Don't Discount the Competitiveness of State-Owned Multinationals

By L. Felipe Monteiro , INSEAD Affiliate Professor of Strategy

Dated notions about large state-owned MNCs need to adapt to the 21st century.

Zingy, the **little orange blob** that represents EDF Energy in the United Kingdom, is not the kind of marketing one would necessarily associate with a state-owned firm. This level of media sophistication opposes the stereotypical image of a non-perceptive, bureaucratic company. The innovative French-owned (84.94% as of 2017) company is preparing for a nuclear power plant to go **online in the U.K.** As a state-owned multinational (SOMNC), EDF is publicly traded and competes on an international level with other SOMNCs and private firms.

The perception of a state-owned enterprise (SOE) is generally one of two extremes. For some it’s a slow monolithic hulk, looming large over the economic landscape. For others, it’s a steady, welcoming and safe place to work.

A close look at global, publicly traded multinational corporations with state ownership has shown that the reality is far from these extremes. SOMNCs, like family or private firms, have benefits and drawbacks.

In a **chapter** of *The Oxford Handbook of Management in Emerging Markets*, my co-authors, Aldo Musacchio and Sergio Lazzarini, and I examined the implications of state ownership at the firm level, creating a cross-industry, cross-country database of 477 large publicly traded state-owned MNCs in 66 countries as well as a corresponding 431 private firms. Rather than focusing directly on one country and its success or failure in relation to state-owned businesses, we wanted a global view and compared like-with-like firms – that is, public with private – wherever possible.

Because state-owned enterprises operate with low levels of capitalisation, we used the return on assets (ROA) ratio rather than ROI for comparison. To match private firms with SOMNCs, we used firm-level variables (like fixed capital and leverage) and country-level indicators (ease of credit, market capitalisation, rule of law). Our sample of large, publicly traded SOMNCs do not underperform compared to private firms. Neither one nor the other had a significant, systematic advantage.

SOMNCs around the world

Countries with developed economies have prominent SOMNCs, such as EDF in France or **Equinor** (formerly Statoil) in Norway. One misconception about SOMNCs is that they are only found in developing markets, such as China or Brazil. SOMNCs are varied and international; in fact, a quarter of the **Fortune 100** companies in 2013 had some state ownership. There are state-owned enterprises that only operate in their own country, but that type of organisation was not addressed in our study.

To measure penetration of state-owned enterprises around the world, we created a country index by dividing the number of SOEs by the population in millions. As one of the world's fastest **growing economies**, China has a much larger number of state-owned firms (17,000 per million people) than the next largest on our index (Russia, with 7,964 per million). And rather than expanding state investment in private firms, this year has seen a shift in Chinese **private firms selling shares** to state-controlled enterprises – reversing a 20-year trend.

Our global study shows that SOMNCs can be competitive firms. Rather than seeing SOMNCs as either safe or stagnant, there are different, nuanced ways to approach them. And managers at private firms need to keep this in mind to ensure they are not lulled into a false sense of non-competitive security. In the past there was a perception that as the state withdraws from certain business, it withdraws completely. When an economy develops and privatisation continues apace, there is no indication that all state-owned firms will disappear as an economy develops.

OECD countries, by and large, have already been through a privatisation process. Total state divestiture was not always the goal of privatisation. We see nuances in the way that state ownership evolves in different countries. In many cases, the government retains some ownership. Indeed, SOMNCs in 2011 were valued at more than **US$1 trillion** in OECD countries.

Sweden, for example, wholly or partially owns 48 companies in the country; the government's objective is "for the companies to generate value". In our database, the median level of state majority ownership is 71.2 percent and that of minority ownership, 18.1 percent.

Importance of institutions

In addition to our comparisons of private and SOMNCs, we reviewed the literature on the disadvantages and advantages of state ownership.

One prominent drawback of SOMNCs is the amount of power a government may have over a firm's strategy. If this power is disproportionate, it could impact the firm's performance. If the country's political or economic institutions are not robust enough, minority or majority state ownership of a company leads to an agency problem. Managers or politicians may put their own personal gain ahead of that of the firm.

We refer to the idea of the **grabbing hand** – the state raiding the enterprise – but this is generally not found in countries that have strong political institutions with checks and balances, like OECD countries. However, in certain emerging markets, institutions may not be strong enough to prevent a high level of interference based on political affiliation.

Patient capital and innovation

One advantage often associated with state ownership is a long-term patient investor mentality. The idea is that countries do not have the same need for profit as public firms. Also, as money is invested in areas the market is not interested in, **SOMNCs can spur innovation**.

One of the main benefits of multinationals is their global innovation capabilities. In future research, we will examine under which circumstances SOMNCs may create a fertile ground for new technology.

SOMNCs are not the economic dinosaurs they were once believed to be. Rather than stereotypically equating these firms with economic laggards, managers at private firms need a more balanced view because publicly traded SOMNCs may be their direct competitors.

Felipe Monteiro *is an Affiliate Professor of Strategy at INSEAD. He is also the Academic Director of the* ***Global Talent Competitiveness Index****. He is the programme director for INSEAD’s* ***partner programme*** *with Fundação Dom Cabral, Advanced Management Program (PGA).*

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About the author(s)

L. Felipe Monteiro is a Senior Affiliate Professor of Strategy at INSEAD and the Academic Director of the **Global Talent Competitiveness Index**. He is the Programme Director for INSEAD’s **partner programme** with Fundação Dom Cabral, Advanced Management Program.