence from China individual-controlled listed firms. *Economic Research Journal*, 7, 130-41.

Xiao, S.S., Jeong, I., Moon, J.J., Chung, C.C., & Chung, J. (2013). Internationalization and performance of firms in China: Moderating effects of governance structure and the degree of centralized control. *Journal of International Management*, 19(2), 118-37.

Yi, J., Zhong, Y., & Zheng, Q. (2012). An analysis of state-owned and private-owned enterprises' export performance: The value chain perspective. *Journal of Chinese Entrepreneurship*, 4(1), 20-34.

Zhang, J. & Dai, X. (2013). Research on Chinese Born global firms' international entrepreneurial mechanism and development mode. *International Business and Management*, 7(1), 77-83.

Zhang, M., Tansuhaj, P., & McCullough, J. (2009). International entrepreneurial capability: The measurement and a comparison between born global firms and traditional exporters in China. *Journal of International Entrepreneurship*, 7(4), 292-322.

Zhou, L., Wu, W.-P., & Luo, X. (2007). Internationalization and the performance of born-global SMEs: the mediating role of social networks. *Journal of International Business Studies*, 38(4), 673-90.
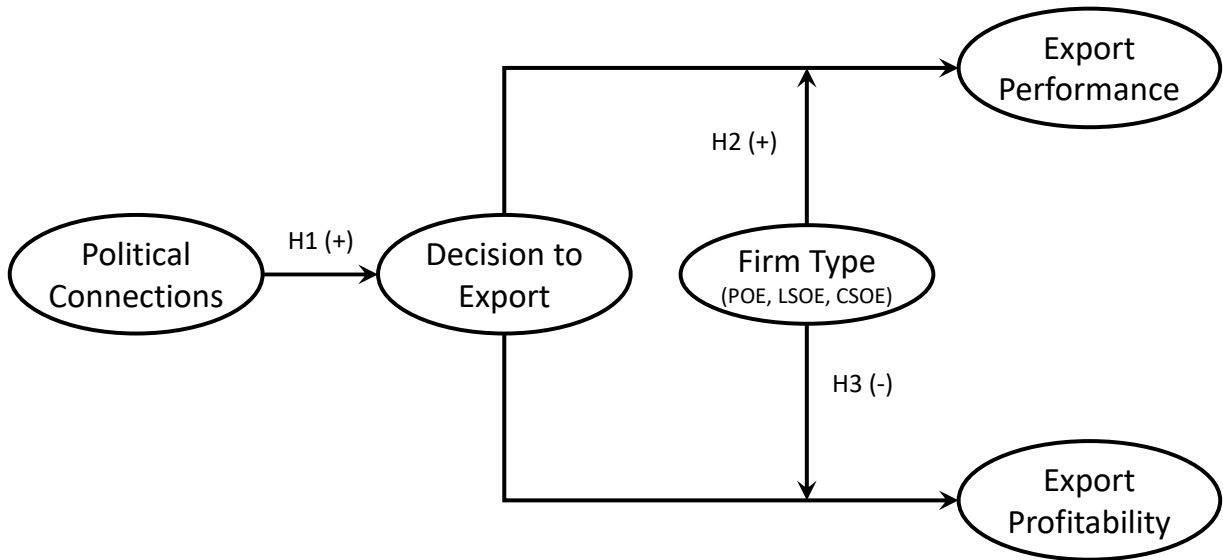
Figure 1 – Conceptual Model

Table 1 - Descriptive Statistics and Correlations Matrix

	Variables	Mean	S.D.	1	2	3	4	5
1	*Export Dummy*	.32	.46	1.00				
2	*Exports Sales Value*	5.96	8.87	.99**	1.00			
3	*Exports to Total Sales Ratio*	.08	.18	.62**	.67**	1.00		
4	*Return on Assets*	.04	.06	.03*	.03*	.02	1.00	
5	*PCQ*	.16	.17	-.03**	-.02	-.01	.03**	1.00
6	*Subsidy*	11.04	7.18	.18**	.18**	.09**	.10**	.06**
7	*FTZ*	.29	.45	.02*	.03*	.06**	.04**	.02
8	*POE*	.42	.49	-.07**	-.06**	-.10**	.06**	.04**
9	*LocalSOE*	.40	.49	.08**	.07**	.09**	-.04**	-.07**
10	*META*	.04	.05	.01	.01	-.04**	.12**	-.03**
11	*Total Assets*	21.61	1.22	.00	.03*	-.08**	.10**	.18**
12	*Firm Age*	1.98	.82	-.13**	-.11**	-.14**	-.18**	-.01
13	*Leverage*	.48	.20	-.05**	-.03*	-.08**	-.33**	.02*
14	*MTBR*	4.12	3.02	-.02	-.03*	-.02	.13**	-.05**
15	*TFP*	.05	1.03	.00	.00	.01	.17**	-.01
16	*Herfindahl*	.08	.09	-.07**	-.07**	-.05**	.06**	.06**
17	*FSR*	.02	.09	.02	.03*	-.01	-.01	.07**

6	7	8	9	10	11	12	13	14	15	16
1.00										
-.01	1.00									
-.10**	.00	1.00								
.08**	.04**	-.68**	1.00							
.09**	.01	-.01	.07**	1.00						
.19**	.02*	.16**	-.32**	-.10**	1.00					
-.09**	.05**	.24**	-.29**	-.01	.18**	1.00				
-.02*	-.05**	.14**	-.19**	-.08**	.37**	.37**	1.00			
.09**	-.01	-.15**	.15**	.13**	-.29**	-.04**	.00	1.00		
-.04**	.13**	-.05**	.05**	.13**	-.05**	-.09**	.01	.07**	1.00	
-.01	.04**	.02*	-.05**	-.12**	.13**	-.04**	.00	.01	-.01	1.00
.01	.19**	.06**	-.14**	.03**	.23**	.15**	.05**	-.09**	-.03*	.00

Export Dummy is coded 1 if the firm has export sales and 0 otherwise. *PCQ* is the ratio of directors with political connections to the total number of directors. *Subsidy* includes all the grants, incentive, compensation fee, tax break, rebate and relief provided by the governments. *FTZ* is a dummy coded 1 for the firms situated in the free trade zones and 0 otherwise. *POE* is a dummy coded 1 for private-owned firms and 0 otherwise. *LocalSOE* is a dummy coded 1 for firms controlled by local governments and its agencies and 0 otherwise. *META* is marketing expenses to assets ratio. *Firm Age* is the natural log of the number of years since the firm is listed. *Leverage* is the ratio of total debts to total assets. *MTBR* is market to book value of equity ratio. *TFP* is a measure of total factor productivity (efficiency of all inputs). *Herfindahl Index* is measured by $\sum_{i=1}^{N} S_i^2$ where S_i is the proportion of firm's sales to industry sales. *FSR* is the aggregate percentages of shares placed to strategic investors, B-share shareholders, H-share shareholders and overseas shareholders. *Export Sales Value*, *Subsidy*, *Total Assets*, and *Firm Age* are in natural log form. *META*, *Leverage*, and *Return on Assets* are in ratio to total assets. *FSR* is in proportion to total number of shares outstanding.
*$p < .05$, **$p < .01$

Table 2 – Multiple Regression Output

	Export Dummy	*Export to Total Sales Ratio*	*Export Sales Value*	*Return on Assets*
Intercept	-.64	1.08**	2.51**	-.34**
PCQ	-1.21**	.20*	2.04**	-.01
Subsidy	.05**	.00	-0.01	.00
FTZ	.18**	.06**	0.28**	.00
POE	-.13	.01	0.14	.01**
LocalSOE	-.01	-.05*	0.08	.01*
PCQ*POE	1.12**	-.19**	-2.08**	.01
PCQ*LocalSOE	-.44	-.04*	-1.61*	-.01
META	.95†	-.71**	-1.82†	.07*
Total Assets	-.01	-.04**	0.74**	.02**
Firm Age	-.24**	-.01	0.06	-.01**
Leverage	.09	.00	0.82**	-.13**
MTBR	-.02**	.00*	-0.04**	.01**
TFP	-.01	.00	0.25**	.01**
Herfindahl	-3.77**	-.10*	0.47	.03†
FSR	.70*	-.02	-0.34	-.03*
McFadden R^2	.09			
Adjusted R^2		.12	.25	.31
LR Statistics	836.48			
F Statistics		11.57	26.73	34.06

† $p < .10$, * $p < .05$, ** $p < .01$