

Institutionalization to internationalization

The transformational dynamics and outward foreign direct investment of state-owned enterprises

Transformational
dynamics and
outward
FDI of SOEs

241

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Abstract

Purpose – The purpose of this paper is to examine the most interesting research question of the past decade – *What Lures the Bears?* Leveraging the public sector management and international business strategy literature, the paper first presents an overview of the transformational dynamics of state-owned enterprises (SOEs) in three major phases – institutionalization, privatization, and corporatization, and internationalization. Then, it analyzes geographic patterns and industry trends of the outward foreign direct investment (FDI) projects announced by SOEs over an eight-year period.

Design/methodology/approach – Grounded in the exploratory research such as inductive and deductive logic, the study proposes theoretical constructs, and discusses several findings based on the data accessed from highly cited archival sources, such as the UNCTAD FDI stat/WIRs, the World Development Indicators, Doing Business Report, Global Competitiveness Report, the Index of Economic Freedom, the Academic Ranking of World Universities, and the Fortune Global 500.

Findings – Based on an analysis of global market trends (a sample of over 20 countries and five industries), the study highlights that SOEs from Asia and Europe have been greatly expanded into developed markets, thus to secure natural resources, to acquire strategic assets like technology, and to leverage the developed financial markets and better investment environment. Therefore, SOEs' outward FDI strategy and overseas performance was driven by institutional transitions, resource security, home market development and government legitimacy may contribute to the competitive advantage of their home country.

Practical implications – The study offers several implications for the policymakers of the governments in emerging economies and bureaucratic management of SOEs. It recommends that state ownership pattern and bureaucratic system of SOEs need to be reexamined, revised, and corporatized in the changing dynamics of the multinational business environment, thus to secure resources, acquire technological know-how, and compete in home and global markets.

Originality/value – As a response to academic calls on the globalization, performance and governance mechanisms of SOEs in and out of emerging economies, this paper draws a unique presentation of the transformational dynamics of SOEs – establishment to internationalization.

Keywords Disinvestment, Internationalization, Institutionalization, State-owned enterprises, Corporatization, Outward foreign direct investment

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1. Introduction

State-owned, public sector enterprises or government corporations (hereafter, SOEs) are created, owned, and managed by governments of the country. They play a vital role in the economic development of the country, welfare maximization of the society, and market functioning of the commercial businesses (Atkinson and Stiglitz, 1980). They usually operate in large-scale industries such as the mining, oil and gas, steel and heavy machinery; public utilities such as the transport, electricity, gas, water, and irrigation-linked infrastructure projects; services such as the banking, insurance, postal and telecommunications; defense; space. Unlike some developed economies in the American and European continents, SOEs are key economic drivers and institutional navigators in several Asian, Latin American, and African countries, for example, China, Malaysia, India, Brazil, and Russia. They are indeed national champions in the heavy industries such as oil and gas (Reddy and Xie, 2017) and biggest employers in emerging economies (see Table I in the next section). Importantly, they are a visible source in the market for cross-border capital flows over the past decade, which has sparked the academia, press, and world organizations to investigate:

RQ What Lures the Bears?

First, what do we know about SOEs' formation, performance, and policy remedies? The existing public economics, public management, and financial economics literature have addressed several modules of SOEs' establishment, administration, financial performance, and governance mechanisms. Specifically, a voluminous number of empirical studies have tested the impact of privatization on performance of SOEs and surveyed national disinvestment policies in various countries (e.g. Megginson *et al.*, 1994; Boubakri and Cosset, 1998; D'souza and Megginson, 1999; Nolan and Xiaoqiang, 1999; Dewenter and Malatesta, 2001; Megginson and Netter, 2001; Thynne and Wettenhall, 2004; Gupta, 2005; Wettenhall, 2007; Boubakri *et al.*, 2013; Xu *et al.*, 2014; Liu *et al.*, 2016; Bachiller, 2017; Boubakri *et al.*, 2017; Chen *et al.*, 2017; Voszka, 2017). However, not much research has analyzed the corporatization policy and its impact on performance and governance improvement of SOEs (e.g. Daiser *et al.*, 2017; Voorn *et al.*, 2017). Thus, the impact of privatization and corporatization policies on the financial performance of SOEs is largely mixed (positive, negative, neutral), as different countries have different formal and informal institutional frameworks.

Second, since the development of institutional transitions and factor markets affects firm's strategic investment choices (Peng, 2003; Hoskisson *et al.*, 2013), a number of recent studies have examined the internationalization strategy of SOEs, particularly the Chinese phenomenon and the energy sector (e.g. Hurst, 2011; Song *et al.*, 2011; Cui and Jiang, 2012; Amighini *et al.*, 2013; Bass and Chakrabarty, 2014; Florio, 2014; Li *et al.*, 2014; Musacchio and Lazzarini, 2014; Alon *et al.*, 2015; Clò *et al.*, 2015, 2017; Reddy *et al.*, 2016b; Luo *et al.*, 2017; Rodrigues and Dieleman, 2018). We also notice a burgeoning academic research interest toward government relations, state capitalism, and host country development from political science researchers and political geographers, especially aftermath of the 2007-2009 financial crisis (e.g. Lim, 2010; Gonzalez-Vicente, 2011; Meckling *et al.*, 2015). Thus, researchers in public management and international business strategy disciplines have analyzed the global investment strategies and performance of state-owned and private enterprises, and contributed to the theories of the firm, such as resource-based view, resource dependence, agency theory, and institutional theory (Deng and Yang, 2015; Du and Boateng, 2015; Liang *et al.*, 2015; Estrin *et al.*, 2016; Peng *et al.*, 2016; Rudy *et al.*, 2016; Huang *et al.*, 2017; Karolyi and Liao, 2017; Li *et al.*, 2017; Zhou *et al.*, 2017).

Yet there is a dearth of research on the global strategy of SOEs' growth strategies and firm performance. For example, Bruton *et al.* (2015) find that only 39 articles published on

Rank	Corporation	Country	Industry	Govt ownership (%)	Revenues (US \$ billion)	Profits (\$US billion)	Assets (\$US billion)	Number of employees	Profit ratio	Asset turnover ratio
1	Wal-Mart Stores	USA	Discount stores		485.87	13.64	198.83	2,300,000	2.81	244.37
2	State Grid Corp	China	Utilities	100	315.20	9.57	489.84	926,067	3.04	64.35
3	Sinopec Group	China	Petroleum refining	100	267.52	1.26	310.73	713,288	0.47	86.09
4	CNPC	China	Petroleum refining	100	262.57	1.87	585.62	1,512,048	0.71	44.84
5	Toyota Motor	Japan	Automobile		254.69	16.90	437.58	364,445	6.64	58.21
6	Volkswagen	Germany	Automobile	20	240.26	5.94	432.12	626,715	2.47	55.60
7	Royal Dutch Shell	The Netherlands	Petroleum refining		240.03	4.58	411.28	89,000	1.91	58.36
8	Berkshire Hathaway	USA	Insurance; property and casualty		223.60	24.07	620.85	367,700	10.77	36.02
9	Apple	USA	Computers; office equipment		215.64	45.69	321.69	116,000	21.19	67.03
10	Exxon Mobil	USA	Petroleum refining		205.00	7.84	330.31	72,700	3.82	62.06
11	McKesson	USA	Wholesalers: health care		198.53	5.07	60.97	64,500	2.55	325.63
12	BP	UK	Petroleum refining		186.61	0.12	263.32	74,500	0.06	70.87
13	United Health Group,	USA	Health care: insurance and managed care		184.84	7.02	122.81	230,000	3.80	150.51
14	CVS Health	USA	Health care: pharmacy and other services		177.53	5.32	94.46	204,000	3.00	187.93
15	Samsung Electronics	South Korea	Electronics; electrical equip.		173.96	19.32	217.10	325,000	11.10	80.13
16	Glencore	Switzerland	Mining, crude oil production		173.88	1.38	124.60	93,123	0.79	139.55
17	Daimler	Germany	Automobile		169.48	9.43	256.26	282,488	5.56	66.14
18	General Motors	USA	Automobile		166.38	9.43	221.69	225,000	5.67	75.05
19	AT&T	USA	Telecommunications		163.79	12.98	403.82	268,540	7.92	40.56
20	EXOR Group	The Netherlands	Diversified financials		154.89	0.65	186.17	302,562	0.42	83.20
21	Ford Motors	USA	Automobile		151.80	4.60	237.95	201,000	3.03	63.79
22	ICBC	China	Banking	34.6	147.68	41.88	3,473.24	461,749	28.36	4.25
23	AmerisourceBergen	USA	Wholesalers: health care		146.85	1.43	33.66	18,500	0.97	436.33
24	China State Construction Engineering	China	Construction	100	144.51	2.49	201.27	263,915	1.73	71.80
25	AXA	France	Insurance: life, health		143.72	6.45	941.56	97,707	4.49	15.26

Sources: Compiled from *Fortune's* (2017) official website and not at all from the spreadsheets or jpg formats posted on unauthorized websites; Govt. ownership was accessed from the UNCTAD's FDI Stat (WIR, 2017); Profit ratio, profit by sales and asset turnover ratio, sales by assets were calculated by authors

Table I.
Top 25 (5 percent) of the Fortune Global 500 Corporations, 2017

SOE perspectives in the *Financial Times* Top-45 (now, FT-50) management journals between 2000 and 2014. Martin and Li (2015) report that only 55 articles published on state-level organizations in top 16 management journals over the period 1954-2014. Moreover, some recent review articles and special issues have underscored the need of and call for exemplary ideas in SOEs research (Cuervo-Cazurra *et al.*, 2014; Alexius and Örnberg, 2015; Grossi *et al.*, 2015; Chen *et al.*, 2016; Bachiller, 2017; Mbo and Adjasi, 2017; Papenfuß *et al.*, 2017; Poczter, 2017), determinants of mergers/acquisitions in and out of emerging economies (Lebedev *et al.*, 2015; Zhu and Zhu, 2016; Xie *et al.*, 2017), and comparative capitalisms such as the state as – a wholly owned firm, a majority investor, a minority investor and a strategic supporter (Musacchio *et al.*, 2015; Grosman *et al.*, 2016).

Spurred by the aforementioned calls, this paper first presents an overview of the transformational process of SOEs in three major phases – institutionalization, privatization and corporatization, and internationalization. Second, we analyze geographic patterns and market trends of the outward FDI projects announced by SOEs over the period 2003-2010, for two categories – home country (22) and industry portfolio (five). The findings have been supported by 15 national-level indicators of sample home countries. In addition, we also show the top ten non-financial state-owned MNEs having 51 percent and above of government ownership, measured by foreign assets. The study highlight that SOEs from Asia and a less extent Europe have vigorously expanded into developed markets, thus to secure natural resources, to acquire strategic assets like technology, and to leverage the developed financial markets and better investment environment. Overall, SOEs' global strategy has been motivated toward extractive industries and capital-intensive industries; they continue to invest in public utilities such as electricity and water. In so doing, this paper is distinct from and makes several contributions to the public management and international business strategy literature. We discuss them in more detail toward the end of the paper.

The remainder of the paper proceeds as follows. Section 2 presents theoretical background of SOEs – definition and performance. Section 3 discusses the transformational dynamics of SOEs in three major phases and proposes some theoretical constructs relating to the internationalization of SOEs. Section 4 describes the research design. Section 5 reports the home country and industry patterns of outward FDI projects undertaken by SOEs. In Section 6, we discuss our contributions, practical implications, and limitations and future research directions. Section 7 concludes the paper.

2. SOEs: definition and performance

2.1 Definition

An SOE is a legitimate channel or strategic source of the governments to implement what the state creates and orders for the welfare of the society. In other words, SOEs are public property of the nation.

According to OECD (2015, p. 14):

[any] corporate entity recognized by national law as an enterprise, and in which the state exercises ownership, should be considered as an SOE. This includes joint stock companies, limited liability companies and partnerships limited by shares. Statutory corporations, with their legal personality established through specific legislation, should be considered as SOEs if their purpose and activities, or parts of their activities, are of a largely economic nature.

Florio (2014, p. 201) explicitly describes:

Public enterprises are “economic organizations of the state, (a) ultimately owned or co-owned by national or local government, (b) internalizing a public mission among their objectives, (c) enjoying full or partial budgetary autonomy, (d) exhibiting a certain extent of managerial discretion, and (e) operating mainly in a market environment.”

Musacchio and Lazzarini (2014) define:

Governments own and manage SOEs as extensions of the public bureaucracy.

2.2 Performance

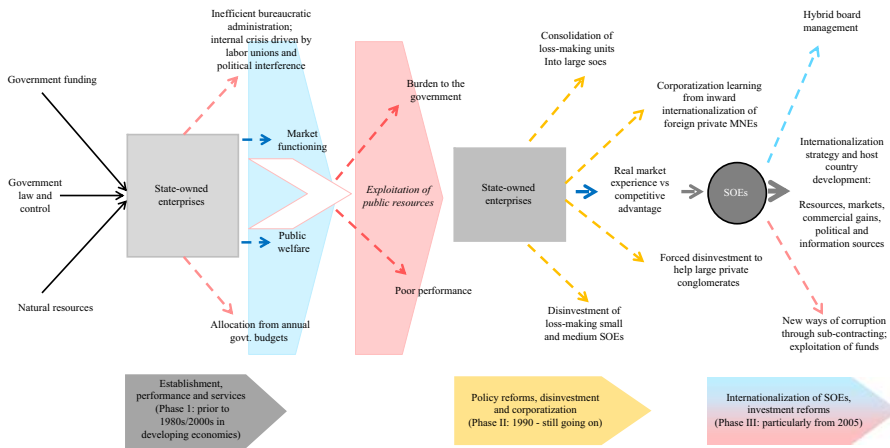
On average, SOEs account for 10 percent of global GDP; 20 percent of global stock market capitalization; nine out of 15 largest public offerings between 2005 and 2012 were initiated by SOEs (cf. Bruton *et al.*, 2015). Measured by market capitalization, Chinese SOEs account for 80 percent of their national stock market value, Russia 62 percent, and Brazil 38 percent (WIR, 2011, 2013). A large sample study undertaken by Clò *et al.* (2015) illustrates that government firms are larger in terms of assets, employment, and turnover, and are characterized by higher financial performance in terms of operating profit, return on sales and return on profits, for example, the extractive industries, public utilities and defense sector; and importantly, oil and gas industry (Reddy and Xie, 2017).

A recent World Investment Report by UNCTAD shows that nearly 1,500 state-owned MNEs exist around the world, operating more than 86,000 foreign affiliates. Although SOEs size in terms of the number of units is smaller than other types of MNEs, they still represent 15 of the top 100 non-financial MNEs and 41 of the top 100 MNEs from developing and transition economies (WIR, 2017). For instance, in China, at least 165 large SOEs with over 19,000 business units are supervised under the State-owned Asset Supervision and Administration Commission (Shapiro and Globerman, 2012). Being the world's largest national oil companies, Chinese SOEs also control nearly 15 percent of metal production, and 25 percent of the world's total annual production of minerals consumed by China (Chintu and Williamson, 2013). Moreover, the proportion of acquisitions to global FDI flows announced by Chinese SOEs is much bigger than the share of total SOEs to the total number of MNEs (WIR, 2013; Reddy *et al.*, 2016b).

The proportion of SOEs among Fortune Global 500 firms, by revenues, has markedly increased from 9 percent in 2005 to 23 percent in 2014 (Cuervo-Cazurra *et al.*, 2014; Grossi *et al.*, 2015). Similarly, we refer to the top 25 (5 percent) of Fortune Global 500 Corporations, measured by revenues, released in July 2017 (see Table I). Interestingly, five Chinese SOEs were obtained top rankings in the list, such as State Grid (second, US\$315 billion), Sinopec (third, US\$267 billion), CNPC (fourth, US\$262 billion), ICBC Bank (US\$147 billion), and State Construction Engineering (US\$144 billion). For instance, commenced in 2002, the State Grid Corporation of China is the world's largest electric utility firm, which owns and manages five regional power grids and 24 electric power units (*Fortune*, 2017). In fact, Chinese SOEs are top employers after the Wal-Mart, measured by the number of employees. With a 20 percent of state equity, Germany's Volkswagen gained the sixth rank, indicated by revenues, US\$240 billion. The group owns/manages 12 assembly plants in China (23 percent of market share in the passenger cars segment), six in Brazil (21 percent), three in India, and two in Russia (Fu *et al.*, 2018). In sum, SOEs operate in large-scale economics such as public utilities (electricity, water, and gas), mining, oil and gas industries, and financial services.

3. The transformational dynamics of SOEs

In this section, we discuss the transformational dynamics of SOEs – institutionalization to internationalization. Figure 1 shows an overview of policy changes in the operationalization of SOEs in three major phases. The first phase is the need, establishment, administration, and performance of SOEs. The second phase is the policy remedies to poor performance, disinvestment, and corporatization of SOEs. The third phase is a contemporary debate on SOEs' Go Global strategy and its motives and consequences.



Source: Authors' own illustration

Figure 1. Institutionalization to internationalization: the transformational dynamics of SOEs

3.1 Institutionalization

The basic idea of institutionalizing or establishing an SOE by national and provincial governments is to “maximize value for society, through an efficient allocation of resources” (OECD, 2015, p. 17). First of all, government funding, natural resources of the country, and government law and control are three key constituents in setting up an SOE. Unlike private enterprises, SOEs experience the different business environment and receive special benefits and privileged assistance such as capital allocation from state-owned banks (Amighini *et al.*, 2013; Huang *et al.*, 2017). On top of that, they are protected from major corporate threats like takeovers and bankruptcies (Shapiro and Globberman, 2012).

Theoretically speaking, an SOE obliges governments to administer and control the market functioning activities as a “mirrorscope projector” and to serve the public for welfare development as “equity in the jungle.” On the bright side, public enterprises help governments in achieving policy objectives, curing market failures, and maximizing social welfare (Atkinson and Stiglitz, 1980; Vickers and Yarrow, 1991). On the dark side, they are characterized by “weak governance arrangements, conflicting and ambiguous objectives, a lack of accountability” (Putniņš, 2015), and a high-level external uncertainty (He *et al.*, 2016).

As illustrated in Figure 1, SOEs’ performance was badly affected due to the fact that bureaucratic administration was inefficient in the revenue management, internal crisis driven by labor unions backed by political parties, and the direct political interference. At that time (of course, still), governments have had to allocate long-term capital and working capital resources to SOEs’ operationalization from the annual fiscal budgets of the country (e.g. Dinc and Gupta, 2011). Some medium-scale SOEs severely became the financial burden to the governments due to their continued poor financial performance and other internal crisis matters including the lockout; this was actually resulted in the exploitation of public resources. Hence, it should be noted that many misconducts including corruption in the first phase were not seriously examined by the government officials and even not known to the public because of the absence of private media prior to 1990s and the suppressive nature of government’s own press.

3.2 Disinvestment process and corporatization policy

Given that policy deregulation, industrialization, globalization transitions and the World Bank’s policy suggestions have significant impacts on country’s economic

indicators (Stiglitz, 2004, 2016), some countries (e.g. India) have largely privatized their national and provincial SOEs in several resource and capital-intensive industries while some countries (e.g. China) have introduced new policy initiatives such as corporatization of SOEs. The accessible literature describe privatization as a mechanism to transfer ownership and/or control of SOEs from the governments to private enterprises, while corporatization is largely a financial restructuring process to strengthen long-term and working capital requirements of SOEs, and thereby improve operational, administrative, and governance systems of SOEs, such as public listing of an SOE, corporatization of an SOE's functional departments, public-private partnerships, etc. (e.g. Megginson and Netter, 2001; Thynne and Wettenhall, 2004; Wettenhall, 2007; Grosman *et al.*, 2016; Voorn *et al.*, 2017). For instance, Aivazian *et al.* (2005) indicate that corporatization policy, coupled with quality internal governance measures initiated by the Chinese Government, has had a positive effect on SOEs' performance. This line of development is further commended by new national policy measures, such as the administration and fiscal decentralization of SOEs, Go Global strategy, financial support in overseas large-scale projects, and political support in adverse conditions, among others (Gonzalez-Vicente, 2011; Bernier, 2014; Li *et al.*, 2014; Liang *et al.*, 2015; Huang *et al.*, 2017; Poczter, 2017). We indeed notice similar institutional changes of SOEs in other developed and emerging economies (Cuervo-Cazurra *et al.*, 2014; Xu *et al.*, 2014; Reddy *et al.*, 2016b, c; Abramov *et al.*, 2017).

Overall, the second phase is a series of policy changes created, adopted, and implemented by governments to improve performance and governance systems of SOEs, such as corporatization learning from inward internationalization of foreign country private MNEs, disinvestment of loss-making small-scale and medium-scale SOEs, consolidation of loss-making units into large-scale SOEs, and inviting private ownership, among others. On the one hand, these policy reforms have had helped governments to gain the efficient market information and correct the market irregularities, through adopting governance mechanisms and improving the financial performance of large-scale and medium-scale SOEs. It should be noted that marketization process and governance systems have been gradually improved with different goals, yet uneven and yield different outcomes in different countries (Megginson and Netter, 2001; Boubakri *et al.*, 2013; Christensen, 2015; Meckling *et al.*, 2015; Van Thiel, 2015; Bachiller, 2017; Boubakri *et al.*, 2017; Chen *et al.*, 2017; for example, China: Nolan and Xiaoqiang, 1999; Aivazian *et al.*, 2005; Li *et al.*, 2006; Tipton, 2009; Xu *et al.*, 2014; Liu *et al.*, 2016; Zhou *et al.*, 2017; India: Ramamurti, 1992; Ramaswamy and Renforth, 1996; Gupta, 2005; Brazil: Paz, 2015; Silvestre *et al.*, 2018; Russia: Abramov *et al.*, 2017; Greece: Lampropoulou, 2017). It is also important to view that disinvestment process and corporatization strategy are two different policy instruments of the governments, while both policies have been adopted simultaneously by governments but not the one after the one.

By contrast, influenced by ruling political party ministers in democratic countries with weaker regulations such as India, both central and state governments have had forcedly disinvested several SOEs' resources to help some large private conglomerates, for example, the sale of land-based resources and machinery at below market value. It is because private conglomerates are a vital financial source of political campaigns that help a particular political party to win in the general elections of the state or country. Lanoszka (2016, p. 64) argues that in Brazil's post-interventionist domestic bargaining as "to ensure political survival, the governing party wishes to accommodate domestic strategic players." In this direction, some notable studies have discussed the problems of agency conflict and the bargaining between politicians and managers of government firms/private ownership (e.g. Shleifer and Vishny, 1994; Shleifer, 1998; Dinc and Gupta, 2011).

3.3 Internationalization

The third phase is a contemporary debate on the globalization of SOEs – hybrid board management; investing in host country infrastructure development projects; natural resources, competitive advantage, commercial gains, political and information sources; the Congress objections and security concerns over real-estate investments (see, e.g. the earlier thoughts on this view by Wettenhall, 1993). Notwithstanding, we argue that the current phase is more likely to entice new ways of corruption, through sub-contracting public utility works and hybrid board management (Alexius and Grossi, 2017). In this section, we develop some theoretical propositions to analyze the outward FDI projects announced by SOEs around the world.

Resources science. Geography is the science of the world nature and spatial system. It implicitly connects with the history, spatial borders, and resources science. A large body of the political economy and international business literature indicates that national borders and power order are deeply rooted in the humanly controlled world spatial and resource systems (Xie *et al.*, 2017). Specifically, the effective matrix of spatial size and resource amount determines the economic performance of the country. For instance, Yeung (1998, p. 293) suggests that space is an integral part of the re(production) of capital and capital accumulation, in which spatial dimensions affect the world business at least from the accessibility and distanciation, appropriation and use of space, domination, and control of space, and (re)production of space. Since resources are scarce, valuable, and immobile (Barney, 1991; Peteraf, 1993), scholars like Grant (1991) describe resources and capabilities as the foundation for strategy, as a source of direction, and as the basis for corporate profitability. Hence, the amount of resource extraction and development depends upon the strategic capabilities of the government. Note that capabilities include technology, scientific knowledge, R&D, and professional expertise (Barney, 1991; Grant, 1991; Peteraf, 1993). In the literature, scholars have established the coherent relationship between geography, the economic activity of trade, and specialization of trade (Krugman, 1991). For instance, Eaton and Kortum (2002, p. 1741) explain that “geography plays a key role in economic activity because – trade diminishes dramatically with distance and prices vary across locations, and countries are working with different technologies due to–factor rewards are far from equal across countries and countries’ relative productivities vary substantially across industries.”

Because resources extraction and resources utilization affect the economic development of the country, the joint forces not only creates the trade market but also naturally renders a legitimate power to the government. In the context, if the trade market is driven by resources supply and resources demand determinants, the government perpetually administers and controls the market forces for both the public good and national security. For example, government intervention to correct market failures can take at least three broad forms, namely, regulation, taxes/subsidies, and provision, in which market failures include monopolies or lack of competition, market externalities, and public goods (Putniņš, 2015, p. 828). Thus, we understand that geography and resources help governments to facilitate better economic development and provide sustainable economic life to the citizens of the nation. Although production and reproduction of the capital are a location bound, national boundaries still matter in the globalization process of the state capitalism (Yeung, 1998). In this vein, Marquis and Raynard (2015, p. 320) describe that “globalization has opened up a *two-way street*, wherein businesses from advanced economies are not only expanding and diversifying into emerging markets, but businesses in emerging economies are also increasingly entering developed markets.”

Regulations and governance. In the aftermath of the financial crisis, developed and developing economies are intensely working on business regulatory environment and national security concerns. In such a scenario, we must know: what are institutions and what factors

influence the institutional development. In the radical literature, North (1991) defines that institutions are the humanly devised constraints that structure political, economic, and social interaction, consist of both formal rules (e.g. legal framework) and informal constraints (e.g. culture). While informal institutions such as customs and traditions influence the trade market integration, the key market mechanism pillars are controlled by resources demand and resources supply factors and formal institutions such as constitutional framework (Xie *et al.*, 2017). Importantly, the outcome of the dynamic interaction between institutions and organizations affect firm's strategic choices and performance (Peng, 2003). Further, factors such as uncertainty, agency relationships, business transactions, and market structures affect the market functioning rules (Meyer and Peng, 2016). Integrating them, scholars view institutional strategy as "the comprehensive set of plans and actions directed at leveraging and shaping socio-political and cultural institutions to maintain or improve an organization's competitive position" (Marquis and Raynard, 2015, p. 294).

From the FDI standpoint, researchers have suggested that geographic distance, better rule of law, less government intervention, economic openness, control of corruption, and political stability are the driving forces of new market integration, sustainable development, and corporate social performance (Demir, 2016; Lamb and Roundly, 2018). In particular, home market development, resource security, privatization, institutional policies, financial strength, and institutional voids have significant impacts on the internationalization strategy of SOEs (WIR, 2011, 2013; He *et al.*, 2016; Del Bo *et al.*, 2017; Xie *et al.*, 2017). According to UNCTAD (WIR, 2014), at least 55 countries have created or amended a total of 1,082 institutional policy changes during the period 2000-2012, and a total of 9,175 bilateral investment treaties have signed among 201 countries, as of 2013 (Demir, 2016). In 2014, more than 80 percent of investment policies are motivated to improve cross-border trade environment and reduce market entry conditions (WIR, 2015). For Doing Business Report (World Bank, 2015), at least 60 percent of the world economy have improved their rules for doing business during 2014-2015, suggesting that 231 reforms carried out by 122 countries, of which high-income economies account for 62 reforms, and a total of 85 developing economies account for 169 reforms. Standing with these policy evidences (also see Table III in Section 5), we suggest that not only resources and capabilities but also institutional development, market integration, and access to global capital markets affect SOEs' strategic choices such as outward FDI. Therefore:

- P1. Home market development and resource dependence affect SOEs' strategic growth choices such as outward FDI.
- P2. Government legitimacy and institutional transitions, coupled with geopolitical relations, drive SOEs toward internationalization strategy.
- P3. Monopoly cash flows of the firm and access to global financial markets, coupled with state wealth support, facilitate SOEs in pursuing large-scale FDI projects and accelerating their internationalization process through the acquisition method.

4. Research design

Grounded in the exploratory setting and qualitative research guidelines, the study adopted a triangulation approach to support theoretical framework and generalize research findings. For the social sciences literature, triangulation is a technique to generalize research findings to a larger population by garnering data from multiple sources (Yin, 2003; see relevant studies on this approach, Lai *et al.*, 2015; Reddy *et al.*, 2016c; Mazon *et al.*, 2017). While scholars suggested different types of triangulation, we defined our triangulation from the data standpoint. Our data technique was archival sources, such as the UNCTAD FDI stat/World Investment Reports. Additional

information – country-wise geographic, economic, institutional, and innovation indicators – accessed from authentic sources, including the World Bank Development Indicators, Doing Business Report (World Bank, 2017), Global Competitiveness Report (WEF, 2017), the Index of Economic Freedom (THF-WSJ, 2017), and the Academic Ranking of World Universities (ARWU, 2017).

Without defining any limitations to publicly accessible UNCTAD’s global FDI data, we discussed research findings in two groups. First, we analyzed the market for outward FDI projects undertaken by SOEs for a sample of six regions and 22 source/home countries (group 1), and three sectors and five industries (group 2) during the period 2003-2010. The period of the study was limited as no access to commercial archival databases. Then, we supported the main findings by citing national-level geographic, economic, institutional, and innovation indicators. In addition, we illustrated the top ten non-financial state-owned MNEs with 51 percent and above of government ownership, indicated by foreign assets.

5. Results

5.1 Outward FDI projects undertaken by state-owned MNEs: country share

We show market trends for outward FDI projects undertaken by SOEs during the period 2003-2010 (see Figure 2, Table II). We also support the findings by citing some impactful macroeconomic indicators of sample countries (see Table III). Data points are categorized into four panels, such as geographic factors (area rank, population); economic factors (GNI per capita, GDP at market prices, GDP growth rate, percentage of exports to GDP, percentage of imports to GDP, foreign exchange reserves, percentage of market capitalization of listed domestic companies to GDP, and percentage of public debt to GDP); institutional factors (index of economic freedom ranking, doing business ranking, global competitiveness ranking); and innovation factors (percentage of R&D to GDP, world university rankings).

From the source-country standpoint, there are at least 653 SOEs in the world economy with a cumulative outward investment of over US\$1 trillion. Since government control is higher in the developing countries, they represent a larger number of SOEs by 368 with a cumulative FDI of US\$662 billion, leading to 56 percent of world economy. On the region level, both Europe and Asia account for a higher number of SOEs by 264 and 235 with a

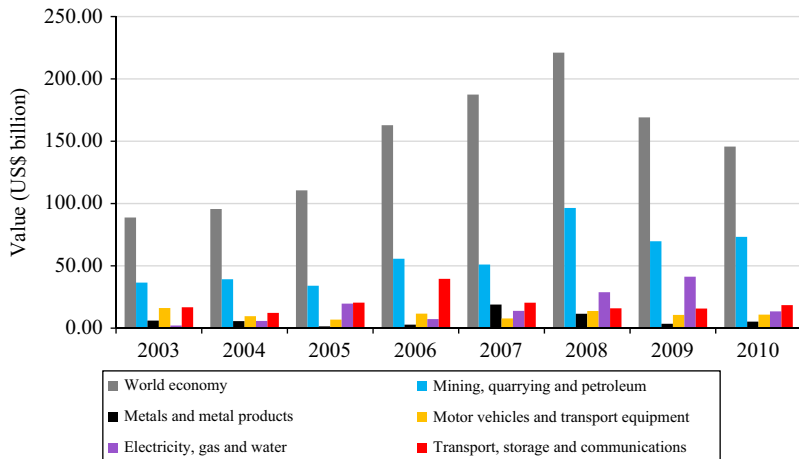


Figure 2.
Outward FDI projects undertaken by state-owned MNEs: Industry portfolio.

Source: Drawn based on Table IV

	Number of SOEs	2003 (US\$ bn)	2004 (US\$ bn)	2005 (US\$ bn)	2006 (US\$ bn)	2007 (US\$ bn)	2008 (US\$ bn)	2009 (US\$ bn)	2010 (US\$ bn)	Total (US\$ bn)	Share %
<i>World</i>											
Developed countries	653	88.81	95.61	110.56	162.83	187.39	221.03	169.11	145.69	1,181.03	-
Developing countries	285	34.41	48.57	55.34	55.17	85.88	98.14	84.94	56.05	518.50	43.90
	368	54.40	47.04	55.22	107.66	101.51	122.90	84.17	89.64	662.54	56.10
<i>Region-wise</i>											
North America	3	-	0.04	0.02	0.02	0.03	0.67	0.30	1.11	2.20	0.19
Europe	264	31.89	46.31	54.75	54.13	69.86	96.19	82.14	53.21	488.47	41.36
South America	20	7.62	1.45	2.56	3.17	4.27	11.09	2.76	7.84	40.77	3.45
Africa	82	3.13	15.36	1.20	0.46	1.41	4.76	2.48	3.39	32.19	2.73
Asia	235	25.88	26.22	41.77	98.33	85.42	95.74	69.02	74.47	516.85	43.76
South-East Europe and CIS	23	17.50	4.02	9.68	5.70	10.41	11.29	9.92	3.94	72.46	6.14
<i>Country-wise (22 sample countries)</i>											
Austria	12	1.55	3.65	1.49	8.70	2.24	3.53	5.52	0.17	26.87	2.28
Brazil	9	5.34	1.09	2.39	1.74	2.50	9.59	2.38	5.81	30.84	2.61
China	50	11.46	5.59	8.19	16.77	21.27	32.49	28.61	38.90	163.28	13.83
Denmark	36	0.16	0.15	1.93	0.17	1.46	5.02	1.03	0.25	10.17	0.86
Finland	21	1.18	0.45	2.89	3.16	7.43	9.37	0.25	1.19	25.92	2.19
France	32	7.13	10.97	20.86	9.21	14.58	33.87	36.81	20.71	154.14	13.05
Germany	18	12.69	10.89	9.03	8.72	10.39	10.02	10.09	11.57	83.39	7.06
India	20	2.84	6.00	3.65	13.91	1.10	4.53	5.17	0.49	37.69	3.19
Ireland	10	0.61	0.63	0.73	2.55	0.75	1.30	1.40	1.58	9.54	0.81
Italy	6	1.92	5.05	6.23	7.14	8.97	7.65	10.51	4.73	52.21	4.42
Japan	4	1.56	2.13	0.57	0.77	15.99	1.22	2.13	1.53	25.89	2.19
Kuwait	19	1.02	1.35	0.74	10.07	4.11	4.50	0.29	1.26	23.33	1.98
Malaysia	45	4.93	1.43	2.57	2.05	4.29	4.81	2.85	19.81	42.75	3.62
The Netherlands	12	1.35	0.43	0.59	5.07	0.50	3.75	2.32	4.60	18.60	1.57
Norway	27	2.84	11.09	8.03	5.22	10.54	9.75	5.85	2.24	55.54	4.70
Russian Federation	14	17.46	4.01	9.60	5.67	8.97	10.72	9.90	3.81	70.14	5.94
Singapore	9	2.20	4.61	2.69	6.31	6.57	2.72	1.19	1.74	28.03	2.37
South Africa	54	2.14	15.35	1.17	0.45	1.36	2.17	2.32	2.23	27.18	2.30
Sweden	18	0.30	0.40	1.04	0.74	0.35	7.16	1.98	3.63	15.59	1.32
UAE	21	0.45	0.26	17.52	45.52	27.11	28.30	20.47	5.71	145.33	12.31
UK	5	0.85	0.40	0.52	1.87	0.71	0.33	0.16	0.30	5.06	0.43
USA	3	-	0.04	0.02	0.02	0.02	0.67	0.30	0.38	1.46	0.12

Source: Compiled from the UNCTAD's FDI Stat/WIRS

Table II.
Outward FDI projects
undertaken by state-
owned MNEs: country
share

Table III.
Geographic, economic,
institutional, and
innovation indicators
for 22 sample
countries

Area size	Geographic factors			Economic factors					Institutional factors					R&D and World University Rankings	
	Rank (1)	Population Millions (2)	GNI per capita, PPP 2016 US\$ (3)	GDP at market prices (US\$ bn) (4)	GDP growth 2016 % (5)	Exports (% of GDP) 2016 % (6)	Imports (% of GDP) 2016 % (7)	Total reserves 2016 (US\$ bn) (8)	Market capitalization (% of GDP) 2016 % (9)	Public debt (% of GDP) (10)	Index of Economic Freedom 2017 Rank (11)	Doing Business 2017 Rank (12)	Global Competitiveness 2017-18 Rank (13)	R&D % of GDP 2015 (14)	Top 500 universities – ARWU (2017) Number of universities (15)
Austria	113	8.7	49,990	386.4	1.5	52	48	23.26	31.3	86.2	30	19	18	3.07	4
Brazil	5	207.7	14,810	1,796.2	-3.6	12	12	364.98	42.2	73.7	140	123	80	1.17	6
China	3	1,378.7	15,500	11,199.1	6.7	20	17	3,097.66	65.4	43.9	111	78	27	2.07	45
Denmark	130	5.7	51,040	306.1	1.3	53	46	64.22	—	45.6	18	3	12	3.01	5
Finland	64	5.5	43,400	236.8	1.4	35	37	10.49	—	62.4	24	13	10	2.90	5
France	41	66.9	42,380	2,465.5	1.2	29	31	145.87	87.5	96.8	72	29	22	2.23	20
Germany	62	82.7	49,530	3,466.8	1.9	46	38	184.03	49.5	71.0	26	17	5	2.88	37
India	7	1,324.2	6,490	2,263.5	7.1	19	21	361.69	69.2	67.2	143	130	40	0.63	1
Ireland	118	4.8	56,870	294.1	5.2	120	97	3.59	40.8	78.7	9	18	24	1.51	3
Italy	71	60.6	38,230	1,850.0	0.9	30	27	135.13	27.3	132.6	79	50	43	1.33	16
Japan	61	127.0	42,870	4,939.4	1	18	18	1,216.52	100.3	248.1	40	34	9	3.28	17
Kuwait	152	4.1	83,420	114.0	1.8	54	45	33.94	—	10.6	61	102	52	0.30	—
Malaysia	66	31.2	26,900	296.4	4.2	67	61	94.48	121.4	57.4	27	23	23	1.30	2
The Netherlands	131	17.0	50,320	770.8	2.1	81	70	35.91	110.8	67.6	15	28	4	2.01	12
Norway	67	5.2	62,510	370.6	1.1	34	33	60.45	62.4	27.9	25	6	11	1.93	3
Russia	1	144.3	22,540	1,283.2	-0.2	26	21	377.05	48.5	17.7	114	40	38	1.13	3
Singapore	176	5.6	85,050	297.0	2	176	146	251.06	215.7	98.2	2	2	3	2.20	2
South Africa	24	55.9	12,860	294.8	0.3	30	30	47.18	322.7	50.1	81	74	61	0.72	5
Sweden	55	9.9	50,000	511.0	3.2	44	40	59.36	—	44.1	19	9	7	3.26	11
UAE	114	9.3	72,850	348.7	3	104	101	85.39	61.1	19.4	8	26	17	0.87	—
UK	78	65.6	42,100	2,618.9	1.8	28	30	134.93	—	89.3	12	7	8	1.70	38
USA	4	323.1	58,030	18,569.1	1.6	13	15	405.94	147.3	150.8	17	8	2	2.79	135

Sources: Column 1: Area size (https://en.wikipedia.org/wiki/List_of_countries_and_dependencies_by_area); Columns 2-9, 14 (World Development Indicators provided by the World Bank, as of November 2017); Columns 10, 11 (THE-WSJ, 2017); Column 12 (World Bank, 2017); Column 13 (WEF, 2017); Column 15 (ARWU, 2017)

cumulative investment of US\$488 billion and US\$517 billion, leading to 41 and 44 percent of the world economy, respectively. Hence, a closer look at the Asian market indicates that SOEs, especially from China, have announced the significant amount of outward FDI projects around the 2007-2009 global financial crisis, particularly compared with the previous years. For example, the outbound investment by Asian SOEs has been doubled by US\$98 billion in 2006 from US\$41 billion in 2005, then continued with similar outflows of US\$85 billion and US\$96 billion in 2007 and 2008, respectively. On an average, Asian SOEs represent about US\$2.2 billion that is slightly higher than that of European SOEs accounting for US\$1.85 billion. Although Africa accounts for over 80 SOEs, the FDI outflows are relatively small in size by US\$32 billion, leading to 3 percent of the world share.

On the country level, Denmark, Finland, Germany, India, Malaysia, Kuwait, South Africa, and Sweden represent a significant number of SOEs, but their outward FDI flows are comparatively below average due to their home country concentration, FDI regulations or firm-level cash flows. More importantly, China, France, and UAE account for a larger number of SOEs by 50, 32, and 21 with a significant cumulative FDI of US\$163 billion, US\$154 billion, and US\$145 billion, respectively. Based on a cumulative share to the world economy and average cumulative FDI of sample countries (US\$48 billion), China leads by 14 percent, then France 13 percent, UAE 12 percent, Germany 7 percent, Russia 6 percent, Norway 5 percent, and Italy 4 percent, among others.

Drawing upon impactful country-level indicators (Table III), we suggest that:

- European countries like France and Italy possess resources advantage (e.g. foreign exchange reserves, population, GNI per capita), better doing business environment, the percentage of R&D to GDP, and the number of world-class universities, together with leading to contributing to the national competitiveness.
- Coupled with the percentage of R&D to GDP and the number of world-class universities, measured by area, China is the third largest country in the world representing bigger population, larger amount of foreign exchange reserves, and smaller percentage of public debt to GDP, which has been gained the 27th global competitiveness rank in 2017-2018 (WEF, 2017).
- UAE's wealth and comparative advantage are mainly rooted in the spatial system of oil and gas resources, it is a small country with fewer population, higher GNI per capita, better economic freedom and doing business conditions, which together contribute to competitiveness. While the UK and the USA have had privatized or disinvested several SOEs in previous decades, they hardly contribute to SOEs' market dynamics.
- Comparing with their counterparts from emerging economies, SOEs from developed economies are less active in outward investments, and hence, their outward FDI trend has been dropped aftermath of the crisis. It is partly because of the lower economic performance of countries in the Eurozone (WIR, 2014).

5.2 Outward FDI projects undertaken by state-owned MNEs: industry portfolio

On the sector/industry level (see Figure 2, Table IV), SOEs from Europe, Asia, and the Middle East have mainly targeted the primary sector and the services sector with a cumulative FDI by US\$456 billion and US\$475 billion, leading to 38 and 40 percent of world share, respectively. Broadly, we understand that SOEs prefer to invest in the resources sector such as coal and oil, infrastructure projects such as communications and public utilities, and services sector such as banking and finance. For instance, SOEs account for higher outward flows in resources sector such as mining, quarrying and petroleum by US\$456 billion, then concentric services sector such as transport, storage and communications by US\$160 billion, and utilities sector such as electricity, gas and water by US\$133 billion.

Table IV.
Outward FDI projects
undertaken by state-
owned MNEs:
industry portfolio

	World economy		Sector						Transport, storage and communications									
	Value (US\$ bn)	Growth rate (%)	Primary		Manufacturing		Services		Mining, quarrying and petroleum		Metals and metal products		Motor vehicles and transport equipment		Electricity, gas and water			
			Value (US\$ bn)	Share (%)	Value (US\$ bn)	Share (%)	Value (US\$ bn)	Share (%)	Value (US\$ bn)	Share (%)	Value (US\$ bn)	Share (%)	Value (US\$ bn)	Share (%)	Value (US\$ bn)	Share (%)		
2003	88.81	-	36.57	41.18	27.88	31.39	24.36	27.43	36.57	41.18	6.08	6.85	16.13	18.16	2.12	2.39	16.76	18.87
2004	95.61	7.66	39.28	41.08	29.47	30.82	26.86	28.10	39.26	41.06	5.65	5.91	9.65	10.09	5.79	6.06	12.25	12.82
2005	110.56	15.64	34.05	30.80	14.12	12.77	62.39	56.43	34.05	30.80	1.46	1.32	6.88	6.23	19.70	17.81	20.49	18.53
2006	162.83	47.28	55.70	34.21	21.45	13.17	85.68	52.62	55.70	34.21	2.82	1.73	11.66	7.16	7.28	4.47	39.58	24.31
2007	187.39	15.09	51.06	27.25	63.62	33.95	72.71	38.80	51.06	27.25	18.96	10.12	7.81	4.17	13.89	7.41	20.42	10.90
2008	221.03	17.95	96.64	43.72	36.42	16.48	87.96	39.80	96.44	43.63	11.55	5.23	13.79	6.24	28.87	13.06	15.92	7.20
2009	169.11	-23.49	69.73	41.24	31.79	18.80	67.59	39.97	69.73	41.24	3.52	2.08	10.62	6.28	41.27	24.41	15.75	9.31
2010	145.69	-13.85	73.29	50.30	24.48	16.80	47.92	32.89	73.29	50.30	5.25	3.60	10.84	7.44	13.50	9.26	18.52	12.71
Total	1,181.03	-	456.33	38.64	249.22	21.10	475.47	40.26	456.10	38.62	55.29	4.68	87.38	7.40	132.42	11.21	159.69	13.52

Source: Value data were compiled from the UNCTAD's FDI Stat/WIRs

Furthermore, a survey of greenfield investments and M&A deals indicates that several SOEs have adopted M&A method to expand into global markets, particularly around the financial crisis. To note, a total of US\$240 billion by SOEs has been invested in the mining, quarrying and petroleum between 2008 and 2010. A similar investment pattern can be noticed in the public utilities sector such as electricity, gas and water. In fact, SOEs from developing countries control three-fourths of the world crude oil reserves (WIR, 2014). For example, China's CNOOC, Norway's Statoil, Italy's Enel, Malaysia's Petronas, Russia's Gazprom, Brazil's Petrobras, India's ONGC, and Saudi Arabia's Aramco are national champions in their home countries. They have acquired a number of oil assets or oil targets in developed (e.g. Canada) and emerging economies (e.g. Brazil) during the past decade (see a classic paper on global oil and gas industry deals: Reddy and Xie, 2017). In case of China, CNOOC bought Canadian Nexen for US\$19 billion, Aluminum Corporation of China acquired 12 percent equity stake in Australian Rio Tinto for US\$13 billion, and China Three Gorges Corporation acquired over 20 percent control in Energias de Portugal for US\$3.5 billion (Reddy *et al.*, 2016b). For Italy, Enel acquired about US\$3 billion worth of assets of electoral services in Colombia, and ENI bought US-based Dominion Resources for US\$4.8 billion. In case of Norway, Norsk Hydro purchased Brazilian Vale Aluminum operations for US\$5 billion. For Malaysia, Petronas bought Canadian Progress Energy for over US\$5 billion. For India, ONGC acquired UK-based Imperial Energy for US\$2.8 billion (see, for instance, single, comparative, and cross-country studies: Peng, 2012; Sun *et al.*, 2012; Anderson and Sutherland, 2015; Lai *et al.*, 2015; Reddy *et al.*, 2016b; Del Bo *et al.*, 2017; Luo *et al.*, 2017; Tavares Lehmann and Lehmann, 2017; Caiazza, 2018).

5.3 Internationalization-performance indicators

To shed further light on the global performance of SOEs around the world, we show top ten non-financial state-owned MNEs having 51 percent and above of government ownership, measured by foreign assets (Table V). Cumulatively, the ten SOEs hold foreign assets by US \$433 billion (35 percent) against total assets US\$1.23 trillion, foreign sales US\$173 billion (30 percent) against total sales US\$564 billion, and foreign employment 156 thousand (16 percent) against total employment of one million. Of this, France's public utility corporation EDF is a large state-owned MNE with a significant foreign asset value by US \$84.5 billion, then Statoil (Norway), CNOOC (China), Petronas (Malaysia), to cite a few. The asset turnover ratio, sales by assets, is a suitable performance indicator to compare with private MNEs' performance. Future research in this direction would advance our understanding of the changing dynamics and performance of large-scale SOEs.

5.4 Summary

The aforementioned findings reveal at least two major market trends. First, SOEs from Asia and Europe are actively involving in global outward FDI projects since the outbreak of the global financial crisis, and their speed of market integration through the acquisition method has been accelerated. Second, while SOEs possess adequate cash flows and receive special benefits from their home country governments, they strategically diversify the investment risk by targeting extractive industries (e.g. oil), sustainable infrastructure projects (e.g. roads and railways), and public utilities (e.g. electricity). Also, the accessible literature highlight that SOEs from emerging markets tend to pay higher takeover premium in cross-border acquisitions when a target is associated with scarce resources sector such as oil and coal mining (Reddy *et al.*, 2016b; Del Bo *et al.*, 2017). Therefore, we emphasize that SOEs' internationalization strategy would contribute to the competitiveness of their home countries.

However, institutional changes such as elevated geopolitical tensions; economic uncertainty in the Eurozone; FDI stricter regulations – protection of national champions,

Table V.
Top 10 non-financial
state-owned MNEs
with 51 percent and
above of government
ownership by
(WIR, 2017)

Corporation	Country	Industry	Government equity (%)	Assets		Sales	Number of employees		Asset turnover ratio			
				Total (US\$ bn)	Foreign (US\$ bn) % of foreign		Total (US\$ bn)	Foreign (US\$ bn) % of foreign	Total	Foreign		
EDF SA	France	Utilities	84.6	296.87	84.51	78.77	17.92	15,4808	25,142	16.24	26.53	21.21
Statoil ASA	Norway	Oil and gas	67	104.53	59.00	45.69	10.19	20,539	2,505	12.20	43.71	17.27
CNOOC	China	Mining and Oil and Gas	100	179.23	66.67	67.79	17.76	110,200	8,979	8.15	37.82	26.64
Petronas	Malaysia	Mining and Oil and Gas	60.6	139.87	47.91	63.32	46.46	53,149	10,630	20.00	45.27	96.97
China COSCO Shipping Corp	China	Transport and storage	100	55.64	43.08	22.97	15.10	82,708	5,114	6.18	41.27	35.06
China Minerals Corp	China	Metals and metal products	100	107.93	35.17	32.58	16.22	240,000	15,082	6.28	63.38	46.13
Saudi Basic Industries Corp	Saudi Arabia	Chemicals and allied products	70	87.53	22.87	39.49	26.14	40,000	25,391	63.48	45.12	114.30
China State Construction Engg Corp	China	Construction	100	165.74	25.47	140.10	9.72	241,474	37,112	15.37	84.53	38.15
Vattenfall	Sweden	Utilities	100	45.16	24.43	17.83	11.85	19,935	11,251	56.44	39.49	48.49
ONGC	India	Mining and Oil and Gas	68.9	53.77	23.92	20.08	1.89	33,927	15,095	44.49	37.36	7.90

Source: Compiled from the UNCTAD's FDI Stat (WIR, 2017); the ranking was based on foreign assets reported for the financial year 2015-2016; the asset turnover ratio, sales by assets, was calculated by authors

natural resources and local companies; national security concerns over foreign SOEs investments in extractive industries; and protect the national economy from foreign competition to avoid any financial crisis issues, have adverse effects on the internationalization strategy and overseas operational performance of SOEs (WIR, 2013, 2014, 2015; see also Shi *et al.*, 2016; Li *et al.*, 2017). For instance, a number of Chinese deals announced in the USA have been badly affected by political opposition and severe regulatory scrutiny (Alon *et al.*, 2015; Tingley *et al.*, 2015). Though, it is found that Chinese SOEs are more likely to invest in the resources sector in target countries with high political stability, leading to confirm the dominant role of state ownership in the extractive industries in domestic and overseas markets (Luo *et al.*, 2017).

6. Discussion

6.1 Contributions

At least three contributions emerge from this study. First, nested within the public sector management, financial economics, and international business strategy literature, we illustrate the transformational dynamics of SOEs – institutionalization to internationalization. This explains the purpose of establishing SOEs by national governments, the causes and consequences of the poor financial performance of SOEs, the privatization of SOEs, corporatization policy reforms pertaining to the capital allocation to large-scale SOEs, and integrating national economies with the global economy through a “Go Global” strategy of SOEs. A closer look at this illustration highlights the diminishing size of SOEs – the number of units. However, we still notice several SOEs keep on disinvesting in emerging and developing countries, for example, the Indian government has been divested several SOEs through the sale of minority equity stake, public offerings, and strategic sales over the past five years. A large part of this disinvestment has been funded to annual budgets (Dinc and Gupta, 2011; see further readings on this issue: news archive).

Second, based on the home country portfolio of outward FDI projects undertaken by SOEs, we notice that SOEs from Europe (France), Asia (China), and the Middle East (UAE) have reported a significant amount of global FDI flows through greenfield and acquisition methods. In particular, Chinese SOEs have largely invested in a host country via acquisition strategy because it offers immediate ownership control over target resources and capabilities.

Third, in case of industry portfolio, SOEs have adopted a diversification risk strategy, in which they tend to invest in large-scale projects of resource sector such as mining, quarrying and petroleum, infrastructure projects such as transport, storage and communications, and public utilities such as electricity, gas, and water. Thus, SOEs’ global strategy has been motivated toward extractive industries and capital-intensive industries; and they continue to invest in the public utility sector.

6.2 Practical implications

The study offers several implications for policymakers and SOEs. First, given that financial markets development and geopolitical relations significantly affect the economic performance of the country, state policymakers are suggested to pursue a corporatization strategy rather than privatization or disinvestment. It is because corporatization not only facilitates better access to capital markets and brings good corporate governance practices but also improves the financial performance of central and local SOEs. Except for national security and some key decisions, if government transfers corporate-level and strategic-business unit level controls to the boards of SOEs, the operational and financial performance may improve, relative to private sector firms in a given industry. Since government provides special benefits such as financial assistance to SOEs, corporatization may drive SOEs toward global catch-up strategies, including geographical diversification, mergers and acquisitions strategies. In the context, our central argument is that government must consider offering individual legitimacy to the

boards of central/state SOEs, at least in firm-level strategic decisions, such as international market entry, fund allocation, exporting, and overseas resource acquisition choices.

Second, because central SOEs possess adequate cash flows, and receive considerable privileged assistance and directions from the sovereign, it is important to oversee financially weak local SOEs rather than auctioning them through public financial markets to some large private business groups. We mean loss-making SOEs may be consolidated into profit-making SOEs or may be given special assistance by national champions (e.g. contractual buyouts: Reddy *et al.*, 2016a). These turnaround strategies may help emerging economies' fiscal budgets as well as improve the competitiveness of medium-scale SOEs.

Third, fiscal decentralization and administrative decentralization of SOEs may boost the amount of comparative advantage in terms of factor endowments, such as advanced technology and resources that eventually affect the national competitiveness.

6.3 Limitations and future research directions

The study puts forth some limitations that may be useful in future research on the global strategy and operational performance of SOEs. On the one hand, our study exemplified based on exploratory research instructions and limited to public archival data sources. Although we discussed some case examples in the analysis section, a systematic investigation of single case/multiple cases, a comparative analysis of state-owned and private enterprises, and a critical investigation of the foreign investment regulations and extractive industries may enrich our understanding of the global strategic investment choices and performance of state capitalism. On the other hand, we showed the geographic patterns and industry trends of outward FDI projects initiated by SOEs, though hypotheses testing and statistical analyses unstated in the paper. Specifically, management of SOEs' foreign affiliates, organizational change processes, the decision-making process of SOEs, and the role of outgoing SOEs in host country development may add significant contributions to the public management literature.

7. Conclusion

Academic scholars, press and policy organizations around the globe have noticed the prominence and speed in the internationalization strategy of state capitalism, though the market for outbound FDI by SOEs has been descended after the financial crisis. It is because several host countries have tightened their regulations with regard to the foreign ownership and direct state intervention in extractive industries and raised concerns over their national security. Through transformational changes pertaining to the tax system, investment regulations, and governance practices, SOEs would help national governments to initiate sustainable development programs in the home country and host country as well. This study concludes that "resources security to meet the home market demand; organizational slack and state-backed financial support; informational, geopolitical and institutional rivalry gains through an efficient mechanism of investment diversification" are more likely luring the Bears (SOEs) to go global.

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