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The autocratic advantage: Internationalization of state-owned multinationals☆

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ABSTRACT

We offer a theoretical extension and empirical analysis of home country autocracy as a key determinant for the internationalization of state-owned enterprises (SOEs). Building on international business and international political economy theory, we argue that the pursuit of a mercantilist domestic agenda by autocratic governments is influential upon the magnitude and direction of state-owned multinational enterprises' (SOMNC) outward investment via acquisition. We conclude that autocratic home countries are 're-purposing' SOEs to pursue international nationalist objectives – and that autocracies can do so more effectively and purposefully than democracies, by maintaining effective control over their SOMNCs.

1. Introduction

The unprecedented acceleration of internationalization by state-owned multinational companies (SOMNCs) (Kowalski & Perepechay, 2015) to date has received limited research attention. SOMNCs have been defined as "Legally independent firms with direct ownership by the state that have value adding activities outside its home country" (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014, p. 925). For such firms to be deemed to exist "…a government entity should either own at least 10 per cent of the capital, be the largest shareholder or benefit from a golden share" (UNCTAD, 2017, p. 30). What we know so far is that SOMNCs are hybrids combining attributes of both state-owned and the multinational company (Bruton, Peng, Ahlstrom, Stan, & Xu, 2015) whose behaviour is contingent upon the degree of state ownership (Inoue, Lazzarini, & Musacchio, 2013). State ownership also affects the way in which these firms internationalize (e.g., Bass & Chakrabarty, 2014; Duanmu, 2014; Pan et al., 2014). A current weakness of the SOMNC literature is that it spotlights Chinese SOEs (Bruton et al., 2015) while giving only limited insight into the behaviour of SOMNCs as a more general phenomenon. Specifically, theoretical accounts for the existence of the SOMNC in the international sphere are scarce. At present it remains true to say that the "Logics that explain the internationalization of these firms and their transformation into SOMNCs is less obvious" (Cuervo-Cazurra et al., 2014, p. 925) than the well theorized reasoning underlying the domestic state ownership of production. The question of why SOMNCs exist and thrive internationally is particularly puzzling considering that, in the domestic sphere, the SOE as an organisational form has often proven to be productively inefficient compared with private firms (Megginson & Netter, 2001) but, at the same time, the returns on their international operations exceed the returns of many of their private counterparts (Cuervo-Cazurra et al., 2014).

An extensive body of international business (IB) research argues that it is the firm's characteristics that primarily determine the where, how, and why of foreign direct investment (FDI), while the states' regulatory activities over MNCs largely focus on the domestic market (i.e., inward FDI) (e.g., Brewer, 1993; Globerman & Shapiro, 1999). However, it has been observed that states intervene in the global economy for strategic reasons (Bremmer, 2009; Li, Cui, & Lu, 2014; Luo, Xue, & Han, 2010). We argue that the role of the home country is fundamental to our ability to understand the existence and behavior of SOMNCs. Drawing on the principles of international political economy (Alvarez, Cheibub, Limongi, & Przeworski, 1996; Jensen, 2008) that is concerned with how home countries pursue the development of their influence in the international policy space, we suggest that it is the home government's motive to exercise power in the international sphere that drives certain home country governments to require, support, or allow their SOEs to internationalize. Specifically, the SOE is "re-purposed" to become a multinational actor linked to the priorities of home government (cf. Wu, 2015). SOMNCs may offer the scope to exercise power in the international sphere to governments that lack international institutional capital, so enabling the home economy to

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pursue national aims while economizing on the time and resource expenditure required to create conventional international institutional linkages.

We further argue that this behaviour is not found uniformly across countries, instead it is determined by the nature of the political regime in the home country, specifically whether the regime is autocratic or democratic. From this basis, we hypothesise that SOMNCs from autocratic political regimes will exhibit more extensive internationalisation, a higher propensity to invest in other autocratic countries and to invest within the same industries abroad as their major domestic industries. Rather than being a general trend for all firms, we hypothesise that the effects will be stronger for these SOMNCs compared with SOMNCs from democratic regimes, and as compared with private firms from both autocratic and democratic countries. In this paper we capture SOE internationalization in the form of overseas acquisitions. We justify this from a theoretical standpoint as the dominant motivation for SOMNC expansion is to catch up and gain higher legitimacy via the most time-efficient mode (Deng, 2009; Meyer, Ding, Li, & Zhang, 2014). This translates into the category of strategic asset seeking international acquisitive behaviour. This expectation is supported by observation that the majority of SOMNC international activity is in form of mergers and acquisitions (M&As) (OECD, 2016; UNCTAD, 2017). We base our analysis on a global sample of SOE and private firm M&As completed between 1996 and 2015. The results largely confirm the hypotheses and show that the political regime of the home country plays a key role in international acquisition propensity. The findings on SOMNC acquisitions between autocratic economies resonates with earlier work on investments between countries with similar institutions (Shi, Hoskisson, & Zhang, 2016; Xu & Shenkar, 2002), while the findings on industry focus point towards the employment of a strategic approach by the autocratic government to strengthen its international position within a specific industry. Overall, these insights add to our understanding of why home country governments are disposed, and when they are most disposed, to promote SOEs internationalisation and their transformation into SOMNCs.

The following sections present theorization and hypotheses development. This is followed by a methodology section and presentation of the results. We conclude with a discussion of the theoretical and managerial implications, and opportunities for future research.

2. Theory and hypotheses

2.1. The global context of foreign investment and the rise of SOMNCs

During the 1950s through 1980s, FDI was largely associated with privately-owned MNCs that exercised ownership advantages conferring some degree of monopoly or exploited large, efficient and resource-rich locations (Buckley & Casson, 1976; Vernon, 1971). Although SOEs existed primarily domestically, a number of these firms began to internationalize with the same aim as private enterprises pursuing the profit motive (Mazzolini, 1979). These SOMNCs operated mostly in resource-based sectors and were under strong government control with little management discretion (Mazzolini, 1979). Although the global diffusion of market liberalization and privatization significantly reduced the number of both domestic and internationally-active SOEs (He, Eden, & Hitt, 2016; Megginson & Netter, 2001), partial privatization, for some, enhanced their entrepreneurial orientation and facilitated their progression to SOMNCs (Vaaler & Schrage, 2009). Therefore, albeit with diminished importance, the presence of the state in the international economy persisted but exhibited no clear trend.

SOEs experienced a second, more intense wave of internationalization post-2000 (Kowalski & Perepechay, 2015) driven by, e.g., increased foreign competition and the development of domestic institutional environments – as well as the persistence of institutional voids (He et al., 2016). Also, the financial crisis of 2007–08 led to a partial or full re-nationalization of large, privately-owned MNCs (São, 2010). In addition, a number of SOEs from developing and emerging economies appeared as dominant outward investors in pursuit of strategic assets and capabilities (Deng, 2009). However, industrialised countries such as Norway and France have exhibited a considerable level of international state-ownership in industries such as energy, telecommunications, transport, and banking (Kowalski & Perepechay, 2015). Their governments act as shareholders of the largest multinational companies (e.g., Volkswagen AG, Renault, Swisscom) through different channels (Musacchio & Lazzarini, 2012) and actively intervene to support their international activities (e.g., Financial Times, 2016).

The second wave of SOE internationalization has differed in its scale and nature. Around 19 percent of Forbes Global 500 companies in 2011 were state-owned (Kowalski, Büge, Sztajerowska, & Egeland, 2013; Kowalski & Perepechay, 2015), and most recent evidence suggests that the number now exceeds 22 percent (OECD, 2016). SOEs from high-technology industries (e.g., nuclear power generation, telecommunication equipment) and services (e.g., banking, construction) are internationalizing in greater numbers than ever before (Cuervo-Cazurra et al., 2014); in fact around 70 percent of SOMNCs are service firms (UNCTAD, 2017). Furthermore, particular channels of government-backed investments in the global economy re-emerged and assumed a dominant role, such as Sovereign Wealth Funds (SWFs) (Sauvant, Sachs, & Jongbloed, 2012).

2.2. SOMNC internationalization and political regimes

The internalization of SOMNCs, as a class, differs from private MNCs in terms of (1) objectives, as SOMNCs focus on a broader set of goals rather than profit-maximisation (He et al., 2016); (2) resources, due of their preferential access to governmental financial and non-financial support (Buckley et al., 2007; Duanmu, 2014); and (3) strategies, as they engage in risky (Pan et al., 2014) explorative, rather than exploitative, investments to ensure long-term resource security (Bass & Chakrabarty, 2014). Also, the way in which they internationalize depends on the type of state ownership, i.e., whether the SOE is centrally or locally controlled (Li et al., 2014) and the institutional pressures they face in host countries as they adapt their entry strategies to reduce conflicts and enhance legitimacy (Meyer et al., 2014). These contributions share the view that there is something distinctive about SOMNCs, but they do not provide a theoretical rationale for why these firms internationalize in the first place. Addressing this, Choudhury and Khanna (2014), building on Vernon (1979), offer evidence to show that SOEs, as a general proposition, are disposed to internationalize via managerial agency to achieve resource independence from domestic state actors. Putting aside firm-specific motivations, Cuervo-Cazurra et al. (2014), suggest that SOMNCs may act as an indirect home country extraterritoriality mechanism for ideology transfer to comparably weaker host countries, or as an instrument to achieve specific political objectives. In doing so, the authors appeal for an investigation into the home country motivations for SOMNC internationalization. In response to this, we investigate the role of the home country regime as a rationale for the existence and behaviour of SOMNCs.

Traditionally, SOEs exist as a means for the correction of domestic market distortions that cannot be addressed through other market-based mechanisms (e.g., Levy, 1987). However, Cuervo-Cazurra et al. (2014, p. 928) argue that “The standard market imperfection logic of the SOE solving market imperfections at home to support the well-being of its citizens is less applicable when SOMNCs invest abroad.” This is because, when transposed into the international economy, the rationale for the existence of SOMNCs is not to raise global welfare, but rather the welfare of the home country. This can be described as a mercantilist agenda. The theory underlying mercantilism, historically argued with respect to trade, is that it generates domestic wealth through the growth of income and taxation revenue, and is controlled through the exercise of state power, in particular through the means of protectionism