The internationalization of state-owned enterprises (SOEs): How do the politically stated goals for SOEs matter?

Introduction

The growing literature on the internationalization of state-owned enterprises (SOEs) demonstrates effects of state ownership on internationalization decisions relating to degree and scope of internationalization, host country location, and entry modes. The literature also shows, however, that the effects often depend on various moderating factors such as industry and home country. This could partly be explained by the varying importance of internationalization (either from a business perspective or in terms of the home governments' goals) depending on the firm's industry. Home governments may also have different goals for their SOEs, depending for instance on the level of development of the home country.

However, we still know little about how the specific goals of SOEs affect their international operations. From a theoretical perspective, SOEs are created to address various kinds of market failures or their activities may serve as a component of industrial policy. Other SOEs, however, may have as their primary role to generate revenue for the government. One would expect these motivations to have distinct effects on SOEs' international activities. Studying this may be difficult since in practice, the goals of specific SOEs often remain unclear and unspecified. At times, SOEs have appeared as "all-purpose" units for the government, instructed to pursue long-term goals as well as address more passing concerns (e.g. related to business downturns) as they arise. More recently, following a trend of increased focus on corporate governance of SOEs, some countries have attempted to clarify and make more transparent the goals of SOEs and their market operations. A country that has made particular efforts in this respect is Norway, which for more than a decade has published detailed policies on the goals of its most important SOEs, and classified individual SOEs into categories according to commercial goals and broad categories of non-economic objectives. The basic idea of the present *Research Project* is to utilize these classifications to look further into how a Government's intended goals for its SOEs affect the decision to start up international operations, as well as the scale, scope and location choices for these operations.

We will provide a thorough theoretical discussion of and develop propositions on how the different goals of SOEs may affect the extent of their international activities, as well as their location choices. Next, we will perform an empirical test of our propositions based on the classifications of individual SOEs found in Norwegian government ownership policy. To our knowledge, no previous studies have attempted to analyse the effects of state ownership by utilizing officially stated ownership policy. In the remainder of this *Extended Abstract* we provide some more detail on our research questions and planned empirical methods.

How do political goals affect the extent of internationalization by SOEs?

The early literature on European MNSOEs suggested several reasons for a *domestic bias* of SOEs in general, compared to privately owned enterprises (POEs). First, given that SOEs ostensibly pursue social goals, and that these 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 elections may tend to stress projects that directly and visibly benefit voters, which would also usually work against international expansion. Finally, deficient corporate governance might reduce SOEs' ability to go abroad. Nevertheless, in some circumstances SOEs' relative domestic bias could be reversed. The most obvious case is when international activities are necessary to achieve government goals. For instance, SOEs have frequently been involved in resource seeking abroad in the petroleum sector, or in the conduct

of foreign policy and diplomacy. To achieve such goals, SOEs may receive strong home government support. Indeed, in the case of emerging market SOEs, there seems to be no domestic bias at all, with statistical studies instead finding that state ownership promotes Chinese FDI, although this effect is moderated by various firm level and industry factors.

One possible hypothesis is that developed country SOEs with mainly commercial goals will display less of a domestic bias than SOEs with specified non-economic (domestic) objectives. Remaining differences with POEs should then reflect corporate governance. Further, different non-economic objectives likely make internationalization more or less relevant.

How do political goals affect foreign location choices by SOEs?

Several recent studies compared the host country location patterns of SOEs and POEs. One particularly notable result from this literature is an apparently higher propensity of MNSOEs to accept host-country risk, both in terms of economic and political risk. Suggested explanations have included possible corporate governance problems implying soft budget constraints, a higher risk tolerance of the state as an owner (e.g. due to greater diversification and a longer time horizon), and specific political capabilities of SOEs allowing them to handle host-country political risk.

One hypothesis could be that SOEs with commercial goals display risk preferences more in line with POEs. However, this may depend, inter alia, on whether even SOEs with purely commercial goals face soft budget constraints. Another possible hypothesis is that commercially oriented SOEs are less likely to be influenced by Norwegian foreign policy in the choice of host countries.

Method

As a quantitative proxy for the goals of Norwegian SOEs, we utilize Norwegian official reports on State ownership policy that since 2004 have classified SOEs into four categories in terms of their objectives: (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. The classification of individuals SOEs is periodically updated, but has remained stable for most firms in the sample. Besides these variables, our empirical analysis will be based on a very comprehensive dataset on accounting and ownership variables for Norwegian companies from the Center for Corporate Governance Research (CCGR) at BI Norwegian Business School, linked to firm-level data on FDI provided by Statistics Norway. The full CCGR data set covers between 150000 and 200000 firms per year. After exclusions due to factors such as inactivity or inconsistent values for data, we expect to have at least 100000-150000 useable observations per year over the period 2004 to 2013. In the FDI data, there are between 1500 and 1900 foreign investing units and between 130 and 140 host-country destinations annually.

The first set of analyses will consider the effects of state ownership on the exposure of firms to international production, such as the amount of foreign direct investment (FDI) (adjusted by assets), the number of foreign subsidiaries, the dispersion of FDI stocks or subsidiaries across host countries, and the like. We will use logistic or linear regression models as appropriate, as well as other types of models such as matching models. The second set of analyses will focus on the location choices of the firms that have invested abroad. Some analyses will work at the investor-country-year unit and consider how state ownership interacts with the effects of various host country factors such as political risk. Following previous studies on location choices, we will use a conditional logit model or a nested logit model. The main explanatory variables are dummies for the SOE categories. We will control for a range of variables found by previous literature to affect firm internationalization, including firm, CEO and board characteristics.