DOI: 10.1515/ijme-2016-0012

International Journal of Management and Economics
No. 50, April–June 2016, pp. 63–81; http://www.sgh.waw.pl/ijme/

Marta Götz[1]
Vistula University, Warsaw, Poland

Barbara Jankowska[2]
Poznań University of Economics and Business, Poland

Internationalization by State-owned Enterprises (SOEs) and Sovereign Wealth Funds (SWFs) after the 2008 Crisis.[3] Looking for Generalizations

Abstract

This paper seeks to detect (post) crisis tendencies in the international activities of state-owned enterprises (SOE) and sovereign wealth funds (SWF) and identify the main challenges posed in exploring this topic. In doing so it draws on the inductive approach and qualitative method and discusses available studies on recent internalization trends in SOEs and SWFs. The number of SWFs worldwide has been rising since 2008, despite the 2008 crisis which brought heavy losses and negative publicity that caused a rerouting of funds towards domestic purposes. The long-term perspective adopted by SWFs is expected to make less vulnerable to financial market volatility, which should stimulate FDI. SOTNCs are a minority among SOEs in general, i.e. only a fraction of SOEs worldwide can be labeled as state-owned transnational companies; and no exceptional impact of the 2008 crisis is apparent in their functioning The review of selected literature and UNCTAD survey reports is the basis for our conclusions and suggestions for future research avenues.

Keywords: foreign direct investment (FDI), sovereign wealth fund (SWF), state-owned enterprise (SOE), 2008+ crisis
JEL: F00, F21, F23, G18, G30

Introduction

The bottom-up indirect policy of supporting Outward Foreign Direct Investment (OFDI) is designed to build capability by creating an environment that stimulates firm development [Gorynia et al., 2013, Torres, 2014] and direct public intervention through economic diplomacy, liability reducing measures, and enhanced organizational legitimacy [Jankowska et al., 2015]. A direct pathway of state supported internationalization is via state-owned enterprises (SOEs) or sovereign wealth funds (SWFs). SWFs are defined as special purpose investment funds or arrangements owned by the government [WIR, 2011, p. 14]. As this paper deals with the international aspects of SOE activity, the term of state-owned transnational company (SOTNC) should be introduced. UNCTAD defines SOTNCs as corporations owned or influenced by the State (minimal required stake equals 10% or such legal provisions as the "golden share"). [Bruton et al., 2015]. SOTNCs consist of parent companies and their foreign entities – subsidiaries/branches that are controlled and/or owned by the national authorities. SOTNCs, unlike SWFs, "are not enterprises and are not necessarily governed by the usual corporate mechanisms". In this paper we attempt to assess if SWF and SOTNCs are gaining more ground as major players in international business and in FDI flows in the (post) crisis world economy. The justification for embedding our research in the period after 2008 is the observed fear of the return of protectionism, nationalistic discourse, the revival of state capitalism and, hence, also reactivation of SOEs. The structure of the paper is as follows; first we survey the available scientific literature concerning the phenomenon of SOEs internationalization. We then review UNCTAD World Investment Reports starting with the 2009 "crisis edition" to detect certain tendencies as far as SOEs and SWFs foreign investments are concerned. The paper concludes by identifying basic challenges posed in this promising research area.

State-Owned Enterprises (SOEs) and Sovereign Wealth Funds (SWFs) – Entities to be Involved in Internationalization

Global privatization in the former planned economies in the 1980s and 1990s is manifested by the development of the private sector and decline in the number and significance of SOEs [Vickers and Yarrow, 1992, Gorynia, 2007; Estrin et al., 2009]. However, even after 25 years of transformational changes in the Middle and East European countries SOEs still coexist with private firms [Hall, Soskice, 2001: Redding, 2005] and are noticeable in other countries that did not go through the transition process. The role played by SOEs with regard to the internationalization of the whole economy varies by the type of capitalism prevailing in that country [Hall and Soskice, 2001; Amable, 2003;

Crouch, 2005]. Musacchio et al., [2015] even claim that SOEs epitomize the varieties of capitalism. Besides the wholly owned SOEs there are also majority and minority owned firms, as well as companies "only" supported by the State. Given the lack of universally accepted definition and mix of interlinkages between the purely private and public spheres, one should consider SOEs as hybrid entities combining both types of ownership [Bruton et al., 2015]. There are two main explanations for the existence of SOEs in a market economy – market imperfections and ideological and political strategies. In the first case SOEs are intended to address inefficiencies in resources allocation that negatively impact state welfare. In the second – SOEs are instruments to implement particular state goals. The close relationship between the state and business allows the state to treat the SOEs as a kind of political booty, and may cause asymmetry of management responsibilities and rights that facilitate misguided managerial decisions, and quite often, inefficient allocation of investment resources linked to visibly lower SOE efficiency [Choroszczak, 2015]. Various studies often quote the factors responsible for such inferior performance as compared to private firms, which include soft budget constraints, bureaucratic burden, and higher risk and costs tolerance [Kwiatkowski, 2014]. On the other hand, much criticism of SOEs concerns the favoritism they enjoy thanks to close relationships with the authorities. The empirical analysis conducted by Christiansen and Kim [2014] indicates that, in addition to financing advantages, large state-invested enterprises also seem to benefit from an unusually favorable position in their home markets. The most frequently cited advantages include: outright subsidization (tax exemptions, favorable tax regimes or other in-kind benefits); concessionary financing and guarantees (such as credit at below market interest rates); other preferential treatment by government (less restrictions, softer disclosure regulations, permitted non compliance with certain standards); monopolies and advantages of incumbency; *captive equity* (as SOEs' equity is generally "locked in" and their managers are not expected to deliver dividends or other rates of return etc. expected from private firms), exemption from bankruptcy rules, and information advantages.

Bearing in mind these SOEs and SWFs features, the question of how they impact the internationalization of such entities emerges, particularly concerning their outward foreign direct investments.

Study Methodology

In attempting to detect the idiosyncratic features of SOE and SWF internationalization we try to avoid any pre-conceptualization of this phenomenon by following the inductive approach [Neuman, 2003]. This research method searches for patterns from observation and the development of explanations – theories – for those patterns [Bernard, 2011]. It rests on the assumption that generalizations and ideas should be developed by observation and data [Neuman, 2003, p. 51] Our chosen analysis can be called narrative description with elements of comparison.

To develop a picture of SOE and SWF involvement in international business we combine emerging theoretical perspective with secondary data on this issue using World Investment Reports (WIR) by UNCTAD, which are comprehensive, reliable and comparable.

We then conduct an in-depth review of the above mentioned reports, complemented by a review of selected research papers devoted to the internationalization of state-entities. Our analysis is qualitative in nature, avoids formulating hypotheses, and is data driven. From it, we seek to develop SOE and SWF internationalization OFDI patterns while capturing the peculiarities of that internationalization in the aftermath of the 2008 crisis.

Study Results

Internationalization by SOE. Academic Literature Review

Given our research focus on the internationalization of SOEs and SWFs, we review studies presenting the SOTNCs i.e. SOEs as players in the global economy. Foreign expansion of SOEs is the predominant pathway to internationalize State entities. FDI by SWFs is a more specific form of such expansion, in that the State owns a given company indirectly via SWF [Cuervo-Cazurra et al., 2014]. Research on the international expansion of SOEs is rather scant, and has only recently garnered scholarly interest. The first studies were conducted in the 1970 s [Mazzolini, 1979; Vernon, 1979]. The current literature research focus is on Chinese MNEs [Chen and Young, 2010; Cui and Jiang, 2012; Duanmu, 2014; Liang et al., 2014; Meyer et al., 2014; Morck et al., 2008; Pan et al., 2014; Ramasamy et al., 2012; Wang et al., 2012; Zhang et al., 2010]. Only a few papers highlight SOE internationalization issues in other national economies, such as Spain [Garcia-Canal and Guillen, 2008], Norway [Knutsen et al., 2011] or India [Choudhury and Khanna, 2014]. More comprehensive studies by Estrin [et al., 2012] revealed that the propensity of SOEs to internationalize is, on average, lower than among private firms and that institutional and political factors play an important moderating role. Since SOEs operate to fulfill government priorities, one may question which (if any) of those priorities impede or facilitate the emergence of SOEMNEs. Since SOEs operate in line with the ambitions and goals of politicians we can state that only if these ambitions and goals include foreign expansion will this kind of entity internationalize.

OFDI by SOEs can reduce export opportunities for domestic firms. The substitution of export activities by OFDI operations can lead to a negative balance of payment in the domestic SOE market. Using state ownership to improve the employment rate in the domestic economy impedes the internationalization of SOEs through OFDI by negatively impacting the domestic labor market [Mazzolini, 1980].

Cahen [2014], however, referring to the Brazilian case, argues that SOE internationalization can be fostered by political priorities reflecting the ambitions of state governments to dominate in particular industries worldwide. These aspirations may not firmly rest on conventional wisdom and business logic grounded on risk mitigation and profit maximization. Instead, power and dominance goals can be in the forefront, and may be reflected in SOEMNEs target markets based on foreign policy priorities, rather than country-specific advantages certain markets provide to foreign investors. This is quite visible in the case of Chinese firms [Ramaswamy, Yeung, Laforet, 2012]. Internationalization ambitions reflecting non-economic priorities can also be fostered by higher SOE resilience to risk, insofar as government funding, resources, and use of political influence to shape regulatory frameworks can reduce the risk otherwise associated with international business operations. This is particularly the case when SOEs come from countries with strong governments [Knutsen, Rygh, Hveem, 2011].

Since SOMNEs operate in organizational settings that (1) differ from the private sector in (2) a diversified institutional context, the existing theoretical framework focusing on foreign expansion by private entities bears re-examination. The renaissance of the State in the aftermath of the 2008 crisis and recently witnessed expansion by state-influenced Chinese firms suggests the need for explanations about why SOEs internationalize [Choudhury, Khanna 2014; Bass, Chakrabarty, 2014]. Presently, most SOE studies touch upon managerial issues and other aspects within national borders. Because the empirics of growing foreign expansion by such firms may leave current theory behind real developments, it is difficult to draw on any particular theory or conceptual approach to organize the research on SOEs' foreign expansion. A novel view on foreign SOE expansion is offered by Cuervo-Cazurra et al., [2014] who propose viewing this process through the lenses of modified classic theories – agency problem, transaction costs, resource based view, resource dependency and the neo-institutional problem of the legitimacy. The relatively scant works in this area can be juxtaposed against the fact that "outward FDI activities have become part of the diversification policy in many countries, with SWFs, SOEs playing a key role" [WIR, 2009, p. 58].

(Post) crisis Tendencies in International Activities of SOEs and SWFs. Trend Reviews presented in World Investment Reports

The 2008 crisis is seen by many as a watershed moment for liberalization policies worldwide. Countries, particularly those hit by financial turbulences, have become more inclined to resort to protectionism measures by increasing the state's role in the economy and by strengthening their SOEs. An early edition of UNCTAD's World Investment report [WIR, 2010, p. xxiv], noted that "governments are playing a greater role in the economy and are giving more direction to investment policy (...) they have become less reticent in regulating and steering the economy and (...) are moving away from the hands-off approach to economic growth and industrial policies and strategies as they often contain elements of targeted investment promotion or restriction. State authorities are becoming more active in their efforts to integrate domestic companies into global value chains (GVCs)" [WIR, 2012, p. 101]. Some change has also taken place in host countries, where expectations tend to focus more on the quality of investment – "the right types" of investment. The trend to also intervene more in the economy by targeting FDI is mirrored in the changing share of regulatory and restrictive policies as compared to the liberalizing measures observed after 2008 [WIR, 2012]. It results from a (post) crisis realization of the multiple costs of purely free market forces, but poses the risk that possible regulatory overreaction may result in more frequent protectionist approaches discouraging foreign investments.

SWF Performance after 2008

As noted by UNCTAD, since 2005, SWFs have become engaged in cross-border mergers and acquisitions. This trend results from higher export surpluses, which enabled the generation of impressive foreign-exchange reserves. A number of SWFs have started to use FDI as a way to diversify their own asset portfolios after suffering certain losses that affected their cross-border M&A due to the 2008 crisis and global decline in stock [WIR, 2009, p. xxvii]. However, the crisis impacted foreign investments by SWFs less negatively than those by private equity funds. In fact, in 2008 SWFs recorded a rise in FDI despite a sharp decline of commodities prices – which are often the backbone of SWF financing [WIR, 2009, p. xx]. In 2008 cross-border M&As (being the dominant mode of FDI by SWFs) increased by 16%, reaching20 billion USD. Large, subsequent losses in SWF investments resulted mainly from a heavy concentration in the financial sector, and was exacerbated by concerns in several countries about the perceived non-economic character of SWFs FDI. By 2008, foreign acquisitions by SWFs totaled 65 billion USD. Although, this level represents only 1.7% of all assets owned by SWFs, FDI is now a much larger component of these funds than it used to be [WIR, 2009, p. 27]. FDI by SWFs has been targeting developed countries (75% of SWFs' total FDI outflows) and the finance and business sectors. In the 1987–2008 period these two sectors represented 26% and 15% (by value), respectively, of SWFs' foreign mergers and acquisitions. This investment pattern (with relatively low shares in manufacturing) increased risk [WIR, 2009, p. 28]. However, in 2008, SWFs increased investing abroad in such neglected segments as mining and or petroleum industries, raising the share of these sectors to more than 20% of total SWF FDI flows. This signaled an end to earlier strategies of investing heavily in European banks. Although raising funds is not difficult for most SWFS and their long time horizon does not require rapid profit generation, the post-2008 crisis affected them as well [WIR, 2009, p. 28]. Such firms have reduces foreign exposition and "re-routed" funds to domestic economies, as host countries began preventing foreign take-overs by SWFs, invoking security reasons. FDI by SWFs has recently provoked mixed reactions. Though SWFs can provide needed capital to crisis stricken economies, their lack of transparency raises doubts, if not outright opposition. On the positive note, it can be argued that such fears facilitated more cooperation in preventing unfair protectionism and to new initiatives requiring greater transparency for SWFs investments. Given the substantial losses of foreign reserves suffered by many SWFs after 2008, they are now rather inclined to invest domestically and/or help to prevent foreign take-overs of national firms.

Although, the number of SWFs located in more than 40 countries exceeds 50 "there is no such thing as an average SWF". They differ in terms of age, funds available and the level of activity. They unprecedented growth in recent years reflects mainly rising oil and non-oil commodity prices and fast growing current-account surpluses in their home countries, though, they (like other large asset funds) have been adversely affected by the 2008 crisis. According to estimates their assets dropped by some 30%. Experts believe that despite these unfavorable developments SWFs could undertake more FDI in the near future [WIR, 2009, p. 29–30]. SWF, in contrast to private equity funds, face less time pressure and financial constraints. The effects of such investments done by SWF are difficult to properly assess, since they are relatively recent [WIR, 2009, p. 29–30]. Contrary to private equity funds and despite lower fund values, in 2009 FDI done by SWFs were higher. in 2009, SWFs earmarked nearly 30 billion USD to carry foreign investments (15% more than year before), although we see no prevailing behavior among SWFs. Some suspended their FDI activities while others embarked on more foreign expansion. It has also become popular among SWFs to reformulate their strategies and concentrate on industries less vulnerable to financial volatilities. The manufacturing sector became an interesting target, based on location [WIR, 2010, p. 15]. Before the crisis, SWFs' FDI was concentrated in the USA, Canada and the European Union. In 2009–2010 Asia became more popular. Increased international activities by SWFs' worried policymakers and the public in host countries that such investment could pose threat to national security. To address this issue, SWFs themselves started working on improved transparency.

At the end of 2009 UNCTAD identified more than 80 SWFs, assessing their assets at 5.9 trillion USD [WIR, 2011, p. 14]. The crisis has hit funds with high equity exposure particularly hard, whereas SWFs investing predominately in bonds remained relatively unaffected. Total SWFs FDI in 2010 was estimated at 10.0 billion USD, which was a considerable decline from 26.5 billion USD in 2009. This unprecedented fall could be explained (in part) by the virtual noninvolvement of previously active Gulf region SWFs and by exceptionally volatile global financial markets. When the total value of SWF assets (nearly 5 trillion USD) is considered, their FDI activity looks rather mediocre. By 2011, FDI reached 125 billion USD. Though SWF expansion even during the crisis was significant, the relevant data must be cautiously evaluated in light of the considerable variation in the estimates of their assets which, in turn were impacted by differences in definitions, disclosure policies, and data availability. SWFs are typically portfolio investors holding mainly liquid financial assets in mature market economies, with FDI constituting just a fraction of their investments (accounting in 2011 for 5% of assets and representing less than 1% of global FDI stocks). Nevertheless, a growth tendency can be detected starting in 2005 with FDI by SWFs in advanced markets growing faster than that in developing countries. By 2012, FDI by SWFs reached 20 billion USD (twice as much as the year before). A cumulative value of 127 billion USD was directed mainly to the finance, real estate, construction and utilities sectors. Geographically, 70% of SWFs' FDI in 2012 was conducted in advanced industrialized countries. In 2012 the assets owned by 73 identified SWFs were valued at 5.3 trillion USD. As much as 60% of them were established in the past decade. In the years 2003–2012, foreign mergers and acquisitions represented nearly 90% of SWFs FDI. This contrasted with the bulk of global FDI, done as Greenfields. Most SWFs FDI targets services (70%), though, the growing share of investments in other segments may suggest a modification of priorities [WIR, 2012, p. 12]. Seventy percent of FDI carried by SWFs are in developed economies, with Europe accounting for more than 60% of inward SWF FDI. The declining share of developing and transition countries as FDI receivers may suggest modifications of SWFs' investment strategies, in response to such issues such as currency fluctuation, macroeconomic stability, long-term population changes, the threat of climate change and issues concerning securing the wealth of the next generation. The growing number of countries interested in their own SWFs may imply that their respective activity would also include foreign investment. SWFs continue to expand across various dimensions – assets, geography and industries. In 2013, FDI flows generated by SWFs totaled nearly 7 billion USD and stock reached 130 billion USD [WIR, 2012, p. 19]. In 2014, SWFs earmarked some 16 billion USD to conduct foreign direct investment – also via infrastructure projects [WIR, 2015, p. 15]. According to recent estimates there are 100 SWFs with assets worth more than 7 trillion USD (10% of the world's total assets). Summing up, it can be stated that internationalization by SWFs has undergone shifts as domestic economic conditions, the external environment, policies, and attitudes towards them have fluctuated. Moreover, foreign investments by SWFs, though meaningful, are small relative to total SWF asset values.

SOTNCs in the Wake of 2008 Crisis

In 2010 there were some 650 SOTNCs with 8,500 foreign affiliates. They make up less than 1% of the total population of transnational firms, though, in 2010 the outward FDI carried by them equaled some 11% of global FDI [WIR, 2011, p. xiii]. Although they constitute a decided minority in the TNC universe, 19 SOTNC rank among the world's 100 largest TNCs. Yet, some SOTNCs are most likely only a temporarily phenomenon of crisis induced intervention (General Motors, for example). Forty-four percent of SOTNCS are majority-owned; some fully integrated into the State, and other publically listed with the State controlling more than 50% of the voting shares. In 42% of SOTNCs, the government stake is less than 50% (and 10% had a government stake below than 10%).

However, besides outright ownership, state authorities can exert power in other ways; for instance, by so-called "golden shares" that give the State the power to constitute executive boards and shape strategy. Although 56% of SOTNCs are in developing and transition economies, SOTNCS are also popular among developed economies. Obviously, all these figures must be read in the context of the host economy – in 2008 China had more than 150,000 SOEs, whereas France had "only" 900.

In general, the proportion of "transnational" SOEs is low. A common feature is that SOTNCs are particularly active in capital-intensive sectors of strategic interest to the home economy where a monopolistic position is necessary for achieving economies of scale. Around 70% of SOTNCs operate in services – 19% in the financial sector, 16% in transport, storage and communications, and 10% in electricity, gas, and water. More than 20% of SOTNCs are active in manufacturing industries – 3% in chemicals and 3% in metals and metal products with 9% in the primary sector. The transnationality index of SOTNCs is significantly below the same index for TNCs. SOTNCs differ in terms of geographical spread, with European operating on average in more than 8 foreign economies while those from developing and transition economies are present in 3 to 6 foreign locations. In 2010, SOTNCs FDI projects totaled 146 billion USD, accounting for approximately 11% of global FDI flows. In the period of 2003–2010, more than 60% of FDI projects valued at about 10 billion USD were undertaken by SOTNCs coming from developing countries. There is no comparable international database on FDI stock possessed by SOETNCs but available data show that in 2010 they accounted for less than 6% of global outward stock. Judging by the developments of foreign mergers and acquisitions, which have been taking place since the 1980 s, SOTNCs as international investors are a rather new phenomenon. There is some indication of a pattern concerning the direction of FDI and manner of entry: some 60% such SOTNCs foreign acquisition deals targeted developed countries; whereas nearly 70% of FDI in developing and transition economies took the form of Greenfield projects. Forty percent of SOTNCs FDI projects are allocated in the primary sector. Though, the role of purchases versus newly initiated projects differs by sectors [WIR, 2011, p. 34]. FDI done by SOTNCs coming from developed economies focused on utilities (33%); whereas these stemming from less developed and transitional countries focused on extractive sector (37%). This difference derives from the main actors involved and respective strategies. In the case of developed economies, SOTNCs are usually national utilities that regard FDI as a way to employ unique advantages accruing to the firm and induce growth in foreign markets. SOTNCs representing extractive industries are widespread in developing economies where they are seen as the way to safeguard necessary natural resources. UNCTAD reports draws attention to the corporate governance of SOTNCs. Differences and peculiarities can be spotted not only between countries but also with respect to the institutional owner. As many SOEs were created to pursue public policy objectives, how they are governed or operate can be complex. In general, multiple settings are crucial for the development of SOEs into TNCs. Dimensions that need to be taken into account include: (1) a division between countries with free market policies and interventionism; (2) the level of development; and (3) specific government policies (industrial, technological, foreign, etc.). Although a certain level of State intervention can improve SOEs' performance, too much intervention may have the opposite effect. Host country policies impact scope, size and entry pathways. Objections and concerns about SOTNCS usually relate to: lower transparency, potentially inexperienced managers, poor relations with other shareholders, lack of public reporting, limited access to information (except by the State) which hinders monitoring, limited accountability, and opportunities for corruption. Hence, future policy agenda in this respect should tackle concerns about: national security; competition (e.g., the FDI threat to domestic "national champion" companies; knowledge and technology transfers; and social and environmental standards. SOEs, while expected to comply with higher standards, seldom do so – less than 20% subscribe to the United Nations' Global Compact, and 3% adhere to Global Reporting Initiative (GRI) standards.

The number of SOTNCs increased from 650 in 2010 to 845 in 2012 [WIR, 2012, p. xiv]. They generated foreign direct investment flows of 145 billion USD, accounting for more than 10% of all global flows. In 2012 most SOEs that had purchased assets abroad originated in developing countries. These purchases were driven mainly by the need to acquire strategic assets and natural resources. The underlying motive for SOE to go abroad may – unlike private firms – not be financial return [WIR, 2012, p. 10]. However, this distinction is losing validity where hybrid entities are developing in which the private-public division is blurred and state exerts influence via subtler methods than majority ownership.

Interestingly, in the recent three decades the trend towards liberalization and privatization proceeded in parallel with an increasing outward orientation of SOEs, whose number have been declining as their power has been rising. This may be explained by mergers, fusions and the creation of national champions in strategic sectors. Properly equipped and less financially constrained SOEs have than embarked upon internationalization. Their M&A share in total FDI exceeds their share in the total number of TNCs. In terms of FDI projects it must be noted that SOTNCs (in contrast to Sovereign Wealth Funds) have opted for the Greenfield entry mode. Certain u-turn in this pattern happened in 2009, as the value of newly initiated Greenfield projects fell by 50% compared to mergers and acquisitions that grew by 8%. The composition of the growing SOE population is undergoing transformation as well. The relative share of developing and transition countries as an SOTNC home rose from 53% in 2010 to over 60% in 2012. Seventy percent of SOTNC investment were directed towards services (financial services, transportation and communications, and utilities). In 2013 FDI done by SOTNCs amounted to more than 160 billion USD. Their internationalization was observed also in 2014, but has been falling [WIR, 2015, p. 17]. In 2014 the values of foreign acquisitions declined by nearly 40% (reaching 69 billion USD) and Greenfields by 18% (to 49 billion USD), respectively. Some SOTNCS started consolidating their global presence. GDF Suez (France) launched a divestment program in 2012, leading to significant assets sales abroad. Similar divestment programs have been initiated by other advanced economies. Leaving aside economic considerations, it must be noted that politically driven policy goals have also affected SOTNCs internationalization (e.g., more scrutiny of foreign ownership in some strategic sectors). Home countries governments have implemented measures that have influenced the FDI activity of their state-owned enterprises. In 2010, more than 34% of all SOTNCs (223) originated in the European Union [WIR, 2011, p. 8]. Denmark had 36 of such enterprises, France – 32, Finland – 21, Germany – 18, Sweden –18 and Poland –17. 27 SOTNCs were located in Norway and 11 in Switzerland. Although UNCTAD databases do not allow the precise year to year comparisons, they do generally shed light on changes in European SOTNC performance. In 2009, 15 of the "30 TOP non-financial SOTNCs ranked by foreign assets" come from Europe. In 2012, 10 of the "TOP 15 non-financial SOTNCs" are from Europe. In 2013 8 of the "TOP 10 non-financial SOTNCs" were European SOTNCs. An overview of changes in the TOP SOTNCs is compiled in Table 1.

TABLE 1. Changes in the TOP SOTNCs

Year	SO TNCs	Country	Government stake	Industry	TNI (%)*
2009	Enel SpA	Italy	34.7	Electricity, gas, water	57.2
2009	Volkswagen Group	Germany	20.0	Motor vehicles	61.9
2009	GDF Suez	France	36.4	Utilities (electricity, gas, water)	56.5
2009	EDF Suez	France	84.7	Utilities (electricity, gas, water)	39.0
2009	Deutsche Telecom SA	Germany	31.7	Telecommunications	54.1
2009	Eni SpA	Italy	30.3	Petroleum	59.2
2009	France Telecom SA	France	26.7	Telecommunications	47.0
2009	EADS NV	France	22.4	Aircraft	71.9
2009	Vattenfall AB	Sweden	100.0	Electricity, gas, water	84.9
2009	Veolia Environment SA	France	10.7	Utilities (electricity, gas, water)	66.9
2009	Statoil ASA	Sweden	67.0	Petroleum	34.4
2009	Deutsche Post AG	Germany	30.5	Transport and storage	68.3
2009	TellaSonera AB	Sweden	37.3	Telecommunications	73.3
2009	Renault SA	France	18.3	Motor vehicles	50.2
2009	Finmeccanica Spa	Italy	30.2	Machinery and equipment	62.7
2012	GDF Suez	France	36.0	Utilities	59.0
2012	Volkswagen Group	Germany	20.0	Motor vehicles	58.0
2012	Eni SpA	Italy	26.0	Oil and gas	63.0
2012	Enel SpA	Italy	31.0	Utilities	5.07

Year	SO TNCs	Country	Government stake	Industry	TNI (%)*
2012	EDF SA	France	84.0	Utilities	31.0
2012	Deutsche Telecom AG	Germany	32.0	Telecommunication	58.0
2012	Statoil ASA	Norway	67.0	Oil and gas	29.0
2012	Vattenfall AB	Sweden	100.0	Utilities	72.0
2012	Orange SA	France	27.0	Telecommunication	42.0
2012	Airbus Group	France	12.0	Aircraft	64.0
2013	Volkswagen Group	Germany	na	Motor vehicles	50.0
2013	Eni SpA	Italy	na	Petroleum	70.0
2013	Enel SpA	Italy	na	Utilities	67.0
2013	EDF SA	France	na	Utilities	49.0
2013	GDF Suez	France	na	Utilities	40.0
2013	Deutsche Telecom AG	Germany	na	Telecommunications	62.0
2013	Statoil ASA	Norway	na	Petroleum	30.0
2013	Airbus Group NV	France	na	Aircraft	72.0

Note: * Transnationality index TNI is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.

Source: own elaboration based on UCTAD data.

Contrasting the Academic Literature with the WIR Review

Our review of the available literature on SOEs' international activity and survey of UNCTAD reports allow us to discern major tendencies and draw research-oriented conclusions. With respect to SWF it is noted that:

- Their number worldwide has been on the rise since 2008;
- SWF are mainly seen as policy instruments to address national challenges – demography, climate change, intergeneration distribution of wealth, etc.;
- Their development is associated with current account (CA) performance, in particular export surpluses and CA surpluses backed by rising commodity prices created foreign exchange reserves that, in turn, enabled new investments abroad in order to diversify portfolio assets;
- SWF have been also hit by the 2008 crisis – mainly via a high concentration in financial services that brought heavy losses, which have been further aggravated by bad publicity in home countries. This has enforced international cooperation and led to the development of GAPP; it also instigated the decision to reroute funds towards domestic purposes;

- FDI carried out by SWF constitutes just a fraction of the assets controlled and owned;
- A long-term perspective adopted by SWFs would make them less vulnerable to financial market volatility, which should stimulate further a rise of their FDI.

With respect to SOEs foreign market activity it is noted that:

- SOTNCs are a minority among SOEs in general, i.e., a fraction of SOEs worldwide can be labeled as state owned transnational company;
- State stakes in such companies is defined in terms of control rather than ownership;
- They still are perceived as extensions of their respective Ministries;
- They tend to be active mainly in services with low TNI;
- SOEs in the EU come mainly from Denmark, France, Finland and Sweden;
- SOTNCs from developed countries are usually utilities, and invest abroad to capitalize on knowhow and to profit from servicing foreign markets;
- SOTNCs from developing countries represent mainly primary extractive sectors and invest abroad to secure the access to resources;
- No exceptional impact of the 2008 crisis can be discerned as far as SOE functioning is concerned; possible exceptions being bailouts to rescue ailing firms (usually too important to fail) and financially stricken firms (General Motors is a good case in point);
- Corporate governance requires special attention as SOEs are prone to internal managerial conflicts given their ownership structure.

For a summary of the main features of FDI by SWFs and SOEs see Table 2.

TABLE 2. **Confronting SOTNCs and SWF with respect to FDI**

	SWF	SOTNCs
Dominating mode of entry	M&A	Greenfield
Basic feature of international engagement via OFDI	Enormous funds at their disposal, though small FDI activity. Foreign market presence negligible as compared to available resources.	Small in number (1% of all TNCs) but more important in terms of FDI flows (investment by SOTNCS account for 11% of all flows).
Challenges	Rightly managed as they resemble more profit-oriented private firms, but criticized in light of missing or inadequate transparency.	Poorly managed (internal conflicts due to complex ownership structure), but less controversial as far as transparency is regarded.

Source: own elaboration.

Discussion

Academic papers investigating the issue usually concentrate on SOEs from China [Hua Li et al., 2014; Liang et al., 2015]. The international community is concerned with non-economic motives guiding the activities of SOEs and SWFs and their acquisitions worldwide. "Most of the SWFs have limited reporting on their international activities" [WIR, 2015, p. 28]. Regulatory attention started focusing on FDI done by SWFs and SOEs since the mid-2000 s and was further strengthened "by the concern that they may pursue objectives other than commercial interests (...) and that they receive benefits from their governments that put them into a competitive advantage vis-à-vis their private counterparts" [Exchange…, 2013, p. 39]. Thus, some advanced countries treated SOEs as a unique category of foreign investors. Apparently, this attitude changed as the financial crisis deepened. Undercapitalization and need for foreign capital have made Western governments to be more open to foreign sovereign direct investment. Nevertheless, "still very little is known about the impact of SWF investments on target firms and recipient economies and further study of SWF investments should precede any (overreacted) decision taking in FDI regulations" [Exchange …, 2013, p. 3]. Many harsh and suspicious reactions have been raised in countries receiving and hosting investment done by SWFs. This approach can be explained due to an absence of transparency and concerns about the ultimate goals of state-linked entities. [WIR, 2009, p. 29]. In 2007, the G-8 issued a statement that "SWFs are increasingly important participants in the international financial system and economies can benefit from openness to SWF investment flows" [Group of Eight, 2007]. A year later, the European Commission advocated the need to develop a more uniform approach towards SWFs to address the controversies and reservations expressed with respect to these entities and secure a certain balance between the transparency of their foreign investments and open markets [Commission of the European Communities, 2008]. Despite such attempts, countries still seek to protect their own economies and adopt country specific measures restricting certain FDI or better scrutinizing them – particularly if done in strategic sectors. The home countries of many SWFs have responded by undertaking steps to address host economies fears. These processes paved in the setting up of the International Working Group of Sovereign Wealth Funds (IWG) in May 2008. Members of this group agreed on the so-called Santiago Principles – Generally Accepted Principles and Practices (GAPP). They state that "the policy purpose of the SWF should be clearly defined and publicly disclosed." [WIR, 2009, p. 84], and advocate improved SWF-host country cooperation if a planned investment may have broader macroeconomic consequences. These agreed upon principles also envisage that SWFs will clearly define the roles and responsibilities of their owners, managers, and shareholders to improve accountability and assure independence of their executive boards from policy interference. If countries decided voluntarily to adopt these principles a clear signal of commitment would be sent that would facilitate SWF investments and enhance their ability to contribute to the global economy.

Summing up, we can state that the worldwide activity of SWFs and SOEs has been gaining increasing attention, particularly after the 2008 crisis. FDI conducted by these firms in a volatile global environment seem to be equally welcome and feared. This ambiguous attitude in host countries generally reflects the lack of transparency and political strategic motives of home governments behind such FDIs. As quoted above, the international community has undertaken steps aiming at alleviating these concerns. We must now closely watch developments in this area; both real trends as well as regulatory initiatives – to better understand SOE and SWFs internationalization and hence to dispel or confirm – based on the evidence – current perceptions.

Conclusions

SOEs and SWFs are associated with specific properties, are more attuned to strategic considerations than to short-term profitability, and pursue business and non-business goals that can be critical for their expansion abroad. Whereas FDI by SWFs remains small, SOTNCs are really heavyweights who have so far weathered the financial crisis [WIR, 2009, p. 20], albeit ambiguously. Indications of liberalization, dismantling monopolies and more privatization coexist with cases of more strident regulation and state interventions. Host countries seek to attract "the right" FDI, and have high expectations of foreign investors in this regard. However, it turns out that the economic crisis did not lead to the increased internationalization of SOEs. Even though more state intervention was observed in some national contexts, it was concerned mostly with domestic and not international issues. As such it seems that economic troubles made local problems more pertinent than more ambitious plans of international expansion, which were put on hold at least for the time being. The crisis-induced changes one can spot are: 1) a more selective approach towards attracting the right investors or adopting host state oversight concerning incoming FDI and 2) a tendency to reroute state controlled funds to domestic uses.

The SOE issue is high on the agenda of the recently concluded Trans-Pacific Partnership (TTP). Its signatories are committed to a level playing field between SOEs and their private peers by restricting unfair preferential access to finance or new markets currently enjoyed by state entities [Hufbauer, 2015]. Obviously, a transition period and possible carve-outs are taken into account, but the TTP imposes discipline on accounting practices, the functioning of executive boards, and procurement procedures for foreign firms. In the future, scholars, practitioners and decision-makers should be directed to testing the efficacy of measures already being taken, and more broadly assessing "how to address issues related to SOE and SWF and how to pursue regulatory cooperation" [WIR 2014, p. 120].

Despite its shortcomings, our study provides a platform for further exploration. This pilot investigation has revealed a mismatch between the growing tendency of internationalization by state-owned or controlled entities and the scarcity of more theoretical and conceptual approaches available in the literature that might help design the proper enquiry. The UNCTAD reports – currently the seminal empirical source of SOE and SWF foreign activity – do not provide data that permit analysis using new conceptual approaches to this area. With the exception of studies on Chinese FDI, the academic world remains focused on domestic issues posed by state-owned enterprises – being either their inefficiencies or the privileged position they enjoy. This contrasts with the observed foreign expansions by SOEs and SWFs. Given the strong bias towards SOE internationalization in emerging markets, research on the foreign activity of other countries' SOEs' is needed. Future investigations may also touch upon various institutions affecting SOEs performance. Additionally, the difficulties of accessing large samples suggest that such qualitative methods as case studies and in-depth interviews applied to grounded theory method seem worthwhile. In particular, the multiple-case study approach may yield helpful insights [Yin, 1984, p. 23]. The approach developed by Cuervo-Cazurra et al., [2014] should constitute the framework shaping the enquiries as it specifically accounts for the peculiarities of FDI carried by SOEs. "Non-business" and extraterritoriality aspects of such investments should also be taken into account in future works.

Notes

[1] Author's e-mail address: m.gotz@vistula.edu.pl
[2] Author's e-mail address: barbara.jankowska@ue.poznan.pl (corresponding author)
[3] Research has been undertaken within the project funded by the National Science Centre allocated on the basis of decision number DEC-2014/13/B/HS4/00165 titled "State role in (post-) crisis European economy – policy towards foreign direct investment".

References

Ambastha, A., Momaya, K. (2004), Competitiveness of Firms: Review of Theory, Frameworks, and Models, *Singapore Management Review*, Vol. 26, No. 1, pp. 45–61.

Amable, B. (2003), *The diversity of modern capitalism*, UK, Oxford University Press.

Andersson, L.M., Bateman, T.S. (1997), Cynicism in the Workplace: Some Causes and Effects, *Journal of Organizational Behavior*, Vol. 18, No. 5, pp. 449–469.

Andreosso-O'Callaghan, B., Jacobson, D. (1996), *Industrial Economics and Organisation*, McGraw-Hill, London.

Aron, R., Singh, J.V. (2005), Getting Offshoring Right, *Harvard Business Review*, Vol. 83, No. 12, pp. 135–143.

Auer, P., Besse, G., Méda, D., (2006), Offshoring and the Internationalization of Employment, in: P. Auer, G. Besse, D. Méda (eds.), *Offshoring and the Internationalization of Employment. A Challenge for a Fair Globalization?*, ILO, Geneva, pp. 1–16.

Aulakh, P., Gencturk, E.F. (2000), International principal – agent relationships. Control, governance and performance, *Industrial Marketing Management*, Vol. 29, No. 6, pp. 521–538.

Bass, A.E., Chakrabarty, S. (2014), Resource security: Competition for global resources, strategic intent, and governments as owner, *Journal of International Business Studies,* Vol. 45, No. 8, pp. 961–979. doi:10.1057/ jibs.2014.28

Barney, J.B. (1991), Firm Resources and Sustained Competitive Advantage, *Journal of Management*, Vol. 17, No. 1, pp. 99–120.

Barney, J.B. (2002), *Gaining and Sustaining Competitive Advantage*, 2nd ed. Prentice-Hall, Upper Saddle River, New Jersey.

Barney, J.B., Clark, D.N. (2009), *Resource-Based Theory. Creating and Sustaining Competitive Advantage*, Oxford University Press, Oxford, New York.

Bernard, R.H. (2011), *Research Methods in Anthropology. Qualitative and Quantitative Approaches*, Altamira Press, Oxford.

Bruton G., Peng V, Ahlstrom D., Stan C., Xu K., (2015), State-owned enterprises around the world as hybrid organizations, *The Academy of Management Perspectives*, Vol. 29, No. 1, pp. 92–114, available at: http://dx.doi.org/10.5465/amp.2013.0069

Cahen F.R., (2014), Internationalization of state-owned enterprises through foreign direct investment, RAE, São Paulo, Vol. 55, No. 6, pp. 645–659, available at: DOI: http://dx.doi.org/10.1590/S0034–759020150603

Chen, Y.Y., Young, M.N. (2010), Cross-border mergers and acquisitions by Chinese listed companies: A principal – principal perspective, *Asia Pacific Journal of Management*, Vol. 27, No. 3, pp. 523–539.

Choroszczak, J. (2015), The signs of organizational pathology in companies wholly owned by the State Treasury – the identification and the analysis of the causes of the phenomenon studied, in: A. Nalepka, A. Ujwary-Gil (eds.), *Business and non-profit organizations facing increased competition and growing customers' demands*. Wyższa Szkoła Biznesu National Louis University, Nowy Sącz, Vol. 14, pp. 23–37.

Choudhury, P., Khana, T. (2014), Toward Resource Independence – Why State-Owned Entities Become Multinationals: An Empirical Study of India's Public R&D Laboratories, *Journal of International Business Studies*, Vol. 45, No. 8, pp. 943–960.

Christiansen, H., Kim, Y. (2014), State-Invested Enterprises in the Global Marketplace: Implications for a Level Playing Field, *OECD Corporate Governance Working Papers*, No. 14, OECD Publishing, available at: http://dx.doi.org/10.1787/5jz0xvfvl6nw-en

Crouch, C. (2005), Models of capitalism, *New political economy*, Vol. 10, No. 4, pp. 439–456.

Cuervo-Cazurra, A., Inkpen, A., Musacchio, A., Ramaswamy, K. (2014), Governments as Owners: State-Owned Multinational Companies, *Journal of International Business Studies,* Vol. 45, No. 8, pp. 919–942.

Cui, L., Jiang, F. (2012), State ownership effect on firms' FDI ownership decisions under institutional pressure: A study of Chinese outward-investing firms, *Journal of International Business Studies*, Vol. 43, No. 2, pp. 264–284.

Duanmu, J.L. (2014), State-owned MNCs and host country expropriation risk: The role of home state soft power and economic gunboat diplomacy, *Journal of International Business Studies*, Vol. 45, No. 8, pp. 1044–1060.

Ecorys (2013), *Exchange of Good Practice in Foreign Direct Investment Promotion*, a study carried out under the Framework Contract ENTR/2009/033, Final Report, 2nd revision Rotterdam.

Estrin, S., Hanousek, J., Kocenda, E., Svejnar, J. (2009), The effects of privatization and ownership in transition economies, *Journal of Economic Literature*, Vol. 47, No. 3, pp. 699–728.

Estrin, S., Meyer, K.E., Nielsen, B.B., Nielsen, S. (2012), *The Internationalization of State Owned Enterprises: The Impact of Political Economy and Institutions*, available at: http://personal.lse.ac.uk/estrin/Publication%20 PDF's/Internationalization%20of%20SOEs.pdf, accessed: 11 January, 2016.

Garcia-Canal, E., Guillen, M.F. (2008), Risk and the strategies of foreign location choice in regulated industries, *Strategic Management Journal*, Vol. 29, pp. 1097–1115.

Gomm, R., Hammersley, M. Foster, P. (2009), *Case study method*, SAGE.

Gorynia, M. (2007), *Studia nad transformacją i internacjonalizacją gospodarki polskiej*, Difin, Warszawa.

Gorynia, M., Nowak, J., Trąpczyński, P., Wolniak, R. (2013), Overview and Evaluation of Policy Measures Supporting Outward FDI: The Case of Poland, in: E. Kaynak, T.D. Harcar, (eds.), *Flexibility, Innovation and Adding Value as Drivers of Global Competitiveness: Private and Public Sector Challenges*, proceedings of the Twenty Second World Business Congress, National Taipei University, Taipei, Republic of China (Taiwan), pp. 108–115.

Hall, P.A., Soskice, D. (2001), An introduction to varieties of capitalism, in: P.A. Hall, S. Soskice, (eds.), *Varieties of capitalism – the institutional foundations of comparative advantage*, UK: Oxford University Press, pp. 1–68.

Hodgson. G.M. (1996), Varieties of Capitalism and varieties of economic theory, *Review of International Political Economy*, Vol. 3, No. 3, pp. 380–433.

Hufbauer, G.C., Cimino-Isaacs C. (2015), *What You Need to Know about the Trans-Pacific Partnership*, Peterson Institute for International Economics, Op-ed published by the PBS News Hour, Reposted with permission, 23 June, 2015.

Jankowska, B., Gorynia, M., Dzikowska, M. (2015), *Economic crisis as an internationalization trigger in a transition economy? Addressing the ambiguity issue*, paper presented at the 41st Annual International EIBA Conference, Rio de Janeiro.

Knutsen, C.H., Rygh, A., Hveem, H. (2011), Does state ownership matter? Institutions' effect on foreign direct investment revisited, *Business and Politics*, Vol. 13, No. 1, pp. 1–33. available at: DOI:10.2202/1469–3569.1314

Kwiatkowski, G. (2013), Własność państwowa a rola państwa we współczesnej gospodarce, Studia Ekonomiczne, Uniwersytet Ekonomiczny w Katowicach, No. 139, pp. 228–237.

Li, M.H., Cui, L., Lu, J. (2014), Varieties in state capitalism: Outward FDI strategies of central and local state-owned enterprises from emerging economy countries, *Journal of International Business Studies*, Vol. 45, No. 8, pp. 980–1004.

Liang, H, Ren, B., Sun, S.L. (2015), An anatomy of state control in the globalization of state-owned enterprises, *Journal of International Business Studies*, Vol. 46, No. 2, pp. 223–240.

Meyer, K., Ding, Y., Li, J., Zhang, H. (2014),Overcoming distrust: How state-owned enterprises adapt their foreign entries to institutional pressures abroad, *Journal of International Business Studies*, Vol. 45, No. 8, pp. 1005–1028.

Morck, R., Yeung, B., Zhao, M. (2008), Perspectives on China's outward foreign direct investment, *Journal of International Business Studies*, Vol. 39, No. 3, pp. 337–350.

Mazzolini, R. (1980), The international strategy of state-owned firms: An organizational process and politics perspective. *Strategic Management Journal*, Vol. 1, No. 2, pp. 101–118, available at: DOI:10.1002/smj.4250010202

Pan, Y., Teng, L., Supapol, A.B., Lu, X., Huang, D., Wang, Z. (2014), Firms' FDI Ownership: The Influence of Government Ownership and Legislative Connections, *Journal of International Business Studies*, Vol. 45, No. 8, pp. 1029–1043.

Neuman, W.L. (2003), *Social Research Methods: Qualitative and Quantitative Approaches,* Pearson.

Ramaswamy, B., Yeung, M., Laforet, S. (2012), China's outward foreign direct investment: Location choice and firm ownership, *Journal of World Business*, Vol. 47, No. 1, pp. 17–25.

Redding, G. (2005), The thick description and comparison of societal systems of capitalism, *Journal of International Business Studies*, Vol. 36, No. 2, pp. 123–155.

Torres, M.M. (2014), Pro-Internationalization Policy and Outward Foreign Investment, *AIB Insights*, Vol. 14, No. 3, pp. 16–17.

Vickers, J., Yarrow, G. (1992), Economic perspectives on privatization, *Journal of Economic Perspectives*, Vol. 5, No. 2, pp. 111–132.

Wang, C.Q., Hong, J.J., Kafouros, M., Wright, M. (2012), Exploring the role of government involvement in outward FDI from emerging economies, *Journal of International Business Studies*, Vol. 43, No. 7, pp. 655–676.

Whitley, R. (1999), *Divergent capitalisms – the social structuring and change of business systems*, New-York: Oxford University Press.

World Investment Report (2009), *Transnational Corporations, Agricultural Production and Development*, UNCTAD.

World Investment Report (2010), *Investing in a low-carbon economy*, UNCTAD.

World Investment Report (2011), *Non-equity modes of international production and development*, UNCTAD.

World Investment Report (2012), *Towards a New Generation of Investment Policies*, UNCTAD.

World Investment Report (2013), *Global Value Chains: Investment and Trade for Development*, UNCTAD.

World Investment Report (2014), *Investing in the SDGs: An Action Plan*, UNCTAD.

World Investment Report (2015), *Reforming International Investment Governance*, UNCTAD.

Yin, R.K. (1984), *Case study research: Design and methods*. Newbury Park, CA: Sage.

Zhang, J., Zhou, C., Ebbers, H. (2010), Completion of Chinese overseas acquisitions: Institutional perspectives and evidence, *International Business Review*, Vol. 20, No. 2, pp. 226–238.