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State Ownership: A Literature Review

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ABSTRACT

State ownership enterprises (SOEs) are always been considered to be less efficient, both in productivity and innovation. SOEs are more likely to do nothing and to maintain the existing advantages due to agency problems The objective of this research is to provide the review of the literature which is exhaustive, especially about state ownership. We presented a literature study and included 14 articles as a result. The result shows some variables that affected by state ownership, and a variable that affect state ownership. Further research is suggested to further explore the variables that affect state ownership.

Introduction

Emerging market enterprises (EMEs)'s technological capabilities have significantly improved in recent years and relying on technological innovation to compete in the global marketplace are increasingly (Wu et al., 2016; J. Yi et al., 2013). Studies of internationalization strategy of emerging market multinational corporations (EMNCs) have found that Internationalization speed of EMNCs is faster than their competitors in developed countries (Deng, 2012; Jain et al., 2019; Kumar et al., 2020; Mathews, 2006). Rapid internationalization can have positive or negative impact on performance (Chetty et al., 2014), and the conclusions of existing empirical studies also show that there is a complex relationship between internationalization speed and MNCs' performance (Mohr & Batsakis, 2017; Powell, 2014). The internationalization of an enterprise is a gradual process consisting of a series of stages (C. Yi et al., 2021). In this process, the enterprise gradually increases its resource investment in the overseas market in order to acquire and utilize the knowledge of overseas markets (Johanson & Vahlne, 1977). In the process of internationalization, whether an enterprise can effectively manage the specific knowledge of decentralized locations is the key to the successful implementation of the internationalization strategy and generally, EMNCs in emerging economies have insufficient managerial resources and face severe managerial constraints, therefore how internationalization speed affects subsidiary survival is an important question

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for them (C. Yi et al., 2021). The divergence of research conclusions on the relationship between internationalization speed and corporate performance has led scholars to study the moderating factors in the relationship (Jain et al., 2019).

State ownership enterprises (SOEs) are always been considered to be less efficient, both in productivity and innovation (Zhang et al., 2019). SOEs are more likely to do nothing and to maintain the existing advantages due to agency problems (D'Souza & Nash, 2017), policy burdens and soft-budget constraints (Lin & Tan, 1999; Megginson et al., 2014). Managers in SOEs lack professional management skills because they are often appointed by administration (Gan et al., 2018). In addition, policy burden is one major reason why SOEs do not have sufficient autonomy and flexibility (Xu, 2011). Although China's State-sector Reform has begun since 1978, it is considered a top priority of the government now which is a new addition to privatization programs over the past three decades (Megginson, 2017) and technology conglomerates produce more patents that are novel and/or with greater impact (K. Li et al., 2019).

Literature Review

It is well acknowledged that institutional context–defined as the environment that comprises social forms of the economic and political system, created and also used by various actors in a society (Fligstein, 2001; Turner, 2006). Institution theory suggests that a firm's strategy and behavior is the result of, or response to, a particular institutional context in which a firm is embedded (Alvi, 2012; Scott, 1995). Institutional context influences innovation by defining opportunities, by reducing the unknown, and by increasing or decreasing costs of economic exchanges (North, 1990).

Institutional context has three key dimensions, regulative, normative, and cognitive rules (Scott, 1995). While the role of these three types of institutions is often empirically indistinguishable (DiMaggio & Powell, 1983), it is important to focus on key institutional dimensions which influence the phenomena under study (Kostova & Roth, 2002). State ownership influences innovation in two important ways, first, government as a shareholder of SOEs exerts various institutional pressures on firms that can influence the incentives and ability of firms to develop innovation and second, state ownership also affects firms' ability to appropriate value from innovation (J. Yi et al., 2020). Although intellectual property rights (IPR) protection is a critical element of the regulatory environment for innovation (Bouet, 2015; Zobel et al., 2017), its enforcement in emerging markets is weak and often depends on the status of the firm (S. Li et al., 2004). State ownership may protect the firm in cases where IPR laws are weakly enforced (J. Yi et al., 2020). Because governments can provide exclusive endorsements and favorable treatment (Sheng et al., 2011), state ownership enterprises (SOEs) often receive stronger protection of IPRs (Wang et al., 2018), enabling them to better appropriate the value of innovation. By contrast, although non-state firms such as private firms may have internal and other external mechanisms to address such agency problems, they suffer from discrimination and have difficulties in protecting and benefiting from their innovations (J. Yi et al., 2020). The institutional complementarity thesis suggests that not only single institutions are subject to positive feedback effects, but configurations of complementary institutions in which the performance of each is affected by the existence of others (Pierson, 2000).

Li (2018) derives time-varying national and global systematic risks forthe portfolios compiled on the basis of residual state ownership and examine how these risks are priced while controlling for structural changes exogenously and endogenously. Through anchoring the analysis to the portfolios capturing this institutional factor, we observe mostly positive pricing of the systematic risks, instead of the negative pricing often found in the literature on emerging markets, within this well-controlled framework, some interesting points emerge (H. Li, 2018). While full privatisation does not eliminate exposure to the national systematic risk, more heavily privatised firms (i.e., those with the least residual state ownership) tend to price only the global risk more often than less privatised ones, hence, among partly-privatised firms, integration with the global market strengthens as state ownership decreases, and these results suggest that emerging economies pursue rigorous privatisation and yet governments keep small stakes in privatised firms in order to ensure integration with the global market (H. Li, 2018).

Kubo & Phan (2019) investigates the effects of state ownership on firm performance using data on listed firms in Vietnam and found that state ownership of listed firms is positively related to firm performance and also found that the effects of state ownership vary depending on the type of state ownership. Firms perform best when controlled by a state owner in the form of a sovereign wealth fund and the relationship between state ownership and firm performance is nonlinear (Kubo & Phan, 2019).

Cuervo-Cazurra & Li (2020) critically review the literature on state-owned multinationals to clarify previous arguments and guide future studies and the content analysis of prior research reveals that state-owned firms differ from private firms in their internationalization: they are motivated by national strategic objectives, select more challenging countries, and use acquisitions more intensively despite adverse market reactions. The analysis also reveals conflicting predictions on the level of internationalization; some studies find that state-owned multinationals internationalize more while others find the contrary and also introduce one solution to these conflicts by classifying theories into two camps based on the balance between the costs and benefits of state ownership, one camp suggests a disadvantage of stateness (agency theory, resource dependence theory, and neo-institutional theory), and another camp promotes an advantage of stateness (economic development, resource-based view, and institutional economics) (Cuervo-Cazurra & Li, 2020). Three promising relationships in the study of these firms were presents by Cuervo-Cazurra & Li (2020): (1) relationships internal to state-owned multinationals and the balancing of stakeholder demands; (2) relationships between state-owned multinationals and government and the influence of the political system; and (3) relationships between home and host country governments and the impact of their dynamics on state-owned multinationals.

The firm is a collection of productive resources and the services made available from these resources are the drivers of a firm's uniqueness (Kor et al., 2016). State ownership entails important advantages for firms, such as "patient capital" for long-term investments, exclusive rights to operate in certain industries or geographical areas, networks with foreign governments, and other resources typically not available to private firms (Lazzarini & Musacchio, 2018). State ownership may entail agency conflicts that negatively affect the willingness of SOEs to pursue business objectives (Aguilera et al., 2021). A core tenant of agency theory is that conflicts of interest create agency costs that reduce efficiency and ultimately the financial performance of companies (Aguilera et al., 2021). For instance, state owners may push SOEs to enter into financially unsound contractual agreements with private companies, because such private companies can support their re-election (e.g., by making donations to political parties) (Aguilera et al., 2021).

There are several reasons why SOEs spend less on research and development (R&D), such as corporate governance and the administrative monopoly (Zhang et al., 2020). Mixed-ownership reform will help enterprises improve corporate governance, reduce managers' moral hazard, and encourage enterprises to carry out innovative activities by the higher proportion of non-state owned shares, employee stock ownership plan, and the better state-owned capital operation system (Zhang et al., 2020). Unlike other forms of monopoly, administrative monopolies create barriers through licenses to reduce competitors, and result in the lag in productivity and innovation and the mixed-ownership reform introduces competition by breaking the monopoly form, forcing SOEs to improve production efficiency and innovation (Zhang et al., 2020).

It is often taken as a stylized fact that state ownership harms the financial performance of firms and yet Aguilera et al. (2021) show that this relationship varies greatly across national contexts and argue that the political ideology of the government, both independently and in conjunction with political institutions (state capacity and political constraint), affects this relationship. The research that conducted by Aguilera et al. (2021) sheds further light on the state ownership – firm performance relationship by highlighting the role of the political ideology of the government, and its interactions with political institutions.

Although it has been suggested that institutional context influences a firm's innovation performance, the role of regulatory institutions has been underexplored (J. Yi et al., 2017). Extending previous research, J. Yi et al. (2017) investigates whether and how regulatory institutions (i.e. state ownership, region-specific marketization and industry-specific institutional policy) affect innovation performance of emerging market enterprises (EMEs) and the evidence derived from a large sample of Chinese manufacturing firms demonstrates that state ownership positively moderates the effect of R & D intensity on innovation performance. However, state ownership is not equally beneficial for all firms, and the analysis shows that region-specific marketization and industry-specific institutional policy enhance the innovation-enhancing effect of state ownership, by revealing the role of regulatory institutions, our study points to the importance of looking beyond firm boundaries to understand why EMEs are able to innovate despite their weak internal capabilities (J. Yi et al., 2017).

Cheng et al. (2020) found that foreign strategic investors (FSIs) entry is associated with significantly increased non-interest activities, especially commission and fee activities, of Chinese banks, furthermore, local banks with directors appointed by FSIs have increased non-interest activities. Moreover, in state-owned banks, the effects of FSIs and directors assigned by FSIs on non-interest activities are both weaker, and non-interest activities have not significantly changed after the exit of FSIs (Cheng et al., 2020).

Ding et al. (2020) found strong, robust evidence that the information advantage of local versus foreign institutional investors varies with the extent of state ownership: in partially state-owned enterprises (SOEs), local institutional investors have an advantage over foreign institutional investors in predicting future stock returns, whereas this local advantage does not extend to firms with zero state ownership (non-SOEs). In additional analysis, Ding et al. (2020) found evidence that local institutional investors' information advantage in SOEs narrows in the presence of highly independent boards and Big Four auditors.

B. Li et al. (2020) examine both imprinting and peer effects in private takeovers of state ownership through a proprietary dataset of listed firms on the Shanghai and Shenzhen Stock Exchanges and the findings suggest that first experience affects private firm's takeover decisions, in that negative experience of either poor post-takeover performance or high takeover premium impedes subsequent takeovers. In addition, private firm's political ties alleviate the negative imprinting effect, however, private firms' business ties strengthen the negative imprinting effect. Private firms without antecedent experience tend to follow their peers in taking over state ownership and finally, antecedent failures can therefore be passed by the peers to potential acquirers (B. Li et al., 2020).

In the process of internationalization, effective management of dispersed location-specific knowledge is the key to successful internationalization strategies for companies and rapid internationalization often prevents multinational corporations (MNCs) from absorbing and internalizing internationalized knowledge in a timely manner and achieving ideal performance (C. Yi et al., 2021). Compared with MNCs in developed countries, emerging market multinationals (EMNCs) are more inclined to implement a rapid internationalization strategy to enhance their own competitive advantage, however, their internationalization process is limited by their lack of managerial resources (C. Yi et al., 2021). Using the survival analysis method and taking the Chinese A-share listed companies as empirical setting, C. Yi et al. (2021) show that the internationalization speed negatively affects the survival of EMNCs subsidiary; both CEO international experience and state ownership weaken the negative impact of internationalization speed on the survival of EMNCs subsidiary. C. Yi et al. (2021) argue that rapid internationalization underestimates the Penrose effect in the process of internationalization, that is, underestimates the managerial resources required to learn and accumulate absorptive capacity, and effectively manage dispersed knowledge, based on the dual context of dispersed knowledge management and managerial constraints, this paper expands the understanding of the impact mechanism of internationalization speed on corporate performance, and also has certain guiding significance for the selection of internationalization speed of EMNCs.

Aray et al. (2021) found that state ownership moderates the relationship between internationalization and corporate social responsibility (CSR) reporting in Commonwealth of Independent States (CIS) and non-CIS markets differently, and the positive effect is stronger for non-CIS locations and the study goes beyond the traditional approach, treating CSR reporting as a unidimensional construct. Aray et al. (2021) show that the effect of internationalization, both direct and moderated, differs for the different types of CSR activity.

Method

We presented a literature study (Artha & Jufri, 2021; Khairi et al., 2021; Snyder, 2019) and included 14 articles as a result and the bibliographical references had examined (Conz & Magnani, 2019) and also provide a comprehensive review of the literature (Ho & Njindan Iyke, 2017).

Result and Discussion

The results are presented in table 1 below:

Table 1. Selection References Listed According to State Ownership

Author(s)	Variable(s)	Result(s)
Abramov et al. (2017)	gross margin, return on equity, profit margin	state ownership has negative effects on gross margin, return on equity, and profit margin
Chen et al. (2017)	return on assets, return on equity, return on sales, tobin's q, total debt ratio, quick ratio, EBIT/employees, sales/assets, total asset turnover	state ownership has negative effects on return on assets, return on equity, return on sales, tobin's q, total debt ratio, quick ratio, EBIT/employees, sales/assets, total asset turnover
Wong (2018)	asset write-downs	state ownership has negative effect on asset write-downs

Bolgorian & Mayeli (2019)	vulnerability to sanctions	state ownership has positive effect on vulnerability to sanctions
Pak (2019)	bank stability	state ownership has no significant effect on bank stability
Xie et al. (2019)	stock return volatility	state ownership has negative effect on stock return volatility
Boubakri et al. (2020)	stock liquidity	state ownership has significant effect on stock liquidity
Cao et al. (2020)	corporate innovative efficiency	state ownership has negative effect on corporate innovative efficiency
Cosset et al. (2020)	privatization	state ownership has negative effect on privatization
Ge et al. (2020)	cost of debt	state ownership has negative effect on cost of debt
Nguyen et al. (2020)	adjustment speed toward target leverage	state ownership has significant effect on adjustment speed toward target leverage

Zhang et al. (2020)	mixed-ownership reform	mixed-ownership reform has significant effect on state ownership
L. Li et al. (2021)	abnormal accruals	state ownership has negative effect on abnormal accruals
M. Ding et al. (2021)	firms' stock price crash risk	state ownership has negative effect on firms' stock price crash risk

Table 1 above show some variables that affected by state ownership, and a variable that affect state ownership. Further research is suggested to further explore the variables that affect state ownership.

Conclusion

The result shows some variables that affected by state ownership, and a variable that affect state ownership. Further research is suggested to further explore the variables that affect state ownership. It's also advisable to use a longer timeframe, exploring articles from the last 10 years.

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