INTRODUCTION

The wave of privatization of state-owned enterprises (SOEs) advanced around the world has created opportunities for companies from emerging markets to seek opportunities abroad. Independence from the state has encouraged them to venture more aggressively into foreign markets and thus to gain global visibility. Although many of these SOEs have come to be appreciated for their unprecedented ability to respond to market pressures, emerging market governments have long been characterized by substantial involvement in business (Musacchio & Lazzarini, 2014) – by persistently attempting to influence SOEs that are fully or partially privatized (Bruton et al 2015; Turner, 2011). Recent studies in International Business (IB) have raised a crucial question: Do SOEs internationalize to escape constraints associated with state ownership? The "power escape argument" (Cuervo-Cazurra, Inkpen, Musacchio & Ramaswamy, 2014; Choudhury & Khanna, 2014) poses an interesting challenge to IB scholars. Though scholars have identified such contradictions in relations between SOEs and the government, they have not yet considered the dynamics behind this relationship. This is our contribution. To explain what lies behind these dynamics, we resort to a metaphor—"the 'treasure chest" - that denotes the relative attractiveness of the SOE to the government. We argue that, paradoxically, as SOEs access valuable resources beyond their home countries and gain power, their very success makes them more attractive to their home governments and therefore makes them likely targets for countervailing.

We propose to explore this important phenomenon from the perspective of resource-dependence theory (Pfeffer & Salancik, 1978). Given the significant dependence of privatized state-owned firms on the home country government, resource-dependence theory offers a fruitful lens through which to study changing mutual dependencies (Lioukas Bourantas & Papadakis, 1993) - especially when it comes to SOE internationalization (Cuervo-Cazurra et al., 2014). We advance IB theory by using a longitudinal case study of Vale a global mining company from Brazil - to unpack Vale's dependence on the home country government. We argue based on our case that Vale's international trajectory and dependence are dynamically interrelated and are evident in different cycles of internationalization: one of rapid internationalization and another of contraction within a decade. This case provides a unique opportunity for us to understand the greater attractiveness of Vale as a global player and to untangle how this relates to mutual dependence between the state and business (e.g., Xia, Ma, Lu & Liu, 2014; Cui & Jiang, 2012; Meyer et al., 2014).

LITERATURE REVIEW

Raymond Vernon, one of the founding fathers of the international business field, characterizes SOEs as "born in ambiguity" (1979, p. 9) because they depend on home country governments and thus have multiple social, political and financial goals that complicate SOE internationalization strategies. We argue that such ambiguity may increase as SOEs become global companies. Internationalization may provide an SOE with greater autonomy, which requires greater control over resources and an additional layer of legitimacy at the global level. Although resource-dependence theory is widely used to explain firm strategies such as diversification, joint ventures, acquisitions, political ties, and board composition (e.g. Hillman, Withers & Collins, 2009), it has not yet been extensively applied to the special case of state-owned enterprises, with a few noteworthy exceptions (e.g., Aharoni, 1986; Child, Rodrigues & Tse, 2013; Lioukas et al., 1993). Due to their "ambiguous" nature, however, SOEs experience significant dependence on home country governments that can exercise power over SOEs.

Our study advances the IB literature by drawing attention to the cyclical and dynamic nature of dependence relations and to how these can be related to internationalization. Access to global markets has received wide attention by IB scholars as an outcome, but it also has important effects on firm dependence and autonomy (Shapiro & Globerman, 2012; Cazurra et al., 2014). The present paper generates a new set of questions about the impact of internationalization, in particular in the context of SOEs. We show that implications of internationalization may very well be temporary, as governments' motivations to intervene also increase. In this way, we demonstrate that dependence is a dynamic process in which SOE internationalization can be both an outcome of power imbalances and a new source of imbalance.

Dependence relations between the SOE and the government in the context of internationalization

Internationalization is known for the opportunities it offers for increasing the value of "the treasure-chest". By becoming multinationals, SOEs are able not only to diversify but to multiply their resources. Firms become more attractive to governments as investors trust their capacity to add value to resources they come to possess through global activities. As multinationals, SOEs show that they can draw globally from different resources that are

valuable to governments. For example, they are able to generate hard currency not only by exporting from the home country but also through assets they build globally. This is crucial for governments, which are eager to control uncertainties linked to the balance of payments.

In addition, as Pfeffer & Salancik (1978) point out, resources only achieve their full value when they are well-connected with relevant circles of influence. As SOEs internationalize and gain characteristics of multinational enterprises, they gain centrality (Hinings et al 1974) in a network, which besides participants in supply chains, also include host country-governments. Mining companies in particular are highly connected with host countries governments, on which they depend for concessions and mineral rights. SOEs in this industry usually enjoy geopolitical power and are able to mediate or influence relationships between home and host country governments (Bridge 2008).

Two types of paradoxes are likely to influence relations between governments and SOEs. Despite their attractiveness as multinationals, SOEs are essentially creatures of governments (Vernon, 1979; Cazurra et al., 2014; also the Economist, 2012). In general, their genesis is based on the assumption that they should serve development goals (Trebat, 1985). However, as Pfeffer & Salancik (1978) point out, concentration of power tends to set up forces that result in concentrated opposition. Similarly, in the case of SOEs, as a government perceives the value of the "treasure chest", it may try to countervail and bring the company back within its ambit. Another paradox is that SOEs build dependence on global markets even as they become global and gain autonomy from governments.

To understand how these paradoxes underlie SOE-government dependence relations, we integrate knowledge from different sources. We build upon the work of earlier dependence theorists: in particular, on work performed by Hinnings, Pfeffer & Leong (1977) and Pfeffer, & Salancik (1978) (e.g., Lioukas et al.1993) concerning dependence relations between SOEs and governments; and on recent studies that analyse such dependencies in the context of internationalization (e.g., Cuervo-Cazurra, Inkpen, Musacchio & Ramaswamy, 2014; Choudhury & Khanna 2014, Child et al., 2013). Based on the arguments proposed in the above literature, we propose a framework to analyse how the escape route, by reducing dependence (Cuervo-Cazurra et al., 2014), can simultaneously create conditions for home country governments to exercise power countering "escape". In this framework, we identify the factors that reinforce an escape-route strategy, describe how internationalization creates

uncertainties for governments in relationship with SOEs, and consider how this encourages countervailing measures to restore control. We consider the details of the assumptions sustaining this framework below.

Internationalization as a means to build on the 'treasure chest" and autonomy

As pointed out by dependence theory, access to global markets changes the criticality of the resources pool possessed by a company (Bass & Chakrabarty (2014. In the extractive sector, critical resources are usually part of territorial structures of nation states, and this creates dependence on countries that are particularly rich in these resources (Bridge 2008; Bass & Chakrabarty 2014). In this industry, companies that gain comparative advantages are those capable to establish independence from their home country's geographical resource rigidities. Companies that are capable to find alternative sources of resources elsewhere – substitutability – tend to be more flexible in dealing with uncertainties, and therefore are capable to build better immunity against price variations in their core products. The share value of companies in the extractive industry is based on the way in which they can build wealth for shareholders from the future value of the reserves they discover. In the mining industry, the value of reserves is assessed in terms of high-grade minerals, which can be found only in sites with high virginity (little exploration) and high fertility (high productivity). Such locations are strategic as a value added tool, because of the expectation that mineral prices will rise at a rate which largely exceeds current prices (Bridge 2008).

Thus, as the SOE gains autonomy by becoming a global player, it not only accumulates valuable assets but consequently becomes more powerful. Reducing dependence on others is an important dimension of power, as Pfeffer & Salancik (1978) point out. The autonomy to direct resources deployment and enriching the "treasure-chest" are two sides of a same coin. These not only allow a company to build value share, but also to politically reduce dependence from its home government.

Visibility, legitimacy and attractiveness of the treasure-chest

External legitimacy is an important resource for firms (Baum & Oliver, 1991; Bitektine, 2011), and we argue it can be used by SOEs to consolidate their reputations (Bitektine, 2011). Like most multinationals, SOEs are able to build legitimacy at an international level as they internationalize (Kostova & Zaheer, 1999; Christophe & Lee 2005) by seeking it in the international environment (Suchman, 1995). This additional legitimacy may then serve as a

defensive strategy for SOEs to safeguard against home government intervention. However, increased global legitimacy and visibility can also shine a spotlight on successful SOEs and generate heightened awareness among home country government actors of the "treasures" that are within their reach. Although some SOEs avoid government attention by staying clear of politically sensitive issues, success of an SOE abroad is likely to raise its home government's awareness of the attractiveness of its global resources.

Building dependencies from the global market

As SOEs globalize, they become subject to global market pressures such as volatile prices, currency fluctuations, or intense competition, though previously these may have been shielded by price guarantees and budgetary support. Becoming global requires new management skills and risk management strategies in SOEs. To compete globally, SOEs need to develop capabilities that others do not have (Barney 1991). To mirror what competitors do rather than what governments expect is crucial for maintaining position in the global market.

As SOEs become multinational they also become more vulnerable to global uncertainties. Internationalization exposes an SOE to new global risks, creates new types of dependence and limits the possibility of government protection (Elg, 2000). Access to overseas capital and product markets may generate exposure to global market prices and currency fluctuations or new dependencies on global shareholders (e.g., hedge funds). We argue that access to international financial markets is particularly likely to reduce SOE dependence on home country governments for financial resources and to mitigate government appropriation of company resources through the appointment of independent directors.

In line with resource-dependence theory predictions, we expect new sources of dependence that result from globalization to set in motion new strategies for mitigating them. Salient new dependencies may require responses such as diversification or acquisitions (Hillman et al., 2013). For instance, national oil companies that go global may wish to acquire solar or wind power firms to reduce oil-price volatility or to mitigate depletion of oil reserves. Alternatively, they may diversify geographically into nations that have less cordial relationships with the home country government. These rational responses to new global risks, however, may not be in line with a government's understanding of an SOE's role.

Governments have usually relied on SOEs to implement economic growth plans (Trebat 1985). Hence, an internationalization that goes beyond exporting (e.g., through foreign acquisition of assets and property rights) may not necessarily be in agreement with a government's plans for SOEs. Hung, Wong & Zhang (2008) suggest that, besides improving efficiency, an overseas listing by partially privatized Chinese SOEs can be a deterrent to pursuit by politicians of private benefits. Thus, resistance to diversification of stakeholders may even be part of hidden agendas, especially if there were hopes associated with the use of the SOE for private and political interests.

For governments, the ability to have a say on SOEs strategy can be very important - especially in the extractive industry because of the sector effects on the macro-economy (e.g., on the balance of payment, on government revenues through the tax system, and on support for development plans) (Bridge 2008). For what it might represent, the prospect of being able to use this more valuable "treasure-chest" can be very attractive to governments. As we will suggest below governments are likely to enhance their influence on the "'treasure chest"" in several ways.

<u>The government response</u>

Based on Lioukas et al.(1993), we suggest that a government's response to SOEs that gain autonomy through internationalization will be mainly political. Political attempts to directly influence a company's strategic decisions involve, (1) increasing share participation and making use of veto power, and (2) controlling nomination of CEOs. They can also indirectly influence a company's strategic orientation by publicly casting doubt on the appropriateness of company strategies in the context of national interests, thereby affecting the company's external legitimacy.

Ownership and board participation

Ownership share is key to autonomy because of its association with property rights. Privatization contracts—by establishing whether a government retains minority or majority holding—determine the right to control a company and consequently the strategic orientation of the SOE (Cazurra et al. 2014). Ownership levels define opportunities and constraints for government influence on strategy when there is a "multiplicity of principals" (Aharoni, 1981). Governments can directly influence strategy by board appointments and by providing financial support. They can also influence a company through non-decision making (Lukes,

2005)—that is, by giving it autonomy in strategy design and implementation. Majority ownership gives governments leeway to transform power—the potential to intervene—into actual influence (Child, Rodrigues & Tse, 2013).

CEO appointment

An important way in which a government can influence SOE autonomy is through its power to influence CEO appointment (Okhmatovskiy 2010). In SOEs in which the government has a majority share, the government has the right to appoint the CEO, who therefore usually identifies with the government's political orientation (e.g., views on the role of SOEs in society). A CEO nomination may depend on personal trust and political alliances between the SOE and the government. In such cases, the CEO appointment may be obtained by establishing political ties. SOEs typically emerge to serve national or social goals in the home country (Aharoni, 1981). However, as the state dilutes ownership following privatization, this paves the way for a greater influence of private investors whose preferences may lie on financial performance over social and political goals (Cazurra et al., 2014). Some studies suggest that bankers and other private investors are likely to push for a firm's financial orientation as opposed to development goals cherished by governments. If private owners have majority ownership, they are likely to nominate CEOs with a financial background who may be more sensitive to shareholder pressures than to state demands (Okhmatovskiy 2010**).**

De-legitimating a company's strategies

The role of SOEs in emerging markets can be much more significant because of market failures. They are expected to fill voids in the absence of the government and private initiative (Cazurra et al., 2014**).** Transference of ownership of SOEs to private hands can be transformed from an economic to a political issue, due to their presumed value in the encouragement and regulation of economic activity **(**Hoskisson et al. 2012**).** Moreover, despite all the advocacy of the neoliberal movement for greater efficiency in the private sector *vis a vis* the state, privatization is still a conflicting issue in many societies. In Latin America in particular, privatization and its opposition have been an important flagship of political parties. An example is the frequent use of the motto "the oil is ours" by PT (workers party) to "defend" the company from foreign investors on the presumption that this is a worthy cause that unifies separate constituencies (Doyle 2010). There is acknowledgement that the motivation underlying this motto serves to justify a nationalist political platform to re-direct an SOE according to a government's interests. An important implication is the frequency with

which governments may selectively use ideological arguments to publicly scrutinize SOEs strategic choices. Ideological arguments can frequently be used to provide support to the SOE strategy or to undermine it. Government public support for an SOE can thus significantly influence that company's external legitimacy.

METHODS

Research design

Unlike most IB research, which considers a large number of firms at one point in time, we studied one company over a longer period with particular attention to the context in which it operated. In doing so, we heed calls for more extensive use of qualitative methods in IB to understand "the complexities of emergent and evolving phenomena" (Birkinshaw, Brannen and Tung, 2011: 573). We do this through a process study that maps a sequence of events and explores change (Graebner, Martin and Roundy, 2012; Langley, 1999; Pettigrew, 1990; Van de Ven & Poole, 2005). We chose Vale, the Brazilian mining multinational, as our target firm. Vale is a relatively "new" multinational, it internationalized rapidly, and it experienced de-internationalization thereafter. The nature of this firm—a semi-privatized, state-owned enterprise of considerable size that operates in a highly regulated, global industry—adds to the salience of this case, and our access to the firm enabled more in-depth understanding of its processes. We studied Vale's internationalization process from 2001 to 2013, during which period, there were significant changes in the global mining industry, political shifts in Brazil, and considerable public discussion on Vale's contribution to Brazil. There were also internal changes such as CEO replacement, changes in the level of state ownership, and different strategies of internationalization and de-internationalization.

Data sources

We used a typical "rich" research design that relies on multiple sources. Our case database includes face-to-face interview transcripts; Vale's board decisions related to international investments; annual reports; data on ownership; director biographies; articles from Brazilian and the global media; and secondary data on a variety of external factors, including the development of the global mining industry, Brazilian politics and politicians, and competitors. Some of our data came in the form of numbers (e.g., share prices, commodity prices, company financial indicators), whereas other data was qualitative (e.g., interviews, quotes in newspapers, Vale directors' political links). See Table 1 for details on the data collection and analysis.

Brief case background

Vale was founded in 1954 as a state company to contribute to Brazil's socio-economic development. Vale was privatized in 1997, but at that time the government still kept control of the company as BNDES (Brazilian National Development Bank), and the state pension funds still hold majority shareholding. The next major shareholder was Bradesco a private bank. Although none of the shareholders hold enough shares to control the company individually, the government still maintained control of the state banks and funds, besides having a veto power on strategic decisions consistent with the golden shares it hold. From 2000 onward Vale expanded its global presence by divesting itself of non-core businesses in Brazil, and entering a range of new markets. Key strategic decisions included entering African countries through greenfield investments, and acquiring INCO - a Canadian firm - which diversified Vale's mineral portfolio beyond iron ore. Despite the criticality of global exploration as a core competence, iron ore remained the dominant driver behind Vale, However, by 2010, commodity prices had dropped; as did the value of Vale's potential reserves. In 2011 a CEO change occurred and Vale rapidly scaled back its globalization and focused more on Brazil.

FINDINGS

Vale internationalization

Around 2000, when CEO Roger Agnelli took office, the consulting firm McKinsey helped formulate Vale's strategy for the next decade. Agnelli's ambition was to make Vale the global mining industry leader. He decided that diversification was a crucial response to Vale's dependence on Brazilian iron ore, a commodity subject to volatile economic cycles. In fact in this decade Vale changed from a regional into a global company which have expanded into five continents. Vale's increased its foreign presence very quickly since the beginning of the decade up to 2009 thereafter showing a declining internationalization (Figure 1).

Building the 'treasure chest" in the context of internationalization

As it is common of extractive industries, mining in particular, Vale entered most of the countries by setting up mineral research and exploration activities. Vale built the 'treasure chest" by three different but complementary strategies. First, by obtaining concessions and rights to explore reserves of different types of minerals. During the past decade Vale added several mineral reserves to its portfolio, namely, nickel, copper phosphate and fertilizers in general. Second, by transforming such concessions into exploitation sites – transformation of

minerals into valued-added products. Third, by acquiring multinationals that already possessed several mineral reserves and exploitation sites (e.g. acquisition of Inco).

Domestic mining companies, in particular those with state-ownership, have traditionally been highly dependent on the resource endowments in their home country, which on the one hand have allowed them to grow and export. On the other hand, geological characteristics in home countries also impose limits to growth, which motivates companies to look for resources further afield. Companies which depend on one or two commodities are vulnerable to demand cyclicality; hence the logic behind diversification into other mining segments is to reduce the "single commodity trap". Although Brazil is seen as rich in mineral reserves, its deposits of phosphate, copper and nickel, important components in mining portfolios, were comparatively small. The acquisition of a major Canadian company Inco, allowed Vale to reach out centrality (Hinings et al 1974) in the global market and become part of the "big three". Thus, internationalization through acquisitions was viewed as an obvious first step to gain that knowledge. But the ambition to become a top-3 global player could only be achieved by discovering large new deposits. As one senior managers told us:

> "Vale is such a big company that it needs to have big deposits to make a difference. Such large deposits with high valued minerals can only be found in little explored grounds. You need to have projects with a billion dollar value. In a developed place that's unlikely to happen."… "So where can you find the deposits? It's Africa".

Figure 2 indicates how exploration activities in foreign countries evolved through time. This figure shows the number of times themes concerning types of foreign investments in different countries, such as acquisition of mineral rights, creation of companies, R&D new minerals figured out in the company's agenda. A more detailed analysis of this data suggests that most of these themes (61%) were related with constitution of companies abroad for exploration of minerals, in particular, how the company enhanced resources, criticality and substituibility over time, a strategy which dependence theory would have predicted (Hinings et al. 1974). Again, we identified two main cycles of exploration activities, the first of rapid growth from 2002-2009, with a slight decline in 2007-2009, and the second a sharp decline from 2011 onward. We also compared expansion (e.g. overseas company constitution and mineral rights purchasing) with de-scaling movements, such as company closure, selling and transferring of mineral rights over time. To that purpose, we registered the frequency in which these events appeared in the Exploration Department reports. While purchasing of mineral rights has been

observed during the whole research period, the latter started to appear in the above documents only from 2005 being more salient in 2009 (34 mentions) and 2012 (58 mentions).

We cross-checked these findings with different data sources. The first consisted of exploration activities as registered in the annual reports (Figure 3). Second, we analyzed the evolution of investment in R&D over time (Figure 4). Figure 3 shows exploration activities, which also reflect the level of overseas reserves enrichment and independence of the home country endowments. As in the figures above, the latter also show a decline in two different occasions, in 2007 and 2011. To understand better how the cycles of internationalization and enrichment of the 'treasure chest" evolved jointly we compared Vale with global mining player BHP Billiton, one of Vale's main benchmarks in the industry, as well as Rio Tinto, using figures from their annual reports (Figure 3). We note that BHP and Rio Tinto started scaling down earlier, while Vale only really started to do this in 2011, after replacement of Agnelli.

Vale dependence on the global and financial market.

An important initiative by Agnelli was listing the company on international capital markets, first on the NYSE in 2001 and later in others, including EuroNext Paris and the Hong Kong Stock Exchange. In the process of building its 'treasure chest" internationally, Vale has necessarily constructed other types of dependencies, those in the global market - host countries reserves and demands - at the same time that it was more intensively subject to uncertainties inherent to financial markets. While engagement in financial markets provided alternative source of funding for internationalization and R&D projects, it also created dependence of international expectations as to the company's performance. It also added complexity to accountability, which ensured the government could not intervene without attracting global media attention and shareholder opposition.

During the first years of intense international activity, Vale took advantage of China's high growth rate, and its role as the main driver of commodity prices. Its iron ore exports financed its other investments. The economic crisis, which began to affect Europe and the USA in 2008, reduced China's growth rate and eventually had severe consequences for commodity prices. Vale reduced its dependence on the domestic market as well as on developed markets, while concentrating heavily on China and other Asian markets. The proportion of domestic revenues significantly reduced from 32% in 2002 to 13% in 2013, while the revenues from

China increased fourfold. As such, Vale transitioned from dependence on the domestic market to an international source of dependence on Chinese demand for mining products, in particular iron ore. A comparison of the top mining players shows that Vale proportionally increased its dependence on China more than BHP Billiton and Rio Tinto . Vale carried on acquiring foreign assets until the end of the decade while its main rival, BHP Billiton started to make adjustments by reducing assets abroad in the middle of the decade.

However, Vale's share price was badly hit, not only because it was slow in adjusting to a sudden drop in commodities prices, but also because of a conjunction of factors. As shown throughout the paper, Vale had committed substantial resources in building a 'treasure chest" based on expectations of future gains. While Chinese demand for iron ore and other minerals decreased so did the sustainability of exploration projects, which affected expectations of future gains. As we will see below, the Brazilian government pressure for the company to fund government's projects added further uncertainties as to the company's capacity to fulfill shareholders expectations.

<u>The politics of Vale' dependence relations with the Brazilian government</u>

Traditionally, SOEs have been viewed as important allies in governments' development plans. SOEs' role in development has helped to justify protectionist and nationalist ideologies by populist governments not only in Brazil, but also in Latin America (Doyle 2010). The neoliberal government, which installed in Brazil in the mid-nineties, introduced an extensive privatization program which was meant to reduce SOEs' mismanagement and resources misallocation. As we argued throughout this paper, internationalization, and the concomitant enrichment of Vale, has provided the conditions for advancing management autonomy, something not on the interest of the populist left-wing government who took office in 2002 and remain in power until today. Below, we discuss how the government reacted to Vale's increasing autonomy.

Ownership and board participation. Following privatization Agnelli was appointed as the company CEO in 2000. His appointment was secured by the bank Bradesco (a substantial shareholder), where he had occupied senior positions. His appointment coincided with the withdrawal of CSN, a major Brazilian government-affiliated shareholder who wanted Vale to develop the Brazilian steel industry. Agnelli swapped Vale`s share in CSN with the steel

company`s shares in Vale, presumably, to avoid a situation in which it would be forced to participate in the development of the steel industry (Source: annual reports).

However, even as a semi-privatized SOE organization, Vale depended on the Brazilian government to finance and sanction its internationalization activities as a shareholder and as a board member with veto powers. The ownership structure after privatization left openings for the government's interference in management`s plans and priorities through the influence of Brazilian pension funds (Previ) and the Brazilian Development Bank (BNDES), both shareholders. Thus, in order to avoid government influence in the company`s strategy, one of the first measures Agnelli took was to convince the government to sell ordinary shares, which temporally reduced the ownership share of BNDES. Although Agnelli managed to sell BNDES remaining stocks from privatization, in 2003, the bank started to buy back substantial amount shares, which raised the government's interests to just below 50%, according to annual reports.

Vale's ownership was split between different types of interests: those with financial interests and state-controlled entities. While the former was interested in returns to shareholders the latter had broader goals, including the company's role in generating hard currency in excess of Brazil's external debt, thereby forestalling interference by the IMF. After the change of government in 2002 towards a more left-wing and populist government, this was more frequently discussed in the media, and sustaining autonomy was part of a constant struggle, according with our media data.

In order to understand the government influence after ownership changes we examined the changes in the company's board over time and the background of its members. Some factors have drawn our attention. Although the number of board members have not changed much over time, the number of internal career members, has changed in the end of the decade. From 2010-2013 no internal career member was listed, while in previous years we found one representative of this category per year. By contrast, we found a union representative from 2010 onwards. These changes may be interpreted as related to the government's intention to gain a more direct control on the company's strategic decisions (See Table 3 for changes in the board and senior executive levels).

Ambiguity of goals and authority to command the company. The decision to become a global player seemed to serve diverging purposes. For the company it represented more resources, more autonomy and accountability to different shareholders. For the government, exports represented the generation of hard currency and stability of the Brazilian currency. From 2005 up to 2012, Vale´s exports outweighted internal sales. The rising share of export contributions from mining has enabled the sector to finance a large part of Brazil's trade balance. Exports contributed to the most impressive turnaround in Brazil's overall external balance from a highly negative position in the late 1990s to a positive figure of US$50 billion annually by 2010 (ICMM, 2013:30). Thus, while in its speedy internationalization Vale paved a road towards a greater independence from government, dependence from the global market, particularly from the Chinese market at the time in a declining trend, provided the propitious terrain for the government`s claims as to the need to return to its origin – the iron ore in Brazil.

Vale's increased autonomy through resources substitution, global visibility and accountability was viewed as a threat to the government's views of the company's' role in his government. For President Lula's and his party Vale's role in economic development - including the development of the declining Brazilian steel industry - was crucial. Agnelli's views were that Vale should maintain its core business – the production of iron ore – but also diversify by engaging in mineral exploration around the world and learning through acquisitions. Such views posed a challenge to the government's plans for Vale. Although Vale`s management viewed the company as a global player whose strategies should be guided by shareholder value, the government, by contrast, regarded the company as predominantly an SOE whose main duty was to serve government`s both the official and its political projects.

The two key actors also differed in what they believed should be the company's goals and strategy. Vale intended to become a global player, benchmarking itself to global mining players, while the government was interested in the company`s value to the national economy and for its role in development plans. For instance, the government insisted that the mining industry did not require technological innovation, and that Vale should become involved in steel manufacturing. Agnelli focused on legitimacy as a global industry player deriving shareholder value, whereas the company's legitimacy in Brazil was being eroded by the government's new stance. When global markets, on which Vale now depended, started to falter, Vale's legitimacy was further eroded, and Agnelli's position became untenable. The

main paradox is that because of its success the company became an important target for the government's grabbing hands. The government's intentions were widely discussed in the media during the ousting of Agnelli:

> "Brazil's government has finally succeeded in pushing out the chief executive of Vale, the world's biggest miner of iron ore, after a long battle to resume control over one of the country's most lucrative natural resources." "Although Vale was privatised in 1997, the government retained a majority stake and has recently tried to exert more control as commodity prices have surged. (Financial Times, July 2011).

As Vale obtained some autonomy by globalizing and introducing new stakeholders by listing the company overseas, the government found means to influence Vale. In 2006 one new director with a political party affiliation was appointed to Vale's board (source: biographies of Vale's board members). Nevertheless, the fight was not limited to the boardroom – it played out in the Brazilian media, where the government undermined Vale's former CEO. Although Vale and the government maintained peaceful relationships during President Lula's first mandate (2003-2006), relationships started to become tense in his second mandate (2007-2010) and as Vale gained more visibility and a status of a global player. Our media research suggests the periods of greater salience of disputes with the government occurred one year after Lula took office and more obviously on the first year of President Dilma's mandate. Table 2 was compiled using newspaper sources and internal documents and interviews. It summarizes the tensions and issues at stake behind the disputes for management control from 2006 to 2010, which culminated in the ousting of Agnelli.

DISCUSSION

Our longitudinal analysis identifies two cycles in Vale's 13-year struggle to become a global player and a more autonomous company. The first is a virtuous cycle in which market and political pressures created the positive conditions for Vale's internationalization and performance improvement (2001-2008).

SOE internationalization as a power escape strategy

Our case analysis largely supports earlier studies that indicate that SOEs (in part) resort to internationalization in search of opportunity and to become less dependent on the home country government. As such, we find support for the "power escape argument" proposed by

Cuervo-Cazurra et al. (2014). Internationalization allowed Vale to diversify its sources of income besides Brazilian iron ore, and accordingly to decrease its dependence on the Brazilian government. It also allowed the firm independent access to resources beyond Brazil, and access to global capital markets.

Virtuous cycle: enabling conditions

Our study advances this argument further by specifying the conditions under which the power escape internationalization succeeded. We argue that Vale was successful because several enabling conditions occurred at the same time. The virtuous cycle took place in a context where global market forces were favorable (high commodity prices, increased demand from China for Vale's exports, rise of emerging markets). This generated more financial resources, and thus, it stimulated managerial aspirations and provided the means to invest in an ambitious new global strategy. Internally, management gained control of the company as the government became a minority shareholder, albeit one with special rights by virtue of its golden shares. By selling part of the government's ordinary shares after privatization and because of the entry of other shareholders, Vale had more freedom to choose a shareholders-first approach. The political context in Brazil at the time favored an independent management of SOEs. We summarize the enabling factors driving internationalization as follows:

<u>Proposition 1</u>: SOE internationalization is enabled by a favorable global market environment; a local political climate that approves of SOE privatization; and the availability of internal financial resources.

Virtuous cycle: Tactics to increase autonomy

Although voices in the national context that advocated more government control over Vale built up over time, by and large, Vale's management continued to gain more power *vis a vis* the Brazilian government until 2008. Our interpretation of the case suggests that this was due to Vale building global sources of legitimacy. Vale's listing in international stock exchanges widened its accountability basis from national to international and it was now subject to global governance and transparency requirements. Furthermore, Vale's growth and success globally had implications for its global visibility: its strategy was covered in media such as Reuters, Bloomberg and Financial Times. These media exposed and implicitly condemned government intervention. This supports recent work on organizational legitimacy which argues that the media functions as an important source of legitimacy as it "provides some

form of forum for debates over legitimacy and a mechanism for debate resolution" (Bitektine and Haack, 2015: 51).

The success of this legitimacy strategy relied significantly on favorable external factors (mineral prices) and internal factors (share prices, performance, size, growth, and presence of global shareholders). Consistent with earlier studies on SOE internationalization (Hung et al., 2014), we perceive the foreign listing of Vale as a way to instill legitimacy for a focus on "objective shareholder value". Its success in achieving this goal helped Vale withstand increased pressure from the Brazilian government. We therefore, propose:

Proposition 2: SOEs can increase autonomy by building sources of global legitimacy from non-state shareholders, regulators and media.

Virtuous cycle: Feedback loop and shift factors

The positive responses from media and from financial markets (rising share prices) were important signals that provided a positive feedback mechanism. By generating shareholder value, Vale was achieving an international reputation as a global player, which therefore lent even more legitimacy to its global strategy, and gave it more autonomy.

Nevertheless, the continued growth of its exports to China generated cash and drove more investment in exploration (R&D spending) globally, which in turn raised its share prices. From our case analysis we conclude that Vale invested heavily in global exploration projects that were yet to generate income. As a late-comer on the global mining scene, it internationalized much more aggressively than the incumbent industry leaders, relying strongly on the Chinese market for iron ore, to finance this strategy. As Vale sought to reduce its dependence on one country (Brazil) it became more dependent on another (China). We propose:

Proposition 3: A power-escape strategy in an enabling context may result in an SOE pursuing an accelerated, high-risk internationalization strategy.

SOE internationalization: the government

The case suggests that there are important boundary conditions for the "power escape" argument. One important insight is that the more Vale increased its autonomy by successfully

accumulating international assets and income streams, the more attractive it became to Brazil's ruling party and the greater the incentive to re-direct SOE assets towards domestic use. This raises important questions about the effectiveness of the power escape strategy, especially in the long run. For example, state agents will be tempted to utilize the SOE as a means to implement domestic policies or to pursue local political goals (Shleifer and Vishny, 1994). We refer to the higher attractiveness as the "treasure chest" argument. Hence:

Proposition 4: Successful creation of critical resources through internationalization stimulates home governments to reduce SOE autonomy.

Vicious cycle: enabling conditions

Figure 5 shows that Vale's internationalization trajectory was characterized by a vicious cycle from 2008 onward, in which the government gradually increased its intervention. The decline in commodity prices and China's slowing growth signaled the need to slow down international investments. By implication this lowered export revenues and so Vale's share price.It turned out that diversification into different mining segments did not necessary reduce risks in case of a global economic slowdown, and Vale was particularly exposed to China's changing fortunes as compared to its peers. Moreover, Brazil's slowing economic growth and Vale's weakening performance brought up the question why Vale was investing so much abroad, and so little in Brazil. Hence we propose the following enabling conditions for the "'treasure chest" response":

Proposition 5: Greater government intervention to counter a power escape strategy is enabled by erosion of global sources of legitimacy, a nationalist political climate, and higher levels of state ownership.

Vicious cycle: Tactics to increase government control

Earlier studies argued that an SOE's dependence on the home country government stems both from external and from internal sources (Xia et al., 2014). In our study we see how Brazil's government moved on both fronts to increase its grip on Vale. As the PT government became more entrenched it also extended its influence over Vale in the form of a stronger representation on Vale's board. Moreover, the disputes between government and Vale's management frequently attracted local media interest, as demonstrated by our media data. The public exposure of the company as an entity that breached the trust of the Brazilian

people in a context that favored protectionism provided the "ideal" justification for interference in the company's international strategy. Brazil's president even personally criticized Vale's strategic decisions in the local press. Hence, we propose:

Proposition 6: Governments can increase control over global SOEs by building domestic sources of legitimacy through ownership, board participation and media pressure.

Vicious cycle: Feedback loop and shift factors

By claiming Vale's CEO was not aligned with projects of wider interest to Brazil, the government casted doubts on management's capacity to lead the company and the friction played out in the board as well as in the Brazilian media. It was no surprise that this created further uncertainties in financial markets, in particular in an economically adverse context where performance was already deteriorating. We therefore propose:

Proposition 7: States undermining domestic SOE legitimacy negatively affects share prices, which in turn undermines global legitimacy.

SOE de-internationalization

If SOEs no longer have any domestic legitimacy for their overseas investments, nor do they possess global legitimacy from global financial institutions or global media for that strategy, their continued internationalization is unlikely. In the case of Vale the government eventually replaced the CEO who was a symbol of Vale's internationalization strategy with someone who towed the government line. His arrival in 2011 coincided with a reversal in strategy: global exposure was rapidly reduced (witnessed in the number of disinvestment decisions and the sudden decline in R&D spending), the unit in charge of globalization was dismantled, and the strategy was aligned with local political sentiments.

Proposition 8: If an SOE's legitimacy as a global player is eroded, its international strategy may be reversed.

CONCLUSION

We conclude that SOEs escape from home country government's constraints is not a single, and one-directional route. Internationalization may provide an SOE with more autonomy, as it generates more and greater control over resources (filling up the 'treasure chest"), as well as an additional layer of global legitimacy. It can also mitigate dependence from both, home

country resources and the home country government. Nevertheless, this may very well be transient as governments' motivations to intervene also increase. As such, we demonstrate that dependence is more adequately described as a cyclical process where SOE internationalization can both be an outcome of power imbalances, as well as a new source of imbalance sets in motion forces for reversal.

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Table 2: Research Methods Summary

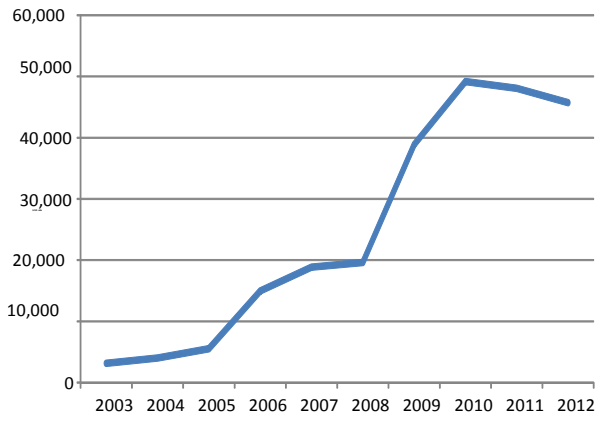
CONCEPTS	DEFINITION	DESCRIPTION (measurement)	SOURCES
Vale internationalization trajectory Cyclical internationalization	Where, when, why and how by date (end of 2002-to 2012) Periods of acceleration and deceleration of internationalization	-Countries and entry modes -Resources committed and withdraws per country -Resources re-allocation to countries -No. of countries -Selling companies abroad -Management replacement in operations abroad	Annual reports and company (2001-2013) Internal documents (Department of mineral exploration) (2001-2013) Interviews: 49 interviews with senior and middle managers from headquarters and subsidiaries (2008-2010)
Shifts in dependence between government and the company External legitimacy Vale´s relationship with government over time Dependence on the global market	The nature and sources of dependence between the company and government and how these changed over time IPOs in international financial markets Ambiguity as to the company's role; the conflicting nature of Vale's relationship with the government	-Vale strategic direction and focus (reliance on home country sources of income vs external; growth in internal assets; growth in foreign sales - Listing in international financial markets -Share value performance CEO and top executives views on strategy and relationship with government Government's views on the company's role and relationship with government Miming industry global environment	Interviews: 49 interviews with senior and middle managers from headquarters and subsidiaries (2008-2010) International media analysis: Reuters, Financial Times, Wall Street Journal, Bloomberg. Brazilian media analysis: Jornal do Comércio (2004-2013), Exame (2002-2013), Valor Econômico (2002-2013). Veja (2002-2013), Gazeta Mercantil (2004-2013) Contextual information (miming industry, competitors relations with government)
Government indirect influence on the company strategies Government's direct influence on the company strategy over time Company performance and	Company autonomy Ownership configuration Government influence on the board vis-à-vis other actors	The company's ability to pursue its strategy without government open interference -Vale main shareholders and respective share participation over time -Positions held by directors and senior management over time -Board of directors background; senior management position over time; affiliations/positions hold in political parties	-Interviews with senior executives -International media analysis: Reuters, Financial Times, Wall Street Journal, Bloomberg.-Brazilian media analysis: Jornal do Comércio (2004-2013), Exame (2002-2013), Valor Econômico (2002-2013). Veja (2002-2013), Gazeta Mercantil (2004-2013 Board members and top positions over time (2001-2013) Biographies of Vale´s board (2001-2013);Vale' Annual Reports (2001-2013) Company Annual Reports (2001-2014)

international performance Competitors' performance		-Share value variation over time -Share value variation over time	Competitors Annual Reports Rio Tinto and BHP Billiton performance

Table 2 Conflicting issues between the government and the SOE

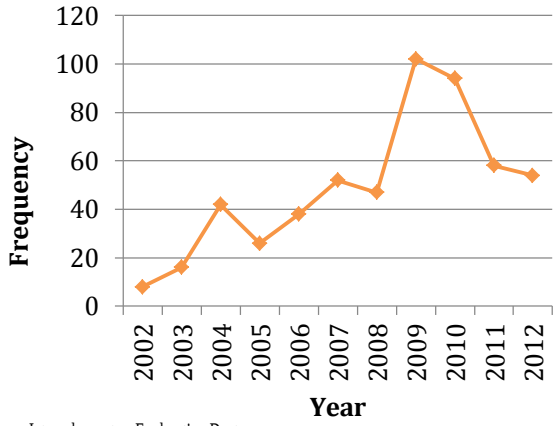
Tensions	**Vale's Strategic Intentions**	**Government Interests**
Company ethos	A global player oriented towards the market and generating value for shareholders Market value as the main parameter	Mostly an SOE; facilitator of government`s and party's political plans and ambitions; contribution to the country`s development
Growth	Achieve global industry leadership	Vale predominantly a national player
Exploitation	A core competence Bargaining power with the government Monopolistic advantages	Foreign currency generator; balance of payment control; lending to IMF in 2006; income tax revenues
Exploration	R&D as core competence; product & geographic diversification; big three global positioning; acquisition as means to achieve exploration/exploitation; investment in shipping (gaining comparative advantage)	No particular interest in Vale becoming a global player; Vale`s contribution to government`s plans; preference for investment inside Brazil in sectors prioritized by the government
Main stakeholders	Shareholders, controllers, financial sector	Voters and PT political allies
Legitimacy Sources	Customers & competitors, NYSE	PT (Workers Party and political allies)

Figure 1Vale's assets outside Brazil



Source: Vale annual reports, UNCTAD World Investment Report

Figure 4 Building the treasure chest- external sources of reserves 2002 - 2012



Source: Internal reports – Exploration Dept

Figure 3 Exploration in # of countries

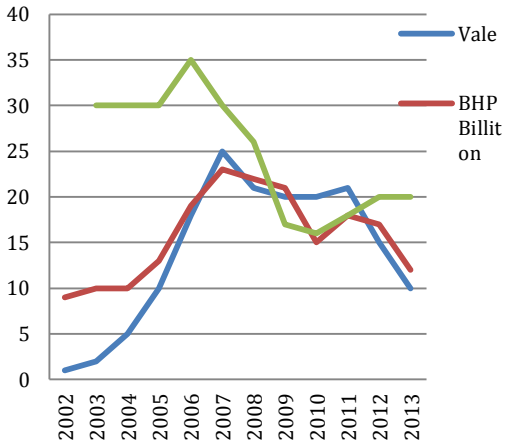


Figure 4 R&D

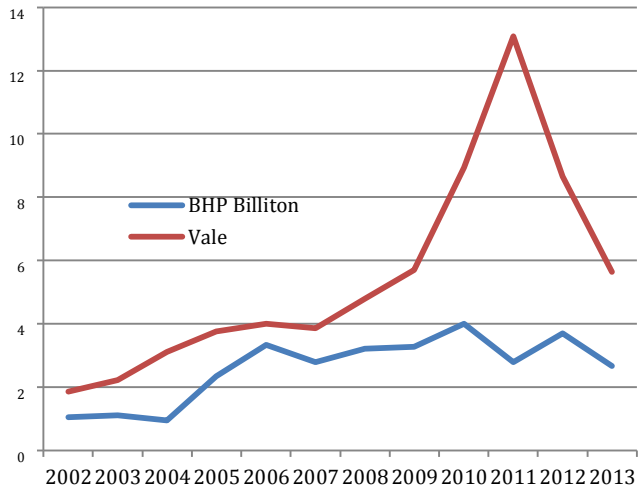
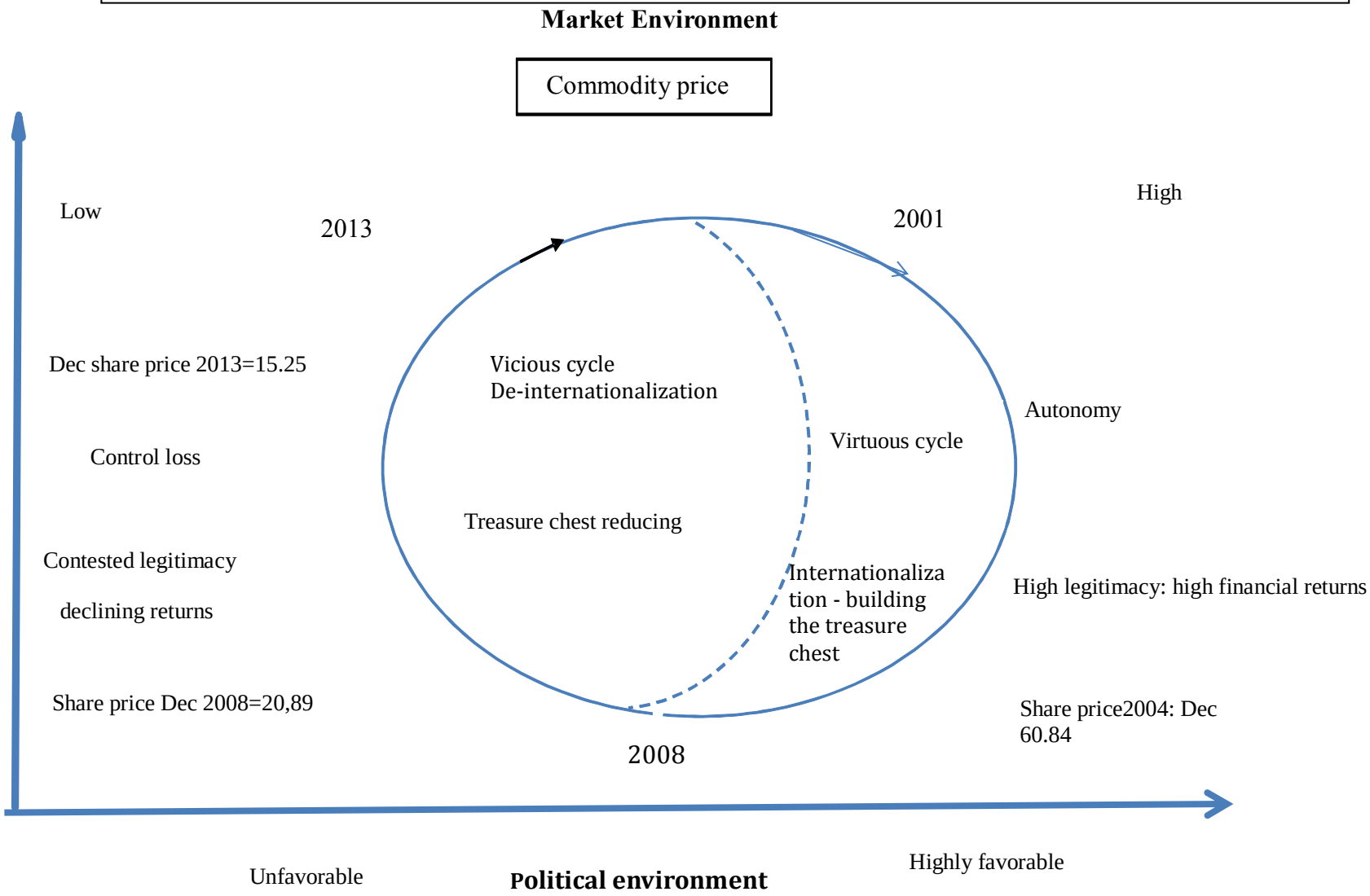



Figure 5: Cycles of internationalization and dependence from government