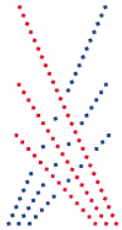

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Inequality and the internationalization of state-owned multinationals

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Abstract

We theorize that home country social inequality, signifying an unequal distribution of property rights and thus, the exploitation and accumulation of wealth, determines the internationalization of state capitalism abroad via foreign direct investment. Using a global sample, we find that state-owned enterprises from income unequal home countries are predisposed to corporate acquisitions abroad, more so than privately-owned enterprises. Both effects are heightened when the host country is income unequal. Decomposition of the home country pattern by political regime suggests that, at high autocracy, privately-owned enterprises' acquisition behaviour reflects state agency, while under democracy state-owned enterprises become independent of the state.

Keywords:

State-owned multinational corporations, Inequality, Foreign direct investment, Mergers & acquisitions

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1. Introduction

In the last 20 years evidence has accumulated that governments seeking to exercise power in the international domain have been shifting from reliance on channels of multilateral institutions, toward utilizing the power of corporate international business (Bruton, Peng, Ahlstrom, Stan, & Xu, 2015; Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014; Musacchio, Lazzarini, & Aguilera, 2015). Far from being "aimless zombies" (Economist, 2016), state-owned enterprises (SOEs) have been re-purposed (Clegg, Voss, & Tardios, 2018) and reinvented (Aguilera, Capapé, & Santiso, 2016) into state-owned multinational enterprises (SOMNCs). Research argues that SOEs have greater scope to benefit from internationalization because of their sheltered domestic position (little exposure to international competition) and the government-related firm-specific advantages they possess (e.g., low-interest financing, favourable exchange rates, reduced taxation) (Benito, Rygh, & Lunnan, 2016).

SOEs may pursue different motives when internationalizing. For instance, they may invest for firm-specific motivations such as resource independence from domestic state actors (Choudhury & Khanna, 2014), promotion of research and innovation or long-term capital-intensive projects (Florio, Ferraris, & Vandone, 2018). On the other hand, they may act as a vehicle for a home country agenda, for instance, to ensure long-term resource and geopolitical security (Bass & Chakrabarty, 2014) or represent an indirect extraterritoriality mechanism for ideology transfer to comparably weaker host countries (Cuervo-Cazurra, et al., 2014). Also, they may promote cross-border rent-seeking, related to a "neomercantilist" foreign asset accumulation strategy (Clegg, et al., 2018; Florio, et al., 2018). Theoretically, SOEs may also invest to promote either host country objectives or transnational objectives if they are addressing environmental externalities (e.g., global warming, ozone-layer depletion, biodiversity loss) or infrastructures that single countries cannot afford to build by themselves (Rygh, 2018).

However, the literature does not fully address the question who benefits from SOE internationalization. Specifically, "We still know little, however, about what specific benefits SOEs get from their international activities and about whether and how these benefits differ from those enjoyed by privately owned enterprises" (Benito, et al., 2016, p. 269). The role of the modern welfare

state is to promote social inclusion, universal coverage and address regional disparities, based on the normative values of equality of opportunity, equity in wealth distribution and all citizens having a right to certain basic goods and services (Atkinson & Stiglitz, 1980). Yet, "The standard market imperfection logic of the SOE solving market imperfections at home to support the well-being of its citizens is less applicable when SOMNCs invest abroad" (Cuervo-Cazurra, et al., 2014, p. 928) because we do not know which market imperfections SOMNCs are solving and who benefits from this agency in the home country. As emphasised in a recent study on motives for SOE internationalization, "It would be important for citizens to be informed in a transparent way about the rationales of major M&A deals when a SOE is on the acquirer side, and the consistency of such rationales with the mission assigned by the governments to the enterprises they own" (Florio, et al., 2018, p. 161-2).

Using insights from sociology and political science, we propose that a deeper motive for SOE internationalization is to benefit home country interest groups at the expense of the majority of the domestic population and, by extension, other nations. We define interest groups, summarized in Baroni, Carroll, Chalmers, Marquez, & Rasmussen (2014, p. 144) as 'any group acting, or tending toward action that makes certain claims upon other groups in society' and 'actively trying to influence the distribution of political goods'.[1] When the interest groups in the home country are exploitative internally (Murphy, 1988; Tilly, 1998), we predict that they will also be predisposed to the accumulation of income abroad. The extent to which interest groups employ economic and political power to pursue an exploitative economic agenda lies within the structure of society, reflected in the degree of social inequality in the home economy (Tilly, 1998). Social inequality is theoretically and empirically associated with measures of economic inequality (Wilkinson & Pickett, 2009, and 2018). Linking these arguments together enables us to predict that inequality will reinforce the propensity of SOMNCs to acquire enterprises abroad. Also, prior research found that SOEs from autocratic regimes

[1] We use the more general conceptualization of 'interest groups' to refer to similar concepts by authors from different fields such as incumbents of social positions (Sørensen, 1996), military, political, economic elites (Albertus, 2015; Gerschewski, 2013; Kang, 2002), "personnel of the state" and their allies (Levi & North, 1982) and major supporters (Shleifer, 1998).

exhibit higher internationalization via M&As (Clegg, et al., 2018) and, similarly, we suggest that the propensity by SOEs from more unequal societies to invest abroad will be more pronounced when the home regime is autocratic. This is because, in the presence of the concentration of political power, the interest groups created by greater inequality are better able to harness the power of the state. Such interest groups possess control or influence over state assets under state capitalism which, being backed by the state, have greater power and reach than those possessing control over privately owned capital alone.

We base our analysis on comparisons of state and privately-owned cross-border mergers and acquisitions (M&As) between 1996 and 2015. Our choice of M&As is justified since, when compared with private firms, SOEs are more likely to choose M&As as a foreign entry mode (Dong & Guo, 2013) in response to institutional pressures (Meyer, Ding, Li, & Zhang, 2014). Our results show that income unequal countries invest abroad via SOEs and do so towards income unequal host countries. This effect is higher compared with private firms. Our prediction that the political regime in the home country moderates more strongly for SOEs than privately-owned enterprises (POEs) is partially supported.

The sections that follow review the application of social and income inequality to our analysis of the international expansion of state capitalism. Arising from this review we offer theorization and the development of hypotheses. A methodology section and presentation of results is followed by a discussion of the implications for international business theory and policy.

2. Theoretical background

For more than a century, inequality, as one of the defining characteristics of modern societies, has been a central interest in social sciences, philosophy, sociology and economics from, e.g., Marx, Durkheim, Duncan, Lorenz and Kuznets, to contemporary statistical research, such as that by the epidemiologists Wilkinson & Pickett (2009, and 2018) and the economist Thomas Piketty (2017). Studies show that inequality, as a variable, matters much more than, e.g., absolute economic development for a variety of political and social issues, such as support for democracy (Andersen,

2012) or class identification (Andersen & Curtis, 2012). There has been an acceleration of inequality in the past quarter century across many nations. The average disposable income of th1e top decile in OECD economies has grown to 9½ times that of the poorest decile in 2012 compared with seven times in 1980s (Keeley, 2015). In the USA, 47 percent of growth in US pre-tax income in the last two decades went to the top one percent of earners (Keeley, 2015).

Within management research, inequality is defined by building on the sociological tradition that prioritizes inequalities across groups rather than inequality across individuals, and signifies unequal access to opportunities and rewards within organizations and, by extension, societies (Davis & Cobb, 2010; Mair, Wolf, & Seelos, 2016; Tilly, 1998). Firms, as organizations that own and control value-producing resources, are the primary source of inequality within society, and drive the exploitation of outsiders through exclusion and social closure based on categorical distinctions (e.g., owner vs. employee) (Bapuji, 2015; Tilly, 1998). Categorical distinctions are rooted in the firm's decision-making process. For example, firms directly contribute to inequality when their value distribution is skewed toward only a few actors (e.g., shareholders) as opposed to all who contributed to the value that has been created (stakeholders e.g., employees) (Bapuji, Husted, Lu, & Mir, 2018) or when they distinguish between categories such as gender or citizenship in their hiring and promotion practices (Pfeffer & Langton, 1988; Tilly, 1998). Generally, categorical distinctions can be formal when backed by the state (e.g., private property), informal (e.g., ethnicity) or dependent on the organization deploying it (e.g., professional credentials) (Murphy, 1988; Tilly, 1998). Research also shows that these systems of categorical distinctions are replicated by other firms that cooperate with the focal firm (Beckman & Phillips, 2005), with effects being absorbed by the wider industry (Sorensen & Sorenson, 2007) and ultimately society (Tilly, 1998). Moreover, these systems can be transferred to other settings. For instance, a case study on Korean delicatessen in New York illustrates how a division between Korean owners (cashiers) and Mexican employees (cleaning staff) was replicated in all their subsidiaries (Tilly, 1998, and 2003a).

Inequality as a causal factor is rare in international business research. It is generally conceptualized as a part of the wider cultural dimensions of a society (Chakrabarti, Gupta-Mukherjee,

& Jayaraman, 2009; Hofstede, 1984; Kogut & Singh, 1988). This is surprising in view of the many decades of offshoring in which firms have employed unequal reward structures by providing high compensation at executive level (usually in headquarters) and near-poverty wages in low labor cost countries (in subsidiaries), and since the global value chains literature showed how firms (e.g., Apple) operate complex structures of cross-border vendors and contractors and, at the same time, internalize most of its value creation (Lehman & Haslam, 2013). Political economists, however, have considered the effects of exporting on inequality in host countries and found mixed effects (e.g., Pavcnik, Blom, Goldberg, & Schady, 2004; Rodríguez-Pose, 2012). Here we consider the inverse, i.e., whether home country inequality can explain why and how state-owned firms internationalize. We should note that the existence of SOEs is not related to inequality, as these firms exist in both equal and unequal societies. For example, among the top 15 acquirer countries in our sample (by number of cross-border SOE M&As) are countries with some of the lowest income inequality indexes, such as Sweden and Norway, as well as the highest, such as China and United States. We develop our hypotheses in the sections that follow. The key theoretical mechanism are also depicted by a figure at the end of this section.

2.1. Inequality and the internationalization of state-owned multinationals

As argued in the introduction, state-owned firms may have different motives for foreign expansion. While these, particularly when the state owns a minority share, may converge with those of private firms, where internationalization is purely a method for securing technology and organizational capabilities to pursue profit maximization (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Makri, Hitt, & Lane, 2010), they may, in addition, internationalize to pursue a home country agenda. This has been noted by Vernon (1979) who showed how policy goals exist in the international domain via SOMNCs. He argued that state-trading entities are used internationally to improve the home country's economic power, e.g., with regard to the terms of trade (Vernon, 1979) since the state's policy domain does not extend beyond its sovereignty. Generally, and in contrast to private firms, SOMNCs, may pursue cross-border rent seeking where the state uses its power to manipulate prices and markets to generate rents internationally (Clegg, et al., 2018; Cuervo-

Cazurra, et al., 2014; Florio, et al., 2018). Rent seeking has been defined as "that part of the payment to an owner of resources over and above that which those resources could command in any alternative use." (Buchanan, 1980, p. 3). If the state operates abroad, and this agency can, to a significant degree, be supported by rent-seeking behaviour, the question then becomes, who benefits from that agency?

The firm creates value for its owners which, in case of SOEs, is the government, with the ultimate owner being the home country nation. The economic explanation for the existence of SOEs (in the domestic sphere) is to solve market imperfections when markets do not efficiently allocate resources to the most welfare-enhancing use (Barr, 2012). To that end, the state intervenes with different instruments e.g., taxation, income support (pensions, unemployment and sickness benefits, social assistance) and social services such as health care for the benefit of the home nation (Atkinson & Stiglitz, 1980; Barr, 2012; Esping-Andersen & Myles, 2009). The extent to which this is adopted varies across welfare regimes. While the social-democratic regime (e.g., Nordic countries) emphasises universal inclusion and comprehensive social entitlements, the Anglo-Saxon liberal regime model (e.g., the USA) promotes minimal public intervention arguing that citizens can effectively obtain welfare on the market (Esping-Andersen, 1990; Esping-Andersen & Myles, 2009).

Due to its ability to tax and spend the state is, by definition, redistributive, but there is little evidence on actual egalitarian net effects of its redistributive policies and instruments, referred to as the 'paradox of redistribution' (Esping-Andersen & Myles, 2009). Instead, historically, the welfare state was primarily used to reproduce prevailing social hierarchies (Esping-Andersen & Myles, 2009). The state advances the interests of their major supporters (interest groups) (Shleifer, 1998) by establishing favorable systems of extraction and allocation of resources (Tilly, 2003b). The government, via this regulation of economic activities, creates permanent economic rents accruing to social groups closely linked to the government regulation of economic activities (Sørensen, 1996). SOEs are the primary vehicle through which these advantages are transferred (Shleifer, 1998).

Since the traditional logic of SOE existence as addressing market imperfections at home to raise the welfare of its citizens cannot explain SOMNCs foreign investments (Cuervo-Cazurra, et al.,

2014) (because which domestic market imperfections are SOMNCs presumably solving), the question is why do SOEs invest abroad in the first place and, as mentioned above, whose interests are being supported? Arguably, in theory, it is possible that state capitalism may be used to address market imperfections in the host country or across a number of countries and raise global welfare (Rygh, 2018). But, we argue that an alternative scenario building on sociology and social inequality is possible. Specifically, we suggest that SOEs from home countries where rent advantages to interest groups are pronounced, i.e., unequal home countries, will extend this behaviour abroad.

As mentioned, formal categorical distinctions in firms and, by extension, societies are ultimately backed by the state through a key capitalist institution, the system of property rights (Tilly, 1998). Generally, the political authority of the state acknowledges the right of the owner or owners (individuals as well as firms), to exploit and to dispose of assets to the exclusion of everyone else (Deakin, Gindis, Hodgson, Huang, & Pistor, 2017; Hart & Moore, 1990). However, for sociologists, "What prevents … egalitarian solutions is the existence of property relations that enforce the initial distribution of endowments … that reward those who begin with more." (Levi & North, 1982, p. 316). Property rights define wealth, which may be in form of assets or returns based on rents (Sørensen, 2000). Therefore, the system of property rights by defining the presence and absence of rent-producing assets enables exploitation (Sørensen, 2000), defined as "…powerful, connected people deploying resources from which they draw significantly increased returns by coordinating the effort of outsiders, whom they exclude from the full value added by that effort…" (Tilly, 1998, p. 144) and, ultimately, perpetuate durable inequality in an economy (Tilly, 1998). This power structure (the exploiters and the exploited) is institutionalized by the rule of law in developed societies and by the state's ability to coerce in underdeveloped societies where there is arbitrary power (Deakin, et al., 2017).

Rents backed by the state (with exclusion of rents based on natural abilities) provide advantages for incumbent interest groups (Sørensen, 1996), but who these incumbents or interest groups are, i.e., whether they are public and/or private actors is contingent on the government–business relationship. Specifically, it depends on whether the state is coherent or fractured and if the business is

concentrated or dispersed (Kang, 2002). Two cases are most relevant here. If the state is coherent and the business dispersed, the state will be predatory and political interest groups (Kang, 2002) will constitute the social group benefiting from rent advantages and unequal distribution of income. An example of this is Peru in the 1970s, where the military rule expropriated economic interest groups (Albertus, 2015). In contrast, when the business sector is concentrated and the state fractured, rents will be created by the state and flow to business (e.g., low interest loans or import quotas) at the expense of others (Kang, 2002). In the remaining combinations, where the state and business are equally influential or not influential at all, rents are reduced and there is a more equitable division of value added (Kang, 2002).

Bringing all of the above together leads us to suggest that property rights designed at home intended to maximize the power and wealth of those individuals or coalitions who already possess political or economic power indicate a causal mechanism between social and income inequality in the home economy and its extension by SOMNCs abroad. For firms (and societies) to be exploitative domestically and, by extension internationally, several elements need to be present: powerholders, coordinated efforts, deployable resources, command over resources, returns from these resources that are divided unequally and categorical exclusion (Tilly, 1998). Applied to SOMNCs, the powerholders are the asset owners, i.e., the holders of the firm's property rights. When firms are government-owned, they are politically affiliated with the home-country government (Cui & Jiang, 2018; Li, 2014). Therefore, the political interest groups that exercise the power to allocate income is the de facto resource owner. The existence of these property relations is what primarily prevents egalitarian solutions and enables unequal distribution of returns (Levi & North, 1982). The political interest groups also build a network of coordination and cooperation between the firms they directly control and support their international activities, via its political influence (Child & Rodrigues, 2005). For example, the German government is a shareholder in the domestic automobile industry and actively intervenes – for example, in the US market with regard to the tough limits on nitrogen oxide emissions that were damaging German carmakers (Financial Times, 2016). SOMNCs also have significant resources that they deploy internationally (Bass & Chakrabarty, 2014), in many cases

gained and developed using unfair market practices (e.g., subsidies, preferential bank loans) (Cuervo-Cazurra, et al., 2014; Vernon, 1979). Also, SOMNCs deploy expensive resources internationally for risky, explorative acquisitions (Bass & Chakrabarty, 2014). Generally, the political interest groups exert influence on SOE strategic decisions through their control over corporate governance (Dalton, Hitt, Certo, & Dalton, 2007). As owners, governments command resources within SOMNCs and other state resources (such as subsidies) that are not freely available to outsiders. Although SOEs are traditionally considered to be productively inefficient (Megginson & Netter, 2001), there is evidence that their international operations yield returns that exceed the returns of private firms (Cuervo-Cazurra, et al., 2014). One possible explanation is that the unmetricated resource of state power is being implemented for exploitation. While unobservable, or hidden, we suggest that there will be a social predisposition towards the deployment of this power. We argue that in unequal societies the motive to divide these returns unequally will result in skewing in favor of the domestic interest groups. This will be achieved by applying categorical exclusion within and beyond firm boundaries. Within the firm, categories that have ownership and control will receive a disproportionate share of the returns from the output, at the expense of other employees. Beyond the firm, outsiders (e.g., subcontractors) who contribute to the creation of the value added will be excluded. Also, since exploitation emerges, generally, from unequal distribution of property, skills and status among firms rather than joint production of value added only (Levi & North, 1982), exclusion and exploitation is transferred to the society (Tilly, 1998).

For these effects to be achievable domestically and, as we argue, abroad, the condition that has to be met is that categorical exclusion within and beyond firm boundaries is of lower political salience (Culpepper, 2010). In general, corporate governance, which encompasses several dimensions among which are financial decision-making (the way in which value is distributed) and owners' identity (those retaining property rights) (e.g., Belloc, 2014), is of lower political salience, i.e., its importance to the average voter, relative to other political issues, is lower (Culpepper, 2010). Therefore, the issue is largely promoted through 'quiet politics' where interest groups are able to determine the direction of policy (Culpepper, 2010).

We surmise that, despite its professedly welfare-oriented origins at home, state capitalism in the international sphere in the form of SOMNCs, may be a manifestation of rent seeking abroad. Our theoretical argument suggests a causal relationship with rent-seeking at home detectable in income inequality, i.e., an extension of the same behavior as in the domestic economy. Thus, the internationalization of SOMNCs can represent rent seeking by "personnel of the state" and other powerful subjects with influence over the state ("their allies") (Levi & North, 1982, p. 318-19). Hence, we hypothesize:

H1: SOEs from unequal economies are more likely to perform overseas acquisitions.

We argue that these effects will be more pronounced for SOMNCs originating from unequal societies compared with private firms originating from both unequal and equal societies. Compared with POMNCs, government-led centralization and control make SOMNCs a more effective vehicle for the unequal distribution of income overseas by the "personnel of the state" and their allies. To retain control, SOMNC senior managers are either civil servants or selected by government officials (Lin, 2011; Zou & Adams, 2008) and, when originating from an unequal home country, mobilized on the international market to achieve the objectives of the domestic interest groups. By contrast, the primary motive of POMNC internationalization is profit maximization based on market imperfections (Buckley & Casson, 1976), which these firms pursue with a higher level of managerial autonomy. Also, SOEs have softer budgets to pursue potentially high-risk high-return foreign investments (Bass & Chakrabarty, 2014), are not directly subject to the disciplining laws of the capital markets (Megginson & Netter, 2001) and pursue acquisitions with generally less transparency than POEs (Cannizzaro & Weiner, 2018). The hypotheses are:

H1a: SOEs from unequal economies are more likely to perform overseas acquisitions than POEs.

Our second set of hypotheses examines the role of inequality on SOMNC location choice, based on the assumption that the propensity of SOEs to invest depends on the features of the host country. This argument goes back to Vernon (1979) who argued that governments (through their SOEs) do business selectively, with other 'convenient' governments that are willing to engage in

mutually advantageous deals and swaps. Furthermore, recent studies give empirical evidence on the importance of the host country context for SOE investments. For instance, due to legitimacy pressures, SOEs use entry modes with lower equity stakes if the host country institutions are strong (Meyer, et al., 2014). This is because certain host countries exhibit local opposition to foreign SOEs acquisitions. Examples of this abound, such as the public pushback related to the acquisition of the Swedish Volvo by the state-controlled Renault (Bruner & Spekman, 1998) or the Chinese National Offshore Oil Company bidding to take over Unocal based in the US (Globerman & Shapiro, 2009). Generally, multinationals are more likely to enter institutionally adjacent markets when there is a strong possibility of institutional conflict (Xu & Shenkar, 2002). Furthermore, if their capabilities have been developed in specific environments (e.g., unequal home countries), the institutional similarity literature argues that these firms will leverage their capabilities in matching (e.g., unequal) host country environments (Carney, Dieleman, & Taussig, 2016; Cuervo-Cazurra, 2006). Also, studies showed that state-owned inward FDI is pronounced in host countries featuring a strong SOE presence themselves, particularly crucial if the investments are more opaque (Cannizzaro & Weiner, 2018).

Overall, equity-based control, the legal basis for the allocation of property rights in the home country, can reach internationally – but subject to laws in the host country – to emulate exploitation at home. As an investor that is state owned may not 'fit' a dissimilar foreign institutional environment (Carney, et al., 2016; Meyer, et al., 2014), it also may not fit its social environment, e.g., inequality. In other words, we expect that the pushback from the host country towards foreign SOE acquisitions from an unequal country will be greater if the host country is more equal. The home-host country similarity will allow SOEs to leverage their systems of categorical distinctions acquired in equally unequal environments. We argue, therefore, where property rights are unequal in the host country, home country firms will be better able to emulate exploitation at home. Furthermore, as argued above, within more unequal host economies the influence of "personnel of the state" and their allies upon SOEs will be stronger compared to POEs, hence we expect that SOEs will have a higher propensity to invest in more unequal host countries compared with POEs. The hypotheses are:

H2: SOEs from unequal economies are more likely to acquire firms in unequal economies overseas.

H2a: SOEs from unequal economies are more likely to acquire firms in unequal economies overseas than POEs.

2.2. The role of the political regime

The propensity for SOE internationalization was found to be higher in particular home country contexts, namely more autocratic countries (Clegg, et al., 2018). Also, sociologists argue that inequality is enhanced when contextualized (e.g., Avent-Holt & Tomaskovic-Devey, 2010; Tilly, 2003b; Tomaskovic-Devey, Avent-Holt, Zimmer, & Harding, 2009), where one of the key conditions is, the political regime.

Within political science, a simplified and widely applied definition of political regimes distinguishes between autocratic/dictatorships (monarchic, military or civilian), or democratic (parliamentary, mixed or presidential) regimes. Important points of distinction are contestation and the way in which incumbents are removed from office, where the regimes are classified depending on whether and to what extent they support competition among conflicting interests, as opposed to those where interests have a monopoly underpinned by threat or the use of force, and whether the alternation in power takes place under existing electoral rules (Alvarez, Cheibub, Limongi, & Przeworski, 1996; Cheibub, Gandhi, & Vreeland, 2010; Przeworski, Alvarez, Cheibub, & Limongi, 2000). In this tradition, a regime is classified as democratic if the chief executive and legislature is chosen by popular election, there is more than one party competing in the elections and the change in power is given under identical electoral rules as those for the incumbents (Alvarez, et al., 1996; Cheibub, et al., 2010). Other definitions also include the protection of political rights and civil liberties and whether the elected executive governs and the military is under civilian control (Mainwaring, Brinks, & Pérez-Liñán, 2007). The 1990s' wave of democratization resulted with a proliferation of regimes that are neither fully democratic nor classic authoritarian (Bogaards, 2009). For example, 'competitive authoritarianism' characterize regimes where democratic rules are combined with authoritarian governance, specifically where formal democratic institutions are used to gain power, but fraud, civil liberties violations and abuse of media abound (Levitsky & Way, 2002,

and 2010). Another example is the ‘delegative democracy’, referring to a seemingly democratic regime, but with a lack of horizontal accountability, in other words, where the elected executive governs as he or she sees fit, limited only by the existing power relations and a constitutionally determined term of office (O'donell, 1994). Consequently, it has become customary within the field to fine-grain the dichotomous classification to include hybrids of the two. For example, a recently introduced typology takes into account hybrids and, based on two dimensions of electoralism and constitutionalism, distinguishes between four main types: democratic, constitutional-oligarchic, electoral-autocratic, and authoritarian regimes (for details see Wigell, 2008).

This spectrum in political organization, we argue, helps to explain the relationship between home country inequality and SOE acquisitions abroad. Sociologists found that, generally, governments on the more democratic spectrum, compared with undemocratic regimes, correlate with lower inequality as they, generally, offer protection to advantages received by a larger share of the population, devise more responsive systems of extraction and allocation, produce collective benefits and redistribute resources more extensively to vulnerable segments of the population (Goodin, Goodin, Headey, Muffels, & Dirven, 1999; Przeworski, et al., 2000; Tilly, 2003b). However, there is no consensus in the literature on the potential direct causal relationship between democracy and inequality (Krauss, 2016). In fact, recent evidence suggests that political factors, e.g., if there is a left government in power, appear to have little causal effect on inequality over the long run (Scheve & Stasavage, 2009). Other studies suggest that the causality runs in the opposite direction, where countries with lower levels of income inequality tend to be more likely than others to support democracy (Andersen, 2012). Therefore, as the political dimension appear to have no direct, long-term effect on inequality, we examine whether it may be a moderating force for SOE internationalization, particularly if the home economy is more unequal.

The defining feature of more autocratic, as opposed to more democratic, political regimes is repression i.e., “actual or threatened use of physical sanctions against an individual or organization, within the territorial jurisdiction of the state, for the purpose of imposing a cost on the target as well as deterring specific activities” (Davenport, 2007, p. 2) which varies in intensity from high (visible acts such as repression of mass demonstrations) to low (more subtle forms such as surveillance and

intimidation) (Levitsky & Way, 2010). Another key characteristic, particularly for modern autocracies, is co-optation, defined as the capacity to tie relevant actors such as military and business interest groups to political interest groups (Gerschewski, 2013). Co-optation can be formal and informal e.g., by building a close network of direct and indirect ties with strategic actors and promoting their interests by e.g., patronage, clientelism, and corruption (Gandhi & Przeworski, 2006; Gerschewski, 2013). Both are crucial tools in ensuring the stability and longevity of the regime (Gerschewski, 2013) and, therefore, the existence and enforcement of the power relations and the property rights system. Because of these mechanisms, the autocratic state is better able to promote the rent seeking advantages of domestic interest groups. Specifically, state owned corporations under autocracy will tend to employ state power over assets to exploit, i.e., to accumulate and reallocate income to the interest groups linked to the state, i.e., "personnel of the state" and their allies (Levi & North, 1982). If the survival of the dictatorship is endangered, the state, in particular, will make policy concessions and assign more rents to ensure co-optation (Gandhi & Przeworski, 2006; and 2007). Who precisely will the interest groups be depends, as mentioned above, on the relationship between the government and business (Kang, 2002). The more democratic the conditions, then property rights will be vested in other groups. In other words, in modern pluralist democracies (and socialist societies) exploitation becomes multidimensional, with multiple groups exploiting others (Levi & North, 1982).

In the international sphere, the extraterritorial reach of the autocratic state may be present within both SOMNCs and POMNCs. For example, through the rendition of staff and threats to family members at home. However, the administrative fiat within the SOMNC is likely to make this reach stronger. Political power over state assets may itself reinforce socio-economic power, resulting from two sources of stranglehold over income, i.e., via the pursuit of "composite" rent (Sørensen, 1996). To the extent that POMNCs have unobservable state connections, the same effects as in SOEs might be detectable but, theoretically, at a lower level. To conclude, our theory suggests that the concentration of political power together with income inequality might produce the transactionally "efficient" solution of the internalization of markets by SOMNCs, to better appropriate rents for politically advantaged groups. This would suggest an interactive effect of inequality and the concentration of

political power – autocracy – upon the internationalization of SOMNCs, and this effect will be stronger than in POMNCs. Thus, we hypothesize:

H3: SOEs from autocratic unequal economies are more likely to perform overseas acquisitions.

H3a: SOEs from autocratic unequal economies are more likely to perform overseas acquisitions than POEs.

– Figure 1 about here –

3. Methodology

As a first step to testing our hypotheses, we extracted a comprehensive sample of SOE cross-border M&As from the widely used Thomson One database. It has been established that SOEs have a bias towards M&As as an internationalization strategy due to their propensity to acquire advanced capabilities (in cases where SOEs originate from developing countries) and/or attain legitimacy at entry (e.g., Li, Li, & Shapiro, 2012; Meyer, et al., 2014; UNCTAD, 2017). The database recorded 1,999 cross-border M&As by firms whose ultimate parent is a government, i.e., a state entity holds, directly or indirectly, a 51% or above equity share. This approach follows prior studies indicating that firms with a majority state owned share are subject to political rather than just profit maximizing interests, therefore are more likely to pursue a wider agenda such as rent seeking (Estrin, Meyer, Nielsen, & Nielsen, 2016). As in prior studies, we omit M&As completed by extraterritorial bodies and organisations which are classified as SOE in the database (Clegg, et al., 2018). As a second step, we collected a sample of 136,146 private firm cross-border M&As from the same source, with the acquirers originating from 25 countries that are represented in the database the most. We focus on a twenty-year time-period starting with 1996, as some of our independent variables are not available before then.

3.1. Dependent variables

To test H1 and H3, we developed a dichotomous choice variable *SOE M&A*. It captures the existence of an SOE M&A event (value of 1), or the absence of one (value of 0) for an acquirer and

target country. This dichotomous choice approach is well founded in similar studies (Cui & Jiang, 2009; Duanmu, 2012; Lu, Liu, Wright, & Filatotchev, 2014). Following (Clegg, et al., 2018) we assume that all countries in our sample can appear as targets or acquirers for each year, however, because of rare event bias, we classify the observations in four time periods: 1996-2000; 2001-2005; 2006-2010; 2011-2015. The dependent takes on the value of 1 if there is at least one recorded SOE cross-border M&A event in the time period for a respective country pair (Lu, et al., 2014).

To test H1a and H3a, we introduce a dichotomous dependent variable *SOE/POE M&A* which takes the value of 0 in case of a POE M&A event and 1 in case of a SOE M&A event.

To test H2 and H2a, we need to capture the inequality of the country where the acquired firm resides. Due to its availability, cross-country comparability, mean and population size independence and other advantageous properties (see Haughton & Khandker, 2009), the most commonly used measure of inequality is the Gini index. As in previous studies (e.g., Holburn & Zelner, 2010; Rodrik, 1999), we adopted the variable *Gini index, target* by country and year, derived from the World Bank's World Development Indicators database. It measures the extent to which the distribution of income within a country deviates from a perfectly equal distribution in a 0 (perfect equality) to 1 (perfect inequality) range (Haughton & Khandker, 2009). Since the observations are available at irregular intervals, we follow the missing value interpolation adopted by Holburn and Zelner (2010). The disadvantage of the Gini index is that it cannot be decomposed to account for the sources of inequality (for example, a comparison between urban and rural areas) (Haughton & Khandker, 2009), however, this is not relevant for the purpose of this study.[2] Theoretically and empirically, social inequality exerts its effects at the national level, and not at lower levels (Wilkinson & Pickett, 2009, and Wilkinson & Pickett, 2018). As a robustness check, we derive Gini data from other sources and apply alternative measures of inequality (see section 4.1.).

3.2. Independent variables

[2] Measures that satisfy this condition are, for example, generalized entropy (GE) measures such as Theil indexes or Atkinson's class of inequality measures (see e.g., Araar & Duclos, 2006; Atkinson, 1983).

To analyse H1, H1a, H2 and H2a we developed the variable *Gini index, acquirer*. It captures income inequality in the home country of the acquirer firm for each year (or averaged for the respective five-year time period in case of H1). The data source and operationalization are equivalent to the dependent variable described above.

For the third set of hypotheses, we generated the variable, *Gini index * Autocracy, acquirer* as an interaction between the inequality and political regime of the acquirer's home firm country, averaged for the respective five-year time period. For inequality, we use the Gini index as outlined above. To account for a country's political regime, some of the most widely adopted indicators are Polity IV measures, The Political Constraint Index (POLCON) and Heritage Foundation Index of Economic Freedom. We rely on Polity data as it offers the most comprehensive time-varying country coverage and has been adopted by studies exploring similar topics (Clegg, et al., 2018; Kolstad & Wiig, 2012; Li & Resnick, 2003). Specifically, we use the Combined Polity Score measure, a single index composite of autocracy and democracy ranging from +10 (strongly democratic) to -10 (strongly autocratic) (Marshall, Gurr, & Jaggers, 2017), also used in other studies (e.g., Asiedu & Lien, 2011; Kolstad & Wiig, 2012). Prior to creating the interaction variable, we standardize its two components (Wooldridge, 2015).

3.3. Control variables

Following prior country-level studies on the determinants of foreign investment for SOEs and POEs, we firstly control for the political regime in the acquirer and target country (Clegg, et al., 2018; Jensen, 2003). Drawing on the Polity IV autocracy index, we adopt the *Political regime, acquirer* and *Political regime, target* measure (as above). Furthermore, we account for the target country location-bound resource and technological endowments that act as FDI attractors (Dunning, 1980, 1998). As in prior studies (e.g., Buckley, et al., 2007; Buckley, Forsans, & Munjal, 2012), we use *GDP, target* and *GDP per capita growth, target* (annual %) to control for market size and *Ore and metal exports, target* (% of merchandise exports), *Agricultural land, target* (% of land area), *Fisheries production, target* (metric tons), *Forest area, target* (% of land area), *Natural gas rents, target* (% of GDP), *Oil*

rents, target (% of GDP) and *Access to electricity, target* (% of population) as proxies for the target country's natural resources and infrastructure. Resident annual *Patent applications, target* account for technology and innovation-based country assets. We account for the macroeconomic environment using *Exchange rate, target* (against the US dollar) and *Government expenditure, target* (% of GDP), as currency depreciations and lower deficits promote FDI (Blonigen, 1997; Jensen, 2008). The final group of target country attributes records trade and investment openness, where we use *Foreign trade, target* (% of GDP) and *FDI inflows, target* (% of GDP). We derive this data from the World Bank's World Development Indicators database.

Furthermore, we needed to account for the distance between the acquirer and target country (Ghemawat, 2001). We capture its cultural dimension by estimating the Euclidean distance of Hofstede's indicators (Hofstede, 1983; Shenkar, 2001; Tihanyi, Griffith, & Russell, 2005). However, we exclude the 'Power Distance' dimension as it has been suggested that it captures the degree of inequality in a society and the degree of autocratic leadership (Hofstede, 1983), both represented by our main independents. As in previous studies, the administrative dimension is captured by participation in the same *Trade bloc*, *G20 membership* and *Common colonial history*, all indicative of institutional similarity (Acemoglu, Johnson, & Robinson, 2001; Buckley, et al., 2012). We collected the data from the World Trade Organisation, G20 website and from the ICOW colonial history data. While the geographic distance dimension is captured using the miles between the acquirer and target capital cities (*Geographic distance*), economic distance is captured using the market indicator mentioned above (Buckley, et al., 2012).

Finally, we use a dummy variable (*Country dummy, acquirer*) to classify the acquirer countries in two groupings, based on the World Economic Outlook categorization into advanced and emerging and developing economies. Also, we apply year dummies and, in models that permit it, acquirer and target industry dummies (derived from the Thomson One database). To conform to prior practice, the control variables are lagged one year.

3.4. Estimation

The type of the dependent variable is the primary attribute of the data that determined our estimation technique. In case of the first and third set of hypotheses, the dependent variables are dichotomous, which, following similar prior studies, demand a logistic regression analysis (Alcacer & Chung, 2007; Duanmu, 2012). Specifically, we model the probability that an SOE (or POE) will invest in a specific target country depending on the acquirer country inequality (and autocracy) and other characteristics of the acquirer and target.

In case of H2a, H2b and H2c, the dependent variable is continuous (*Gini index, target*). As in prior studies (e.g., Singh & Delios, 2017), we use GLS regression, preferable to OLS as it solves for the omitted variable bias, autocorrelation and heteroskedasticity (Wooldridge, 2015). As some of our independents are time-invariant, we use the random effects estimator, the appropriateness of which was confirmed by the Hausman test statistic (unobserved heterogeneity is uncorrelated with the independents) (Wooldridge, 2015).

4. Results

Table 1 and Table 2 report the descriptive statistics and correlations. The correlation coefficients in the matrix do not surpass the conventional cut-off point of 0.8 (Farrar & Glauber, 1967). Following standard practice, Table 3 reports the estimated coefficients and their standard errors. The post-estimation tests substantiated our choice of predictors for the models and an acceptable level of tolerance, showing goodness-of-fit. The variance inflation factors (VIF) values range between 3.25 to 7.08 in the models and, therefore, and reject the presence of a serious multicollinearity problem.

– Tables 1 and 2 about here -

H1 predicts that SOEs from economies that are more unequal will have a higher propensity to acquire firms overseas. As expected, the coefficient of the Gini index (column 1, Table 3) is positive and significant (p=0.001), indicating that an increase in the inequality of the acquirer economy results with an increased propensity of SOEs to invest overseas via M&As. H1a suggests that SOEs from economies that are more unequal will have a higher propensity to acquire firms overseas compared

with POEs. Again, the coefficient of the Gini index (column 2, Table 3) is positive and significant (p=0.000), indicating that an increase in the inequality of the acquirer economy results with an increased propensity of SOEs to invest overseas via M&As as opposed to POEs.

– Table 3 about here –

The second group of hypotheses concerns the location choice for SOE M&As. Specifically, H2 suggests that SOEs from more unequal economies will acquire overseas firms in economies with higher inequality. As predicted, the coefficient of the Gini index (column 3, Table 3) is positive and significant (p=0.02), indicating that an increase in the inequality of the economy where the acquirer SOE resides results with the SOE targeting a company from a more unequal economy. Furthermore, H2a suggests that SOEs from more unequal economies are more likely to acquire overseas firms in economies with higher inequality compared with POEs. A simple comparison of the regression coefficients in columns 3 (SOE sample) and 4 (POE sample) seems to suggest that inequality is a stronger predictor of SOE investment in more unequal economies than POE investment. To investigate this further, we rely on group comparisons of differences in composition and in effects. Comparisons of group means at 95% confidence intervals show that they do not overlap and the 2-sample t-test results are statistically significant with a p-value of 0.000 (results available upon request), giving support to the view that the differences in means are significant (Cumming, 2009; Cumming & Finch, 2005). To investigate the difference in effects, we compare the regression coefficients of SOEs with POEs to test the null hypothesis that these are not significantly different (Clogg, Petkova, & Haritou, 1995; Paternoster, Brame, Mazerolle, & Piquero, 1998). The results (available upon request) show that the t value is -4.69 and is significant (p=0.000), indicating that the regression coefficient for SOEs is significantly different from POEs.

Hypotheses H3 and H3a explore the joint effect of inequality and political regime on the firm's M&A strategy. We explore whether there is support for our hypotheses by analysing the significance of the interaction coefficients and, since neither the value nor the sign of the coefficients provides conclusive information about the nature of the interaction, we depict the marginal effects graphically

(Ai & Norton, 2003; Aiken, West, & Reno, 1991). The significance of the interaction coefficient (p=0.002) (column 5, Table 3) shows that there is an interaction effect between the political regime and autocracy on SOE outward investment. To specify the interaction further, Figure 2 presents the marginal effect of inequality on SOE M&As in different political regimes. This figure shows that the marginal effect on the probability to invest is greater at lower level of the political regime variable, i.e., when the political regime is more autocratic. This confirms H3. The interaction coefficient presented in column 6 is also significant (p=0.002), evidencing an interaction effect. To complement this, Figure 3 presents the marginal effect of inequality on SOE vs. POE M&As in different political regimes. It confirms that, for some values of the political regime variable, the effect of inequality on the probability to invest is stronger for SOEs than POEs. Also, it shows that, for some values of the political regime variable, the effect of inequality on the probability to invest is not stronger for SOEs. Therefore, we find partial support for H3a. We explain this effect by referring to certain isomorphic pressures the two classes of firms may be subject to in certain political environments and elaborate on this in the Discussion.

– Figures 2 and 3 about here –

4.1. Robustness

We firstly explore alternative measures of our main independents. For inequality, we employ the standardized Gini derived from the World Bank's "All The Ginis" dataset which represents an adaptation of Gini coefficients derived from nine different sources, e.g., the Luxembourg Income Study, World Income Distribution, World Bank's POVCAL database and others (see Milanovic, 2014). The results obtained follow our main findings. Due to their limited country and/or year coverage for our sample and time period, we were not able to use the Gini offered by other databases such as the OECD Income Distribution Database, Eurostat's Income poverty statistics, Deininger and Squire (2013), Atkinson and Morelli (2014) or van Zanden et al (2014). As alternative to our political regime measure, we use the Freedom in the World Index of Political Rights (Freedom House, 2014) adopted by other studies (e.g., Berry, Guillén, & Hendi, 2014). When employed in our models, the

measure supports our findings and we conclude that our results are robust to different specifications of the main independents.

In terms of our control variables, we check whether our main results remain robust for alternative indicators of cultural distance. We use the measures offered by the Global Leadership and Organizational Behavior Effectiveness (GLOBE) comparable to the Hofstede dimensions (House, et al., 2004) and use the same approach to operationalise distance. Our main results remain.

Furthermore, we explore the sample sensitivity of the main results. We use random split sampling and differentiation by the overall level of economic development into emerging (and developing) and developed countries (using World Economic Outlook classification). Our main results hold.

Since the models do not account for potential endogeneity issues, we implement the generalized method of moments (GMM) analyses which permits internal instruments (lagged variables) for the potentially endogenous variables (Roodman, 2009), as used by other studies modelling SOE foreign investments (Benito, et al., 2016). We use the Stata xtabond2 command to run the models where we treat the dependent and main independent as potentially endogenous (Roodman, 2009). We implement the two-step version of GMM that applies standard error correction (Windmeijer, 2005). All model specifications do not feature second-order autocorrelation concerns and pass both the Sargan and the Hansen test for instrument exogeneity (Roodman, 2009). The results given by our main models hold under these specifications and method of analysis.

Since its inception, the foreign investment literature emphasised firm level factors as drivers of internationalisation (Buckley & Casson, 1976), and this is particularly relevant in case of SOEs where e.g., the level of government ownership is one of the main firm-level determinants of cross-border investment behaviour (Bruton, et al., 2015; Cuervo-Cazurra, et al., 2014; Cui & Jiang, 2012; Musacchio & Lazzarini, 2012). Consequently, we collected firm- level data from Bureau van Dijk's Orbis database for the SOEs in our M&A sample by matching the firm's name, city, country and industry. However, resulting from the scarcity of data available, we were left with fewer than 300 observations for the full SOE sample, and even less for our differentiated samples (by level of

inequality, and autocracy). This made the inclusion of firm level variables in the model unfeasible. Furthermore, the missing data was skewed towards the most proliferated state investor countries (e.g., Russia, Malaysia and Middle Eastern countries). A final issue was that the database recorded only the most recent ownership information rather than that present at the time of the M&A event.

5. Discussion and conclusions

5.1. Main findings and contributions

Taking the view that the political power of interest groups determines the distribution of wealth in an economy (e.g., Deakin, et al., 2017; Levi & North, 1982; Shleifer, 1998; Sørensen, 1996), societies that are more unequal will be more exploitative domestically (Murphy, 1988; Tilly, 1998) and we argue, by extension, internationally. Exploitation is created, reinforced and replicated within firms as organisations that own and control value-producing resources, and manifested in a society (Tilly, 1998). It can also be transferred to other settings (Tilly, 1998, and 2003a). In the case of SOEs, powerful interest groups may de facto own and control the property rights in the organization, intervene in the internationalization of these SOEs (via resource deployment, building a support network, leveraging political influence), maintain control over resources that are unavailable to the private sector and, ultimately, exclude outsiders from the distribution of the returns. Our evidence confirmed that SOEs from unequal economies have a higher propensity to engage in overseas M&As. We also find that this effect is stronger compared with private firms. This follows previous studies on the crucial role of the home country for SOE internationalization (Estrin, et al., 2016). It also follows studies showing that POMNCs, in contrast to SOMNCs, invest for commercial, often short-term returns for non-state shareholders (Bass & Chakrabarty, 2014; Sundaram & Inkpen, 2004). Finally, our findings suggest that the rent seeking, exploitative behavior may help explain why, in many instances, SOMNCs can outperform private firms in the international market (Cuervo-Cazurra, et al., 2014).

We also argue and find that inequality can help explain SOMNC location choice. Given that one of the concerns over SOMNCs by host countries is their ability to enforce decisions of the home state

within the political boundaries of another state, our evidence suggests that this may well be facilitated in host countries with similar attributes, in this case exploitation should be easier to export to countries with greater inequality. With this finding we advance previous research arguing that rent appropriation is typically much harder to replicate in international activities than at home (Estrin, et al., 2016). Also, our findings agree with prior research on the relevance of institutional similarity between the home and host countries (Carney, et al., 2016; Cuervo-Cazurra, 2006; Xu & Shenkar, 2002), particularly applicable to SOEs due to the complex pressures that these firms face under high institutional cross-country distance (Meyer, et al., 2014).

Our final set of hypotheses examines the interaction between home country social inequality and its political regime. Building on the view that inequality is contextualised (Avent-Holt & Tomaskovic-Devey, 2010; Tilly, 2003b; Tomaskovic-Devey, et al., 2009) and a recent study showing that autocracies exhibit an increased ability to control SOMNC acquisitions abroad (Clegg, et al., 2018), we extend this to suggest that home country autocratic regimes enable more effective international exploitation where there is inequality benefiting home country interest groups. Autocratic country SOMNCs are characterized by repression and co-optation which perpetuate unequal power relations and unequal property rights allocation to interest groups (Gandhi & Przeworski, 2006, and 2007; Gerschewski, 2013; Levitsky & Way, 2010) and, on firm level, lower managerial autonomy and tighter centralization and control (Clegg, et al., 2018; Li, et al., 2014). Because interest groups in autocratic regimes may enjoy full support from the state, their control of state assets (through the property rights mechanism) has greater power and reach. Compared with POEs, the effect of inequality on the propensity of SOE investment is stronger for certain values of the political regime variable. In highly autocratic home countries, as the state control disperses into the private sector, we conjecture that the difference in the effects is minimized due to isomorphism between the two classes of companies. This, potentially, may have a powerful implication as it supports the cautious viewpoint that democratic host governments may hold about POMNCs' investment from certain autocratic country political regimes. Democratic host governments might infer that the behaviour of these POMNCs, and therefore possibly their motives, are indistinguishable

from those of SOMNCs. As the political regime moves towards a hybrid between autocracy and democracy, the effect of inequality on the propensity of SOE investment is stronger than for POEs. This points to the possibility that income unequal countries, under such a hybrid, will pursue an exploitative agenda abroad via their SOEs (but not through their POEs). As the political regime moves towards a pure democracy, the propensity of the two classes of companies from unequal countries to invest abroad begins to converge again, potentially signifying a profit maximizing motive of the SOMNCs. Our findings suggest a re-interpretation of e.g., Choudry & Khanna (2014) who conclude that all SOMNCs internationalize to reduce resource dependence on their home state. As India is a democratic regime, we predict that Indian SOEs are more likely to emulate Indian POEs abroad.

To conclude, our findings extend other country-level international business studies of political and institutional aspects of SOE internationalization (Clegg, et al., 2018; Cuervo-Cazurra, et al., 2014; Duanmu, 2014; Huang, Xie, Li, & Reddy, 2017; Li, et al., 2014) and contribute to an extent to the international political economy and international relations literature emphasising the new role of the state in the competition for global wealth (Clark, 1999; Hobson, 2000; Stopford, Strange, & Henley, 1991).

5.2. Managerial and policy implications

Host country apprehension regarding foreign state capital has intensified as global M&A activity rises (Financial Times, 2018a), host country. The motivations and ultimate objectives of these deals is the prime concern for both policy makers and target firm managers and shareholders (Financial Times, 2018b). Adding to this debate, our study suggests that the acquirer firm's motives for acquisition, particularly in case of SOMNCs from unequal home countries, may be limited to benefiting the home country interest groups. Technologically development countries may be particularly concerned about losing key technologies to foreign governments, and ideological conflicts may emerge in free market countries with a strong rule of law and little government interference (Meyer, et al., 2014; Shi, Hoskisson, & Zhang, 2016).

From the target firm's perspective, the well-designed exploitative strategy may clash with the firm's long-term objectives which may be more market based rather than concerned with wider policy goals of the acquirer's home government, particularly relevant in case of mergers. Furthermore, the overall strategy may have a significant impact on the daily operations within the firm, which may develop to be even more exploitative, bringing a whole new set of challenges for the shareholders, management and employees. This may affect human resource strategies and import a culture of outsidership rather than inclusiveness.

From the internationalizing firm's perspective, the exploitative objectives may give rise to higher cost of acquisition and, generally, higher host country legitimacy costs. The target firm and government may demand a premium on the shares sold to compensate for the political motivations of the acquirer, and this may demand more resource access from the home government. Also, the acquirer may have difficulty in implementing the overall strategy because of the isomorphic pressure to maintain legitimacy by conforming to local rules and belief systems (Kostova & Roth, 2002). Our findings suggest that the degree of similarity between home and host in terms of inequality and the concentration of political power, indeed does promote acquisitive behaviour, as our theoretical reasoning predicts. Ultimately, complex institutional pressures between less similar economies may generate a policy response of calls for investment screening in the host, or demand that the SOMNC adopt an alternative investment strategy, such as joint venture (Meyer, et al., 2014).

5.3. Limitations

The generalizability of our conclusions is affected by a series of limitations. This study adopts a rather conservative measure of firm state ownership, however, research has showed that different levels (wholly owned state-owned enterprises, the state as a majority or minority investor or strategic supporter of specific sectors) and typologies (local, provincial and national) of state capital affect internationalization (Li, et al., 2014; Musacchio, et al., 2015). It would be useful to test whether our arguments hold for these different characterizations of the state operating abroad. Although we attempted to collect acquirer ownership data from a second data source, the paucity of information restricted the extent to which we could apply the data. Similarly, we were unable to consider the

ownership of the target firm attained by the deal (Pan, et al., 2014) or other firm-level data that condition foreign investments, for the same reasons. Furthermore, we only consider M&As as an entry mode, rather than a sample of e.g., greenfield investments and joint ventures. Joint venture in particular was found to be the state's response to institutional pressures abroad (Meyer, et al., 2014) and would constitute a good test of our theory. Although we engage the most widely used measure of social inequality, future studies could test the arguments on different types of inequality measures e.g., expenditure-based inequality, and employ different approaches (e.g., generalized entropy type measures) (Haughton & Khandker, 2009). Finally, we do not consider alternative explanations for specific paths of inequality such as the Kuznets hypothesis and the Elephant curve (e.g., Milanovic, 2016) and how this effect is combined with the role of SOEs.

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Table 1 Descriptive statistics

	Variables	Proxy	Mean	S.D.	Min	Max
1	SOE M&A	Dichotomous, SOE M&A=1, no SOE M&A=0	.016	.126	0.000	1.000
2	SOE/POE M&A	Dichotomous, SOE M&A=1, POE M&A=0	.104	.306	0.000	1.000
3	Gini index, target	Gini index (World Bank)	35.890	6.803	16.200	65.800
4	Gini index, acquirer	Gini index (World Bank)	35.179	5.051	23.700	64.800
5	Gini index * Political regime, acquirer	Gini index (World Bank) * Combined Polity Score	3.401	28.090	-2158.200	299.600
6	Political regime, acquirer	Combined Polity Score	0.409	1.570	-7.000	10.000
7	Political regime, target	Combined Polity Score	0.402	3.326	-8.000	10.000
8	GDP, target	(US$ constant market prices, deflated)	312000000000000.000	446000000000000.000	14800000000.000	1800000000000000.000
9	GDP per capita growth, target	GDP per capita growth (annual %)	2.278	3.163	-62.225	56.883
10	Ore and metal exports, target	Ratio of ore and metal exports to merchandise exports (%)	5.266	7.580	0.000	86.420
11	Agricultural land, target	% of land area	43.349	20.598	0.449	85.487
12	Fisheries production, target	Metric tons	2040000.000	3290000.000	1.000	17900000.000
13	Forest area, target	% of land area	30.865	15.982	0.000	98.760
14	Natural gas rents, target	% of GDP	0.307	0.764	0.000	41.767
15	Oil rents, target	% of GDP	1.049	3.215	0.000	65.420
16	Access to electricity, target	% of population	97.780	8.734	0.797	100.000
17	Patent applications, target	Number of patent registrations by residents	54787.022	109000.000	1.000	801000.000
18	Exchange rate, target	local currency per US$	192000.000	35900000.000	0.010	6720000000.000
19	Government expenditure, target	% of GDP	17.450	4.178	2.047	96.925
20	Trade, target	% of GDP	74.765	64.647	0.328	675.678
21	FDI inflows, target	% of GDP	4.845	9.816	-82.892	466.562
22	Individualism/Collectivism distance	Hofstede indicator	21.229	20.008	0.000	86.490
23	Masculinity/Femininity distance	Hofstede indicator	16.481	15.865	0.000	95.000
24	Uncertainty Avoidance distance	Hofstede indicator	20.690	16.529	0.000	90.000
25	Long/Short term orientation distance	Hofstede indicator	23.495	16.069	0.000	93.000
26	Indulgence/Restraint distance	Hofstede indicator	16.924	15.135	0.000	94.530
27	Trade bloc	Dichotomous, if both home and host countries members of the same Regional Trade Agreement then 0, if not 1	0.438	0.496	0.000	1.000
28	G20 membership	Dichotomous, if both home and host countries members of G-20 summit then 0, if not 1	0.527	0.499	0.000	1.000
29	Common colonial origin	Dichotomous, if both home and host countries share a colonial origin (in the past 200 years) then 0	0.865	0.342	0.000	1.000
30	Geographic distance	Distance (in miles) between the capitals of the host and home country	2351.464	2387.553	1.200	11843.500

Table 2 Correlation matrix

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29
1	SOE M&A	1																												
2	SOE/POE M&A	0.26	1																											
		0.00																												
3	Gini index, target	0.12	0.04	1																										
		0.00	0.00																											
4	Gini index. acquirer	0.01	0.02	0.08	1																									
		-0.03	0.00	0.00																										
5	Gini index* Political regime,	0.04	0.01	0.00	0.22	1																								
	acquirer	0.00	0.00	-0.66	0.00																									
6	Political regime,	0.03	0.07	0.05	0.26	0.63	1																							
	acquirer	0.00	0.00	0.00	0.00	0.00																								
7	Political regime,	0.01	0.01	0.11	0.05	0.01	0.05	1																						
	target	-0.03	0.09	0.00	0.00	0.00	0.00		1																					
8	GDP, target	0.05	0.11	0.31	-0.12	-0.02	-0.03	0.01																						
	GDP per	-0.01	-0.02	0.11	0.04	-0.01	0.03	0.21	-0.09	1																				
9	capita growth, target	-0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00																					
	Ore and	-0.01	-0.04	0.23	0.09	0.05	0.05	-0.08	-0.15	-0.02	1																			
10	metal exports, target	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00																				
	Agricultural	0.02	0.02	0.08	-0.06	-0.05	-0.09	0.00	0.07	0.05	-0.05	1																		
11	land, target	0.00	0.00	0.00	0.00	0.00	0.00	-0.96	0.00	0.00	0.00																			
	Fisheries	0.07	0.08	0.36	-0.02	-0.02	0.04	0.34	0.48	0.39	-0.10	0.06	1																	
12	production, target	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00																		
	Forest area,	0.00	0.02	0.05	-0.08	-0.01	0.00	-0.09	0.08	-0.05	-0.06	-0.67	0.00	1																
13	target	-0.73	0.00	0.00	0.00	-0.01	-0.88	0.00	0.00	0.00	0.00	0.00	-0.72																	
	Natural gas	-0.02	-0.03	0.00	0.02	0.00	0.01	0.02	-0.05	0.01	0.03	-0.30	0.02	0.05	1															
14	rents, target	0.00	0.00	-0.21	0.00	-0.73	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00																
	Oil rents,	-0.05	-0.10	0.14	0.02	0.01	0.10	0.13	-0.12	0.06	0.00	-0.19	0.03	0.00	0.39	1														
15	target	0.00	0.00	0.00	0.00	-0.08	0.00	0.00	0.00	0.00	-0.10	0.00	0.00	-0.31	0.00															
	Access to	0.04	0.11	-0.25	-0.07	-0.01	-0.05	-0.02	0.14	-0.13	-0.17	-0.10	-0.05	0.03	0.05	-0.10	1													
16	electricity, target	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00														
	Patent	0.06	0.05	0.24	-0.07	-0.01	0.01	0.18	0.67	0.09	-0.17	0.02	0.60	0.11	-0.06	-0.09	0.11	1												
17	applications, target	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00													
	Exchange	0.00	-0.01	0.00	0.00	0.00	0.00	0.01	0.00	-0.04	0.01	0.00	0.00	0.00	0.00	0.00	-0.03	0.00	1											
18	rate, target	-0.62	-0.09	-0.15	-0.66	-0.83	-0.63	-0.03	-0.22	0.00	0.00	-0.96	-0.23	-0.25	-0.39	-0.52	0.00	-0.34												
	Government	0.00	-0.01	-0.48	-0.12	-0.07	-0.17	-0.17	-0.18	-0.31	-0.05	0.05	-0.35	0.04	0.00	-0.13	0.28	-0.22	-0.02	1										
19	expenditure, target	-0.79	-0.14	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.44	0.00	0.00	0.00	0.00											
	Foreign	-0.01	0.02	-0.37	0.11	0.13	0.18	0.09	-0.38	0.08	-0.08	-0.33	-0.27	-0.06	-0.01	0.03	0.06	-0.29	0.00	-0.18	1									
20	trade, target	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.33	0.00										
	FDI inflows,	0.00	0.00	-0.13	0.04	0.05	0.07	0.02	-0.18	0.10	0.01	-0.07	-0.13	-0.14	0.01	-0.02	0.04	-0.14	0.00	-0.02	0.50	1								
21	target	-0.45	-0.68	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.02	0.00	0.00	0.00	-0.01	0.00	0.00	0.00	-0.44	0.00	0.00									
	Individualism/Collec	-0.01	0.05	0.33	0.23	0.09	0.11	0.08	-0.06	0.10	0.14	-0.09	0.11	0.16	0.00	0.16	-0.20	0.01	0.06	-0.26	0.00	-0.02	1							
22	tivism distance	-0.19	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.78	0.00	0.00	0.00	0.00	0.00	-0.78	0.00								
	Masculinity/Femininity	-0.05	0.01	-0.24	-0.31	-0.04	-0.08	-0.07	-0.11	-0.06	-0.08	-0.12	-0.09	0.16	0.04	0.00	0.08	-0.04	-0.02	0.28	0.03	0.08	0.01	1						
23	distance	0.00	-0.31	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.27	0.00	0.00	0.00	0.00	0.00	0.00	0.00							
	Uncertainty Avoidance	-0.02	0.05	-0.01	-0.08	0.01	0.10	-0.05	-0.17	-0.04	-0.03	-0.03	-0.13	0.15	-0.04	0.05	0.04	-0.10	0.04	0.10	0.04	-0.02	0.30	0.19	1					
24	distance	-0.06	0.00	0.00	0.00	-0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00						
	Long/Short term	-0.02	-0.02	0.00	0.14	0.07	0.11	0.08	0.13	0.06	-0.05	0.02	0.15	0.03	-0.04	-0.01	0.04	0.20	0.00	-0.08	-0.03	-0.04	0.26	-0.08	0.16	1				
25	orientation distance	0.00	-0.01	-0.12	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.17	0.00	0.00	0.00	0.00	0.00	0.00					
	Indulgence/Restraint	-0.04	-0.04	-0.05	-0.05	0.06	0.08	0.06	-0.17	0.13	-0.05	-0.04	0.02	0.11	0.01	0.12	-0.15	-0.06	0.01	-0.12	0.10	0.00	0.51	0.06	0.37	0.30	1			
26	distance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.01	0.00	0.00	-0.78	0.00	0.00	0.00	0.00				
	Trade bloc	0.01	0.03	0.21	0.37	0.04	0.03	0.00	0.21	-0.01	-0.01	0.06	0.10	0.00	0.03	0.08	-0.08	0.15	0.00	-0.15	-0.09	-0.03	0.24	-0.11	0.05	0.36	0.12	1		
27		0.00	0.00	0.00	0.00	0.00	0.00	-0.49	0.00	0.00	0.00	0.00	0.00	-0.99	0.00	0.00	0.00	0.00	-0.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
	G20 membership	0.09	0.16	-0.21	-0.30	0.01	0.15	0.04	-0.35	0.09	-0.03	-0.13	-0.12	0.05	-0.03	0.07	-0.04	-0.21	0.01	0.01	0.41	0.22	0.02	0.39	0.10	-0.12	0.11	-0.19	1	
28		0.00	0.00	0.00	0.00	-0.07	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.08	-0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
	Common colonial	0.12	0.01	-0.05	-0.12	0.03	0.08	0.03	-0.12	0.04	0.01	-0.27	0.03	0.25	0.01	0.05	0.00	-0.03	-0.01	0.01	0.10	0.02	0.26	0.25	0.22	0.02	0.32	-0.22	0.25	1
29	history	0.00	0.54	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-0.47	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
30	Geographic distance	0.02	-0.1	0.27	0.43	0.07	0.12	0.09	-0.15	0.09	0.41	0.31	0.03	-0.27	-0.21	0.09	-0.13	-0.07	0.02	-0.17	-0.16	-0.06	0.55	-0.19	0.28	0.39	0.37	0.58	-0.10	0.02
		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Notes: The table reports pairwise correlation coefficients and respective significance levels, based on a sample of state- and privately-owned cross-border M&As.

Table 3 Results

Variables	**SOE M&A** (0=no M&A, 1=M&A)	**SOE/POE M&A** (0=POE M&A, 1=SOE M&A)	**Gini index, target** (SOE sample)	**Gini index, target** (POE sample)	**SOE M&A** (0=no M&A, 1=M&A)	**SOE/POE M&A** (0=POE M&A, 1=SOE M&A)
	H1	**H1a**	**H2, H2a**	**H2a**	**H3**	**H3a**
	(1)	(2)	(3)	(4)	(5)	(6)
Gini index. acquirer	0.0167***	0.0796***	0.160***	0.118**	0.00347	-0.0418
	(0.0034)	(0.0134)	(0.00631)	(0.0464)	(0.0146)	(0.0259)
Gini index * Political regime, acquirer	-	-	-	-	0.00134**	0.0184**
					(0.000571)	(0.00293)
Political regime, acquirer	0.0006	0.0243	0.0947	0.216***	-0.0205	-0.696***
	(0.0084)	(0.0190)	(0.0701)	(0.0119)	(0.0196)	(0.116)
Political regime, target	0.0357***	0.0147	-0.0925**	-0.118***	-0.0147	0.0203
	(0.0117)	(0.0120)	(0.0380)	(0.00731)	(0.0198)	(0.0124)
GDP, target	0.0103*	0.0041	4.0450**	0.5770**	-0.5510	-0.2440
	(0.0060)	(0.0032)	(0.0583)	(0.2690)	(0.6020)	(0.3820)
GDP per capita growth, target	-0.0381	-0.0411	-0.269***	-0.406***	-0.0853	-0.0407
	(0.0259)	(0.0277)	(0.0813)	(0.0106)	(0.0549)	(0.0283)
Ore and metal exports, target	0.0137***	0.0140**	0.126***	0.0372***	0.0266**	0.0137**
	(0.00502)	(0.00553)	(0.0254)	(0.00347)	(0.0126)	(0.00564)
Agricultural land, target	0.00977**	0.00694*	0.101***	0.165***	0.0187*	0.00600
	(0.00385)	(0.00394)	(0.0195)	(0.00223)	(0.00959)	(0.00401)
Fisheries production, target	0.107***	0.0544	0.943***	1.500***	0.00837	0.0544
	(0.0325)	(0.0357)	(0.125)	(0.0155)	(0.0716)	(0.0362)
Forest area, target	-0.00522	-0.00608	0.121***	0.302***	-0.000750	-0.00641
	(0.00422)	(0.00444)	(0.0209)	(0.00249)	(0.0105)	(0.00451)
Natural gas rents, target	0.0330	0.0143	0.221	0.454***	0.296*	-0.0124
	(0.0784)	(0.0848)	(0.417)	(0.0464)	(0.168)	(0.0872)
Oil rents, target	-0.0123	0.000422	-0.0177	0.0230	-0.0468	0.00164
	(0.0122)	(0.0128)	(0.0756)	(0.0255)	(0.0333)	(0.0129)
Access to electricity, target	-0.00291	-0.00643	0.0650**	-0.948***	-0.0213	-0.00642
	(0.00643)	(0.00684)	(0.0270)	(0.0153)	(0.0145)	(0.00699)
Patent applications, target	0.218***	0.190***	-0.592***	-1.398***	0.386***	0.201***
	(0.0321)	(0.0368)	(0.155)	(0.0231)	(0.0788)	(0.0374)
Exchange rate, target	0.0000	0.0000	0.0000	0.0000	-0.0001	-0.0044
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0002)	(0.0132)
Government expenditure, target	-0.00843	-0.0130	-0.535***	-1.132***	-0.0125	-0.0182
	(0.0170)	(0.0182)	(0.0621)	(0.00871)	(0.0419)	(0.0186)
Foreign trade, target	-0.0004	-0.00373***	-0.0210**	-0.0435***	0.00348***	-0.00331***
	(0.0008)	(0.00117)	(0.00902)	(0.00139)	(0.00124)	(0.00110)
FDI inflows, target	0.0484***	0.0325	-0.0100	0.111***	0.0564	0.0362*
	(0.0174)	(0.0198)	(0.0253)	(0.00393)	(0.0410)	(0.0201)
Individualism/Collectivism distance	0.0099**	-0.0134*	0.0670***	0.0761**	-0.0488**	-0.0064*
	(0.0042)	(0.0068)	(0.0199)	(0.0017)	(0.0237)	(0.0065)
Masculinity/Femininity distance	-0.0193***	-0.0130**	0.0218	-0.0145***	0.0282	-0.0051
	(0.0052)	(0.0060)	(0.0161)	(0.0045)	(0.0425)	(0.0073)

Uncertainty Avoidance distance	-0.0154***	-0.0142**	-0.0210	0.0573**	-0.0307	0.0261*
	(0.0043)	(0.0061)	(0.0169)	(0.0022)	(0.0284)	(0.0155)
Long/Short term orientation distance	-0.0037	-0.0071	0.0208	0.0101**	0.0288	-0.0007
	(0.0039)	(0.0063)	(0.0180)	(0.0027)	(0.0211)	(0.0014)
Indulgence/Restraint distance	-0.0048	0.0145*	0.0144	-0.0850**	0.0158	0.0003
	(0.0043)	(0.0077)	(0.0216)	(0.0035)	(0.0256)	(0.0010)
Trade bloc	0.0021*	-0.0495	0.200	1.717***	-0.0453	-0.1600
	(0.0865)	(0.0808)	(0.608)	(0.0696)	(0.3850)	(0.5001)
G20 membership	0.597***	-0.381**	0.320	-0.880***	0.956***	-0.234
	(0.167)	(0.174)	(0.562)	(0.0733)	(0.269)	(0.186)
Common colonial history	1.110***	0.152	-0.393	1.344***	0.1294	0.1066
	(0.150)	(0.125)	(0.702)	(0.101)	(0.4127)	(0.8740)
Geographic distance	0.0180	0.0021	1.305***	-0.401***	-0.4210	-0.1270*
	(0.1540)	(0.0120)	(0.266)	(0.0316)	(0.4801)	(0.0740)
Country dummy, acquirer	Included	Included	Included	Included	Included	Included
Industry dummy acquirer	-	-	Included	Included	-	-
Industry dummy, target	-	-	Included	Included	-	-
Year dummies	Included	Included	Included	Included	Included	Included
constant	-7.979***	-5.638***	6.3620	114.5***	-6.868***	-0.849
	(0.875)	(1.128)	(5.0560)	(1.619)	(2.059)	(1.415)
Pseudo R2/ R2	0.13	0.13	0.50	0.76	0.13	0.11
N	14,653	32,343	665	31,678	14,653	32,343

Notes: Robust standard errors in brackets. The number of observations across the models differs depending on the dependent variable and the sample, and was reduced due to missing observations. The results in columns 3 and 4 were obtained by random-effects GLS regression, while in all other models logistic regression method was applied. * Significant at $p < 0.10$; ** significant at $p < 0.05$; *** significant at $p < 0.001$

Figure 1 Conceptual framework

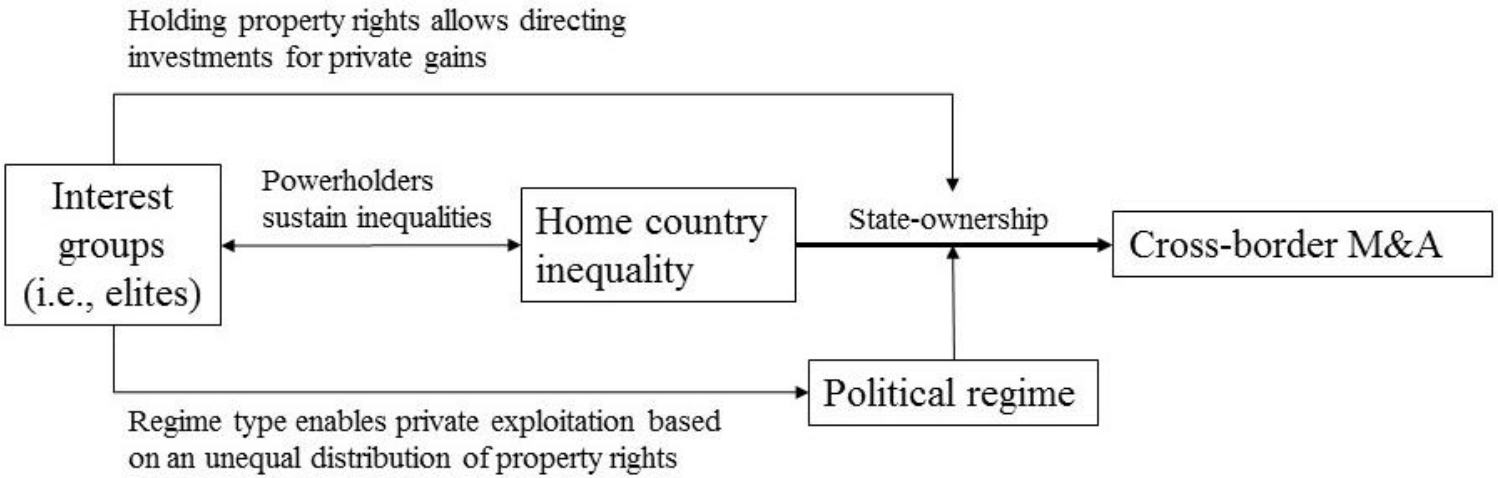

Figure 2 Marginal effect of inequality on SOE M&As in different political regimes

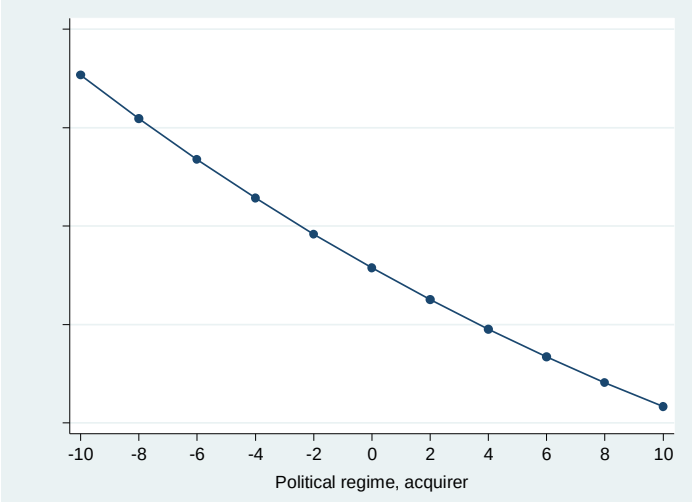

Figure 3 Marginal effect of inequality on SOE vs. POE M&As in different political regimes