

# Study identifies factors that affect state-owned enterprises' welcome overseas

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Credit: AI-generated image ([disclaimer](#))

When a multinational company is a state-owned enterprise, the choice of where to expand may hinge on more than just economic considerations, according to a new paper by strategic management experts at Rice University's Jones Graduate School of Business.

"A Geopolitical Perspective Into the Opposition of State-Owned Enterprises in Target States" argues that potential opposition from target countries can also play a role. Most notably, the authors said, these countries may see the foreign enterprises as agents of their home countries and the enterprises' expansion onto their soil as a threat to their national security. The United States, for example, in 2005 blocked a Chinese state-owned oil company, China National Offshore Oil Corp., from acquiring the U.S. firm Unocal on the grounds that the company represented the interests of the Chinese Communist Party, according to the paper.

The paper was co-authored by Wei Shi, a doctoral candidate in strategic management at the Jones School; Robert Hoskisson, the George R. Brown Professor of Management; and Yan "Anthea" Zhang, the Fayez Sarofim Vanguard Professor of Management. It was published in *Global Strategy Journal*.

"Our foundational argument in this paper is that the geopolitical perspective can provide new insights into understanding the level of opposition faced by globalizing state-owned enterprises as well as their location choices," the authors wrote. "Such a perspective is important because global financial turmoil has spurred governments throughout the world to take ownership in what previously were private businesses and more and more traditional state-owned enterprises are expanding beyond their national borders."

The authors created a conceptual model to analyze the level of potential opposition from target countries. Their model proposed five geopolitical factors that can shape the level of welcome a state-owned enterprise can expect from its potential new home:

## **Geographic distance**

From a geopolitical standpoint, close neighbors may pose greater threats to each other's national sovereignty than countries that are comfortably far apart. Neighbors may also have a track record of conflict. For a state-owned enterprise, moving into a nearby neighborhood may threaten the target country's sense of sovereignty or even national security and thus spark opposition.

## **Similarity of religious beliefs**

Shared [religious beliefs](#) can boost levels of trust, and dissimilar belief systems can sow distrust and conflict, the authors said. When a state-owned-enterprise's home country and its target destination share religious beliefs, the path to expansion may be smoother.

## **Similarity of governments**

In today's world, government types range from full autocracies to full democracies, with a variety of models in between. Countries with similar government forms, however, are more likely to identify with each other and agree upon how governments should work. That mutual identification and acceptance can lower opposition to a foreign state-owned enterprise's investment.

## **Resource complementarity**

Resource complementarity refers to the degree to which a target country needs resources that a foreign state-owned enterprise can offer. They might be natural resources, such as sources of energy; they might be technological savvy or financial strength. If the state-owned enterprise has resources that the target country wants, a welcome is more likely, the authors said.

## Nationalist politics in the target country

A target country's political leaders can muffle or amplify the other four factors to influence their country's reception of the foreign state-owned enterprise. For example, if a state-owned enterprise is seen as a threat, the target country's [political leaders](#) might urge official visits or foster economic cooperation. If they can calm nationalistic friction, these leaders can help open the doors to the state-owned enterprise. Political leaders can also use the nationalistic feelings to stoke opposition.

"Increasing global expansion by state-owned enterprises suggests the need for a more systematic framework to examine these enterprises' location choices in international business," the authors said. They believe that their geopolitical model focused on state-owned enterprises' global expansions and potential opposition from target states "not only adds value to understanding the global distribution of state-owned enterprises' business activities, but also can shed light on private multinational companies' global location choices."

**More information:** Wei Shi et al. A Geopolitical Perspective into the Opposition to Globalizing State-Owned Enterprises in Target States, *Global Strategy Journal* (2016). [DOI: 10.1002/gsj.1105](https://doi.org/10.1002/gsj.1105)

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