



Contents lists available at ScienceDirect

Journal of World Business

journal homepage: [www.elsevier.com/locate/jwb](http://www.elsevier.com/locate/jwb)

## The internationalization paradox: Untangling dependence in multinational state hybrids

Suzana B. Rodrigues<sup>a,b,\*</sup>, Marleen Dieleman<sup>c</sup>

<sup>a</sup> FUMEC University, Av. Afonso Pena 3880, Cruzeiro, 30130-009, Belo Horizonte, Brazil

<sup>b</sup> Rotterdam School of Management, The Netherlands

<sup>c</sup> NUS Business School, National University of Singapore, Department of Strategy and Policy, Mochtar Riady Building, #6-51, 15 Kent Ridge Drive, 119245, Singapore

### ARTICLE INFO

#### Keywords:

Internationalization  
Resource dependence  
Extractive industry  
State hybrid  
SOE  
Non-market strategy

### ABSTRACT

We investigate the internationalization of firms with ownership links to the state from the perspective of resource dependence theory, and argue that internationalization can reduce dependence on the home country government, but, paradoxically, this strategy also creates additional dependences, shifts the power balance, and provides rationales for increasing government control. Utilizing a ‘critical’ case – Vale from Brazil – we analyze different conditions that enable greater autonomy for and greater government control over multinational state hybrids in the context of internationalization. We contribute to the international business literature by generating a novel framework that considers the effects of market trends (extractive industry) and non-market trends (home country policies) on the internationalization of state hybrids.

### 1. Introduction

The recent global rise of firms from emerging economies with ownership links to the state has drawn attention from international business (IB) scholars (Bruton, Peng, Ahlstrom, Stan, & Xu, 2015; Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014; Musacchio & Lazzarini, 2014). But, paradoxically, as these firms overcome home country constraints and gain power by accumulating global resources, their success in doing so also makes them a more attractive target for home government interference. This phenomenon can be observed in several high-profile cases of re-nationalization, such as Yukos from Russia (Dixon & Day, 2010), YPF from Argentina (e.g. Peng & Meyer, 2015), and Petronas from Malaysia, whose top management was quoted as saying they regretted being the government’s number one “piggy bank” as they would rather invest in continued globalization (Reuters, 2 July 2012). Although this paradox of globalizing state hybrids (i.e. firms with direct ownership links to the government) becoming a target for home country intervention is regularly discussed in the media, and involves influential companies, the IB literature has not yet theorized on it. We draw on resource dependence theory (RDT) and on a critical case (Flyvberg, 2006) of a mining company to untangle this internationalization paradox and suggest a novel theoretical framework that can provide a basis for future advances in IB theory.

Given the significant dependence of state hybrids on the home

country government, RDT – originally formulated by Pfeffer and Salancik (1978) – offers a useful lens through which to study their internationalization (Choudhury & Khanna, 2014; Cui & Jiang, 2012; Meyer, Ding, Li, & Zhang, 2014; Xia, Ma, Lu, & Yiu, 2014). Recent studies apply RDT to argue that internationalization of state hybrids can be a response to offset government dependence (Choudhury & Khanna, 2014; Cuervo-Cazurra et al., 2014). Our argument specifies the conditions under which this may occur. Although state hybrids typically go abroad in response to market conditions, internationalization can also be instrumental from a non-market perspective. In offering new opportunities to firms and facilitating access to new resources, a global strategy, by reducing dependence on local ties and resources, simultaneously improves the firm autonomy.

We therefore demonstrate the possibilities, not yet fully explored in the IB literature, of using RDT. The literature on firms with state ownership links assumes that dependence is one-directional: the firm is dependent on the government, but not vice versa. This is not surprising, given that states are generally more powerful than firms. The other side of the coin – the government being dependent on a multinational state hybrid – has received little attention. Moreover, this stream of research has not yet explicitly considered the possibility that governments may in turn respond to internationalization by increasing control. This is an important omission, as governments in emerging economies typically continue to benefit from and influence state hybrids, even after privatization (Musacchio & Lazzarini, 2014).

\* Corresponding author at: FUMEC University, Av. Afonso Pena 3880, Cruzeiro, 30130-009, Belo Horizonte, Brazil.

E-mail addresses: [srodrigues@rsm.nl](mailto:srodrigues@rsm.nl) (S.B. Rodrigues), [marleen@nus.edu.sg](mailto:marleen@nus.edu.sg) (M. Dieleman).

<http://dx.doi.org/10.1016/j.jwb.2017.08.003>

Received 31 May 2016; Received in revised form 6 August 2017; Accepted 16 August 2017  
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We draw on a broader set of RDT insights to suggest that firm–government dependences are mutual (Casciaro & Piskorski, 2005; Emerson, 1962), dynamic (Hickson, Hinings, Lee, Schneck, & Pennings, 1971) and intertwined with other contextual external dependences, such as those from industry, competition and capital markets (Pfeffer & Salancik, 1978; Child, Rodrigues, & Tse, 2012). We argue that the internationalization of state hybrids should be seen not merely as a unilateral attempt to redress a power imbalance, but simultaneously as a source of new power imbalances, which may trigger a government response. To illustrate this response and explore the conditions under which it can occur, we present a longitudinal case of Vale, a mining company from Brazil. We found that market trends (especially the industry context) and non-market trends (especially the home country policy environment) shaped the mutual dependence between Vale and Brazil’s government. We also found that the balance of power shifted over time: Vale initially achieved greater autonomy through internationalization, but when market trends and non-market trends changed the government responded and gained greater control over Vale.

Our contribution to the IB literature is threefold. First, we advance understanding of multinational state hybrids using RDT. We argue that IB research has hitherto not fully utilized RDT’s potential, despite it being especially suited to explaining mutual dependences between actors. Second, we show the importance of incorporating RDT’s dynamic view of dependence, and recognize that each attempt to increase autonomy may trigger a response from the government. Third, by paying attention to the industry context, this research reveals the additional dependences a multinational state hybrid experiences and, in particular, how a global strategy generates additional dependences and new vulnerabilities. By taking a long-term perspective, our longitudinal case offers an opportunity to expand the IB literature, which has hitherto mostly focused on the rationale for and benefits of the internationalization of state hybrids. Our study suggests that multinational state hybrids can increase autonomy through internationalization, but the government’s responses are contingent on a combination of industry trends and home government policies. We combine our insights into a new framework, thereby taking a first step towards untangling these dependences. In so doing, we hope to stimulate further IB research on the internationalization trajectories of state hybrids.

## 2. Literature review

### 2.1. RDT and state ownership

RDT, as articulated by Pfeffer and Salancik (1978), argues that dependence is a function of who controls critical resources, suggesting that a firm’s behavior is oriented towards increasing the value of the resource pool and its level of control over it. RDT is widely used to explain firms’ strategic responses to dependence on critical resources (e.g. Hillman, Withers, & Collins, 2009). For example, a firm can escape from a relationship of mutual dependence by crafting power asymmetries through which it becomes less dependent on a given actor by obtaining alternative resources (Hillman et al., 2009).

Government dependence is a particularly relevant theme for firms with ownership links to the government, such as state-owned enterprises. Bruton et al. (2015) point out that many state-owned firms, in particular those that operate globally, are better described as “state hybrids” with mixed ownership resulting in a combination of institutional and private logic, setting them apart from other multinational enterprises. Similarly, Cuervo-Cazurra et al. (2014) discuss the emergence of “innovative hybrids of state and private capital” (p. 922). They argue that even after privatization governments often retain various levers of control in state hybrids, including direct ownership, indirect ownership and influence on board appointments, or simply through regulation. Musacchio, Lazzarini, and Aguilera (2015) identify different types of SOEs based on these novel developments, with decreasing

formal state control: fully state-owned; state as a majority investor; state as a minority investor; and state as a strategic supporter. Although most studies of state-owned enterprises now classify these in terms of the presence of state ownership (e.g. Xia et al., 2014) we prefer to use the term “state hybrids” rather than “state-owned enterprises” when referring to legally independent firms with direct ownership by the state as well as private ownership (cf. Cuervo-Cazurra et al., 2014, p. 925). This is because state-owned enterprises may be perceived as firms with 100% state ownership, while this paper takes an interest in firms with mixed ownership. As government objectives are not necessarily aligned with business objectives, a hybrid of these two “logics” introduces a new level of complexity that is not yet well understood and that is the focus of this paper.

Dominant ownership represents greater power over the firm (Pfeffer, 1981), so greater direct government ownership is associated with lower autonomy to pursue business goals. But indirect ownership or state influence through policy-making may also lead to effective state control (Musacchio et al., 2015), and companies with less direct state ownership may even experience more state interference than those with greater direct ownership (Bruton et al., 2015, p. 93). It is therefore important to move beyond the consideration of state ownership and to explore the importance of both business logic and state logic in multinational state hybrids. We define “state logic” as a firm’s objectives linked to government goals (e.g. economic development plans and political interests), and “business logic” as a firm’s pursuit of profits, market share or resources and capabilities. We recognize that this combination of state and business logic has an important bearing on a state hybrid’s inclination to become a multinational, thus requiring dedicated research that untangles the dependences between the firm and the state (Bruton et al., 2015; Finkelstein, 2017).

Vernon (1979) suggests that although the basis for government influence on state hybrids may be rooted in ownership legitimacy, managers frequently search for strategies to obtain more autonomy from the government. A relatively new insight developed in the IB literature is that internationalization, besides being a response to market opportunities, can provide state hybrids with more autonomy. By globalizing, the firm gains access to and control over critical resources situated outside the government’s jurisdiction (Choudhury & Khanna, 2014; Cui & Jiang, 2012). Internationalization to mitigate dependence on the government is sometimes referred to as the “power escape” argument (Cuervo-Cazurra et al., 2014). We contend that this argument offers an incomplete explanation for the internationalization trajectories of state hybrids, as it does not explicitly consider the government’s responses to the firm’s attempt to gain autonomy. Neither does it consider industry characteristics and non-market constraints associated with business logic and state logic respectively. We build upon this “power escape” view (Choudhury & Khanna, 2014; Cuervo-Cazurra et al., 2014) using a broader set of RDT insights, to suggest that dependences are: 1) dyadic; 2) dynamic; and 3) influenced by external dependences.

### 2.2. Dyadic view of dependence

A dyadic view of dependence focuses attention on dependence relations between two actors – in our case between state hybrids and the government. Early scholarly work noted that state hybrids are usually created and funded by governments, as well as expected to contribute to a wider set of government policies than other market players, and these factors create a legacy of substantial dependence on the government (Aharoni, 1986; Trebat, 1983; Vernon, 1979). Due to this legacy, state hybrids derive a substantial part of their legitimacy – an important firm resource (Bitektine, 2011; Stevens, Xie, & Peng, 2015) – from their links to the government. Governments can directly influence state hybrids through ownership and board appointments. Dominant owners can use board composition to institutionalize their power within the firm (Pfeffer & Salancik, 1978). Although government-appointed directors can support the firm by opening up channels of information and

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