

Article

From Micro Differences to FDI Strategies: How Chinese SOE and POE Managers Shape Foreign Entry Decisions

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This paper applies a micro-foundations approach to examine how risk propensities differ between state-owned (SOE) and privately owned (POE) enterprise managers during foreign direct investment (FDI) decisions. Using evidence from China, we summarize contrasts in career paths, political ties, and incentive horizons that shape managerial cognition and risk perception. We then categorize risk tolerance through two lenses: past experiences and future expectations, showing that incorporating these micro factors aids us in analyzing FDI strategies more accurately than firm- and country-level factors alone. Building on this insight, we propose practical mechanisms for incentive design, project matching, and tenure management, and outline a future research agenda applying the same micro lens to investigate SOE and POE global strategies.

INTRODUCTION

Scholars and practitioners alike have long argued that state-owned enterprises (SOEs) and privately owned enterprises (POEs) display different preferences when making foreign direct investment (FDI) strategic decisions, including entry and establishment modes, location choice, speed, alliance formation, and partner selection (Cuervo-Cazurra, Grosman, & Megginson, 2023; Dikova & van Witteloostuijn, 2007). However, existing work on this topic mainly focuses on the advantages and disadvantages at the macro level to explain why and how SOEs make different strategic choices compared with POEs, and has used variables such as differences in ownership structure (i.e., state control vs. private control), home- and host-country institutional factors, firms' resources, and non-market influences (Cuervo-Cazurra & Li, 2021). For instance, at the country level, scholars have studied geopolitical factors, cultural and institutional distances, and home- and host-country (il)legitimacy (Cuervo-Cazurra, Grosman, & Megginson, 2023). At the firm level, scholars highlight that firm size, profitability, and financing costs affect the different strategies of SOEs and POEs (Dikova, Panibratov, & Veselova, 2019; Tihanyi et al., 2019). Collectively, these studies have provided a solid framework to understand the differences between the FDI strategies of SOEs and POEs.

However, one challenge of the existing framework that explains the differences in the strategic choices between SOEs and POEs is that a systematic analysis of micro factors, such as the role of managers, remains nascent. That is, as existing studies highlight, while managers in both SOEs and POEs have been increasingly granted greater decision-making autonomy over FDI strategies (Bruton, Peng, Ahlstrom, Stan, & Xu, 2015; Buckley et al., 2015), man-

agers' characteristics such as risk propensity play a more important role in FDI decision-making (Boustanifar, Zajac, & Zilja, 2022; Buckley, Chen, Clegg, & Voss, 2016; Santangelo, Phene, Coviello, Tung, & Felin, 2024). After all, at the end of the day, it is these managers who are making the FDI decisions. The lack of a thorough understanding of the micro-dynamics of FDI decisions may be partially due to neglect of variations within the categories of SOE and POE (Buckley et al., 2016); it may also be because of the intrinsic complexities in comparing SOE with POE managers, given their significant variations in country of origin, personal experiences, and political tendencies. For example, when studying China (also our context), POE managers are more market-oriented, and their behaviors fit traditional entrepreneurial and international business theories. Their SOE peers, however, are more like government officials and thus require distinct theoretical perspectives for analysis.

While the differences that emerge from ownership structure and other macro-level factors remain, failing to account for managers' roles in explaining and predicting the differences between SOE and POE strategies results in incomplete explanations. Specifically, we argue that to reach a better understanding of FDI decisions, it is crucial to examine the characteristics and proclivities of the managers who make these decisions (Kocoglu & Mithani, 2024), both within the SOE or POE categories and between SOEs and POEs. We thus call, in other words, for a micro-foundations perspective. By micro-foundations, we refer explicitly to the individual-level attributes, behaviors, and interactions of managers that underpin firm-level strategic decisions (Barney & Felin, 2013; Buckley et al., 2016; Felin, Foss, & Ployhart, 2015). Recent studies suggest that in countries characterized by high-quality governance and market-oriented policies, managerial behavior between SOEs and

POEs tends to converge (Grøgaard, Rygh, & Benito, 2019). Thus, the micro-foundational variations we discuss may be most prominent in emerging or transition economies with distinct political and institutional contexts.

In the focal study, we limit our discussion to a specific context and phenomenon (Santangelo & Verbeke, 2022): the differences in risk preferences of Chinese SOE and POE managers, in which we can observe variations at the micro level in at least two ways. First, Chinese SOE managers have markedly distinct career paths and tenures (Li & Qian, 2013; Peng, Bruton, Stan, & Huang, 2016). A typical SOE manager will have spent several years in government service, an experience rarely seen among POE managers. This government service provides them with abundant political connections and divergent ideological imprints, leading to different risk preferences. Second, even among SOE or POE managers, variation exists across firms. For instance, central and provincial SOE managers serve within distinct bureaucratic and party systems (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014), leading them to perceive FDI risks differently. Conversely, while the tenure of a private-firm CEO averages six years, considerable variation exists (Darouichi, Kunisch, Menz, & Cannella, 2021). When the CEO is also the founder of the firm, tenure varies further, influencing their risk preferences. Therefore, their strategic choices reflect different risk preferences and expected returns. Higher (lower) risk tolerance predicts majority versus minority equity, larger versus smaller deal size, and earlier versus later market entry (Buckley et al., 2016; Dikova & Brouthers, 2016). Thus, we stress that the two major factors shaping managers' preferences in FDI, namely personal experience and expectations, are markedly different- and hence influence their FDI decisions.

In this paper, we theorize that incorporating these micro-level factors will help us better understand the different strategies adopted by SOEs and POEs. We propose that differences in managers' past experience and in their future expectations from foreign expansion affect firms' FDI strategies. While previous research has identified structural and institutional differences between SOEs and POEs, our study uniquely contributes to this literature by systematically integrating micro-level managerial factors. We thus offer a deeper and more actionable understanding of why and how managers in SOEs and POEs make divergent FDI decisions (Lai, Morgan, & Morris, 2020).

In the following sections, we first summarize the main differences between SOE and POE managers, particularly their career paths up to now (i.e., the past) and their future trajectories. Then we argue that a micro perspective can potentially fill the gap in explaining the differences between SOE and POE internationalization strategies (i.e., the present).

MICRO FACTORS SHAPING MANAGERIAL FDI RISK PREFERENCES

VARIANCES BETWEEN SOES AND POES

In this study, we unpack how past experiences and future expectations jointly shape SOE and POE managers, which in turn steer FDI choices. Specifically, we focus on Chinese SOEs and POEs as exemplars from an emerging-market context (Awate, Brandl, Hobdari, & Newbury, 2025), examining how these managers' career trajectories and incentive structures affect their risk preferences in FDI decisions. As SOEs around the world have grown larger and have granted greater decision-making autonomy to managers (Peng et al., 2016), managers play a more important role in FDI decision-making processes. However, the prior experiences of SOE managers and their expectations for the future differ drastically from those of POE managers (Fan, Wong, & Zhang, 2007). We highlight two crucial aspects that take these micro-foundations into account and consider how these factors influence managers' risk preferences, which ultimately shape their FDI decisions. We first consider FDI risk-preference differences between SOE and POE managers, where [Table 1](#) below aligns each cross-ownership difference with its dominant past (P) or future (F) mechanism and the resulting risk propensity in FDI.

We maintain that by categorizing managers' differences into past experiences and future expectations we capture the majority of factors that affect the decision-making processes of SOE and POE managers. While managers' past experiences shape their perspectives on particular decisions (e.g., whether an FDI choice aligns with their ideological imprints and values), their future expectations of the same decision can differ, given their distinct future paths and life goals.

Building on existing IB studies, we summarize three major factors from past experiences that affect SOE and POE managers' strategic decisions: career paths, political connections, and educational backgrounds (Peng, Sun, Pinkham, & Chen, 2009). These factors are crucial in shaping individuals' value systems and determining their resources (Cuervo-Cazurra et al., 2014), and thus strongly influence their perspectives on both the present and the future.

VARIANCES WITHIN SOES AND POES

[Table 2](#) probes *who* inside each ownership camp takes riskier FDI investments, tagging each slice by its dominant micro-foundational factors: (P) past experience, (F) future expectations, or (P+F) both. We categorize SOEs and POEs further according to their ownership level (central vs. local; listed vs. non-listed; founder vs. successor vs. professional CEO); industries (strategic sector vs. commercial); resource levels (political connections; soft vs. hard budget constraints), and other differences that shift managers from risk-averse to risk-seeking positions. Furthermore, we integrate these factors into the P+F framework, discussing how each factor affects managers' FDI risk preferences. In gen-

Table 1. the micro-foundations of FDI risk preferences of Chinese SOE vs POE managers

		<i>SOE managers</i>	<i>POE managers</i>	<i>Risk-preference difference</i>
<i>Past experiences</i>	Early Career Path	Often begin within the public sector, government agencies, or affiliated state institutions	In private firms or entrepreneurial ventures, with an emphasis on market-base performance	SOE managers: safeguard state assets; POE managers: opportunity seeking & growth
	Political Connections	SOE executives frequently hold party membership or have direct ties to political elites	Direct party membership is less prevalent, political ties are less direct	SOE career: downside if investments fail; POE: failure mainly priced in financially
	Educational Background	Often come from technical or bureaucratic education streams geared toward public service and large-scale organizational management	Possess more diverse educational backgrounds, often with specialized MBAs or business degrees	SOE managers' training: stresses stability & public value; POE managers' training: value creation via calculated risk
<i>Future expectations</i>	Career path and promotion trajectory	Are frequently subject to government-led appointments or rotation systems.	Typically operate in performance-driven contexts; future career trajectories depend on delivering financial returns	SOE: short horizon results in conservatism; POE: bold expansion
	Tenure and term limits	Defined term limits (3-5 years) set by government regulations or institutional mandates.	While the board of directors may impose performance reviews or term limits, tenure is much more flexible and tied to achieving key business goals.	SOE: prefer incremental expansion; POE: capture pay-offs from risky projects
	Incentive structures	Compensation usually includes non-monetary perks such as housing, status, political advancement, political prestige or future government appointments can serve as non-financial motivations.	Rely heavily on performance-based payments – salaries, bonuses, stock options, and long-term incentive plans.	SOE: weak financial upside from high-risk returns; POE: direct financial incentive from success
	Post-managerial prospects	Retirement pathways usually lead back into government roles or positions in regulatory bodies, leveraging their bureaucratic experience and political capital.	More likely to keep pursuing opportunities in private sectors such as VC, PE, or entrepreneurial endeavors once they leave top management roles.	SOE: reputation hinges on prudence; POE: track record of successful expansion leads to raising opportunities
Summary		Lower risk-preferences	Higher risk-preferences	

eral, the insights from [Table 2](#) strongly reinforce our core thesis: managerial FDI risk-taking is shaped less by ownership labels than by each leader's past conditioning and future incentives.

Now that we have established that managers are affected by their past divergently depending on whether they come from a SOE or POE, we turn to a discussion of actionable strategies that improve FDI decision making, geared towards each specific ownership type.

STRATEGIES TO THRIVE: GOVERNING RISK ACROSS OWNERSHIP TYPES

ACKNOWLEDGE THAT INDIVIDUALS ARE DIFFERENT IN PERSONAL BACKGROUNDS, IMPRINTS, AND GOALS

We first suggest that scholars and managerial teams recognize the differences between individuals in SOEs and POEs. Each SOE and POE manager is different in interesting and remarkable ways, and these differences influence how they perceive the world and, indeed, make decisions. By incorporating these micro-foundations into SOE studies, scholars will be better able to explain and predict managerial decisions, especially as managers play an ever-increasing role in decision-making (Bruton et al., 2015; Buckley, Devinney, & Louviere, 2007). In addition, SOE managers are selected through drastically different pathways compared with private firm managers (Peng et al., 2016). Such differences in their past experiences can be traced back to their early career stages or even to high school. Meanwhile, these differences persist until retirement, shaping their expectations of the future. Building on this recognition, in the next section (3.2), we tailor governance tools to specific within-group profiles.

TAILOR GOVERNANCE TO WITHIN-GROUP DIFFERENCES

[Table 2](#) shows that SOE or POE is only a headline; the real driver of FDI decisions, such as risk preferences, is who inside the group signs the cheque. Managers with higher risk tolerance (e.g., municipal-SOE leaders, founder-CEOs, listed-SOE executives) need different guardrails than their more cautious peers. Accordingly, we conclude three actionable points to improve the governance of different types of firms.

(a) Calibrate incentive structures: central-SOE cadres already face political and future career uncertainties; adding large performance-based incentives may distort effort. Instead, tying rewards to policy success might function better. Listed-SOE managers benefit from equity pay but require ex-ante risk caps (e.g., maximum deal size relative to assets).

(b) Match manager type to project risk: politically strategic but commercially risky ventures such as Belt and Road projects may be more attractive to local-SOE teams, while central-SOE cadres should steward large but steady cash-flow operations abroad (e.g., large-scale M&A infrastructure projects in power generation or transmission industries).

(c) Recognize the potential tenure differences between SOE and POE managers. While the tenure of POE managers varies, SOE managers often rotate within the government. Therefore, for a POE manager, the focus should be on ensuring that pay and opportunities within FDI decisions match the individual's preferences, inducing the POE manager to stay longer and keeping valuable human capital in-house. For SOE managers, however, rotation is out of the SOE's hands, so the focus should be on ensuring that the SOE manager can perform to the fullest of their potential before they move on.

RESEARCH AGENDA ON MANAGERIAL MICRO-HETEROGENEITY

After offering actionable advice to managers on corporate governance mechanisms to ensure managerial efficiency, we next turn to a brief discussion of what we believe are fruitful avenues for future research. First, we encourage future research on SOEs' internationalization to add a micro-dimension by applying our past-experience-and-future-expectation framework. Such research could build on existing SOE studies by capturing managers' career imprints and forward payoff horizons from available data sources, and then linking them to revealed FDI choices. Second, researchers need to look inside ownership labels, testing how founder-versus-successor, central-versus-provincial, or soft-versus-hard-budget slices create divergent risk scripts. Succession or cadre-rotation events offer natural experiments for such micro-heterogeneity. Advancing on these fronts should better explain SOEs' and POEs' FDI decisions (Santangelo & Symeou, 2024).

CONCLUDING THOUGHTS

In this piece, we argued that applying a micro foundations perspective to FDI decisions amongst SOEs and POEs can help us understand how these entities make divergent choices. In particular, SOE and POE managers have different past experiences and future expectations, which significantly alters their cognitive bases and ultimately affect the FDI decisions they make. We summarized and categorized the differences between SOE and POE managers, emphasizing the motivations and considerations behind their decision-making processes. This micro-foundations perspective bridges the gap between traditional SOE (and POE) studies and modern SOEs with advanced corporate governance. Our proposed framework is particularly useful for analyzing individual SOE and POE managers' decisions.

By calibrating incentive structures, matching manager type to project risk, and recognizing potential tenure differences among SOE and POE managers, stakeholders can interact with firm managers more efficiently and effectively. The first step is to acknowledge that managers play a crucial role in shaping investment strategies in both ownership types. Their distinct backgrounds and future expectations influence their preferences and perceptions of each decision. Therefore, calibrating incentive structures and matching manager type to project risk can help firms balance

Table 2. the micro-foundations of FDI risk preferences between different types of Chinese SOEs and POEs

SOEs	Managerial mechanism	What's the difference? Past experience (P) or future expectation (F)	Expected effect on FDI risk preference
Central vs. Provincial vs. Municipal ownership	- Central-SOE cadres: face direct State Council/SASAC scrutiny (P+F); career rewards are political rather than financial (F) - Provincial/municipal SOE leaders: double as local-government deputies whose bonus depends on boosting city GDP (P+F)	- P: Cadre career path differs by bureaucratic tier - F: Promotion metrics – national stability vs. local GDP	Central-SOE managers – risk averse on commercial payoffs, may accept policy risk Municipal managers – risk seeking when projects promise local growth headlines
Strategic vs. commercial mandate	Strategic-sector managers' (defense, energy) risk sanctions if they jeopardize national interests, which leads to strong career downside (P+F)	- P: Managers mainly served within the same or highly similar system - F: State security mandate raises downside penalties	Lower risk tolerance – prefer staged or minority entries
Listed vs. wholly state-owned	Listed SOE executives receive additional bonus & market visibility (P+F)	- P: CEOs usually have market-oriented trainings and experiences - F: Equity incentives & market scrutiny	Higher risk tolerance – upside from large expansion outweighs political fear
Soft- vs. hard-budget constraint	Soft-budget (policy loans) reduce personal accountability for losses (P+F); still, failure can trigger political audit (F)	F: Policy loans soften financial loss, but political loss still looms	Accept policy-induced risk but avoid commercial gamble: look for FDI investment in politically strategic projects (e.g., BRI)
POEs			
Founder-CEO vs. professional or 2 nd generational stage CEO	- Founder's concentrated equity leads to increased personal wealth (P+F) - Hired CEO or 2nd generation CEO focus on wealth-preservation (F)	- P: Entrepreneurial imprint - F: Equity stake vs. "founder legacy" vs. résumé risk	Founder CEO: highest risk tolerance, choose early and risky entry Hired or 2 nd generation CEO: moderate or low risk
Ownership concentration (family block, dispersed, or listed)	Family owners can shield executives (F); dispersed or listed firms face board monitoring & short-term earnings pressure (F)	F: Ability to internalize gains/losses	Larger, bolder FDI from closely held firms; incremental moves from listed or widely held firms
Intensity of political ties	Managers with strong party ties perceive lower host-country regulatory risk and can call in favors (P); downside reputational risk still exists (F)	- P: Network building and political interaction experiences - F: Ability to leverage ties abroad	Politically connected POEs pick riskier host locations or acquire distressed assets

short-term gains with long-term strategic benefits. Furthermore, recognizing potential tenure differences is helpful for interpreting and anticipating managerial behaviors and expectations. Finally, we encourage further studies that apply the past-experience-and-future-expectation framework to reveal the strategic decisions of SOE and POE managers and to explain within-group variations.

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