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Corporate governance and international business: Essays on multinational enterprises, ownership, finance and institutions

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Gabriel R.G. Benito, Asmund Rygh and Randi Lunnan

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Corporate governance and international business

Essays on multinational enterprises, ownership, finance and institutions

by

Asmund Rygh

A dissertation submitted to BI Norwegian Business School for the degree of PhD

PhD specialisation: Strategic management

Series of Dissertations 6/2016

BI Norwegian Business School

Asmund Rygh

Corporate governance and international business: Essays on multinational enterprises, ownership, finance and institutions

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Series of Dissertations 6/2016

ISBN: 978-82-8247-110-7
ISSN: 1502-2099

BI Norwegian Business School
N-0442 Oslo
Phone: +47 4641 0000
www.bi.no

Printing: Allkopi

A printed copy of the dissertation may be ordered from our website
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Preface

The submission of this Thesis marks the end of a rewarding PhD period that allowed me to immerse myself in research on corporate governance and multinational enterprises, under skillful guidance and support. It is my hope and belief that the final product presented here will also provide some valuable contributions to the literature, while building a foundation for future research.

Many people deserve thanks. First and foremost, I thank my supervisor and co-author on several papers in this Thesis, Professor Gabriel R.G. Benito for his essential inputs and continual support. The Norwegian word for supervisor is *veileder*, which literally translates as *guide*. Gabriel has been the perfect guide through the theoretical, methodological and institutional intricacies of taking a PhD. His sharp analytic mind, his ability to see the big picture and develop novel ideas combined with attention to details, as well as his fluid writing have been very helpful and inspiring. I have also appreciated his time for small detours not directly related to my Thesis work, for instance discussing with me certain fundamental questions of transaction cost theory, and even encouraging me to write a paper on philosophy of science. Our cooperation has been a great experience, and I look forward to continuing it.

Next, I would like to thank my other co-authors, Birgitte Grøgaard, Carl Henrik Knutsen, Randi Lunnan and Kristine Torgersen. I have enjoyed and learned much from our cooperation on the studies of this Thesis, and look forward to perfecting and publishing our studies together.

I would also like to thank the Department of Strategy with Randi Lunnan (current Head of Department) and Fred Wenstøp (former Head of Department) for accepting my project and providing a very good environment for PhD research. I thank Kai Rune Mathisen, Birte Marie Horn-Hanssen, Randi Maria Johansen and Tove Orheim for efficient and friendly administration. I thank Alessandra Luzzi and Sjoerd Beugelsdijk from my Predoc committee for many helpful suggestions for the completion of the Thesis. My PhD studies also allowed me to meet, interact and discuss research and other things with many great PhD students and faculty. Among many others, let me here mention Ieva Martinkenaite-Pujanaskiene, Vedrana Jez, Xiaobei Wang, Glenn Kristiansen, Lene Pettersen, Paulina Junni, Viacheslav Iurkov, Carolin Hagen, Amir Sasson, Erik Aadland, Anton Diachenko, Vegard Kolbjørnsrud, T. Binh Phan and Arne Sørvig.

An important antecedent to this PhD was a project led by Professor Helge Hveem at the Department of Political Science at the University of Oslo and with the participation of Carl Henrik Knutsen, on Norwegian outward foreign direct investment. My participation in this project further shaped my research interests in international business and political economy, and helped me gain the skills and confidence to undertake a PhD. I am happy to be able to continue our cooperation. Besides people already mentioned, other former co-students, colleagues and friends providing input to this Thesis and/or related work include Tarald Laudal Berge, Trude Gunnes and Alexander Schjøll.

Finally, I would also like to thank several other people who in various roles and respects have offered some of their time to provide input on work related to this Thesis. These include

Bente Løwendahl, Øystein Fjeldstad, Helene Loe-Colman, Sverre Tomassen, Lars Huemer, Ulf Andersson, Timothy M. Devinney, Jean-François Hennart, Mark Casson, Jose Plà-Barber, Peter Gabrielsson, Lilach Nachum, Yan Du, Jakob Müllner, Alex Edmans, Olav Sorensen, Øyvind Bøhren, Charles Snow, Øystein Strøm, Elena Kosmopoulou, Ylva Søvik, as well as the many seminar and conference audiences being exposed to my papers during the last years.

Together with Professor Gabriel R.G. Benito, I gratefully acknowledge financial and research support from the Centre for Corporate Governance Research (CCGR) at BI Norwegian Business School for our joint project "The effect of ownership on companies' internationalization" in which the fifth chapter of this Thesis is part.

Last but not least, I would like to thank my parents and my brother. My environment at home always stimulated and accommodated intellectual curiosity, and my parents and my brother have always fully supported my decisions in life, including taking this PhD. For that, I am very grateful.

I reserve the right to thank anyone whom I might have inadvertently forgotten.[1]

A.R.
Roa, 27 October 2015

[1] Radiohead, *Hail to the Thief.*

Abstract

This Thesis contributes to the literature on corporate governance in international business, with a focus on corporate ownership, corporate finance and institutions. It consists of five theoretical and empirical studies. Three studies focus on corporate ownership and consider, respectively, whether state ownership shields multinational enterprises (MNEs) from host-country political risk, whether state and foreign ownership affect the ability of firms to reap benefits from internationalization, and whether state ownership affects foreign market entry decisions by petroleum sector MNEs. A key finding from these studies is that state ownership implies certain political and financial advantages in the context of internationalisation that are not counteracted by corporate governance failures. The fourth study considers how MNEs finance their subsidiaries abroad, taking a novel transaction cost/internalization perspective on MNE subsidiary capital structure. The study finds some evidence that capital structure at the subsidiary level is affected by factors such as specific knowledge assets. Finally, a fifth study investigates how institutional characteristics of host countries affect aggregate inward foreign direct investment in primary sectors. It finds that agricultural FDI is attracted by good institutions, while extractive FDI is not. As a whole, the Thesis demonstrates several ways in which governance has implications for international business, contributing to the growing literature in this field.

1 Introduction and Overview

Internationalization represents one of the major strategic decisions for companies. Following the decision to venture abroad, other important decisions relate to the choice of internationalization mode (e.g., exports or foreign direct investment) and the choice of host-country location. All these decisions have been extensively researched in the international business (IB) literature.[2] Much of this research relies on the dominant internalization and transaction cost approaches, which were explicitly developed under the assumption that multinational enterprises (MNEs) maximize profits and the returns to shareholders (e.g., Buckley & Casson, 1976; Hennart, 1982; Rugman, 1981).[3]

Yet, a substantial literature in *corporate governance*, defined broadly by Aguilera and Jackson (2010: 487) as "the study of power and influence over decision making within the corporation" tells us that the assumption that strategic decisions by firms are taken with the sole goal of maximizing value for the owners in general is inaccurate.[4] Rather, the managers running the firms and making decisions on behalf of the owners may also pursue other goals besides value maximization. The agency-based stream of corporate governance studies have as their starting point the "classical" issues associated with separation of ownership and control of firms, following Berle and Means (1932) and later Jensen and Meckling (1976). Managers delegated with the responsibility of running the firm may not perfectly represent the interests of owners, and monitoring and control will be imperfect. As the authors of one authoritative survey on corporate governance (Becht, Bolton, & Röell, 2003: 83) put it,

> *the textbook characterization of firms as profit maximizers subject to technological production constraints is a major oversimplification ... agency problems and corporate control issues are fundamental for corporate finance and the investment process.*

What are, then, the implications for the international business field, and in particular for the transaction cost and internalization approaches, of relaxing the assumption that managers take strategic decisions with an aim to maximize economic value for the owners?[5] More generally, how do corporate governance features affect the behavior and performance of MNEs? The corporate governance literature highlights the importance for value creation of appropriate corporate governance (Becht et al., 2003). MNEs are particularly significant actors in the world economy. The economic importance of some MNEs in terms of their size is well known. Moreover, MNEs also have substantial political and social importance (Fuchs, 2007) and are

[2] For instance, for reviews on studies of entry/operation modes, see e.g. Brouthers and Hennart (2007) and Morschett, Schramm-Klein, and Swoboda (2010).
[3] See, however, the discussion in Hennart (1982) of this issue.
[4] Whether managerial decisions *should* only aim at maximizing profits is another matter to which we return to later.
[5] Posing the issue in this way does not, of course, amount to a claim that research should always strive for the greatest possible descriptive realism (see also Rygh, 2013). However, relaxing strong assumptions frequently allows for asking new and important questions.

increasingly being asked to take into account the interest of other stakeholders. For all these reasons, specific corporate governance features of MNEs are of substantial theoretical and practical interest (Luo, 2005). These features are thus now being addressed by a growing number of studies in international business (e.g., Buckley & Strange, 2011; Dam, Scholtens, & Sterken, 2007; Fernández & Nieto, 2006; Lien, Piesse, Strange, & Filatotchev, 2005; Strange, Filatotchev, Buck, & Wright, 2009a; Strange, Filatotchev, Lien, & Piesse, 2009b; Strange & Jackson, 2008); and the five research studies forming part of this Thesis aim in various ways to contribute to this literature.

In the Introduction to their edited volume *Corporate Governance in International Business*, Jackson and Strange (2008) (see also Strange et al., 2009a) suggest three more specific reasons for why corporate governance matters for international business, to which we will make frequent reference throughout this Thesis.

1. "[T]he power, influence and expertise of different stakeholders within corporate governance have a strong influence on strategic decision-making in general, and internationalization strategies, in particular" (Jackson & Strange, 2008: 3).
2. The corporate governance system (institutions) of a country influences its attractiveness for foreign direct investment (FDI).
3. Internationalization and activities of MNEs affect corporate governance, as firms are exposed to more diverse sets of institutions and stakeholder pressures.

First, as noted the corporate governance view in IB acknowledges that "the power, influence and expertise of different stakeholders within corporate governance have a strong influence on strategic decision-making in general, and internationalization strategies, in particular" (Jackson & Strange, 2008: 3). Thus, firms cannot be expected to maximize profit in all situations, and their decisions will also reflect the interest of other actors such as managers, and depend on the various governance mechanisms in place. Thus, corporate governance has been found to matter for firms' strategies, behavior and performance (e.g., Becht et al., 2003) including for internationalization (e.g, Bhaumik, Driffield, & Pal, 2009; Fernández & Nieto, 2006; Majocchi & Strange, 2012). Again, the increasing attention in IB to corporate governance can be partially explained by the growth of emerging market MNEs, whose corporate governance systems often differ in quite significant ways from those of the Western MNEs traditionally studied in IB. This includes a significant presence of state-owned enterprises (SOEs) among the MNEs from several emerging markets, most notably China. Under this heading belong also studies questioning the view of the MNE itself as a unitary organization where all members pursue common goals, and allow for *intra-firm* corporate governance issues.

Second, different national contexts feature different systems of corporate governance, and these systems may matter in terms of a country's attractiveness for inward FDI. Here, corporate governance is linked to a country's institutional, legal and cultural structures (e.g., Aguilera & Jackson, 2003; Denis & McConnell, 2003). A substantial literature demonstrates the importance of host-country institutions such as protection of property rights, rule of law,

and democracy for attracting FDI (Blonigen, 2005; Busse & Hefeker, 2007). These studies move beyond the "Berle and Means" image of corporate governance characterizing the first generation of research, which was often based on the Anglo-American context, and focused on collective action problems among dispersed shareholders. Inter alia, comparative corporate governance studies (e.g., Hall & Soskice, 2001; La Porta, López de Silanes, & Shleifer, 1999; La Porta, López de Silanes, Shleifer, & Vishny, 1998) demonstrated that ownership concentration is an important feature in many countries. Of course, attention to host-country institutions has a long history in IB research, given the many idiosyncratic institutional environments that MNEs face and the impact of political risk (e.g., Fitzpatrick, 1983; Makhija, 1993; Vernon, 1971). However, institutions are now receiving substantial attention in IB, one reason being the increasing importance of MNEs originating in emerging markets and the specific features of the corporate governance systems of these countries. Indeed, an important debate in IB concerns whether studying emerging markets are so different from the traditional Western context as to require new IB theory (e.g., Cuervo-Cazurra, 2012; Xu & Meyer, 2013).

Third, entering into international economic activities implies that firms are exposed to different contexts with multiple and potentially conflicting corporate governance pressures (Luo, 2005). Corporate governance is thus linked to issues such as the internal or external embeddedness of subsidiaries (Rosenzweig & Singh, 1991). It is also relevant for the arbitrage between corporate governance environments where MNEs may, for instance, seek out countries with less stringent regulation (Javorcik & Spatareanu, 2005). Alternatively, companies may in various ways seek out stronger corporate governance environments to attract investors, for instance foreign listing (e.g., Bailey, Karolyi, & Salva, 2006; Siegel, 2009). Finally, a firm's corporate governance experiences at home may also affect its sensitivity to such factors abroad. Thus, for instance, it has been argued that developing country firms are more adept at operating under problematic institutional conditions (see e.g., Cuervo-Cazurra & Genc, 2011).

These three links between corporate governance and international business are explored in the papers of this Thesis. The remainder of this Introduction will first provide a brief overview of corporate governance literature, and present an illustrative range of examples of studies considering corporate governance in IB. It will then present the five studies included in this Thesis.

A brief introduction to corporate governance

Corporate governance is a vast field, encompassing a wide range of assumptions and theoretical approaches, and we cannot hope to do full justice to this field in this short Introduction.[6] For many, corporate governance tends to be associated in particular with the literature in economics, traditionally based on agency theory, and which is particularly concerned with the implications of the separation of ownership and control of companies (Shleifer & Vishny, 1997). It is useful to start with outlining this perspective, which underlies much of the theory used in this Thesis.

[6] For comprehensive and readable reviews of the economics-based literature, see for instance Becht et al. (2003) and Shleifer and Vishny (1997). For a broader view also reviewing different definitions of corporate governance, see Aguilera and Jackson (2010).

We will then comment on other perspectives that have a broader view of the relevant stakeholders in corporate governance, as well as perspectives having a less conflictual view of the relationship between the owners and the corporation, that will also be of some importance in the Thesis.

Agency-based corporate governance literature

Agency theory is essentially a theory about issues following from delegation of a task from a principal to an agent, where the principal and agent may have conflicting interests and the principal cannot fully verify the actions of the agent (Eisenhardt, 1989).[7] The traditional concern in the agency-based corporate governance literature is thus to what extent the managers entrusted with running a corporation, run the corporation in the interest of its shareholders (Fama & Jensen, 1983; Jensen & Meckling, 1976). Delegation of control from the owners to managers and imperfect observability of managerial effort imply that managers have some leeway to pursue personal goals (Jensen & Meckling, 1976). This problem is argued to be especially acute in widely held firms, where a collective action problem occurs as each owner has a small stake and hence insufficient incentives to devote personal resources to monitoring. Hence, the agency-based corporate governance literature studies various mechanisms for ensuring that managers return the firm's economic profits to the shareholders. In many countries, various forms of legal protections of investors exist. Another potential mechanism, ownership concentration (i.e., blockholder ownership) has on one hand been theorized to improve corporate governance by strengthening owner incentives for monitoring and possibilities for control; but on the other hand it may lead to a greater tendency of majority shareholders to expropriate minority shareholders or other stakeholders in the firm (Shleifer & Vishny, 1997).

Delegating monitoring to a board of directors, or aligning managerial incentives to owners' interests through performance-based pay are also proposed to solve agency problems. Fama and Jensen (1983) highlighted the monitoring and ratification functions of boards, as opposed to the initiation and implementation of projects carried out by managers. The literature on boards of directors has in particular explored the importance of the independence of the board, in terms of the share of the directors that are not insiders to the firm, and in terms of the influence of the CEO on the board, particularly when the CEO is also the Chairman of the board (so-called *CEO duality*). While independent board members all else equal would be more likely to monitor in the interest of shareholders, they may also lack information and knowledge to monitor effectively (Becht et al., 2003).

A vast literature has also considered executive compensation. While the justification for the massive stock options and other performance-based pay (especially in the US) has been to motivate CEOs to increase stock value, corporate governance scholars have also warned about the increased scope for managerial self-dealing and expropriation of owner interests (Becht et

[7] See e.g. Eisenhardt (1989) for further discussion, for instance on the distinction between positivist agency theory and the more theoretical and mathematical version in principal-agent theory (Laffont & Martimort, 2002).

al., 2003; Shleifer & Vishny, 1997).[8] Furthermore, an excessive share of insider (manager) ownership could lead managers to become excessively risk-averse, since a large amount of their personal wealth is tied to the firm. It could also lead to managerial entrenchment, making it difficult to remove poorly performing managers e.g. through takeovers (see next).The literature has also considered more "drastic" governance mechanisms such as takeovers, where a corporate raider temporarily concentrates voting power by acquiring sufficient shares, for instance in order to remove a manager (Becht et al., 2003).

As the main conflict of interest assumedly occurs between the providers of finance and the managers, there is also a close link between corporate governance and corporate finance.[9] In the corporate finance literature, it has for instance been suggested that another way of mitigating problems associated with excessive managerial discretion is to reduce the free cash flow of the firm through substantial use of debt in its capital structure (Jensen, 1986). Governance implications of different forms of financing (i.e., debt or equity) are also addressed in other studies in terms of the decision and control rights of debt or equity holders (e.g., Aghion & Bolton, 1992; Williamson, 1988). At the extreme, if a firm defaults on its debt payments, it may be struck bankrupt and the control of its assets shifted away from managers to debt holders. However, debt holders do not have control rights before the contract is breached, while equity owners can control the firm continuously.

Finally, and of particular importance for several studies in this Thesis, agency theory has provided useful insights into the corporate governance implications of different ownership *identities*. For instance, different identities of owners may imply different risk preferences and time horizons. There is also a close link there to arguments on concentrated ownership and blockholders. Thus, the literature has for instance considered delegated monitoring by institutional investors such as pension funds with concentrated ownership, on behalf of dispersed ultimate owners. *Institutional ownership* has been argued to strengthen monitoring through significant ownership stakes (lowering relative monitoring costs compared to dispersed owners) and shareholder activism (George, Wiklund, & Zahra, 2005; Wright, Ferris, Sarin, & Awasthi, 1996). Nevertheless, institutional ownership might also have negative effects on

[8] As one illustrative example, the simplest agency models often used to justify CEO stock options unrealistically assume that CEOs are not able to manipulate earnings and stock prices (see e.g., Becht et al., 2003: 34-35).

[9] The seminal study by Modigliani and Miller (1958) showed that under a restrictive set of conditions, capital structure does not matter. A large literature has relaxed their assumptions in various ways. Myers (2001) identifies three main current theories of capital structure: The tradeoff-theory, the pecking order theory and the free cash flow hypothesis. These three theories emphasize, respectively, tax benefits of debt, information asymmetries and agency costs. Following the *tradeoff-theory*, firms balance the tax benefits from debt due to deduction of interest payments (the interest tax shield), against the costs of financial distress (costs of bankruptcy or reorganization as well as agency costs that arise when there is doubt as to the firm's creditworthiness). The *pecking order theory* (Myers & Majluf, 1984) instead argues that debt is safer for investors than equity when there is uncertainty about the value of the firm: It minimizes the information advantage of the firm's managers. As Myers (2001: 92) puts it, "[o]ptimistic managers, who believe the shares of their companies are undervalued, will jump at the chance to issue debt rather than equity. Only pessimistic managers will want to issue equity-but who would buy it?" Equity will thus be used only when debt is costly, e.g. when the firm has a dangerously high degree of leverage. This implies a pecking order whereby firms will first prefer internal finance (i.e. retained earnings) which is assumed not to entail information asymmetries; if external finance is needed, debt will be preferred before equity. Lastly, *agency-based theories* include Jensen's (1986) free cash flow theory emphasizing that debt may have positive effects in constraining managerial discretion in situations where the firm lacks profitable investment opportunities.

performance if institutions are dependent on the firm (McConnell & Servaes, 1990) or if they are very short-termist (Connelly, Tihanyi, Certo, & Hitt, 2010). Furthermore, although fund managers may have little incentives for self-dealing, they may also lack a significant stake in the firm's results and hence adequate incentives for monitoring (Becht et al., 2003).

Another category of ownership to which agency theory has been extensively applied is *state ownership* – often from a rather critical perspective where state-owned enterprises (SOEs) are seen as "a manifestation of a radical failure of corporate governance" (Shleifer & Vishny, 1997: 739). State ownership will be the most important category of ownership identity to be considered in the studies of this Thesis. Although following chapters of this Thesis will return to several of these points, I spend a bit of space here to show how the basic assumptions from agency-based corporate governance theory are applied to SOEs in this literature.[10]

In terms of delegation, state ownership is characterized by a multi-layered delegation structure where voters (the ultimate owners of an SOE) delegate control to politicians via bureaucrats to state owned enterprise (SOE) managers, with particular corporate governance implications (e.g., Ludvigsen, 2010; Martimort, 2006). The voter-owners may be concerned with both economic and non-economic goals. In turn, as discussed extensively in Ludvigsen (2010) politicians may have at least three different types of motivation: *re-election*, *reputation* and *ideological* concerns, each having different implications for corporate governance.[11] First, politicians motivated mainly by re-election will cater to their important constituencies. Some authors argue that politicians use SOEs to reward political supporters through excess employment and the like, providing concentrated benefits to a few while spreading the costs on many (Shleifer, 1998; Shleifer & Vishny, 1994). An important assumption is limited and/or differential information among voters (as well as a role of the media in focusing mainly on negative events). This is likely to lead to "fire alarm" rather than "police patrol" oversight of SOEs. In contrast, politicians motivated by reputation concerns wish to appear competent and will thus follow prevailing norms on corporate governance. Finally, the ideology model simply argues that politicians will follow partisan profiles in office.[12] In turn, the bureaucrats tasked with the daily monitoring of SOEs are argued to have weak incentives to devote effort to monitoring, as their financial stake in the SOE is insignificant. Finally, the assumption is usually that SOE managers (just like other managers) care not only about value maximization but also about the consumption of perquisites (Jensen & Meckling, 1976), "empire building" and prestige, and the like (Vickers & Yarrow, 1991). This means that although state ownership is often highly concentrated in terms of control rights, it is not in terms of residual returns (Shleifer & Vishny, 1997).

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[10] Many of these ideas are found already in Aharoni (1982), who referred to SOEs as "an agent without a principal".

[11] In addition, two models for *SOE board directors* are discussed in Ludvigsen (2010): These are the re-election model and the reputation model. For reasons of space, we do not discuss SOE boards of directors here.

[12] These models need to be modified in authoritarian countries. However, while re-election is often not a concern for politicians, also dictators need to cater for their political supporters. Further, the propensity for dictators to extract personal benefits from SOEs rather than promote economic performance also depends on the specific type of dictatorship (Olson, 1993).

The SOE literature thus generally argues that shareholder governance will be weaker in SOEs. Important governance mechanisms such as the stock market scrutinizing firm behavior and the threat of takeovers and bankruptcy for disciplining managerial behavior (Fama & Jensen, 1983) are weaker or deactivated in SOEs, depending among others on whether there is partial private ownership (Gupta, 2005). The government may often be reluctant to let an SOE go bankrupt as this may lead to political costs. While the costs of subsidizing an SOE are spread thinly on all citizens, the costs of letting the firm fail may fall entirely on influential pressure groups such as unions. For this and other reasons, SOEs are often assumed to enjoy *soft budget constraints* (Kornai, 1979). In general, SOE managers are therefore often argued to have greater discretion to pursue their own sub-goals, and moral hazard problems will be more prevalent.[13] The governance of SOEs is also made more difficult by their usually multidimensional objectives, unlike POEs which presumably are guided mainly by profit objectives. SOEs may even face multiple principals at the same time, including different ministries (Martimort, 2006), and other stakeholders.[14] In addition, successive governments may have different goals for SOEs (Vernon, 1984).[15] In sum, these peculiarities of SOE governance are argued to lead to weaker economic performance in SOEs.[16]

A broader perspective on corporate governance

After this introduction to the traditional agency-based corporate governance literature, we point to literature broadening this view in two ways that are of some relevance for the studies in this Thesis:

[13] Sheshinski and López-Calva (2003) provide a game-theoretic argument whereby SOE managers realize that if a project goes badly, the politicians will step in and cover the loss in order to avoid political costs. This could lead to excessive risk-taking by SOEs (although the "too big to fail" issue is not restricted to SOEs). A tendency for SOEs to take higher risks has been noted by some authors (Eliassen & Grøgaard, 2007); higher risk taking in SOEs could however also be motivated by the greater risk-bearing capacity of a highly diversified state owner (Arrow & Lind, 1970). For a critical discussion see also Aharoni (1986). Note that this view of lesser SOE risk aversion is contrary to some arguments that SOEs might be *more* risk-averse than POEs (Boubakri, Cosset, & Saffar, 2013; Brouthers, Gelderman, & Arens, 2007). According to these latter arguments, politicians may pressure SOEs to emphasize social stability and avoid mistakes that would embarrass the politicians, leading to less risk-taking.

[14] OECD (2005) identify three generic models for SOE governance: A centralized model, in which the ownership function is concentrated in one ministry or holding company; a decentralized model, in which different ministries control different SOEs; and a dual model, in which one central ministry and one sector ministry are involved in the governance of any SOE. Shapiro and Globerman (2012) suggest that the reason for the current trend towards adoption of a centralized model could be that centralization permits greater consistency and transparency in SOE governance. However, see Tirole (1994) for theoretical arguments on how a "multi-headed" government may have advantages for controlling units such as SOE based on a checks and balances logic.

[15] Alesina and Tabellini (1990) construct a model where alternations of governments with substantially different preferences ("political cycles") lead to higher levels of public debt than are optimal for society. Similar factors might affect state ownership and corporate governance of SOEs. We note in passing that this does not imply that a government should be able to commit future governments to a policy; this would for instance be detrimental when a government favors special interest groups (Tirole, 1994).

[16] The predictions of weaker SOE economic performance are in general borne out in the empirical literature (Dewenter & Malatesta, 2001; Goldeng, Grünfeld, & Benito, 2008; Megginson & Netter, 2001; Shirley & Walsh, 2001) though exceptions exist (Kole & Mulherin, 1997). Most of these studies do not address other types of output (Goldeng et al., 2008). When SOEs explicitly have commercial objectives, some studies find their economic performance is comparable to that of POEs (Bozec, Breton, & Cote, 2002).

1. First, we consider perspectives relaxing the assumption of corporate owners contracting with a single manager to allow for other stakeholders in governance as well as intra-corporate governance issues.
2. Next, we consider perspectives on corporate governance that do not equate it just with monitoring and control, but also acknowledge that owners and other stakeholders may provide the firm with information, advice and other resources.

The traditional agency literature has simplified by essentially assuming contracting between owners and a single manager (CEO) controlling a single productive asset (the firm) (Bolton & Scharfstein, 1998: 101). The welfare of all other actors with interests in the firm were assumed to be accounted for through appropriate contracts (Jensen & Meckling, 1976). However, the ensuing focus on maximizing shareholder economic value has been argued to be too narrow not only from a normative viewpoint (Kolstad, 2007), but also from a theoretical viewpoint in more recent corporate governance theories in economics (Becht et al., 2003; Zingales, 2000). Effectively, the broadening of the relevant set of interests to be maintained through corporate governance is motivated theoretically by the fact that the firm is not a "nexus of contracts" between the firm and its employees, suppliers and others, but at best a nexus of incomplete contracts (Becht et al., 2003; Zingales, 2000).[17] Thus, while *shareholder governance* has received most attention in the traditional agency-based literature, some strands in corporate governance literature also emphasize *stakeholder governance* (Strange and Jackson, 2008). The concept of stakeholders is usually used about parties without an ownership stake but with interest in the firm, including employees, suppliers, customers, government institutions, political parties, communities, subsidiaries, trade associations, media, and the general public.

While the possible role of stakeholders in corporate governance remains debated in economics (Tirole, 2001), the above broadening of the goals of corporate governance matters in two important ways for the studies in this Thesis. First, while corporate governance is traditionally cast in terms of returning economic value to the owners, this view does not fit equally well with other types of objectives pursued by both business owners (e.g., family owners) or non-business owners, for instance the Government whose ownership is ostensibly motivated by social welfare.[18] The literature cited above also implicitly simplified by considering an agency relationship between owners and a single manager presiding over a unitary organization (Bolton & Scharfstein, 1998). However, quite similar corporate governance issues as those arising between outside owners and the corporation as a whole may also arise for instance between corporate headquarters and subsidiaries (Costello & Costello, 2009; Filatotchev & Wright, 2011; O'Donnell, 2000).

[17] Thus, for instance, in some cases employees are also seen as *principals* of management when the employees have made firm-specific investments (Becht et al., 2003).
[18] The latter need not always be the case, of course. State ownership (beyond portfolio holdings) can also simply be a way of placing the Government's wealth. Relatedly, international activities of SOEs may be at least partially motivated by gaining foreign exchange for the country.

Another potential limitation of the traditional agency view on corporate governance that will be of some importance in this Thesis is the exclusive focus on monitoring and control. Essentially, the assumption in the agency view is that corporate owners provide no other resources to firms than financial capital (an assumption which is explicit in for instance Shleifer & Vishny, 1997: 748). However, as will be argued in several studies in this Thesis, owners may also sometimes play other roles that arguably belong within a broader notion of corporate governance, beyond pure conflicts of interest. The importance of other functions than just monitoring has already been extensively explored in relation to corporate governance mechanisms such as boards of directors. For instance, within their resource dependency theory, Pfeffer and Salancik (2003 [1978]) argued that boards of directors bring resources to firms rather than just being a control device. Such resources include information in the form of advice and counsel; information channels between the firm and environmental contingencies; preferential access to resources; and increased legitimacy. Sometimes, the alternative perspectives on corporate governance imply different predictions for important variables from those of agency theory. For instance, while CEO duality could reduce board independence and hence the effectiveness of board monitoring, based on stewardship theory "the combination of the roles of CEO and chairman brings about an advantage of superior information" (Wang, 2014: 422).

Jackson and Strange's mention of *expertise* (Jackson & Strange, 2008: 3) could also be (perhaps a bit liberally) interpreted as suggesting that stakeholders such as owners may be able to contribute other resources to firms than just financial capital. This broader view of corporate governance, going beyond monitoring and control to advice and resource transfer, will also be of some importance in this Thesis. It seems that different forms of corporate ownership could also imply the transfer (or not) of some of the above types of resources. Again, the example of SOEs comes to mind: SOEs may have special access to both the Government's financial resources as well as other resources such as political connections, as will be discussed in later chapters of this Thesis. A similar reasoning also underlies the idea of *competent capital*, whereby in particular venture capitalists are argued to supply not only capital, but also industrial and other competence (e.g., Karaomerlioglu & Jacobsson, 2000).[19]

So far, ownership has received relatively little attention within resource-focused theories such as the resource-based view, albeit with some studies such as Douma, George, and Kabir (2006: 640) noting that "considerable resource heterogeneity [may exist] among various shareholder categories." It would seem that the resource-based theory could accommodate effects of ownership on resources, although one cannot then assume that these owner-related resources are under the direct *control* of firms as supposed by some statements of the resource-based view.[20] Such owner-related resources may also be argued to fulfill RBV conditions such

[19] Some authors claim that state-owners possess less of such industrial competence and business competence in general (Byrkjeland & Langeland, 2000).

[20] Notably, Barney (1991: 3 my italics) defines *firm resources* as "all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. *controlled* by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness."

as VRIN (Valuable, Rare, Inimitable and Non-substitutable) (Barney, 1991).[21] First, they can certainly be valuable in many cases. They may also be rare, at least within the context of an industry. It seems that ownership could provide a barrier to resource access and imitation *vis-à-vis* other firms, not least because of the increased motivation of owners to transfer any kind of resource to the firm that would subsequently improve the owners' flow of residual returns (and possibly other types of benefits from owning the firms). Finally, some of these ownership-related advantages may be difficult to substitute, such as political connections for SOEs.

Ownership-related barriers have for instance been argued to be relatively dramatic in the Chinese context, where SOEs benefit from many advantages unavailable to private firms (e.g., Morck, Yeung, & Zhao, 2008). An important difference from the traditional RBV formulation, the implications of which need further exploration, is that these FSAs may be shared by various firms under state ownership, for instance, rather than being specific to just a single firm.[22]

Corporate governance in international business

After this brief overview of some relevant elements of corporate governance, we now briefly discuss some examples of how a growing literature in IB is applying corporate governance to IB topics.[23] It will again be convenient to structure this discussion according to Jackson and Strange's (2008) categorization of linkages between corporate governance and IB. First, we discuss a number of studies on how, for instance, corporate ownership or boards affect international strategic decisions and outcomes. Second, we mention some examples of studies on how corporate governance and institutions more broadly matter for FDI flows to countries. Third, we mention some studies on the diverse institutional and corporate governance contexts of MNEs; under this point, we also discuss how the institutional background and corporate governance of MNEs affect their sensitivity to institutions. This third point thus brings together some aspects of the two first.

Corporate governance and international strategy

Based on agency theory (but often in combination with other theoretical perspectives), a number of IB studies have investigated the effects of corporate governance-related variables on internationalization strategies and outcomes.[24] Our review here is far from exhaustive and aims

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[21] In later formulations (see e.g., Barney, 2007: Chapter 5), the condition of non-substitutability (N) was replaced by a condition of Organization (O) (with the new conditions summed up as VRIO). Organization essentially means that the firm must be able to organize the resources in a way such that they are fully utilized. We return briefly to the question of whether firms are able to organize their owner-specific advantages in this way is interesting, and especially whether managers will always maximize the value from their firms' resources, in the concluding chapter of this Thesis.

[22] Hence, they might arguably be usefully referred to as *owner-specific advantages*, although this term will not be used in this Thesis, among other things because of the risk of confusion with Dunning's established IB concept of ownership advantages (Dunning & Lundan, 2008).

[23] Again, we cannot do full justice here to this literature as a whole or to all the important nuances of each study. The brief review to follow should however provide a clear indication of the relevance of the corporate governance in IB research programme.

[24] Several contributions appeared in a special issue in *Management International Review* in 2009. Instructive previous overviews and discussions of corporate governance in IB can be found in the introduction to that special

only at providing a range of illustrative examples. As mentioned previously, the key IB transaction cost and internalization approaches predict that profit-maximizing firms will extend their boundaries across national borders and internalize transactions within an MNE, when the costs of doing so are lower than carrying out the same transactions through markets or contracts (Buckley & Casson, 1976; Hennart, 1982; Hymer, 1968; McManus, 1972; Rugman, 1981). In many studies relating corporate governance to international business the explained variable is some measure of internationalization, and it is often assumed that corporate governance should overcome a general tendency of risk-averse managers to avoid risky activities such as internationalization, and especially FDI. For instance, Tihanyi, Hoskisson, Johnson, and Wan (2009: 413) argue that

> *Contingent pay may be an appropriate incentive to managers to seek new international markets for their firm. International diversification in general provides long-term opportunities for firms to extend their customer base, to acquire resources, or to hire talent for future growth. Stock options may reduce the potential agency conflict between managers and shareholders with a long term interest in investing firms with higher international diversification.*

The authors' empirical analysis of a sample of Standard & Poor's 500 firms indeed finds that contingent managerial pay (stock options and bonuses) is positively related to the level of international diversification. Related arguments are made by Liu, Lu, and Chizema (2014) for Chinese outward FDI. However, following Aguilera and Jackson (2003) they also argue that the effect of CEO pay in aligning CEO and owner interests could depend on context. They argue that well-functioning institutional environments will positively moderate the effect of CEO pay. The empirical analysis supports their arguments.

Lu, Xu, and Liu (2009) consider both principal-agent issues between the owners and management, and principal-principal conflicts between majority and minority owners, in the Chinese context. They find that outside directors and CEO shareholding help firms make export decisions, while the effects of ownership concentration appears to be non-monotonic. Oesterle, Richta, and Fisch (2013) also considered the effects of ownership concentration on companies' degree of internationalization, finding that the effect is non-linear. Considering Indian firms, Bhaumik et al. (2009) find that that family and concentrated ownership deter outward FDI, while strategic equity holding by foreign investors facilitates FDI.

IB scholars have also considered how corporate governance variables affect other internationalization strategies. Musteen, Datta, and Herrmann (2009) investigate the effect on foreign market entry choices. They find that ownership by institutional shareholders and inside

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issue (Strange et al., 2009a), as well as in a point-counterpoint in *Journal of Management Studies* (Buckley & Strange, 2011; Filatotchev & Wright, 2011) and in the edited volume by Strange and Jackson (2008). We will here focus mainly on studies within the international business literature, but it should be mentioned that for instance financial economists have also occasionally exploited the international context to consider corporate finance and governance issues (Desai, Foley, & Hines Jr, 2008, 2004a, 2004b; Kolasinski, 2009).

directors, as well as CEOs with a greater proportion of pay tied to long-term performance, are positively associated with the choice of more risky full-control entry modes rather than less risky shared-control modes. Again, theoretical arguments center on mitigating CEO risk aversion through monitoring by the institutional investors and alignment of CEO and owner interests. The same applies in Lien and Filatotchev (2014) who consider the location of FDI, arguing "managerial conservatism" leading managers to avoid FDI in previously relatively unexplored locations. They find that concentrated ownership by various types of blockholders (i.e., controlling family, non-family top management team members and institutional investors) is positively associated with FDI location decisions in less-explored and risky areas.

Although the above studies find corporate governance to promote risky internationalization, there is no guarantee that internationalization choices taken by managers are value-maximizing. If international activities also provide non-pecuniary benefits to managers such as "empire building" and prestige benefits (Filatotchev & Wright, 2011), which seems plausible, this could in fact lead to an excessive degree of internationalization and/or a poor selection of specific international projects. Only a couple of recent published studies provide evidence relevant to how corporate governance affects the economic performance of internationalization (Wang, 2014; Xiao, Jeong, Moon, Chung, & Chung, 2013). Chapter 2 in this Thesis will also contribute to filling this research gap by providing additional evidence on this point. As one example, Wang (2014) finds, broadly in line with common predictions from agency theory, that firms have better economic performance in international diversification when managerial pay and equity-based pay is higher, when the firms have a larger share of independent board members, and when firms separate the roles of CEO and board chairman (i.e., avoiding CEO duality).

Several studies have also considered the role of *ownership identity*. George et al. (2005) investigated the effect of family ownership, institutional ownership and venture capital ownership on the scale and scope of internationalization. For instance, they argued that ownership by the founder-CEO in small and medium sized enterprises (SMEs) would reduce problems associated with separation of ownership and control, although it may not reduce conflicts between different owners. This could also have an effect on internationalization since "even though internationalization may create value for all shareholders, the risk associated with it may deter CEOs or founders of SMEs because of the potential income stream uncertainty that can lower their own wealth" (George et al., 2005: 214). In contrast, better diversified institutional investors and venture capitalists promote internationalization. Majocchi and Strange (2012) find effects on international diversification of a wide range of corporate governance variables, including family and state ownership, how active is the market for corporate control, and board independence. As in George et al. (2005), a high level of family ownership is found to have a negative effect on international diversification, but this effect is negatively moderated by an inactive market for corporate control. Majocchi and Strange (2012) also find that when the board of a family-owned firm has a higher share of independent directors, international diversification increases. Finally, also state ownership results in less international diversification.

An important subset of IB literature relevant for the issue for corporate ownership identity and governance in IB is, of course, the rapidly growing literature related to state-owned MNEs (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014; Rygh, 2015).[25] So far, studies of SOE international operations have demonstrated certain regularities of SOE behavior such as a tendency to internationalize less (e.g., Benito, Lunnan, & Tomassen, 2011; Majocchi & Strange, 2012; Mazzolini, 1979), although this tendency appears to be reversed in the case of some emerging economies such as China (e.g., Wang, Hong, Kafouros, & Wright, 2012). Another tendency seems to be for SOEs to locate in politically risky countries (e.g., Duanmu, 2014b; Knutsen, Rygh, & Hveem, 2011), which has been explained *inter alia* by a greater risk tolerance in general of SOEs and/or a greater ability to handle political risk (see a comprehensive discussion in Chapter 3 in this Thesis). Studies have also found an effect of state ownership on foreign market entry modes (Cui & Jiang, 2012; Meyer, Ding, Li, & Zhang, 2014; Pan, Teng, Supapol, Lu, Huang, & Wang, 2014). Interestingly, most of the SOE internationalization literature has relied on institutional theory rather than agency-based corporate governance theory. The few studies of SOE internationalization relying heavily on agency theory and/or new institutional economics include Knutsen et al. (2011), Shapiro and Globerman (2012) and Nielsen, Estrin, Meyer, and Nielsen (2015).

Several corporate governance and IB studies hint at effects from corporate ownership on the internationalizing firms' firm-specific advantages (FSAs), in line with the broader view of corporate governance discussed earlier in this chapter. [26] For example, Fernández and Nieto (2006) allude to a lack of managerial resources and expertise in small, family-controlled firms. SOEs, in particular Chinese ones, have also been argued to be lacking in technological and managerial FSAs (Rugman & Li, 2007); however, SOEs are also widely believed to possess certain other kinds of FSAs related to political and financial support from the home state (e.g., Du & Boateng, 2015; Wei, Clegg, & Ma, 2015). Such resource or FSAs effects of corporate ownership are explicit in the recent study by Hu and Cui (2014: 751), who write that "different types of shareholders can contribute different types of resources to firms", and suggest various resources provided by state, domestic institutional and foreign owners in the Chinese context. They also explicitly combine RBV and agency theory, with the agency arguments related to

[25] As the preceding discussion has already suggested, another substantial subset of the literature concerns *family ownership* and internationalization. See Pukall and Calabrò (2014) for a review.

[26] It hardly needs reminding that FSAs are a key concept in IB, starting with Hymer's (1976 [1960]) ownership advantage concept, that became a key element in Dunning's "eclectic" Ownership-Location-Internalization (OLI) framework. Following the classic study of Hymer (1976 [1960]), to overcome the additional costs of operating abroad, firms are assumed to need some type of firm-specific advantages. The original two types of advantages (Dunning, 1988) were property rights/intangible assets (e.g. technology, brand name), and advantages of common governance of these assets (e.g. size, learning, diversification). The RBV has subsequently been linked up to IB among others as a way of specifying the resources and advantages needed for internationalization (Peng, 2001) and the *isolating mechanisms* that promote international competitiveness (Dunning & Lundan, 2008; Rugman & Verbeke, 2002). [According to Rumelt (1984: 567), isolating mechanisms are "phenomena that limit the ex post equilibration of rents."] Especially Alan Rugman has been credited with linking internalization theory with the RBV (Narula & Verbeke, 2015). We may also note that the OLI framework has later been augmented with a sub-O-advantage of institutional advantages, which are the "formal and informal institutions that govern the value-added processes within the firm, and between the firm and its stakeholders" (Dunning & Lundan, 2008: 101). Corporate governance is included under this heading, along with codes of conduct.

CEO power. CEO power is argued to have a negative moderation effect on the resource provision of the various types of owners, and hence on the relationship between these various types of ownership and the level of outward FDI. For instance, they argue that a weakened monitoring role of the state owner compared to other owners will reduce its "confidence and willingness in providing resources for SOEs' international expansion" (Hu & Cui, 2014: 753).

It is useful at this point to sum up the above discussion by distinguishing conceptually between a direct and an indirect influence of corporate governance on international strategic decisions and outcomes. First, corporate governance may *directly* affect strategic choices. This includes choices related to how firms exploit their FSAs from an internalization perspective. Second, corporate governance may affect international strategy *indirectly* by affecting firm FSAs in various ways. This implies a more dynamic perspective related for instance to investment in building up FSAs. One may here also include the possibility of direct transfer to firms of resources affecting FSAs by shareholders or other stakeholders in corporate governance. Both these channels will be relevant for the studies in this Thesis that focus on corporate ownership.

Corporate governance also plays a notable role in some recent IB research focusing on financial factors (e.g., Agmon, 2006; Bowe, Filatotchev, & Marshall, 2010). For instance, based on an analytical model of vertical trade relationships, Dietrich and Jindra (2010) argue that the financial constraint of an MNE and/or its supplier are an important determinant of internal governance structures that complements and interacts with effects of institutional factors and proprietary knowledge.

Lastly, as noted earlier, a number of studies in IB also relax the assumption of the MNE acting as a unitary organization under the direction of a single CEO, to allow for various internal governance issues. Bowe et al. (2010) trace this stream to the view of Ghoshal and Bartlett (1990) the MNE as a "federative" organization or interorganizational network. As such, this stream includes a wide range of contributions, including studies on subsidiary power (e.g., Mudambi & Navarra, 2004) and subsidiary mandates and initiatives (e.g., Birkinshaw & Hood, 1998; Cantwell & Mudambi, 2005) and the role of corporate HQs (e.g., Ciabuschi, Dellestrand, & Holm, 2012). This type of studies have important implications in terms of the assumption in transaction cost/internalization theory (TCI) that integration solves problems associated with contractual governance of certain types of transactions (e.g., Williamson, 1985, 1975, 1996).[27] In particular, a number of IB studies have considered *intra-MNE* governance using a transaction cost lens (e.g., Benito & Tomassen, 2010; Buckley & Strange, 2011; Tomassen & Benito, 2009; Tomassen, Benito, & Lunnan, 2012), and/or agency theory (e.g., Costello & Costello, 2009; Filatotchev & Wright, 2011; Kim, Prescott, & Kim, 2005). For instance, Tomassen and Benito (2009) show how governance costs matter for MNE subsidiary performance, and Tomassen et al. (2012) find that they are related to relationship and environmental characteristics. Based on

[27] In particular, when transactions involve highly idiosyncratic investments, and there is significant external uncertainty, integration will inter alia allow necessary adjustments to be mandated and enable more effective auditing. Internal organization is thus argued to reduce enforcement, information and bargaining costs for such transactions.

agency theory, Kim et al. (2005) present arguments on how corporate governance of foreign subsidiaries in a transnational corporation should be differentiated according to different levels of agency problems associated with varying strategic roles of foreign subsidiaries. Chapter 5 in this Thesis belongs to this literature.

Corporate governance, institutions and inward FDI

Another linkage between corporate governance and IB proposed by Jackson and Strange (2008) is that institutions have important effects on economic activity, including on the governance of firms (Connelly, Hoskisson, Tihanyi, & Certo, 2010), ranging from the general level of protection of property rights in a country to specific legal protection of shareholders or debtholders, for instance. Many of the studies of institutions rely, more or less explicitly, on the stream of *new institutional economics* (e.g., Acemoglu, Johnson, & Robinson, 2005; North, 1990; Williamson, 2000).[28] Following North's (1990: 3) widely used definition, institutions are "the rules of the game in a society, or, more formally, are the humanly devised constraints that shape human interaction." Institutions function to reduce uncertainty in exchange, and they directly affect transaction and production costs associated with economic activity (North, 1991).

As mentioned above, institutions and political risk have played an important part in IB research from early on. However, the main focus of early studies was the risk to MNEs' profits from actions by politicians, and the strategies that (Western-based) MNEs could pursue to mitigate or avoid this risk (e.g., Eaton & Gersovitz, 1984; Fitzpatrick, 1983; Kobrin, 1979; Kobrin, 1980; Makhija, 1993; Phillips-Patrick, 1989; Poynter, 1982; Vernon, 1971). More recently, going beyond the traditional location factors such as market size, studies in IB and international political economy have introduced institutions as a potential locational advantage for countries in attracting inward FDI. It is now generally agreed that host-country institutions can be potentially important location advantages (e.g., Blonigen, 2005; Dunning, 1998). Overall, even though the results for particular institutional indicators sometimes vary, the literature has generally demonstrated a role for a "benign" and business-friendly institutional environment in attracting FDI (Ali, Fiess, & MacDonald, 2010). In particular property rights protection, rule of law, and government stability and commitment are found to influence inward FDI positively (Daude & Stein, 2007; Globerman & Shapiro, 2002). The impact of other institutional characteristics such as corruption and democracy has been more debated (see also the review in Chapter 6).[29]

This research has relied on relatively aggregated data on FDI flows or stocks. However, a sizeable literature has also provided relevant insights as to the role of institutions by working

[28] New institutional economics is one of the three main strands of "institutional" theories used in international business research as identified by Hotho and Pedersen (2012), the two others being new organizational institutionalism (with a particular basis in sociology and organization theory) and comparative institutionalism (including for instance, the varieties of capitalism approach).

[29] The institutions-FDI literature also has some bearing on the well-known "race to the bottom" arguments related to MNEs seeking out weak labor or environmental regulation. So far, the evidence is mixed both on the link between FDI and labor standards (e.g., Duanmu, 2014a; Kucera, 2002; Mosley & Uno, 2007) and between FDI and environmental regulations (e.g., Keller & Levinson, 2002; Rezza, 2013, 2015).

at the firm level. It will be useful to discuss this literature under the next category of Jackson and Strange (2008) relating to MNEs' exposure to heterogeneous corporate governance and institutional environments.

Exposure to different corporate governance and institutional environments

A third linkage between corporate governance and IB argued by Strange et al. (2009a: 398) is that "internationalization and the activities of MNEs impact corporate governance, by exposing firms to diverse sets of institutions and stakeholder pressures."[30] This statement points to several important considerations. *First*, there arguably is no unitary corporate governance facing the MNE as a whole.[31] Rather, corporate governance will vary with context, and this also implies that appropriate strategies may differ between contexts. Thus, for instance, transactions involving assets with particular characteristics may need to be handled differently in different institutional contexts, while institutions may also have a direct effect on strategies. Many IB studies have also considered how institutions affect entry mode choice or related choices, for instance in terms of effects on external uncertainty following a transaction cost perspective (e.g., Brouthers, 2002; Delios & Henisz, 2003; Demirbag, Glaister, & Tatoglu, 2007; Gatignon & Anderson, 1988; Oxley, 1999).

Second, MNEs from different institutional and corporate governance backgrounds may also respond differently to a given host-country institutional configuration. While "good" institutions are generally found to attract FDI, this effect also depends on industry (Ali et al., 2010; Kolstad & Villanger, 2008; Kolstad & Wiig, 2013), on the type of FDI (Aizenman & Marion, 2004; Slangen & Beugelsdijk, 2010), and on institutional features of the home country (e.g., Cuervo-Cazurra, 2006; Habib & Zurawicki, 2002; Wu, 2006). For instance, it has been argued that emerging market MNEs can use their experience from problematic institutional environments at home to overcome institutional voids abroad (Cuervo-Cazurra & Genc, 2011).[32] Some studies also suggest that previous experience in a variety of institutional environments allow firms to overcome institutional challenges (Jiménez, Luis-Rico, & Benito-Osorio, 2014). Finally, some studies have suggested that firm characteristics such as state ownership reduce the sensitivity to political risk (e.g., Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; García-Canal & Guillén, 2008; Knutsen et al., 2011). This Thesis will also contribute to this literature.

[30] Following this, the authors also note that "[i]nternationalization may bring pressures from foreign investors for greater shareholder value or changes in regulation toward international standards" (*ibid.*). In this view, the policy environment is considered not to be fully exogenous, but instead MNEs may have the incentives and power to attempt to influence the environment to their advantage (Ahlquist & Prakash, 2010). We take this into account in Chapter 6.

[31] Luo (2005) notes that "[c]orporate governance in publicly traded MNEs (…) generally contains two related tiers: (1) parent-level corporate governance—how the parent company's rights, power and responsibilities are divided and monitored; and (2) subsidiary-level corporate governance—how foreign subsidiaries that have their own board of directors deal with their shareholders and other local stakeholders while simultaneously answering to and integrating with the parent firm."

[32] Dam et al. (2007) however find that good corporate governance facilitates entry into difficult institutional environments.

Third and finally, internationalization may itself have effects on corporate governance. Among other things, Sanders and Carpenter (1998) argue that internationalization is accompanied by more pronounced agency issues (because of increased challenges of monitoring international activities), and they report that firms respond through higher, longer-term CEO pay, larger top management teams, and the separation of chairperson and CEO positions. On the other hand, firms with weaker corporate governance may sometimes be able to strengthen their governance by seeking out better-functioning corporate governance environments. This may take place, for instance, through foreign listing (e.g., Bailey et al., 2006; Siegel, 2009).

Overview of the studies

This Thesis consists of five studies that, although addressing quite diverse topics, belong under the heading of corporate governance and international business and provide theoretical and empirical contributions in all the three areas outlined by Strange and Jackson (2008). We take a generally deductive approach, integrating key theoretical insights from international business theories with corporate governance theories. As noted earlier, introducing corporate governance into core IB theories on internalization continues the work of relaxing in different ways the strong assumptions regarding profit maximization explicitly or implicitly underlying these theories. Internationalization can also in itself provide an interesting perspective on corporate governance; and as will be demonstrated in several studies in this Thesis, this may be particularly the case for corporate governance of SOEs. Taking the core theories from the fields of corporate governance and international business, respectively, as a starting point, is arguably a transparent first step to investigating their potential mutual contributions. Especially, it makes it easier to be clear about which assumptions are modified.

Our theoretical developments lead to a number of hypotheses that are tested using statistical analysis of various types of firm-or subsidiary-level accounting data, combined with measures of other variables such as host-country political risk. In general, the main goals of quantitative analysis is to uncover the existence, direction and strength of general relationships across a large number of units, and to test hypotheses deduced from theory. This is appropriate for this Thesis where new hypotheses have been developed deductively by combining corporate governance theory and international business theories. Of course, quantitative analysis comes with a particular set of philosophy of science assumptions, in particular that there is an objective social reality "out there" that can be adequately measured.[33] [34] As is also well known, the economics and management theory relies on a number of concepts that are either usually unobserved by researchers or not even directly observable, such as risk aversion, conflict of

[33] This includes aggregate concepts such as political risk that many would ultimately consider to be the outcome of disaggregated individual actions (cf. the discussion of this type of aggregate concepts in the context of democracy and economic growth in Knutsen (2011)). For an interesting discussion of methodological individualism (the doctrine that all social phenomena must be explained from independent individual actions) and institutions, see for instance Vatn (2005).

[34] This is of course not to say that there cannot be legitimate disagreement on *how* best to measure a particular concept, such as political risk. For an illustrative discussion of the democracy concept, see Knutsen (2011).

interest or some types of firm-specific advantages (Godfrey & Hill, 1995) or corporate governance mechanisms. We acknowledge the rich and often complementary (George & Bennett, 2005; Lieberman, 2005) insights that can be produced by qualitative research (an excellent example is the classic study of SOE internationalization by Mazzolini, 1979). We will briefly revisit these issues in the Conclusion chapter.

The first three papers of this Thesis focus on corporate ownership; and more specifically state ownership and foreign ownership; two ownership identities that both have interesting implications regarding international strategies.[35] For the two last studies of the Thesis, focus is shifted away from corporate ownership identity to, respectively, internal corporate governance, and to how the role of host-country institutions depend on industry factors. In all the studies, the broad view of corporate governance outlined above will be evident. While agency theory provides the main theoretical foundation for addressing monitoring and control associated with corporate ownership, we also consider the effect of ownership on firm-specific advantages (FSAs). In terms of FSAs, there will be an implicit link with resource-focused theories such as the RBV, along the lines of for instance the FSA concept as employed by internalization scholars such as Rugman (Narula & Verbeke, 2015).[36] Further, we highlight the interest of combining corporate ownership theory with core international business theory. Thus, for instance we follow Buckley and Strange (2011) in arguing that agency theory can be usefully combined with internalization theory.

Paper 1. Internationalization-Performance Relationship: The Moderating Roles of State and Foreign Ownership

The *first* paper (Chapter 2), co-authored with Gabriel R.G. Benito and Randi Lunnan, considers the relevance of ownership for one of the "big questions" (Peng, 2004) in international business research: The relationship between internationalization and performance (I/P-relationship). While a range of theoretical arguments have been made for a positive I/P-relationship, based on benefits such as economies of scale and scope, learning and risk diversification, other studies noted that internationalization also entails various costs (Contractor, 2012; Hennart, 2007; Yang

[35] The Government is an interesting type of owner, since the purported motivations for state ownership in the first place include various social objectives (OECD, 2005). In itself, this indicates that IB theory developed under the assumption of profit maximization may not be sufficient to explain SOE non-business internationalization (Cuervo-Cazurra et al., 2014); which may also explain that internalization theory so far has found little application to state-owned MNEs (Rugman, 1983). Current SOE theory has focused on the domestic context, and the motivations for state ownership in MNEs remain relatively unexplored, although many authors have alluded to strategic goals of the home government (e.g., Deng, 2007). Foreign ownership has also received substantial attention in various literatures, and that seems to have particularly interesting implications for firms' internationalization. On the one hand, although foreign ownership has sometimes been controversial in host countries, it is also widely believed to have positive consequences either directly, e.g. through the transfer of knowledge and technology to local firms, and/or indirectly through increased competition locally (e.g., Meyer & Sinani, 2009; Peng & Meyer, 2011; Smeets, 2008). On the other hand, foreign ownership is special in that it already implies a link to the international context (often referred to as a form of *inward internationalization*). Foreign ownership may also have particular characteristics from a more traditional corporate governance perspective, for instance being assumed to involve more sophisticated monitoring (Stulz, 1999).

[36] This also applies to our treatment of political FSAs, although Bonardi (2011) has argued that there are some challenges when applying an RBV view to political resources.

& Driffield, 2012). The paper investigates theoretically and empirically whether foreign and state ownership affect the ability of companies to reap the potential benefits (and limit the potential costs) of internationalization. Arguments are developed both from a corporate governance perspective, an FSA perspective, and an organizational learning perspective.

A starting point for discussing state ownership are the presumed corporate governance failures discussed above as well as non-economic motivations, that would both suggest that state ownership reduces the ability to benefit from internationalization. On the other hand, foreign ownership would be presumed to increase firms' ability to benefit from internationalization through transfer of FSAs and linkages to the international context. However, there are also some less obvious effects that could counterbalance both these baseline hypotheses. In this respect, the paper offers several novel theoretical arguments to the I/P-literature. These include the idea that SOEs may benefit more from internationalization than POEs to the extent that they have experienced a relatively sheltered life in the home context and had an inherently less international focus – especially when this is coupled with the possibility of exploitation of some particular state-related FSAs. For instance, financial FSAs may allow SOEs to benefit from a longer learning period without being forced out of business (Goldeng et al., 2008). As such, international competition may even partially substitute for weaker SOE corporate governance at home. We also develop the idea that the extent of the benefits from internationalization for foreign-owned enterprises depend on whether their outward internationalization experience is enabled by inward internationalization through foreign ownership, or whether these two forms of internationalization are instead substitutable.

Empirical analysis on a panel data set of 30 listed Norwegian firms from 2000 to 2010 indicates overall that state ownership positively moderates the I/P-relationship, suggesting that weaker corporate governance does not hinder SOEs in benefitting from internationalization. In contrast, the results for foreign ownership are mixed, with both a negative and a positive moderation effect found in alternative analyses. Additional analyses accounting for potential endogeneity of internationalization and ownership in relation to performance in a generalized method of moments (GMM) set-up, where instruments for internationalization and ownership are generated from lagged variables in the model, provide partial support to the main results (although the GMM results depend on specification choices).

Although the generalizability of these findings to non-listed SOEs and other home countries remains to be established, the study suggests that state ownership is not necessarily a hindrance to benefitting from internationalization; indeed, there are plausible reasons for why SOEs may have particularly much to gain in economic performance.

Paper 2. Explaining the Link Between State Ownership and FDI Into Poorly Governed States: Does State Ownership Help Firms Mitigate Political Risk Abroad?

The *second* paper (Chapter 3), co-authored with Carl Henrik Knutsen, links up both to corporate ownership and to the role of institutions. The paper is motivated by the finding in recent studies that SOEs from different home country contexts are less deterred by politically risky host-country environments than privately owned enterprises (POEs) when allocating FDI (e.g.,

Buckley et al., 2007; Duanmu, 2014b; García-Canal & Guillén, 2008; Knutsen et al., 2011; Kolstad & Wiig, 2012). The paper probes theoretically and empirically into an explanation according to which state ownership may mitigate political risk. The paper extends existing and develops new arguments on particular *political firm-specific advantages* (FSAs) (Boddewyn & Brewer, 1994; Doh, Lawton, & Rajwani, 2012) of SOEs in terms of their political connections to the home government, and their special political knowledge and experience. It argues that the political FSAs argument also implies that MNE state ownership should reduce subsidiary-level economic risk in countries characterized by high political risk, but not in countries characterized by low political risk. In contrast, some proposed alternative explanations (for instance, moral hazard issues and soft budget constraints of the type mentioned earlier in this Introduction) imply higher economic risk in SOEs' subsidiaries across all contexts.

The empirical analysis investigates this prediction utilizing subsidiary-level panel data covering Norwegian outward FDI from 1990-2006. In the analyses, we investigate how measures of subsidiary economic risk are related to state ownership in different political risk contexts. The paper implements matching analyses that account for possible selection of state ownership by matching on observable variables (Gong, Görg, & Maioli, 2007), as well as panel data analyses that account for time-invariant unobserved variables that could affect the relationship of interest. The matching analyses provide strong and mostly robust support for the hypotheses. However, in the panel regressions the hypothesized effect is found only in a subsample of infrastructure sectors, as well as in a subsample of very politically risky countries.

Paper 3. The Strategic Behavior of State-Owned Enterprises When Entering a Competitive Host Market

The *third* paper (Chapter 4), co-authored with Birgitte Grøgaard and Gabriel R.G. Benito, links corporate governance and corporate ownership to another key international business issue by examining theoretically and empirically if and how SOEs differ from privately owned enterprises (POE) in their foreign market entry decisions, when these entries take place into a highly competitive environment based on private ownership. The paper combines internalization theory and agency theory to develop hypotheses on the impact of state ownership on the decisions of whether to acquire stand-alone assets versus complete firms, the degree of ownership, the type of assets, and the size of the investment. Internalization theory posits that integration decisions will be affected by firm-specific advantages (FSAs). We develop novel theoretical arguments on how state ownership affects relevant FSAs that can be combined with local assets (Hennart, 2009), and indirectly the decisions of whether to acquire stand-alone assets versus complete firms, and the degree of ownership. We also develop and extend arguments on how the greater risk-taking capacity and longer time-horizon of the state-owner may allow SOEs to invest in exploration projects rather than exploitation projects, and to invest in larger projects.

Our empirical context is inward FDI into the oil and gas sector in Canada, a highly competitive environment where we expect SOEs to be subject to particular pressure for efficiency. As noted by Wolf (2009), focusing on the oil and gas industry also allows us to

partly sidestep certain methodological issues associated with studying state ownership. Focusing on a single industry controls for sector-specific effects. In our case, we also focus on one host country to control for the effects of different regulations and institutional environments. Further, since a particular country's government's decision to take ownership in the oil and gas industry tends to be motivated by political and strategic concerns rather than market failures and/or economic performance, endogeneity and selection issues related to state ownership are also likely to be mitigated.

Our empirical analysis of foreign direct investments in the Canadian oil and gas industry between 2005 and 2013 does not reveal significant differences between SOEs and POEs in general, but there is some evidence that SOEs make larger acquisitions. This applies both to Chinese MNEs and other state-owned MNEs.

Paper 4. An Internalization View on FDI Capital Structure

The *fourth* paper (Chapter 5), co-authored with Gabriel R.G. Benito, provides a new perspective on internal corporate governance by developing a novel transaction cost/internalization theory (TCI) of the internal financing of MNE subsidiaries. The starting point is the observation that internalization does not remove governance costs, and that MNE HQs may sometimes wish to re-introduce market mechanisms inside the MNE in order to limit intervention costs and strengthen subsidiary manager incentives. Williamson's (1988) paper provides the theoretical link allowing us to apply transaction cost and internalization theory to the post-internalization decision of subsidiary capital structure. Williamson's (1988) early governance perspective on corporate finance and capital structure argues that debt has a rule-based and market-like character, while equity is akin to hierarchy. The scope for relying on rules through internal and external debt in this way will depend on the consequences of maladaptation and information asymmetries, and will hence determine HQs' credibility in rules-based governance. A highly stylized argument is that unspecific assets can be financed with external debt. In effect, using external debt in effect implies an "outsourcing" of monitoring to external debt holders. Further, assets that are specific to the MNE, but freely redeployable within the MNE, can be financed with internal debt. The credibility of relying on rules is assured by the fact that they can be moved elsewhere in the MNE if necessary, while avoiding external debt will reduce the costs of finance. However, subsidiary-specific assets that cannot be moved elsewhere in the MNE in case of problems may need to be financed with equity. Furthermore, using debt to limit managerial discretion in subsidiaries following a free cash flow argument (Jensen, 1986; Kolasinski, 2009) may be unsuitable for knowledge subsidiaries that depend on continuous investment in R&D activities.

The paper provides a first empirical test of the TCI view on capital structure, using subsidiary-level Norwegian FDI data from 2003 to 2006 and relating debt leverage variables to R&D-related variables and external uncertainty as measured by host-country political risk. The results are mixed: Contrary to expectations, measures of knowledge assets in the subsidiary are often found to have a positive effect on debt leverage. In many analyses, however, this effect reverses in contexts of higher political risk, consistent with the negative interaction effect

between specificity and uncertainty predicted from the transaction cost perspective. We discuss some possible explanations for this result, including the fact that knowledge assets could proxy for parent MNE firm-specific advantages (FSAs) that increase the scope for debt financing through for instance reputation (Hennart, 2010).

Paper 5. Institutional Determinants of Foreign Direct Investment Inflows in the Primary Sectors

The *fifth* and final paper (Chapter 6), co-authored with Kristine Torgersen and Gabriel R.G. Benito, differs from the other papers of the Thesis in taking a more aggregate perspective. This paper links up to the effect of corporate governance and institutions on inward FDI into host countries, investigating this effect in the specific context of primary sectors. Although aggregate FDI is found in the literature to be attracted by good institutions, it has been argued that institutions matter less for inward FDI in the primary sector (Ali et al., 2010; Walsh & Yu, 2010). We investigate theoretically and empirically the role of institutions for attracting FDI in the agricultural sector and in the extractive sector. Theoretically, we present arguments on the relevance of various institutional features in terms of characteristics of investment in different primary sectors.

Our empirical analysis utilizes sector-level inward FDI data from UNCTAD covering the period 1996-2007, linked to a variety of host-country variables including various institutional measures. Empirically, we confirm the importance of institutions for aggregate FDI. However, a novel empirical finding from fixed effects and Tobit analyses is that disaggregating by primary subsector, we find that agricultural FDI, like aggregate FDI, is attracted by institutional features such as rule of law and property rights protection and democracy, while extractive FDI is not. However, corruption is unrelated to FDI in both primary subsectors. Finally, GMM analyses accounting for the potential endogeneity of institutions to FDI generally remove the effects of institutions.

Concluding remarks

The five studies in this Thesis are summarized in Table 1 below in terms of their research questions, theoretical base, method and data, and main findings (as well as the set of authors for each paper). Together, the five chapters to follow cover a wide range of topics related to the current corporate governance literature in IB. They extend current research on the role of corporate ownership, of host-country institutions, and of intra-MNE corporate governance. Also considered in studies in the Thesis is the interaction between corporate ownership and institutions, and intra-MNE governance and institutions. The Thesis also draws on a broad range of empirical material at various levels of analysis and in different contexts: Norwegian subsidiary-level FDI data, Norwegian firm-level internationalization data, transaction-level data on FDI in the Canadian oil and gas sector, and worldwide aggregate and sectorial inward FDI data.

This Introduction has sketched the main lines of this Thesis, explicating the main foundations and assumptions in terms of theory and methods and summarizing the specific

research questions and findings of each chapter. The concluding Chapter will focus on exploring the implications of the studies taken together and explicating the contributions of this Thesis. It will also discuss the main limitations and suggest some possible avenues for future research.

Authors	Research questions	Theory base	Method and data	Main findings
Benito, Rygh and Lunnan (Chapter 2)	Moderating effect of state and foreign ownership on internationalization/ performance-relationship	Agency theory, resource-based theory, organizational learning theory	Regression analysis using a sample of listed Norwegian firms, 2000-2010	State ownership generally found to positively moderate I/P-relationship. Mixed evidence for foreign ownership.
Rygh and Knutsen (Chapter 3)	Impact of state ownership on political risk related to FDI	Agency theory, new institutional economics, corporate political activity	Matching and regression analysis using a sample of foreign subsidiaries of Norwegian MNEs, 1990-2006	State ownership in investing firm (often) found to reduce subsidiary economic risk in high-political-risk contexts
Grøgaard, Rygh and Benito (Chapter 4)	Effect of state ownership on foreign market entry decisions	Internalization theory and agency theory	Regression analysis using a sample of inward FDI in the Canadian oil and gas industry, 2005-2013	State ownership is associated with larger investment projects. Little evidence of effects on other decisions.
Rygh and Benito (Chapter 5)	Transaction cost and internalization explanation of FDI capital structure	Transaction cost and internalization theory	Regression analysis using a sample of foreign subsidiaries of Norwegian MNEs, 2003-2006	Specific knowledge assets promotes use of debt, but this effect reverses in contexts of higher political risk
Rygh, Torgersen and Benito (Chapter 6)	Effects of host-country institutions on inward FDI in agricultural sector and in extractive sector	New institutional economics	Regression analysis on worldwide data for inward FDI projects in primary sectors, 1996-2007	Institutions promote inward FDI in agricultural sector, but not in the extractive sector

Table 1.1 Overview of the five studies in the Thesis

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The papers of this dissertation (pages 37-160) are not available open access, due to copyright matters. This also include the tables and figures in the Appendix.

Paper 1:
Internationalization-Performance Relationship: The Moderating Roles of State and Foreign Ownership
Gabriel R.G. Benito, Asmund Rygh and Randi Lunnan

Paper 2
Explaining the Link Between State Ownership and FDI Into Poorly Governed States: Does State Ownership Help Firms Mitigate Political Risk Abroad?
Asmund Rygh and Carl Henrik Knutsen

Paper 3
State-Owned Enterprise Strategic Behavior When Entering a Competitive Host Market
Birgitte Grøgaard, Asmund Rygh and Gabriel R.G. Benito

Paper 4
An Internalization View on FDI Capital Structure
Asmund Rygh and Gabriel R.G. Benito

Paper 5
Institutional Determinants of Foreign Direct Investment Inflows in the Primary Sectors
Asmund Rygh, Kristine Torgersen and Gabriel R.G. Benito

7 Summary and Conclusions

After the specifics of the five previous chapters, we take a step back to ask what we have learned about the overall theme of corporate governance and international business. This theme was introduced at length in the first chapter, while each chapter has outlined implications, limitations and future research avenues related to the particular study. In this Conclusion, we therefore provide only a very brief summary of the findings of each study, before moving on to focus on tying the findings together and exploring their implications as a whole. Thereafter, we will duly consider some of the limitations of the study and suggest a number of directions for future research. We will also outline some possible managerial and policy implications at a more general level. Finally, we provide some brief concluding remarks on further directions within this field.

A brief summary of the five studies

Chapter 2 asked whether ownership identity affects the ability of firms to reap benefits and control costs from internationalization, hypothesizing moderating effects of state and foreign ownership on the internationalization-performance relationship. Many specifications found a positive moderation effect from state ownership, while the effects for foreign ownership were more mixed. The results for state ownership are consistent with the idea that state-owned enterprises (SOEs) have more to gain from internationalization, for instance with international competition and exposure being more significant for SOEs that have traditionally been sheltered and inward-looking in their home market. This effect is likely also strengthened by certain advantages of SOEs such as financial FSAs.

Chapter 3 asked whether state ownership shields MNEs from the adverse consequences of host-country political risk. Developing and extending arguments on particular political FSAs of SOEs, it hypothesized that investing firm state ownership would be associated with lower subsidiary economic risk in high-political-risk environments, but not in low-political-risk environments. Matching analyses taking into account selection into state ownership provided relatively strong and robust support for our theory, while in regression analyses support was restricted to infrastructure sectors and the countries with the highest political risk.

Chapter 4 asked how state ownership affects foreign market entry strategies, when these entries take place in a highly competitive environment. The paper combined internalization theory and agency theory to develop hypotheses on the impact of state ownership on the decisions of whether to acquire stand-alone assets versus complete firms, the degree of ownership, the type of assets, and the size of the investment. It developed arguments on how state ownership affects internalization decisions indirectly through affecting firm FSAs, as well as directly through greater risk tolerance. The only clear difference found was that SOEs tend to make larger acquisitions. The results suggest that in a highly competitive environment, SOEs

do not behave very differently from POEs. However, the results also suggest that SOEs may have financial FSAs and a greater ability to take risks.

Chapter 5 developed a transaction cost/internalization theory for the financing of MNE subsidiaries. Based on Williamson (1988), it argued from a governance perspective that debt has the character of a market mechanism in an internal capital market, reflecting a commitment to rely on rules in order to save on intervention costs and avoid politicking within the MNE. However, the credibility of the commitment to rely on rules depends on the potential costs imposed on the MNE from maladaptation and potential liquidation of a subsidiary. These, in turn depend on the presence of specific knowledge assets and the potential disruption of investment in important R&D activities following from regular high debt payments. Using a subsidiary-level panel data set on Norwegian outward foreign direct investment (FDI) from 2003 to 2006, the study finds partial support for the TCI view. Contrary to expectations, subsidiary knowledge-related variables are positively related to debt. However, in Tobit analyses this effect is reversed in contexts of high political risk.

Chapter 6 finally moved the analysis up to a more aggregate level, studying theoretically and empirically how institutions affect inward FDI in the primary sectors. It developed a number of arguments on characteristics of FDI in the agricultural sector and in the extractive sector that could influence the link between host-country institutions and FDI. Empirical analyses generally indicated that agricultural FDI is attracted by good institutions, while the negative result in previous studies for primary sector FDI seems to reflect the role of extractive FDI, where we found no relationship with institutions.

Overall the studies in this Thesis provide substantial support for the argument in Jackson and Strange (2008) on the usefulness of studying corporate governance and international business in conjunction. In the following subsections, we develop in detail some of the possible implications for research, as well as managerial and policy implications.

Research implications

Implications for the international business literature

The key implications from this Thesis are for the international business literature. The Thesis joins a growing body of research output showing the relevance of aspects of corporate governance for international business research, continuing the exploration of what Delios (2011) calls the "next frontier for research on multinational firms." The studies on corporate ownership showed how ownership variables play a role in internationalization strategies and outcomes, by affecting some types of foreign market entry strategies (Chapter 4), by affecting firms' ability to realize gains from internationalization (Chapter 2), and by mitigating the impact of host-country political risk on FDI economic risk (Chapter 3). Hence, corporate ownership is a variable to be considered by researchers seeking to uncover new factors relevant for key IB issues.

From a theoretical perspective, the studies of corporate ownership have demonstrated the usefulness of introducing key arguments from the corporate governance literature alongside standard IB theory, such as in the combination of agency theory with internalization theory suggested by among others Buckley and Strange (2011) and developed notably in Chapter 3 on how state ownership affects foreign market entry strategies. On the other hand, an additional link to IB theory was made by considering how ownership (partially via corporate governance) may affect firm-specific advantages (FSAs) that in turn influence internalization decisions.[125] This particular point was not empirically supported in Chapter 4, as SOEs were found not to differ significantly from privately owned investing MNEs in some relevant internalization decisions where FSAs play a key role. However, Chapters 2 and 3 suggested that state ownership could contribute positively to certain types of FSAs. Chapter 2 argued that state ownership implies some FSAs, such as financial FSAs allowing firms to overcome high fixed costs of entry, or other forms of FSAs such as informational and even political support. In Chapter 3, the main argument was that SOEs have some forms of superior political FSAs in terms of special home-country political connections as well as political knowledge and expertise. In this respect, Chapter 3 also has implications for the literature on international corporate political activity within IB and the ability to manage institutional idiosyncracies (e.g., Boddewyn, 1988; Boddewyn & Brewer, 1994; Henisz, 2003) – a field now developing rapidly (e.g., Jiménez, Luis-Rico, & Benito-Osorio, 2014; Rajwani & Liedong, 2015; Scherer & Palazzo, 2011).

As such, a subset of potential theoretical implications relate to the formation of FSAs in IB. This Thesis has contributed by specifying the relevance of corporate governance for FSAs in terms of corporate governance's effect on resource development as well as the possible transfer of other types of resources than financial resources from owners. These arguments were further developed within the context of state and foreign ownership, but corresponding arguments apply for other owner types as well as possibly other types of stakeholders in corporate governance, and should be explored in future research.

Linking up to the institutions-based literature in IB, this Thesis also has implications for studies of how institutional characteristics of potential host countries matter for inward FDI. Chapter 3 has provided additional evidence – supplementing a range of previous studies reviewed in that chapter while providing a more direct empirical test – that state ownership mitigates adverse effects of political risk on FDI. On the other hand, Chapter 6 has demonstrated that industry factors matter. This study found that agricultural and extractive FDI differ in their sensitivity to institutional characteristics. Agricultural FDI was found to resemble total FDI in many respects, while the previous assumption that primary sector FDI is less responsive to institutions was found to reflect mainly extractive FDI. Hence, which institutions represent location advantages for attracting FDI depends on the particular characteristics of FDI in a given sector, as found for instance in the tertiary sectors by Kolstad and Villanger (2008).

[125] We will later in this chapter discuss potential issues relating to combining theories based on somewhat different behavioral and other assumptions.

Finally, Chapter 5 found indications that intra-MNE corporate governance issues affect the financing of MNE subsidiaries. Our application of transaction cost and internalization (TCI) approaches to FDI capital structure represents a natural extension of these theories beyond the initial internalization decision. Our theoretical developments illustrate the broad scope of application of the fundamental principles of these theories and the insights that can be achieved by applying them to new IB phenomena. Although our empirical analysis provided only partial support, we expect this line of research to provide useful contributions to the internal corporate governance literature in IB (e.g., Benito & Tomassen, 2010; Buckley & Strange, 2011; Filatotchev & Wright, 2011; O'Donnell, 2000; Tomassen & Benito, 2009; Tomassen, Benito, & Lunnan, 2012) and potentially to the more general internal capital market literature (see below).

Lastly, we mention that Chapters 2, 3 and 5 make contributions to the still relatively small literature on Norwegian firms' outward internationalization (e.g., Amdam, 2009; Balsvik, Jensen, Møen, & Tropina, 2009; Balsvik & Skaldebø, 2013; Benito & Gripsrud, 1992; Grünfeld, 2005; Rezza, 2013). In particular, these studies provide additional insights on how ownership affects the internationalization of Norwegian firms and the particular role of state ownership in Norwegian MNEs, studied by Benito, Lunnan, and Tomassen (2011) and Knutsen, Rygh, and Hveem (2011).

Implications for the corporate governance literature

The studies in this Thesis also carry implications for the corporate governance literature. This Thesis has added a few more important pieces to our understanding of MNE corporate governance by focusing on MNE corporate ownership, as well as features of internal governance. The empirical findings show several ways in which the international dimension matters for corporate governance.

First, state ownership was studied in three of the papers. Some general conclusions seem to be appropriate based on these studies that can be said to constitute an own subset of implications for corporate governance (i.e., for the state ownership literature). Overall, and perhaps contrary to conventional wisdom from the state ownership literature set in a domestic context, our results do not suggest that corporate governance problems or weaker technical or managerial FSAs in SOEs (possibly in turn caused by corporate governance problems) are detrimental for their internationalization. Chapter 2 indeed found a positive moderation effect from state ownership on the I/P-relationship. Chapter 3 found no clear indication that SOEs take greater risks *in general*, for instance because they have weaker capabilities to assess risk (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007), or because they have softer budget constraints (Kornai, 1979). Finally, the hypotheses based on internalization theory in Chapter 4 following from assumptions about weaker FSAs in SOEs were not supported. On the other hand, some of our results are consistent with the idea that SOEs have financial FSAs and certain other types of FSAs linked to their home government relationship. Such FSAs could explain that SOEs seem to benefit more from internationalization than POEs. Chapter 3 argued that political FSAs would weaken a link between political risk and economic risk and found some,

although not fully robust, supporting evidence. Chapter 4, finally, suggests that SOEs are able and willing to take on larger investment projects than private MNEs.

Given conventional wisdom about state ownership, some of these results may seem surprising (although financial FSAs are not necessarily so given soft budget constraints arguments). One interpretation, besides the role of state-related FSAs already pointed out, is worth developing. As mentioned already at several points in this Thesis, a significant debate in economics and management has concerned the relative importance of ownership versus environment (regulation and competition) for the inefficiency of SOEs (Bartel & Harrison, 2005).[126] It can plausibly be argued that the contexts we have studied are contexts where it is "least likely" (Eckstein, 1992) to find strong *negative* effects of state ownership. This point was explicit in our study of inward FDI in Canada, where a major interest was to investigate whether SOEs are forced to behave like POEs in a very competitive host market context. Similarly, Chapter 2 studied Norwegian publicly listed SOEs, noting that assumptions about non-economic motives and corporate governance deficiencies may be less relevant for these commercially oriented SOEs that often have a significant share of private ownership, especially in the Norwegian context (Ludvigsen, 2010). Together with recent similar arguments for instance in Cuervo-Cazurra, Inkpen, Musacchio, and Ramaswamy (2014), from the perspective of the state ownership literature this points to the importance of contextualizing ownership.[127] Mechanisms commonly assumed to operate in a domestic context may be less relevant in the international context. As already discussed in Chapters 2 and 4, the lack of evidence that SOEs underperform POEs in their international activities provides a new facet to the ownership-versus-environment debate related to state ownership (Bartel & Harrison, 2005), like Miroudot and Ragoussis (2013) who recently found no differences in the productivity between SOE-owned and POE-owned subsidiaries. One cannot of course presume that the results here generalize to all other *home-country or host-country* contexts of multinational SOEs. Nevertheless, our study provides a useful complement to the many recent studies on Chinese state-owned MNEs.

Chapter 5 developed a novel transaction cost/internalization theory of MNE subsidiary capital structure. As noted in that chapter, the arguments themselves are not confined to MNEs, and seem to have potential general implications for internal capital structure research. Nevertheless, we also noted that the intra-MNE context is a useful research context both from an analytical and from an empirical perspective. Developing the theoretical arguments within

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[126] Corporate governance studies have also discussed the role of market competition in disciplining managers. It is generally agreed that even with functioning market competition, there is a role for legal protection of investors and other forms of corporate governance (Shleifer & Vishny, 1997).

[127] Contextualization of state ownership can be useful as state ownership theory is characterized by many general assumptions that may be more or less relevant in a given context. In the words of Meyer (2013: 11)

> *[T]heoretically, general theory and contextualization are different aspects of the same process: generating higher level knowledge that helps practice. General theorizing ought to make explicit the assumptions on which it is built, and contextualization can then assess these assumptions for a particular context, thus enabling the testing and application of the general model.*

the MNE context, where national borders is just one factor that may restrict the redeployability of assets, allowed us to push the arguments towards their limit. The intra-MNE context also provides rich empirical variation in important TCI explanatory factors such as the external uncertainty facing MNEs across host-country contexts (e.g., Desai, Foley, & Hines Jr, 2004; Roth & Kostova, 2003). Indeed, the study showed that the effect of subsidiary knowledge assets on its capital structure depends crucially on the extent of political risk in the host country. This is a strong indication of the relevance of the international context also for internal corporate governance in MNEs.

Additional remarks on theoretical contributions: Potential contributions to foundational theories and issues in combining theories

By *foundational theories* we here refer to the main strands of theory utilized in this Thesis: Agency theory, transaction cost and internalization theory, resource-based theory, and new institutional economics. With the possible exception of Chapter 5, we think that the theoretical contributions argued above relate mainly to additional insights from combining two or more of these theories to increase understanding of empirical phenomena in IB. As such, we are therefore careful about claiming direct contributions to the foundational theories. Nevertheless, a few remarks can be made. First, although we have not heavily couched our reasoning on ownership-related FSAs in terms of the resource-based view (RBV), the studies in this Thesis seem to have at least two potentially important implications for the RBV that could be developed further in future studies. The first implication is the fact that there may exist FSAs that are in fact common to firms sharing certain types of ownership, and unavailable to firms with other types of ownership. Further theoretical development on the implications of this point could inter alia look for inspiration to RBV studies that consider shared resources in alliances and through other forms of interconnection between firms (e.g., Das & Teng, 2000; Lavie, 2006). The second implication is that the standard focus of the RBV on resources as a means to sustain economic rents may be too narrow. If it is the case that certain types of firms, such as SOEs, have non-business goals, it seems that we would still like to be able to speak about the usefulness of, for instance, political resources or FSAs that help the SOEs achieve these non-business goals. [128] Hence, in future work it may prove useful to develop a more general formulation of the resources of organizations in terms of how their resources allow them to reach their goals more effectively. Of course, such a generalization would remove the RBV from its original motivation in explaining economic performance differences between firms.

We have also mentioned the issue that agency theory on corporate governance tends to assume that the only resource transferred from owners to firms are financial resources. Agency theory does not specify the resources underlying the focal agency relationship, and it is not immediately clear whether and how directly specifying resources within agency types of

[128] Admittedly, the standard definition from Barney (1991: 3) of *firm resources* as “all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness” does allow for this wider interpretation.

theories would be instructive. It may be that combining agency theory with other theories is a more useful approach to capture the potential additional roles of owners, as we turn to next.

As a final remark, we note that the combination of agency-based corporate governance arguments, arguments from internalization theory and even resource or FSA-based arguments could raise certain questions related to the compatibility of these theories, especially in terms of their core theoretical assumptions. These questions were largely disregarded in the previous chapters, but a few remarks are appropriate here. As noted by Buckley and Strange (2011), internalization theory (and transaction cost theory) implicitly assumes risk neutral decision makers. In contrast, in agency theory (and especially the principal-agent version), risk aversion on the part of the agent tends to be assumed. Further, transaction cost and internalization approaches rely on some form of bounded rationality, while agency theory makes stronger assumptions on the cognitive abilities of actors. A further difference between internalization theory and Williamson's transaction cost theory relates to the role of (a strong form of) opportunism, which has given rise to a new concept of *bounded reliability* (Verbeke & Greidanus, 2009), somewhat analogous to the idea of bounded rationality. In contrast, opportunism (or bounded reliability) seems to play a negligible role in the RBV, although some concept of bounded rationality is implied by for instance the idea of causal ambiguity (Rumelt, 1984). Some authors still argue that the similarities between these theories are more important than the differences. For instance, these theories all in some way acknowledge the role of uncertainty and asymmetry of information, and all assume in some way efficiency or efficient contracting, at least given the assumptions on actors' rationality and information (Strange, Filatotchev, Buck, & Wright, 2009). [129]

What are then the potential issues involved with combining these theories? As argued by Buckley and Strange (2011) incorporating a notion of risk-averse agents into internalization theory does not seem to pose important problems. For instance, it can be argued that this does not contradict the *core* assumptions of internalization theory.[130] Possible implications include that risk-seeking agents will integrate at a higher level of asset specificity (Chiles & McMackin, 1996). Allowing owners to transfer other resources than financial resources is not necessarily incompatible with an agency-based view either. It might admittedly seem inconsistent to argue on one hand for possible governance problems following agency theory (assuming a largely *conflictual* relationship), while on the other hand assuming that the state-owner will make certain political resources freely available to SOEs for their international expansion (assuming a largely *cooperative* relationship). Resolving this tension would require working out under which conditions state-owners (or politicians) see it as in their interest to provide the SOE with such resources. We have already noted above that owners would transfer resources that would in turn increase their residual returns, but owners may also have other goals that these resources

[129] An alternative argument made by some authors is that RBV has been so successful precisely because of a lack of very strong behavioral assumptions, making the perspective suitable for combination with other theories (Lockett, Thompson, & Morgenstern, 2009). For further discussion of implications of alternative variants of the RBV, see also Foss and Stieglitz (2010).

[130] Rygh (2013) suggests, for instance, using Lakatos' (1970) distinction between *hard core* assumptions and *protective belt* assumptions of theories to make this type of assessments of theory combinations.

could further. In the case where arguments are made on how corporate governance affects firms' own resource development, there seems to be no inconsistency. In fact, if the role of managers in the RBV is to exploit existing resources and develop future resources in the best possible way, it could be interesting to explore the implications of managers having other goals than value maximization when they manage a firm's resources.

Limitations and avenues for future research

We now consider some of the main limitations of this Thesis, while offering some suggestions to how these limitations can be addressed in future research.

Scope and analysis

This Thesis has covered but a small part of the vast uncharted territory of corporate governance of firms engaging in international business, which is of course inevitable. The studies have focused on some narrowly defined issues such as the effects of state and foreign ownership, and the role of intra-MNE capital structure. More importantly, the key corporate governance mechanisms themselves such as boards of directors have not been studied directly here. The studies in this Thesis have remained somewhat distant empirically to the actual corporate governance mechanisms, corporate political activity or FSAs that form part of the theorizing. We acknowledge that future work, both quantitative and qualitative, should seek to get closer to the actual mechanisms. We also acknowledge the rich insights that can be provided by qualitative research methods, as evidenced, for instance, in Mazzolini's detailed study of the internationalization of European SOEs (Mazzolini, 1979). Above all, some of the theories tested more indirectly here for large samples could be investigated more closely through so-called *process-tracing* approaches in single firms (George & Bennett, 2005). Indeed, findings from quantitative studies, such as those in this Thesis, may also be used to identify interesting cases to study (Lieberman, 2005).

In this connection, it should again be recalled that our theory employs many concepts from economics and management that are not directly observable. For instance, a core idea in agency theory is *conflicts of interest*, but we cannot directly observe the motivations of the actors. Similarly, following the RBV understanding a resource would lead to it no longer representing sustained competitive advantage, and the degree of unobservability of a resource is itself unobservable (Godfrey & Hill, 1995). Corporate governance mechanisms also differ in their observability (Ludvigsen, 2010). While features of some corporate governance mechanisms such as boards of directors, executive compensation and dividend policy are measured and included in quantitative analyses, more subtle mechanisms such as politicians' informal contact with managers are not. Similar considerations apply to FSAs. Empirical studies using the RBV have operationalized resources in different ways (Newbert, 2007). In our case, one proxy for political FSAs that might be included in quantitative analysis could be the experience of managers and board members in (previous) positions in the government or the bureaucracy (Pan, Teng, Supapol, Lu, Huang, & Wang, 2014). However, collecting such data for a large sample as in the study in chapter 3 of SOE political FSAs was not possible.

Also, since, for instance, political support in the case of trouble with FDIs will only become observable if problems should actually arise, such a mechanism is inherently more implicit (often functioning as a deterrent). Case studies of such incidents could provide useful additional insights.

Data and quantitative methods used

A noteworthy feature of this Thesis is the attempt to tackle method issues pertaining to the study of corporate ownership. One general issue is that ownership may be subject to selection bias or endogeneity. For instance, rather than just being a factor behind performance, state ownership could itself be affected by firm performance, as politicians seek to safeguard employment in firms that risk failure (Megginson & Netter, 2001). Similarly, institutions could be affected by inward FDI in a country. Depending on what appeared most appropriate for the study in question, we employed statistical methods such as generating internal instruments from the data within a generalized method of moments (GMM) set-up or matching. Such methods are now diffusing in IB research (Reeb, Sakakibara, & Mahmood, 2012).[131] In chapter 3 on foreign market entry strategies in Canada's petroleum sector, we approached these issues somewhat differently. Here, we used a single-country and single-industry setting to control for a number of factors, while arguing following Wolf (2009) that state ownership within the petroleum sector tends to be motivated by political and strategic concerns rather than market failures and/or economic performance, mitigating endogeneity issues.

However, although the above strategies represent useful first steps, we do not claim to have fully solved these various method issues and strongly emphasize the need for further research to check the findings here using more robust methods. In particular, future research should look for stronger research designs *ex ante*, for instance identifying a fully exogenous source of variation via natural experiments (see e.g., Angrist & Krueger, 2001; Meyer, 1995).[132]

Another comment pertains to chapters 3 and 5 that rely on the same large-scale dataset covering Norwegian FDI subsidiaries. Using such large-scale micro datasets, data quality will in general be a potential concern (cf., Bartelsman & Doms, 2000), and it will usually not be possible to check these data against external figures. We have attempted to ensure the quality of the data used for the analyses by running the data through various automated consistency checks (for instance, dropping observations with impossible values such as negative assets, as

[131] Where applicable, the studies in this Thesis have nevertheless applied such methods together with analyses using simpler and more standard methods. Such robustness checks are arguably important *inter alia* to test the sensitivity to certain assumptions associated with these more advanced methods and to increase comparability with previous results in the literature.

[132] However, this potential shortcoming applies to much work within this area in international business, especially that relating to state ownership. For instance, none of the empirical studies published in the 2014 *Journal of International Business Studies* special issue on Governments as owners mentioned the issues of potential selection or endogeneity of state ownership. Only one of the studies arguably addressed the issue indirectly, by pointing to a "natural experiment" logic (Choudhury & Khanna, 2014) although the relationship to state ownership was not made explicit. We hasten to emphasize that this point is not meant to imply a criticism of the methods of these and other studies in general, as they successfully addressed several other important methodological challenges.

well as using a range of other criteria). Nevertheless, we cannot fully rule out that (non-random) measurement error and missing data may have affected the analyses.

Welfare rationales and implications of SOE multinational operations

State ownership has played an important role in this Thesis. Although our results do not suggest that state ownership is detrimental in the context of internationalization, to provide the full picture of the effects of state-owned MNEs more attention needs to be directed towards the goals and issues that state ownership of MNEs is in fact intended to address. While there is an extensive theoretical literature in economics on justifications for state ownership in a domestic setting (Hart, Shleifer, & Vishny, 1997; Martimort, 2006), similar justifications for SOE international operations have received very little attention.[133] It has been suggested that SOEs investing abroad implies addressing market failures in the host countries (Cuervo-Cazurra et al., 2014). There is also here an important link to corporate governance, in that the modern theory of SOEs relies heavily on corporate governance arguments to justify state or private ownership. The current agreement in the state ownership literature is that simply demonstrating a market failure is not a sufficient rationale for state ownership of production: One also has to demonstrate why production could not be contracted out to private actors. In a seminal discussion, Sappington and Stiglitz (1987) emphasized that both state and private provision of a public service involve extensive delegation of authority to the managers in charge with providing the service. The authors then provided a fundamental *Privatization Theorem*, giving conditions under which state and private ownership are equivalent. Martimort (2006) summarized these conditions as follows: (1) The private firm is risk neutral; (2) the private firm is not financially constrained; and (3) complete contingent contracts can be written and full commitment is possible.

The two first rationales seem to extend rather straightforwardly to international operations: If private MNEs are risk-averse or financially constrained, state ownership might allow realizing otherwise unfeasible social welfare-increasing FDI projects (Hveem, Knutsen, & Rygh, 2012; Knutsen et al., 2011; Vernon, 1979). From the perspective of the home country, such projects could involve getting access to natural resources or advanced technological and managerial competences that subsequently can be distributed in the home economy, as has been argued to be the case for China (Kowalski, Büge, Sztajerowska, & Egeland, 2013).[134] This could thus constitute a welfare-economic rationale for state ownership in MNEs. Regarding an incomplete contracts situation, one could perhaps argue, in line with Hart et al. (1997), that state ownership will be preferred when there is a significant risk that the Government will be held up *ex post* by the MNE. For instance, gaining control of a critical natural resource abroad might give a private MNE strong bargaining power that it could use to renegotiate contracts with the Government.

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[133] The following discussion is based on ongoing work in Rygh (2015).

[134] The social benefits, from the perspective of the home country, may well exceed the private economic benefits to the MNE, implying that even unprofitable projects could have such a rationale.

On the other hand, there is also the interesting possibility that FDI by an SOE would imply addressing market failures in other governments' territories (Cuervo-Cazurra et al., 2014). For instance, according to Clifton, Comín, and Díaz-Fuentes (2007: 5), "[French SOE] EDF is London's main electricity supplier and [Swedish SOE] Vattenfall is Germany's third most important electricity supplier." The Norwegian Investment Fund for Developing Countries, a SOE which "invests in the establishment and development of profitable and sustainable enterprises in developing countries" serves as "a key instrument in Norwegian development policy" (www.norfund.no). Besides addressing government failures abroad based on home citizens' global social preferences (Becchetti & Rosati, 2007), one possible motivation for SOEs addressing market failures and other social goals in other countries' territories could be that foreign SOEs with their specific competences can provide the public service in question more efficiently than the domestic SOEs; like for private firms, international trade in SOE services could offer gains from exploiting comparative advantage.

However, when a host government contracts with a foreign SOE, the standard incomplete contracts approach to state ownership (Hart et al., 1997) leads to a paradox, since it is the SOE's home government rather than the host government that retains the residual control rights to decide on the use of the assets in uncontracted-for circumstances. Given that states do cooperate through SOEs and even establish joint SOEs (Dresang & Sharkansky, 1965; Mascarenhas, 1989), it seems that an interesting area for future research could be to explore these incomplete contracts issues in a context where two or more governments are interested in an SOE's cross-border operations. For instance, it is interesting to consider their role in promoting cross-border public goods (Laffont & Martimort, 2005). The incomplete contracts perspective could also prove useful (and is indeed largely implied) for considering issues such as state ownership and expropriation risk (Duanmu, 2014; Knutsen et al., 2011) as well as the common host-country concern about national security implications of foreign SOE FDI (Shapiro & Globerman, 2012).

Managerial and policy implications

With the limitations previously mentioned in mind, we here outline some potential managerial and policy implications. In terms of managerial relevance, it is sometimes suggested that management research should increase such relevance by focusing on variables that managers can control (see e.g., Bartunek & Rynes, 2010; Wolf & Rosenberg, 2012). It could perhaps be argued that corporate governance in general, and corporate ownership in particular, are usually not such variables. Indeed, as we have seen, traditional agency-based corporate governance theory is more about constraining managers than giving them advice. However, taking a broader view, allowing for owners and other stakeholders to play other roles besides just monitoring and control (for instance in terms of transferring other types of resources such as advice or networks) it becomes more plausible to talk about managerial implications.[135] The studies of

[135] Furthermore, with a broader view on who are relevant stakeholders an important task for managers obviously becomes negotiating between the claims of various stakeholders.

corporate ownership identity in this Thesis indicate that managers may attempt to harness various potential advantages associated with their ownership, and that ownership may in some instances increase their scope for strategic action (as indicated, for instance, by Chapter 3's suggestive findings that SOEs' subsidiaries are less vulnerable to political risk). Yet, in a broader and more general perspective on corporate governance, it seems plausible that there will be a certain tradeoff between roles of owners in providing advice and resources, and a more arm's length role in terms of monitoring and control.[136] Future research might usefully consider various kinds of strategic interaction and bargaining situations that may arise from this dual role of owners.

On the other hand, research on internal governance as in Chapter 5 obviously has key implications for top management (and perhaps also subsidiary management) in an MNE. Perhaps, future research may build on some of the new insights presented in Chapter 5 to consider implications for the efficiency of internal capital markets. Since internalization does not imply zero governance costs and perfect redeployability of all assets, one reasonable proposition is that subsidiary specificity will increase subsidiary bargaining power (cf., Mudambi, 2011) and the scope for rent-seeking within the MNE. In fact, an advantage of internal capital markets over external capital markets – a highly debated issue in economics (Bolton & Scharfstein, 1998) – plausibly hinges in particular on significantly lower governance costs of the units involved as well as a higher redeployability of their assets internally. Another possible implication is also that HQs may in some cases choose *ex ante* to limit the scope for (otherwise economically efficient) subsidiary specificity in order to avoid substantial *ex post* governance costs and internal rent-seeking, even within an MNE.

Finally, Chapter 6 on the importance of institutions in different primary sectors suggested that MNEs may benefit from an explicit assessment of various investment characteristics and the relevance of these characteristics for the importance of institutions for the investment. The chapter argued that understanding the implications of industry-related factors such as the degree of effective control rights over the investment or even the social importance of the sector, for the importance of institutions is likely an important part of general political competences or firm-specific advantages (e.g., Boddewyn & Brewer, 1994; Henisz, 2003). Presumably, quite sophisticated analyses of this type are already taking place in many MNEs, especially those with more experience with foreign institutional environments. This can be linked up to Chapter 3 and the notion that managers of SOEs may realize that their ownership provides additional protection against political risk. Finally, a *policy* implication shared by these two chapters relate to the need for a more universal protection of foreign investments. While the right balance of rights and responsibilities between states and investing MNEs may remain to be struck (e.g., Baldi, 2013), it is plausible that the differential impact of institutions for protecting FDI across sectors and even across types of firms, currently implies some distortions in global investment patterns.

[136] In fact, one issue in the literature on boards of directors has been that boards tend to prefer an advisory role rather than a more confrontational and monitoring role (Becht, Bolton, & Röell, 2003).

Concluding remarks

This Thesis provides contributions to various issues in corporate governance and international business. The studies in this Thesis, as well as much previous research, has focused on various economic outcomes such as economic performance. However, there are also studies linking corporate governance to other types of outcomes in an international context. These include outcomes in the social and environmental areas that are part of the so-called "triple bottom line" that MNEs are called on to take into account, often based on a stakeholder perspective. We will spend these concluding remarks showing that a corporate governance program in IB has even wider implications than those mentioned so far in this Thesis. For instance, studying European MNEs, Dam and Scholtens (2011) find that ownership by employees, individuals, and firms is associated with relatively poor performance in terms of corporate social responsibility (CSR) measures. In contrast, ownership by banks, institutional investors and the state is found to be neutral in this respect. A later study by the same authors finds that concentrated ownership is negatively related to CSR (Dam & Scholtens, 2013).

There is currently much attention to the scope for so-called "self-regulation" of MNEs in their global activities, and even to the scope for MNEs themselves participating in global governance and carrying out private regulation of public goods and market failures (e.g., Fuchs, 2007; Locke, 2013; Mayer & Gereffi, 2010). If MNEs are to play such roles, the question of who ultimately governs MNEs becomes even more important. Along with the other issues raised in this Thesis, these and other important remaining issues suggest that the field of corporate governance in IB in general and corporate governance of MNEs in particular will provide rich research opportunities for a long time to come.

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