

Objectives and International Strategies of State-owned Multinational Enterprises: A Theoretical Perspective

Asmund Rygh *

Alliance Manchester Business School
Manchester, UK

Gabriel R.G. Benito

BI Norwegian Business School
Oslo, Norway

* Author for correspondence: Alliance Manchester Business School
Booth Street West, Manchester M15 6PB, UK.

E-mail: asmund.rygh@manchester.ac.uk. Phone: + 44 (0)161 306 5884

Abstract

State owned multinational enterprises (SOMNEs) have received extensive attention in recent international business research. State ownership has been found to have effects on a range of international strategic decisions such as the degree of multinationality, foreign entry modes and host country location choices. Effects of state ownership are explained by factors such as SOMNEs' non-financial objectives, corporate governance and institutional pressures. However, results are mixed and context-dependent, and overall we still have an incomplete understanding of the precise objectives of SOMNEs, and how these objectives may lead to different international strategies. This conceptual paper seeks to provide a more fine-grained view on SOMNE financial and non-financial objectives and their implications. We review and extend previous literature and identify novel theoretical arguments, leading to an extensive set of propositions. We also sketch ideas for more direct empirical study of SOMNE objectives.

Keywords: State owned multinational enterprises, objectives, degree of multinationality, entry mode, establishment mode, host country location.

INTRODUCTION

An important current research topic in international business (IB) studies is the internationalisation of state-owned enterprises (SOEs) (Cuervo-Cazurra et al, 2014; Musacchio & Lazzarini, 2018). The literature has demonstrated effects of state ownership on a range of internationalisation strategies such as the degree of internationalisation, entry modes and host country location choices. However, effects are mixed, and seem to depend on contextual factors (Rygh, 2019).

Explanations for differences in the behaviour of SOEs, as compared to POEs, often focus on the non-financial goals of SOEs that may complement or replace the purely financial goals typically ascribed to POEs (Cuervo-Cazurra, 2018; Cuervo-Cazurra et al, 2014; Negandhi et al, 1986). Economic theory suggests that SOE non-financial goals may include addressing market failures such as natural monopoly, externalities and public goods (Putniņš, 2015), or engaging in industrial policy more broadly. Other often-cited goals for SOEs include redistribution, providing employment, helping economically depressed regions, and even ideology or economic nationalism.

Despite important theoretical advances and empirical evidence in the previous literature on SOMNEs, it is probably fair to say that we still know relatively little about how specific types of goals for Governments for their SOEs affect the international activities of such companies. Various types of non-financial goals of SOEs tend to be assumed to work in the same direction for international strategies, even though industrial policy, political goals and socio-economic goals could well have opposite effects. As one example, a Government goal for SOEs such as preserving domestic employment is likely to have very different effects than a Government goal of securing access to natural or technological resources. Studies have therefore found, for instance, both positive, negative and more complex effects of state ownership on the degree of internationalisation (Hobdari et al, 2011; Hong et al, 2014; Huang

et al, 2017; Kalasin et al, 2019; Majocchi & Strange, 2012; Wang et al, 2012). Most studies have linked such differences up to governance characteristics and benefits and costs of the links to the home state, but differences in the goals actually pursued by SOMNEs could potentially also help account for the mixed results found in the literature so far .

One important reason for our current relatively limited understanding of the implications of different SOMNE objectives is the difficulty of measuring such objectives in practice. Indeed, the objectives of specific SOEs officially often remain unclear and unspecified (Cannizzaro & Weiner, 2018), which has led to calls for greater transparency about SOE non-financial objectives in order to reduce potential distortions in international trade (see e.g., Kowalski et al, 2013). Moreover, a given SOMNE may pursue different (and possibly conflicting) objectives simultaneously, and objectives may even change over time for the same company. As pointed out by Mazzolini (1979b), SOEs have often functioned as “all-purpose” organisations utilized by politicians to address specific issues, as they arose in circumstances such as in economic downturns, and Mazzolini (1979b) argued the same logic often applied to SOEs’ international operations.

While some of the earliest SOMNE studies based on qualitative research uncovered many insights on SOMNE objectives and their evolution (Anastassopoulos et al, 1987; Kumar, 1981; Mazzolini, 1979b; Vernon, 1979), the recent quantitatively oriented literature has largely relied on proxies for SOMNE goals such as state ownership shares, or characteristics of home country institutions (Benito et al, 2016; Clegg et al, 2018; Estrin et al, 2016; Grøgaard et al, 2019; Mariotti & Marzano, 2019). Such studies have often argued that partial private ownership and certain forms of market-oriented institutions tend to make the goals of SOEs more similar to those of POEs. Similarly, Li et al (2014) provide a detailed discussion of emerging market institutional changes and argue that centrally SOEs have predominantly political goals while locally SOEs have predominantly financial goals.

Although bounded rationality (Simon, 1961) suggests that even Governments would find it difficult to plan for all possible contingencies and specify complete objectives for their SOEs, some countries have made attempts at clarifying and making more transparent the goals of SOEs and their market operations. For instance, Norway, a country with a significant level of state ownership (Goldeng et al, 2008; Lie, 2016), has for more than a decade published official reports specifying the goals of its most important SOEs.¹

Notwithstanding empirical challenges, there is also a need to further develop theory. Therefore, the present conceptual paper is an attempt to provide a more fine-grained view on the particular goals of SOMNEs, as well on the implications of the various goals for international strategies. Our analysis proceeds in three steps. First, in the next section of this paper, we build on previous literature, both theoretical and empirical, to build a typology of SOE and SOMNE objectives. Although a wide range of different objectives have been cited, we organise the objectives into four broad categories: Financial; Industrial Policy; Socio-economic; and Political. Second, in a subsequent section we review and extend theoretical arguments for the implications of each of these categories of objectives on international strategic decisions such as the scale and scope of internationalisation; entry modes; and host country location choice. A final section considers further aspects such as corporate governance, private co-ownership and institutional context. This final section also includes some suggestions for more detailed empirical studies of SOMNE objectives.

A TYPOLOGY OF GOALS OF SOMNES

Objectives and motivations of firms and their owners cannot be observed directly (Godfrey & Hill, 1995), and in this respect SOEs differ little from POEs. Despite this, it is usually assumed that SOEs pursue non-financial goals besides or instead of the financial goals that are

purportedly pursued by POEs in general (Negandhi et al, 1986; Rudy et al, 2016). Such non-financial goals can be based both on theory (e.g. economic theory of state ownership being used to address market failures) or just emerge from empirical observation. In this section, building on the literature on SOEs in general and SOMNEs specifically, we present a typology of the objectives of SOMNEs.²

Financial Goals

Although the focus in the SOE literature is on non-financial objectives, the state enterprise as an organisational form is chosen over alternative public administration forms for specific reasons (Cuervo-Cazurra et al, 2014; Putniņš, 2015). Therefore, SOEs typically also have at least some form of financial goals. Indeed, SOEs can potentially represent an important source of income for a Government, and could be more politically palatable than other forms of raising income such as trade taxes (Kostecki, 1981). Thus, studies on SOMNEs have also mentioned their role in gaining foreign currency for the home country (Kumar, 1981; Vernon, 1979).

An important question, which has received some attention in the state ownership literature, is whether a true focus on financial goals would essentially make SOEs similar to POEs. Some studies have found that SOEs with a financial focus do not have significantly different performance from POEs (Bozec et al, 2002; Kole & Mulherin, 1997). From a theoretical perspective, this is not a clear-cut question, since state ownership may also have particular implications for corporate governance, and in turn for financial outcomes. We revisit this question later in the fourth section of this paper, where we also consider the recent insights on hybrid SOEs with partial private ownership (Bruton et al, 2015; Chen et al, 2019; Musacchio et al, 2015; Musacchio & Lazzarini, 2018; Zhou, 2018).

Industrial Policy Goals

Among non-financial goals, the most frequently cited from the perspective of economic theory include addressing market failures and pursuing industrial policies. Such goals qualify as non-financial (from the firm's point of view) since they could often require the SOE not to profit-maximise, or even to run with losses (Putniņš, 2015). We choose to include market failures under this more general heading of industrial policy, given that industrial policy itself is often motivated by some form of market failure.

The "classic" market failures treated in economics, and discussed with reference to a market with "perfect competition" include natural monopoly, externalities, and public goods (Cuervo-Cazurra et al, 2014; Putniņš, 2015). Natural monopoly refers to a situation where production costs decline when production volumes increase, which could imply that having a single firm producing for the market would be most efficient. Examples include the traditional public utilities such as energy, railways and fixed-line telephony (Putniņš, 2015). In these cases, efficient pricing would require the firms to run with a loss, and hence state ownership could be an option. Externalities refer to a situation where the social cost of production is not equal to the firm's private cost (either because there are positive side-effects such as innovation, or negative side-effects such as pollution), meaning that production may either be too low or too high from a societal perspective. In theory, state ownership can be one way of ensuring the efficient level of production. Finally, public goods refer to goods for which the cost of providing them to an additional person (e.g. a TV broadcast) is zero (non-rivalry), while excluding a person from consuming them is either not possible or is undesirable (non-excludability). Again, state ownership could be one option for ensuring the efficient production and provision of such goods.

Other relevant market failures include those related to asymmetric information, or coordination problems (Putniņš, 2015). These are also often relevant for industrial policy, where the state may for instance play an important role in making complementary investments or in reducing the risk for private actors in making investments (Murphy et al, 1989; Musacchio et al, 2015). SOMNE resource-seeking or technology-seeking investments can also be seen from this perspective, as they may seek to ensure supply of natural resources to fuel the domestic economy, or advanced technologies for upgrading the domestic economy (Rudy et al, 2016).³

Socio-Economic Goals

A third and frequently cited category of potential non-financial objectives of SOEs are socio-economic goals such as redistribution (which can also include helping economically depressed regions). Such goals can also include the provision of so-called “merit goods” (Sandmo, 1983) that are seen as particularly important for citizens’ functioning in society (including goods such as education and healthcare). SOEs have often also been used to provide employment (Duanmu & Pittman, 2019). Such goals could have a direct impact on financial goals, as they may require firms to keep employment higher than at the profit-maximising level, or choose less profitable projects in the Government’s targeted regions (Mazzolini, 1979a, 1979b).⁴ In an international context, this type of goals could imply using SOMNEs for foreign aid and development purposes, of which one example is the Norwegian financial SOE Norfund (Rygh, 2018).

Political Goals

Political goals is clearly a very broad term, which we will here use to cover many different types of goals. One type is diplomatic and foreign policy goals for SOMNE operations abroad

(Rudy et al, 2016). For instance, Chinese SOMNEs are widely assumed to operate with diplomatic and foreign policy goals (Wang, 2002). However, there are also several examples of European SOMNEs, such as Renault in Canada (Anastassopoulos et al, 1987). It is often assumed that such investments are made to establish or maintain relations between the home and host countries. However, a more negative view of political goals would suggest that SOMNEs may be used as part of ideological and nationalist strategies, and that the investments are not necessarily beneficial for the host country (Cuervo-Cazurra, 2018; Cuervo-Cazurra et al, 2014).⁵

Of the categories of SOMNE goals, political goals is probably the one that is most difficult to pin down, and perhaps the most dependent on the particular context. IB scholars may here be able to find relevant insights in the political science and international relations literature (Keohane & Nye, 1989; Lake, 1996; Rygh, 2018).

IMPLICATIONS OF DIFFERENT STATE OWNED ENTERPRISE OBJECTIVES FOR INTERNATIONAL OPERATIONS

Degree of Multinationality

Broadly, the literature has considered two dimensions of the degree of multinationality: The scale of internationalisation (e.g. captured by aspects such as the ratio of foreign assets to total assets), and the scope of internationalisation (e.g. measured by the number of host countries for foreign direct investment (FDI), or the number of foreign subsidiaries) (Hitt et al, 2006). Factors assumed to affect multinationality include executive and top management team characteristics, firm resources, and international experience (Hitt et al, 2006; Kirca et al, 2012). However, corporate governance aspects including ownership have also received some attention (Aguilera et al, 2019; Bhaumik et al, 2009; George et al, 2005; Tihanyi et al, 2009).

All else equal, SOEs with financial goals should internationalise for similar reasons as POEs, and hence have a similar scale and scope of internationalisation. Telecom SOEs have been found to internationalise to the same extent as their private counterparts (Alonso et al, 2013). Collins (1986) noted that European SOEs in the automotive industry internationalised in more or less the same way and for the same reasons as European POEs in the same sector. However, many studies have also argued that social and political goals will reduce the propensity of SOEs to internationalise. Based on case studies of a large number of European SOEs, Mazzolini (1979b) noted that since SOEs ostensibly pursue social goals, and that such goals will tend to be linked to domestic activities, international activities may simply be less relevant for many SOEs. For this reason, SOEs may pay less attention to international opportunities and be less able to exploit them. Besides this, politicians concerned with re-election may tend to stress projects that directly and visibly benefit voters, which would also usually work against international expansion.

This domestic bias generally found in Mazzolini's (1979b) case studies of European SOEs is largely confirmed by recent statistical studies using European samples. Majocchi and Strange (2012) find that state ownership is negatively related to a measure of international diversification for Italian firms, while Benito et al (2011) report that state ownership has a negative effect on the propensity of Norwegian firms to relocate divisional HQs abroad. Relatedly, Hobdari et al (2011) find that state ownership reduces exporting by Slovenian and Estonian firms.

Nevertheless, SOEs' relative domestic bias is sometimes found to be reversed, and this seems often to be linked to industrial policy goals. SOEs have frequently been involved in resource seeking in the petroleum sector (Deng, 2007; Franko, 1975; Khandwalla, 1986; Mazzolini, 1979b; Noreng, 1981). More recently, it has been argued that SOMNEs from emerging markets such as China engage in strategic asset-seeking (especially in developed

economies) in order to access advanced technologies that can be used to upgrade the home economy (Kowalski et al, 2013; Rudy et al, 2016).

Consistent with this notion, Wang et al (2012) find that state ownership promotes the volume of FDI by Chinese firms. Hong et al (2014) also find that state ownership promotes Chinese FDI, although this effect is moderated by various firm level and industry factors. On the other hand, Hu and Cui (2014) report no significant effect of state ownership on internationalisation of Chinese firms.

Hence, assuming all else equal, we state our first set of propositions:

Proposition 1. Scale of internationalisation

- a. SOEs with financial goals have a similar scale of internationalisation as that of POEs.
- b. SOEs with industrial policy goals have a greater scale of internationalisation than POEs.
- c. SOEs with socio-economic goals have a lesser scale of internationalisation than POEs.
- d. SOEs with political goals have a lesser scale of internationalisation than POEs.

A related, but distinct issue is the scope of internationalisation. Theoretically, being present in many different foreign markets can provide benefits in such areas as innovation, as MNEs can combine a diverse set of ideas and influences from these different markets (Oh & Contractor, 2012). On the other hand, being present in a diverse set of markets could imply coordination costs (Fisch, 2012; Richter, 2014). Privately owned MNEs would be expected to make this trade-off based on financial results. In contrast, SOMNEs may decide on the scope of internationalisation for alternative reasons. First, industrial policy objectives could theoretically lead to a greater scope than if based on financial reasons alone. For instance, SOMNEs that are technology-seeking could potentially seek out a broad range of foreign markets in order to access a wide range of technologies and knowledge that have positive

externalities and can be widely diffused in the home economy. As such, the strategic assets would have an even higher value for SOMNEs than for a private MNE (Rudy et al, 2016). Such SOMNEs would be less concerned about financial performance, and might hence also be less concerned about any costs associated with having a very broad scope of internationalisation.

SOMNEs with important political goals are likely to have a lesser scope of internationalisation than privately owned MNEs. Since these SOMNEs are aiming to establish or maintain political relations between the home and host country, they will likely want to focus their resources on particular host countries, rather than spreading over many different countries. Similarly, SOMNEs with socio-economic goals are likely to have a more narrow scope of internationalisation. A broad scope of internationalisation could often mean that activities in many different foreign countries replace domestic activities, including employment. Similarly, there is no clear reason for why a broad scope of internationalisation would support (domestic) redistributive goals.

Hence, again assuming all else equal, we provide the following set of propositions.

Proposition 2. Scope of internationalisation

- a. SOEs with financial goals have a similar scope of internationalisation as that of POEs.
- b. SOEs with industrial policy goals have a broader scope of internationalisation than POEs.
- c. SOEs with socio-economic goals have a more narrow scope of internationalisation than POEs.
- d. SOEs with political goals have a more narrow scope of internationalisation than POEs.

Entry and Establishment Modes

Another major international strategic decision relates to foreign market entry modes (Brouthers & Hennart, 2007; Slangen & Hennart, 2007), which includes such decisions as joint or full ownership of the foreign operation, and greenfield projects versus merger and acquisition (M&A). Some previous studies have also considered how ownership and corporate governance may affect foreign market entry choices (e.g. Musteen et al, 2009).

Again, abstracting for now from other corporate governance features of SOMNEs, it would be expected that SOMNEs with financial goals make entry mode decisions based on similar reasons as private MNEs. In contrast, different non-financial goals of SOMNEs could have varied implications. First, industrial policy goals of SOMNEs could include such goals as ensuring supply of energy resources in the longer term (Bass & Chakrabarty, 2014), or acquiring technologies that have positive externalities for the home economy and could be diffused widely (Kowalski et al, 2013; Rudy et al, 2016; Rygh, 2018). This might lead SOMNEs to prefer high-control modes. However, as suggested by Grøgaard et al (2019), SOMNEs motivated by such goals might also be less concerned with value capture, and hence high-control modes may be less essential. In terms of establishment mode, technology-seeking SOMNEs are likely to seek acquisitions of firms that possess advanced technologies. For natural resource-seeking SOMNEs, the picture is less clear since such SOMNEs may above all be seeking to ensure long-term resource access (Bass & Chakrabarty, 2014; Grøgaard et al, 2019).

Second, political goals such as establishing or maintaining relations with a host country are likely to lead to a greater attention to collaborative modes with host country enterprises. Thus, in order to improve legitimacy (Meyer et al, 2014), SOMNEs with political and diplomatic goals could be more likely to choose joint ventures as well as greenfields. Finally, socio-economic goals, to the extent that these also extend to the host country, could also imply

a preference for collaborative modes such as joint ventures, as well as greenfield projects that provide new economic activity and economic development.

The above discussion can be summarised in the following two sets of propositions (again assuming that other factors such as corporate governance are held constant).

Proposition 3. Joint venture versus full ownership

- a. SOMNEs motivated by financial goals will base entry mode choices on similar factors as POEs.
- b. SOMNEs motivated by industrial policy goals will choose ownership levels that ensure sufficient control, while being less concerned about ownership to ensure value capture than POEs.
- c. SOMNEs motivated by political goals are more likely to choose joint ventures than full ownership, compared to POEs.
- d. SOMNEs motivated by socio-economic goals are more likely to choose joint ventures than full ownership, compared to POEs.

Proposition 4. Greenfield versus acquisition

- a. SOMNEs motivated by financial goals will base establishment mode choices on similar factors as POEs.
- b. SOMNEs that have industrial policy goals are more likely to (i) choose acquisitions if they are technology-seeking, or (ii) choose greenfields if they are natural resource-seeking, as compared to POEs.
- c. SOMNEs that have political goals are more likely to choose greenfields rather than acquisitions, as compared to POEs.

- d. SOMNEs that have socio-economic goals are more likely to choose greenfields rather than acquisitions, as compared to POEs.

Host Country Location

Given that SOEs take the step into locating business activities abroad, another question is whether their location choices differ from those of privately owned MNEs. Non-financial objectives of SOEs that have been argued to potentially affect location choices include diplomatic and foreign policy goals, resource-seeking, technology-seeking. China's outward FDI is often assumed to be driven both by resource-seeking motivations and by political and economic cooperation (e.g., Kaplinsky & Morris, 2009; Sanfilippo, 2010). Also previous European SOEs' internationalisation was also sometimes found to be related both to resource-seeking and foreign policy motives (e.g., Anastassopoulos et al, 1987; Mazzolini, 1979b).

A useful starting point for this theorization is Dunning's FDI motives (Benito, 2015; Dunning & Lundan, 2008), with recent extensions including geopolitical influence-seeking motives (Moghaddam et al, 2014). In general, financial objectives would be linked to market-seeking motives, and conversely firms with non-financial objectives are likely to have a lesser emphasis on market-seeking.

Proposition 5. Location choices and motives

- a. SOEs with financial goals make location choices on similar motivations as POEs.
- b. SOEs with industrial policy goals make location choices that are less motivated by market-seeking and efficiency-seeking, and more motivated by resource-seeking and strategic asset-seeking.
- c. SOEs with political goals make location choices that are less motivated by market-seeking, efficiency-seeking, resource-seeking, and strategic asset-seeking, and more motivated by geopolitical influence-seeking.

- d. SOEs with social goals make location choices that are less motivated by market-seeking, efficiency-seeking, resource-seeking, and strategic asset-seeking, and more motivated by development.

These propositions can be operationalised and tested in terms of variables commonly used to proxy market-seeking motives (e.g. market size or purchasing power), efficiency-seeking motivations (e.g. factor costs), resource-seeking motives (e.g. natural resource abundance), strategic asset-seeking motives (e.g. education levels or innovation levels), and geopolitical influence-seeking (e.g. relations between home and host countries). Thus, for instance Ramasamy et al (2012) find that Chinese POEs are mainly market seekers, while SOEs' FDI is associated with natural resource availability and politically risky environments. Similarly, Amighini et al (2013) find that Chinese private MNEs are attracted by large markets and host-country strategic assets, while being averse to economic and political risks. In contrast, Amighini et al (2013) report that SOEs invested more in natural resource sectors and were less concerned about political and economic conditions in the host countries.

DISCUSSION AND CONCLUSION

State owned MNEs play an increasingly important role in the global economy, and one of the most salient aspects of such enterprises is their potentially greater weight on non-financial objectives than the private MNEs that have hitherto been the focus of IB research. The main aim of this conceptual paper has been to provide a more fine-grained analysis of the non-financial objectives of SOEs, and their potentially diverging implications for international strategies. We have reviewed and extended previous theoretical arguments and developed a number of propositions, many of which we believe to be original to the IB literature. Table 1 below summarises these propositions.

[Table 1 here]

However, in order to focus on the variety of SOMNE goals the analysis has been based on certain important simplifications. In particular, we have assumed away goal conflicts between the Government owner and SOE managers, and the role of corporate governance and institutions more generally. Moreover, we have so far not engaged with the difficult question of how IB scholars can in fact identify and measure such goals in empirical analyses. In the remainder of this discussion and conclusion section, we revisit some of the simplifications made, and offer some suggestions for empirical research.

SOMNE Corporate Governance

So far, we have abstracted from the fact that SOMNEs may not in practice act in a manner that is completely consistent with the objectives of the state owner. However, this may be too strong an assumption in many cases, and peculiarities of SOE corporate governance have indeed been a key issue in the state ownership literature. Studies based on agency theory highlight the more complex agency chain from voters as principals via several layers of agents such as politicians, bureaucrats and finally SOE managers (Benito et al, 2016; Martimort, 2006; Musacchio & Lazzarini, 2018), each of whom may pursue their personal interests. Moreover, SOE corporate governance may also involve different ministries (OECD, 2005) in a multi-principal structure, with the potential presence of private co-owners making governance even more complex (Chen et al, 2019; Chen & Young, 2010; Musacchio et al, 2015). Moreover, studies have pointed out that certain corporate governance mechanisms that are in operation for POEs (at least in the liberal market economies that have implicitly been the focus of the agency-based studies of SOEs) such as sale of shares or takeovers are partly or fully deactivated in SOEs. Finally, SOEs

tend to make less use of high-powered incentives typical of private firms (Bruton et al, 2015; Peng et al, 2016; Tirole, 1994).

It is notable that many agency-based studies explicitly or implicitly assume that the goal of SOE corporate governance is to maximise financial performance, although SOE corporate governance should be seen in relation to the particular goals that the SOE is expected to pursue, whether financial or non-financial. The agency-based literature provides important insights into the question of whether purely financial objectives would in fact lead SOMNEs to behave similarly as POEs. However, to better understand the relationships between various goals of SOMNEs that have both financial and non-financial goals, a multitask agency perspective is likely to be needed (Bai et al, 2006).

SOMNEs as Hybrids and Private Co-Ownership

As highlighted by many recent studies, an important difference between today's SOEs and those of the past is the prevalence of shared ownership with private investors as either minority or majority owners (Benito et al, 2016; Bruton et al, 2015; Chen et al, 2019; Lazzarini & Musacchio, 2018; Musacchio et al, 2015; Musacchio & Lazzarini, 2018; Zhou, 2018). Such private co-ownership can address many of the corporate governance issues traditionally associated with wholly SOEs (Gupta, 2005), although it also opens up for new principal-principal conflicts between the state and private owners (Chen et al, 2019; Lazzarini & Musacchio, 2018).

Although many studies have discussed such goal conflicts in general terms, few studies have considered the implications of specific SOE non-financial goals. One hint at such an argument is given in Lazzarini and Musacchio (2018), who argue that industrial policy-related objectives could also be a source of rents (and as such, potentially less a source of conflict

between state and private owners). In contrast, Lazzarini and Musacchio (2018) argue that social objectives are likely to be a source of principal-agent and principal-principal conflicts in partially state-owned enterprises. A more detailed study of various SOE objectives, is hence also likely to provide a better understanding of the extent and nature of goal conflicts between state and private co-owners.

Institutional Contexts

SOE corporate governance is closely related to the institutional context, as discussed in several recent studies (Benito et al, 2016; Estrin et al, 2016; Musacchio & Lazzarini, 2018). A well-functioning government bureaucracy will make it more likely that SOEs pursue the objectives they have been tasked with, among others by insulating bureaucrats and SOE managers from (undue) political interference (Evans & Rauch, 1999; Grøgaard et al, 2019; Musacchio et al, 2015). On the other hand, the intent of a Government to use SOEs for socio-economic and political purposes may itself be related to aspects of the home country context, such as its (liberal or coordinated) market orientation (Grøgaard et al, 2019; Mariotti & Marzano, 2019) or even cultural characteristics (Boubakri et al, 2016). Studies such as Estrin et al (2016), Benito et al (2016) and Kalasin et al (2019) have all argued that their focus on listed companies (SOEs and POEs) makes it more likely that the studied SOEs have a predominantly financial focus.

Both of the above aspects have been considered in the previous literature. However, along with a more fine-grained view of SOMNE objectives, it is necessary to study how institutional contexts support or hinder the pursuit of these various objectives, whether financial or non-financial.

SOMNE Objectives, Firm-Specific Advantages and Risk Preferences

So far, the analysis has not considered indirect effects of different SOMNE objectives on international strategies via factors such as SOMNEs' resources (firm-specific advantages, FSAs) or risk preferences. However, one might expect that SOMNEs' objectives also affect their development of FSAs. Financially oriented SOMNEs might develop quite similar FSAs as private MNEs. An interesting question is how political goals affect FSAs. It is likely that SOMNEs with such goals get quite extensive political support from the home state, which could help with handling political risk (Buckley et al, 2007; Duanmu, 2014; Knutsen et al, 2011). This could be conceptualised as political FSAs, which might in turn affect international strategies such as location choices or entry modes. However, governments may also offer political support for SOMNEs pursuing other important objectives, such as industrial policy. Related to FSAs, different forms of objectives for SOMNEs could also imply specific forms of moderation effects of state ownership on much studied relationships in IB literature. For instance, various types of non-financial goals could have divergent implications on the propensity of SOMNEs to internalise FSAs and on entry modes (Pan et al, 2014).

Another unresolved question relates to SOEs' risk preferences. In theory, SOEs might be more risk tolerant than POEs, given that the state owner is highly diversified (Arrow & Lind, 1970; Charreaux, 1997; Vernon, 1979). Indeed, in theory this is one possible argument for state ownership (Sappington & Stiglitz, 1987), and may for instance support a role for SOEs in industrial policy. In contrast, other studies have argued that SOEs' social goals are likely to make them more risk-averse (Boubakri et al, 2013; Brouthers et al, 2007). Again, these theoretical and empirical differences illustrate that a more fine-grained view of SOEs' objectives could help us better understand the effects of state ownership.

Empirical Study of SOMNE Objectives

The key challenge in studying such non-financial goals may be that an exact specification of such goals is often not available to researchers, and indeed the goals of a particular SOMNE may be mixed and change over time. In many cases, IB researchers will have to continue to rely on proxies for SOMNE goals such as home country institutional variables, the extent of private ownership, and even industry factors. However, IB researchers should also look out for additional sources of relevant information for particular SOMNEs. One example of such information is the Norwegian Government's official reports on state ownership (NOU 2004:7), that since 2005 have classified SOEs into four categories: (1) commercial objectives; (2) commercial objectives and ensuring head office functions in Norway; (3) commercial objectives and other specific, defined objectives; and (4) sector-specific objectives.⁶ This classification of particular SOEs is periodically updated by the Ministry of Trade and Industry, and indeed SOEs have occasionally moved between categories.⁷ Other data sources which could be harnessed for large-scale analyses include the Orbis cross-border investment database⁸ that also provides "deal comments and rationales" that might be amenable to coding and content analysis, for instance in order to compare rationales of SOMNEs and POMNEs.

Although exploiting such data will be useful, it is also likely that IB researchers should to a greater extent turn to the type of comprehensive primary qualitative research that characterised the early literature on SOMNEs, as exemplified by the work of Mazzolini (1979b), Anastassopoulos et al (1987), as well as more longitudinal case studies and business history work (Amdam, 2009; Buckley, 2009; Jones & Khanna, 2006). A more recent example of such research is Rodrigues and Dieleman (2018) longitudinal study of Brazil's Vale and its internationalisation.

To conclude, we believe that a more detailed study of SOMNE objectives and their implications will represent one useful next step for the maturing literature on SOMNEs. The

present paper has provided some possible theoretical arguments as well as some ideas for empirical research.

ENDNOTES

¹ See <https://www.regjeringen.no/en/topics/business-and-industry/state-ownership/statens-eierberetning-2013/the-state-ownership-report/id2395364/>.

² Our typology has some similarities with the categories discussed in Lazzarini and Musacchio (2018) of developmental objectives (which is broadly similar to our industrial policy objectives), social objectives (which is broadly similar to our socio-economic objectives) and political objectives (which, despite the similar term being used, in their paper seems to relate more closely to a vote-maximising model). However, our typology also explicitly includes a fiscal or financial motive for SOEs, while also subsuming market failures under industrial policy. Moreover, political objectives in our paper includes goals such as diplomatic relations with other governments, and does not necessarily refer to politicians' self-interest.

³ While market failures may establish an a priori rationale for state ownership, the economics literature has emphasised that one also needs to establish a rationale for why state production, rather than contracting out to private firms, is needed. Arguments here have focused on contractual issues relating to private firm risk aversion or financial constraints, and the ability to write complete contracts (Hart et al, 1997; Martimort, 2006; Sappington & Stiglitz, 1987). Rygh (2018) finds that similar arguments may apply, with some modification, to SOE international operations.

⁴ As noted by Putniņš (2015), it is also possible to conceptualise some of these effects in terms of addressing market failures. For instance, high employment promotes social cohesion and

welfare, while unemployment can produce negative externalities such as crime or illness. However, it is useful to consider these socio-economic goals as a distinct category.

⁵ Economic nationalism may also have a more indirect effect as a rationale for state ownership in the first place. For Norway, one explanation for extensive state ownership has been argued to be a degree of scepticism about foreign ownership, alongside reasons such as a general trust in the state (Lie, 2016).

⁶ The objectives of the SOEs could also have an indirect effect on their behaviour via possible differences in corporate governance. In particular, SOEs in categories (1) and (2) also tend to be partially privately owned.

⁷ We are preparing these data for use in statistical analysis and may be able to present some preliminary results at EIBA 2019.

⁸ See <https://www.bvdinfo.com/en-gb/our-products/data/specialist/orbis-crossborder-investment>.

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Internationalisation decisions:

SOMNE goals:	Degree of internationalisation ^a	Entry and establishment modes ^b	Location motives ^c
a. Financial goals	P1a: SOE=POE P2a: SOE=POE	P3a: SOE=POE P4a: SOE=POE	P5a: SOE=POE
b. Industrial policy goals	P1b: SOE>POE P2b: SOE>POE	P3b: SOE≥POE P4b: SOE≠POE	P5b: [RS,AS]>[MS,ES]
c. Socio-economic goals	P1c: SOE<POE P2c: SOE<POE	P3c: SOE>POE P4c: SOE>POE	P5c: IS>[MS,ES,RS,AS]
d. Political goals	P1d: SOE<POE P2d: SOE<POE	P3d: SOE>POE P4d: SOE>POE	P5d: DS>[MS,ES,RS,AS]

Notes:

^a 1 denotes scale; 2 denotes scope

^b 3 means JV (versus wholly-owned; 4 means greenfield (versus M&A)

^c MS indicates market-seeking, ES efficiency-seeking, RS resource-seeking, AS strategic asset-seeking, IS influence-seeking, and DS development-seeking, respectively.

Table 1. Overview of propositions