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Privatization, governance, and survival: MNE investments in private participation projects in emerging economies

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ABSTRACT

Multinational enterprises (MNEs) investing in infrastructure privatization projects in emerging economies – often known as private participation projects – face both market-based and nonmarket-based competition simultaneously. Integrating transaction cost economics, bargaining model, and the institution-based view, we examine the bargaining process between MNEs and host governments. Leveraging data from 113 emerging economies, we find that the survival of MNE investments is dependent on the bargaining outcomes between MNE and host governments around investment location, governance structure, and host governments' ownership of the private participation projects.

1. Introduction

The trend of broad economic liberalization and reform in emerging economies around the world during the past few decades has presented new opportunities and challenges to investors. Many emerging economies have launched ambitious efforts to privatize their infrastructure industries and opened investment opportunities to multinational enterprises (MNEs), which are traditionally only available to state-owned enterprises (SOEs) (Henisz, Zelner, & Guillen, 2005; Ramamurti & Doh, 2004). Given the politically sensitive nature of private ownership in infrastructure development in emerging economies (Doh, Teegen, & Mudambi, 2004), the term "private participation projects" has been used by the World Bank to characterize these partially privatized projects. Private participation projects refer to projects that have substantial contributions from private (domestic or multinational) enterprises. Early privatization policies tended to discriminate against foreign investors and MNEs represented only a very small proportion of privatization activities (Bevan, Estrin, & Meyer, 2004; Wells & Gleason, 1995). However, multiple sector-level reforms are gradually increasing the legitimacy of institutions supporting foreign investments (Henisz & Zelner, 2005; Ramamurti, 2001) and driving MNEs to significantly increase investments into high-risk countries (Feinberg & Gupta, 2009). This research refines current understanding of MNE-host government interactions and provides guidance for privatization investments by exploring the process and outcomes of bargaining between MNEs and host governments.

As MNEs pursue market strategies to survive and compete across borders, they interact with host governments to induce favorable policies pertaining to market access, regulations of their subsidiaries, and taxation (Carney, Gedajlovic, & Yang, 2009; White, Hemphill, Joplin, & Marsh, 2014). Governments also pursue their own agendas, which then require firms to bargain with governments to reduce or eliminate unfavorable policies (Boddewyn, 2014; Ramamurti, 2000). In short, in addition to market factors, MNE governance and survival also depend on the social, political, and legal context within which it takes place—in other words, its nonmarket environment (Agarwal, 2001).

Privatization is a natural experiment to study how corporate governance mechanisms evolve and affect firm performance (Boubakri, Cosset, & Guedhami, 2005; Denis & McConnell, 2003; Meyer & Peng, 2005). Research on privatization in emerging economies has investigated the antecedents (i.e. institution-level, firm-level, and project-level factors) that influence the balance of state versus private ownership (Doh, 2000; Doh et al., 2004; Ramamurti, 1992), the effects of country characteristics (DeCastro & Uhlenbruck, 1997; Henisz et al., 2005; Ramamurti, 2003), the nature of privatization methods (Djankov, 1999; Megginson & Weiss, 1991), and the evolution of government ownership and

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control in privatization (Inoue, Lazzarini, & Musacchio, 2013; Vaaler & Schrage, 2009). Our study extends previous research by exploring *nonmarket* strategies of MNEs participating in the privatization projects. Host governments and SOEs continue to play a major role in many privatized firms (Bortolotti & Faccio, 2009), resulting in diverse governance structures in private participation projects (Zahra, Ireland, Gutierrez, & Hitt, 2000). Endeavoring to acknowledge such diversity in privatization, our study addresses the following research questions: (1) What determines the MNE-host government bargaining outcomes in private participation projects? (2) How do the MNE-host government bargaining outcomes affect the survival of private participation projects?

Our study contributes to the literature on privatization in three ways. First, drawing from the obsolescing bargain model (Kobrin, 1987; Luo, 2001; Ramamurti, 2001), we recognize private investment decisions as consequences of bargaining between investors and host country governments. Henisz and Zelner (2005) direct future work to depict differences in decision-making processes among private investing firms. Doh et al. (2004) call for research identifying which factors contribute to the *success* and *failure* of privatization projects. In response to these calls, we link the MNE-host government bargaining model with the survival of MNE investments and explicitly compare the decision process and outcomes between MNEs and domestic firms. Second, governance structures are organizational frameworks that decide transaction relations (Williamson, 1985). We extend transaction cost economics (TCE) that has a historical emphasis on transactions between private entities (Hennart & Park, 1993) to analyze governance structures that resolve MNE-host government negotiations relations. We demonstrate how prevailing nonmarket factors play an important role in corporate governance in emerging economies. Third, we further integrate the institution-based view (Peng, Wang, & Jiang, 2008) with TCE and explore how governance structures in privatization projects are dependent on the characteristics of the private entities and the institutional environments in which they take place (Aguilera, Filatotchev, Gospel, & Jackson, 2008; Filatotchev, Stephan, & Jindra, 2008; Hoskisson, Hitt, Johnson, & Grossman, 2002; Rediker & Seth, 1995). Drawing on a large database of 7101 private participation projects in 113 emerging economies around the world amassed by the World Bank, we empirically test the hypotheses.

2. MNE-host government bargaining

There is growing research on the relationship between host governments and MNEs and that bargaining affects firm strategic choices and outcomes. Host government intervention has traditionally been viewed as exogenous such that MNEs respond or adapt to that intervention, or seek to circumvent it (Doz, 1986; Dunning, 1980). More recently, studies recognize that the relationship between MNEs and host governments in emerging economies has become more cooperative (Dunning, 1998; Luo, 2001) and even co-evolutionary (Carney et al., 2009). As a result, nonmarket factors may present opportunities and added value to firms (Frynas, Mellahi, & Pigman, 2006; Oliver & Holzinger, 2008), especially in volatile emerging markets (White et al., 2014).

The obsolescing bargain model (Kobrin, 1987; Ramamurti, 2001) suggests that bargaining between investors and host governments comprises trade-offs and that MNE strategies represent the outcomes of such bargaining. MNE-host government interactions present both conflicts and mutuality of interests (Fagre & Wells, 1982; Kobrin, 1987; Luo, 2001; Vernon, 1971), which are influenced by resources brought by one party and demanded by the other and coercive power from both parties derived from economic and nonmarket pressures (Fagre & Wells, 1982; Kobrin, 1987). Ramamurti (2001) argues that MNE-host government negotiations are a dynamic, multi-party bargaining process and that MNE policies in emerging economies are transitional. He proposes that the bargaining power of MNEs has been strengthened and the power of host countries has been weakened due to the support for MNEs from multilateral institutions including the World Bank, the IMF, and the WTO.

Other studies have shown that government interference is especially pronounced in infrastructure-related sectors (Frynas et al., 2006; Henisz & Zelner, 2005; Wells & Gleason, 1995). Before privatization, the state had to satisfy multiple political claims in managing SOEs, which may result in significant deviation from market-based efficiency (Zahra et al., 2000). At the onset of privatization, this template may still be deeply embedded and the state may retain many practices that conflict with the management of a market system (Makhija, 2004). Moreover, privatization researchers note that deals in emerging economies are likely to include post-privatization conditions (DeCastro & Uhlenbruck, 1997). In structuring the process of market liberalization and private ownership in previously state-controlled sectors, host governments face a challenging range of options as they seek to balance political, social, and economic goals in determining the extent and pace of reform (Doh, 2000).

At the same time, MNEs also face important questions concerning their participation in privatization projects. MNEs' bargaining power can be derived from the theory of foreign direct investment (Buckley & Casson, 1976; Rugman, 1981). Equipped with technology, capital, and market-oriented managerial capacity that are often beyond the reach of host governments, MNEs may possess initial bargaining advantages (Kobrin, 1987). After the investment is made, MNE-host government conflicts are likely to arise over distribution of the investment gains and differences in objectives. MNEs face both market-based and nonmarket-based competition simultaneously and need expertise not only about the market environment, but also about the nonmarket forces of the host country (Li, Peng, & Macaulay, 2013). We argue that MNEs may adopt governance structures that help maintain bargaining power, execute nonmarket strategies, and reach bargaining results beneficial for both MNEs and host governments.

3. Political stability in the host country institutional environment

As "rules of the game," institutions promote economic exchange and coordination by creating order and reducing uncertainty (North, 1990; Williamson, 1985). The institution-based view provides an insightful perspective when explaining firm behavior in emerging economies (Meyer, Estrin, Bhaumik, & Peng, 2009; Peng et al., 2008; Shenkar & Von Glinow, 1994). Institutional instability in emerging economies has often led to disappointing results in privatization (Jiang & Peng, 2011; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Research has recognized uncertainty in the institutional environment as constraints on firm choices (Argyres & Liebeskind, 1999). In privatization projects, factors such as the randomness of the market or the unpredictable discretion of policy increase uncertainty (Choi, Lee, & Kim, 1999). Different institutional environments have important implications not only on the design and implementation of privatization programs, but also on the strategic responses of MNEs that invest in these projects.

Nonmarket factors, especially the political interests and pressures, reflect the institutional environment of host countries and influence the location choice of MNEs (Bevan et al., 2004; Dunning, 1998; Rugman, 1981). Political instability may decrease the attractiveness of the host country. With competition among emerging economies for foreign investments increases, MNEs have enhanced ex ante bargaining power regarding the strategic response of location choices (Ramamurti, 2000). However, after MNEs make the investment, their bargaining advantage erodes and bargaining power obsolesces (Kobrin, 1987). Anticipating that their asset-specific resources are subject to possible expropriation after investment (Doh et al., 2004; Ramamurti & Doh, 2004), MNEs are more likely to make investments in locations less exposed to political uncertainty. Thus:

Hypothesis 1a. MNEs are more likely to invest in emerging economies' private participation projects in politically more stable countries.

Privatization depends much on political stability centered on laws and regulations, which are influenced by other reforms, such as ownership, tax, and administrative reforms (Johnson, McMillan, & Woodruff, 2002; Peng, 2000). In an unstable political environment, governments' agenda for privatization is likely to diverge and include different goals other than efficiency. Host governments may behave opportunistically if there are fewer institutional checks and balances (Hoskisson et al., 2002). To MNEs, the risk of having to adjust to the ever-changing regulatory structure is high in an institutional environment when credible commitments by the government cannot be secured (Bevan et al., 2004).

The success of privatization projects depends on reliable host governments' commitments (Murtha & Lenway, 1994). The obsolescing bargain model postulates that host governments may gain more bargaining power after MNEs investments are made by facilitating domestic investments in an effort to reduce dependence on foreign investments (Kobrin, 1987; Vernon, 1980). Domestic private investments may indeed benefit from an unstable political institution, since host governments may modify post-privatization terms favoring domestic investors to leverage against MNEs. On the other hand, a more stable nonmarket environment helps restraint host governments' potential abuse of their enhanced bargaining power, nurture a cooperative MNE-host government relation, and develop added value (Fagre & Wells, 1982; Kogut, 1985; Ramamurti, 2001; Rugman, 1981), thus contributing to the success of MNEs' investments. Overall:

Hypothesis 1b. A country's political stability has stronger positive effects on the survival of private participation projects with MNE investments than with purely domestic investments.

4. Acquisition vs. greenfield investments

A common practice of MNEs investing in privatization in emerging economies is acquiring state assets (Major, 2003), which is encouraged by the World Bank (Cook & Kirkpatrick, 1995). Studies on entry mode choice recognize acquisition as a quick way to invest in emerging economies and have applied TCE on entry modes broadly (Anderson & Gatingnon, 1986; Hennart & Park, 1993; Meyer et al., 2009). In the transaction cost literature with respect to foreign market entry, information asymmetry has been recognized as a major source of high transaction costs and poses caution for the choice of entry modes (Buckley & Casson, 1976; Meyer & Peng, 2005).

Entering foreign markets through an acquisition deal compensates foreign investors' lack of information in a target country through a few ways. Compared with the greenfield entry mode, acquiring assets from a local SOE provides opportunities for foreign investors to obtain a team of managers who are familiar with the local market (Dikova & van Witteloostuijin, 2004) and to gain product-specific knowledge (Hennart & Park, 1993). Thus, foreign investors may favor acquisition over greenfield investment in a privatization project.

Governments in emerging economies may also favor richly endowed MNEs in order to gain technological, financial, and managerial resources and capabilities (Ramamurti, 1992), but may include post-acquisition requirements to ensure that domestic SOEs benefit from such acquisitions (DeCastro & Uhlenbruck, 1997). Thus:

Hypothesis 2a. MNEs are more likely make acquisition investments than greenfield investments in emerging economies' private participation projects.

After MNEs enter a host country, MNEs' initial advantage fades over time and bargaining power inevitably shifts to the host country (Vernon, 1971). From an information-processing perspective, foreign investors face the complexity of transactions after entering emerging economies (Hoskisson, Eden, Lau, & Wright, 2000). TCE recognizes that transaction costs increase when foreign investors renegotiate with government authorities (Meyer et al., 2009). When private entities invest in privatization projects through acquisition, they expect transactions with SOEs. The more resources transferred from SOEs to privatization projects, the higher the level of transactions between MNEs and SOEs.

Foreign investors may seek for governance factors such as ownership structure and decision-making process to compensate the complexity of information processing and high transaction costs. In an acquisition project, MNEs purchase technologies and assets divested by SOEs. It is possible that strategic fit can be achieved when MNEs' resources and the acquired assets are complementary (Chatterjee, 1986; Uhlenbruck & DeCastro, 2000). An acquisition deal with large SOEs may also help foreign private investors gain access to a larger pool of suppliers and customers in the existing business networks (Conner & Prahalad, 1996). However, host governments tend to sell less valuable SOEs' assets, for reasons of nationalist affinity and political interests (Doh et al., 2004; Kobrin, 1987). Large SOEs operations are often too entrenched to adapt to changes in the environment (Boubakri et al., 2005). Thus, it is less likely that the acquired technologies and facilities from SOEs are readily complementary to MNEs' investments.

After acquisition, it takes MNEs a tremendous amount of effort to incorporate the acquired SOEs' operations with the new venture. Post-privatization requirements are often imposed on MNEs, including laws requiring that supplies be purchased locally, exchange controls, and price controls (DeCastro & Uhlenbruck, 1997). These requirements limit MNEs' ability to integrate the acquired operations. On the other hand, when SOEs are acquired by domestic investors, host governments do not risk being blamed for selling state-owned assets to foreigners (Sobell, 1993), and have less pressure imposing post-privatization conditions on the acquired firm (Prahalad & Doz, 1987). Domestic investors are also familiar with the management style of SOEs, which facilitates the integration and restructure of acquired SOEs' assets.

The survival of privatization projects depends on the effectiveness of post-privatization corporate governance mechanisms (Boubakri et al., 2005). Compared with acquisition deals, greenfield investments reduce the complexity of reorganizing privatized assets, eliminate transactions with SOEs, and thus provide more effective post-privatization governance. This effect may be more pronounced in MNE investment projects than domestic investment projects.

Hypothesis 2b. Greenfield investment has stronger positive effects on the survival of private participation projects with MNE investments than with purely domestic investments.

5. Host government ownership

Ownership is important to both host governments and MNEs. Given the impact of infrastructure on the local economy, host governments may insist on ownership and control in these projects

(Fagre & Wells, 1982). Host governments bargain to share ownership with MNEs, act as MNEs' partners, and provide access to the political market of legitimacy in return for contributions from MNEs (Boddewyn, 1988; Rugman, 1981). Host governments also adapt to the new proactive and aggressive management style associated with MNEs.

Research on MNEs' perception of host government involvement has produced mixed results. Some believe that MNEs respond to host government intervention by avoiding it (Doz, 1986) and only share ownership with host governments under pressure (Beamish, 1985; Gomes-Casseres, 1989; Prahalad & Doz, 1987). Others, however, argue that MNEs recognize that political behavior helps achieve their economic goals and exercise nonmarket strategies when interacting with host governments (Boddewyn, 1988; Li et al., 2013; Luo, 2001).

North (1990) maintains that institutional rules develop upon path-dependent trajectories. One source of path dependency in institutional change is that the conformity to public sector template is likely to continue in emerging economies and there is a great deal of uncertainty in terms of how institutions evolve. Compared with domestic investors, MNEs lack the knowledge about nonmarket environments, including government decision processes as well as social and cultural norms. Moreover, MNEs lack access and influence on regulations and government decisions. The lack of understanding of the nonmarket environment may be compensated by hiring intermediary agents with expertise in international services (Boddewyn, 1988; Peng, Lee, & Hong, 2014). However, to proactively influence regulations and decisions, MNEs have to incorporate nonmarket elements in the consideration of ownership of their investments. MNEs may deem host government collaboration a crucial factor in shaping policies and maintain bargaining power, thus partner with the host governments through ownership sharing.

Hypothesis 3a. MNEs are more likely to invest in emerging economies' private investment projects when sharing ownership with host governments.

The main change introduced by privatization in emerging economies is in governance arrangements (Ramamurti, 2000). Ownership and control are among the most fundamental reflections of influential governance forms and authority for making strategic choices (Jensen & Meckling, 1976). Ownership advantages include political knowledge of nonmarket environments (Buckley & Casson, 1976; Rugman, 1981). By sharing ownership with host governments, MNEs internalize transactions with the governments through an intrafirm governance structure (Williamson, 1985), gain value-added knowledge of political actors (Li et al., 2013), access political opportunities and influences (Kogut, 1985), and reach bargaining results beneficial for both MNEs and host governments.

Compared with market transaction, internal governance facilitates MNEs' coordination with host governments through frequent information exchange and interaction in management decisions. By communicating internally, host governments can better adapt to the proactive management style and resolve conflicts in transactions. Blurring the MNE-host government boundaries through ownership sharing, MNEs maintain bargaining power in a coordinative manner and gain access to a larger pool of suppliers and customers in the existing networks, which is likely available to domestic investors (Peng & Jiang, 2005).

When host governments and MNEs jointly invest, both parties foresee unanticipated disturbances and allow a "tolerance zone" within which misalignments are absorbed (David & Han, 2004). They learn a great deal about which investment conditions may be most effective in economic, political, and social terms (Doh et al., 2004). Coordination in this internalized governance structure is not made unilaterally but with mutual consent (Williamson, 1991). Host governments learn to take actions through which a private sector template can be institutionalized within its managerial ranks (Johnson, Smith, & Coding, 2000), contributing to the success of the jointly owned investment.

Hypothesis 3b. Host government ownership has stronger positive effects on the survival of private participation projects with MNE investments than with purely domestic investments.

6. Methodology

Our primary data sources is the World Bank's Private Participation in Infrastructure (PPI) Database. Projects in this dataset reached closure during the period 1990–2009 (inclusive). Closure occurs when private entities agreed to a legally binding agreement to invest funds or provide services. Our dataset contains 7101 projects from 113 emerging economies. The top three countries with the highest number of private participation projects are China (641 projects), Russia (531 projects), and Brazil (552 projects). There are 5038 MNE investment projects and 2063 purely domestic investment projects. Out of the four infrastructure industries – transportation, energy, telecommunication, and water and sewerage sectors – telecommunication industry has the highest number of privatization projects.

6.1. Variables

6.1.1. Survival

Project status is identified as (1) under construction, (2) operational, (3) concluded, (4) canceled, and (5) distressed (see Appendix A for more explanation). We code projects under construction, operational, and concluded as "survived projects." In distressed projects, the government or the operator has either requested contract termination or is in the process of international arbitration. Distressed projects and canceled projects are considered as "failed projects." A total of 302 out of the 7101 projects failed, and 6799 projects survived as of the time data was collected. The dependent variable – survival of the private participation projects – is coded 1 if the project is identified as survived and 0 if the project is cancelled or distressed (failed).

6.1.2. MNE

When there are foreign investors in the private participation project, MNE is coded 1, indicating the MNE investment project.

6.1.3. Political stability

Henisz's (2000) political constraint index is used to measure political stability in an institutional environment. The index measures the feasibility of change in policy given the structure of a nation's political institutions and the preference of the actors that inhabit them. The index is scaled between 0 to 1, with 0 indicating most hazardous political environment and 1 indicating extensive institutional checks and balances. Each country and year is matched with the private participation project data.

6.1.4. Greenfield

There are two types of private participation in the dataset: greenfield investment and acquisition. When a private entity purchases an equity stake in an SOE, it is recorded as an acquisition project. In a greenfield project, a private investor builds and operates a new facility. Greenfield projects are coded 1 and acquisition projects are coded 0. A total of 5679 out of 7101 projects are greenfield investments and 1422 are acquisition projects.

6.1.5. Host government (HG) ownership

Host government ownership is coded 1 when the host government invests in the privatization project. A total of 2954 projects share ownership with the host government.

6.1.6. Control variables

Market-supporting institutions may become stronger over time because of cumulative reforms undertaken with individual privatization transactions (Peng, 2000; Ramamurti, 2000). Given the institutional development over time, recent privatization projects are less likely to fail. There is a possibility that newly privatized projects, although still under construction now, may have problems in the future given enough time of observation. Since we can only observe the status of projects until 2009, there may be a failure bias toward earlier privatized projects. It is also possible that over time, new technologies may lower the transaction costs present in markets (David & Han, 2004). We control for the year lapsed (age) from when the projects were set up until 2009 to reduce the bias.

Other control variables include total assets invested (investment) and the time between project closure and project commitment (delay). Dummy variables are included to indicate whether or not the projects are supported by a bank (bank) and are publicly traded (public). Four primary sectors of infrastructure – namely, energy, telecommunication, transportation and water and sewerage sectors – are controlled. Six geographic regions are included in the descriptive statistics but not included in the regression models due to the multicollinearity problem. Table 1 shows the number of projects in each of the six geographic regions.

6.2. Analytical methods

A cross-sectional methodology is adopted to test the hypotheses. We estimate logit models to predict MNE investments in private participation projects and the survival of the projects. A Chow test is used to analyze different impacts of ownership and governance structures between MNE investment projects and purely domestic investment projects. Table 2 presents descriptive statistics and correlation coefficients. White's robust test is used to correct heteroskedasticity.

7. Findings

Table 3 reports the results of the logit model (Model 1) testing Hypotheses 1a, 2a and 3a. The dependent variable is MNE investments in private participation projects. The coefficients of independent variables – political stability, greenfield, and host government ownership – are interpreted as affecting the odds of MNE investments. We find that MNEs are more likely to invest in privatization projects in politically more stable countries, supporting Hypothesis 1a. Hypothesis 2a is also supported: the coefficient of greenfield is significantly negative, indicating that MNEs are more likely to invest in acquisition projects. Hypothesis 3a is not supported. The coefficient of host government ownership is not significant. In other words, there is no evidence that MNEs are more likely to invest in projects when ownership is shared with host governments.

We also find that MNEs are more likely to invest in telecommunication projects and less likely to participate in transportation projects, supporting earlier findings that telecommunication industry is the forerunner in liberalization of traditional infrastructure industries (Doh et al., 2004).

The results of two logit models, predicting the survival of MNE investment projects (Model 2) and purely domestic investment projects (Model 3), respectively, are presented in Table 4. We regress the survival of the projects on political stability, greenfield investment, host government ownership, together with other control variables.

To test Hypothesis 1b, 2b and 3b, we run a Chow test comparing coefficients of dependent variables across the column models. The Chow test refutes that the coefficients of three dependent variables estimated in Models 2 and 3 are equal at the 1% level, indicating that the impacts of political stability, greenfield, and host government are significantly different across the two groups. The coefficient of political stability is positive and significant in Model 2 but negative in Model 3. This means political stability has more favorable effects on the survival of MNE investment projects than purely domestic investment projects, supporting Hypothesis 1b. Greenfield and host government ownership are both positively related with survival in Model 2 and not significant in Model 3, indicating that greenfield and host government ownership have more favorable effects on the survival of MNE investments than purely domestic investments. Hypotheses 2b and 3b are supported.

Table 1
Regions in the sample.

Region	No. of projects	%
East Asia and Pacific	1415	19.93
Europe and Central Asia	1566	22.05
Latin America and the Caribbean	2037	28.69
Middle East and North Africa	257	3.62
South Asia	800	11.27
Sub-Saharan Africa	1026	14.45

8. Discussion

This study contributes to the literature by exploring the attributes of MNE-host government bargaining and the impact of the outcomes of bargaining on the survival of private participation projects. Three major findings emerge from our study. First, we find MNEs respond to the political environments and reach investment agreements as a result of bargaining with host governments. In the post-privatization era in emerging economies, the institutional environments tend to be uncertain and the level of MNE-host government transaction costs varies. Political instability may constrain a host country's bargaining power. Recognizing political stability as an important factor in emerging economies, we integrate TCE and the institution-based view to explain the bargaining outcomes of MNEs' investment location, which contribute to the survival of the investment.

Second, acquisition of SOEs may be mandated by host governments in order for MNEs to obtain the permission to invest in infrastructure industries. MNEs may also find acquisition a quick way of entering emerging economies. The bargaining outcomes of favoring acquisition over greenfield investment, however, turn out to be unfavorable to the survival of MNE-invested privatization projects. Acquisition investments, although more popular among MNEs, encounter more post-privatization integration challenges. As a result, they are less likely to survive after privatization.

Third, MNE-host government ownership sharing contributes to the survival of the MNE investments. MNEs gain knowledge of government regulations and may proactively influence policies through internal transactions with the host government. However, we also find that MNE-host government ownership sharing is less common among MNE investments, as suggested by the lack of support for Hypothesis 3a. This indicates that MNEs do not generally recognize the benefits of partnering with host governments.

Our study validates that host government influence is especially pronounced in infrastructure-related sectors (Frynas et al., 2006; Henisz & Zelner, 2005; Wells & Gleason, 1995).

Table 2
Descriptive statistics.

	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
(1) Survival	0.96	0.2												
(2) MNE	0.71	0.45	−0.02											
(3) Political stability	0.3	0.23	−0.01	0.09										
(4) Greenfield	0.8	0.4	0.08	−0.06	−0.1									
(5) HG ownership	0.42	0.49	−0.03	−0.01	−0.1	−0.26								
(6) Investment	1.6	3.78	0.02	0.00	0.12	−0.12	−0.00							
(7) Age	11.43	4.92	−0.1	0.12	0.11	−0.08	0.17	−0.04						
(8) Delay	4.14	4.57	0.05	0.14	0.04	−0.09	−0.09	−0.03	0.54					
(9) Public	0.12	0.33	0.06	−0.04	0.13	−0.26	0.02	0.25	0.24	0.22				
(10) Bank	0.22	0.42	0.01	0.18	0.08	−0.04	−0.03	0.06	0.14	0.12	0.1			
(11) Energy	0.26	0.44	−0.05	−0.11	0.12	−0.19	0.06	0.06	−0.28	−0.31	−0.1	−0.05		
(12) Telecom	0.63	0.48	0.07	0.23	−0.01	0.11	−0.04	−0.05	0.42	0.47	0.16	0.12	−0.77	
(13) Transport	0.06	0.24	−0.05	−0.18	−0.05	0.07	0.00	0.04	−0.12	−0.2	−0.08	−0.06	−0.15	−0.34
(14) Region 1	0.2	0.4	0.01	−0.25	−0.32	0.12	0.05	−0.02	−0.08	−0.15	0.01	−0.18	0.12	−0.31
(15) Region 2	0.22	0.42	0.08	0.02	−0.12	−0.11	0.16	−0.02	0.1	0.13	−0.02	0.07	−0.12	0.19
(16) Region 3	0.29	0.45	−0.05	0.12	0.45	−0.17	−0.1	0.06	0.1	0.02	0.03	0.04	0.16	−0.12
(17) Region 4	0.04	0.19	−0.05	0.1	−0.09	0.03	−0.01	0.04	−0.08	−0.03	−0.0	0.02	−0.06	0.06
(18) Region 5	0.11	0.32	0.02	−0.12	0.17	0.11	−0.04	0.05	−0.03	−0.03	0.08	0.0	0.01	−0.0
(19) Region 6	0.14	0.35	−0.03	0.16	−0.19	0.09	−0.07	−0.09	−0.09	0.03	−0.11	0.05	−0.18	0.24

	13	14	15	16	17	18
(14) Region 1	0.15					
(15) Region 2	−0.09	−0.27				
(16) Region 3	−0.01	−0.32	−0.34			
(17) Region 4	−0.0	−0.1	−0.1	−0.12		
(18) Region 5	0.05	−0.18	−0.19	−0.23	−0.07	
(19) Region 6	−0.08	−0.21	−0.21	−0.26	−0.08	−0.15

Region 1: East Asia and Pacific; *Region 2*: Europe and Central Asia; *Region 3*: Latin America and the Caribbean; *Region 4*: Middle East and North Africa; *Region 5*: South Asia; *Region 6*: Sub-Saharan Africa.

Continuing Doh et al.'s (2004) investigation of private ownership under various host country conditions, this research explores both the precedents and outcomes of MNE private investments. Different from prior research on privatization that has more focus on policy reform across countries (Henisz & Zelner, 2005; Henisz et al., 2005) and host country-home country relations (Ramamurti, 2001), this study explores the nonmarket strategy of MNEs and the dynamics of MNE-host country bargaining. Our findings support propositions that host governments and MNEs can nurture cooperation and both benefit from bargains (Frynas et al., 2006; Henisz & Zelner, 2005; Luo, 2001), and contribute to the previous research by explicitly demonstrating the effects of bargaining outcomes.

8.1. Managerial relevance

Our findings have ramifications for MNE managers who bargain with host governments regarding ownership and governance structures in private participation projects. It is necessary that MNEs adopt governance structures that strengthen their bargaining power and facilitate transactions with host governments. Our empirical evidence suggests that the bargaining outcomes between MNEs and host governments account for the success or demise of private participation projects.

It is important that MNE managers are aware of our findings that MNE-host government bargaining favors acquisition over greenfield investments, but that acquisition-based projects are less

Table 3
Logit regression of MNE investments in private participation projects.

	Model 1
Political stability	**0.86***** Hypothesis 1a (0.13)
Greenfield[a]	−**0.61***** Hypothesis 2a (0.08)
HG ownership	−**0.05** Hypothesis 3a (0.06)
Investment	0.01 (0.01)
Age	0.01 (0.01)
Delay	0.01 (0.01)
Public	−1.05*** (0.10)
Bank	1.04*** (0.08)
Energy	−0.04 (0.12)
Telecom	0.94*** (0.12)
Transportation	−0.76*** (0.15)
Constant	0.51*** (0.14)
N	7101
Pseudo R^2	0.10***

[a] Dummy variable: 1 = greenfield, 0 = acquisition.
*** $p < 0.001$.

Table 4
Survival of private participation projects with MNE investments versus purely domestic investments.

	Model 2 (MNE investments)	Model 3 (purely domestic investments)
Political stability	**0.74*** (0.32)	−**1.35**** Hypothesis 1a (0.49)
Greenfield[a]	**1.40***** (0.17)	**0.11** Hypothesis 2b (0.32)
HG ownership	**0.50**** (0.16)	−**0.25** Hypothesis 3b (0.28)
Investment	0.08 (0.04)	−0.04 (0.03)
Age	−0.23*** (0.02)	−0.25*** (0.03)
Delay	0.14*** (0.02)	0.05 (0.04)
Public	2.38*** (0.51)	2.36** (0.85)
Bank	0.11 (0.17)	0.06 (0.47)
Energy	0.04 (0.39)	1.29* (0.58)
Telecom	0.61 (0.39)	1.83** (0.58)
Transportation	−0.03 (0.50)	0.55 (0.55)
Constant	3.35*** (0.44)	5.27*** (0.68)
N	5038	2063
Pseudo R^2	0.14***	0.18***

[a] Dummy variable: 1 = greenfield, 0 = acquisition.
* $p < 0.05$.
** $p < 0.01$.
*** $p < 0.001$.

likely to survive when MNEs acquire SOEs' assets. Prior to the commitment of investments, MNE managers need to take into consideration of post-privatization conditions and requirements, and negotiate for the suitable investment mode that facilitates long-term performance before bargaining power shifts to host governments.

MNEs should adopt the governance structure that helps them not only comprehend but also impact host country regulations. Contrary to our postulation that MNEs share ownership with host governments to compensate for their lack of understanding and influence of the nonmarket environment, we find that MNEs tend not to share ownership with host governments. Our findings support that host government ownership improves the survival of MNE investments, thus showing the direction for MNE managers when bargaining with host governments.

9. Conclusion

Early privatization policies discriminated against MNE investments (Bevan et al., 2004; Wells & Gleason, 1995). More recently, reforms in emerging economies are driving MNEs to significantly increase investments in privatization projects (Feinberg & Gupta, 2009; Henisz & Zelner, 2005). This study shows that MNE investment represents a large proportion of privatization in emerging economies. MNEs may adopt governance structures that help maintain bargaining power and reach bargaining results beneficial for both MNEs and host governments. Our findings provide insights to the current phenomenon of privatization in emerging economies.

Overall, three contributions emerge. First, we document the importance of MNEs' nonmarket strategies in emerging economies. Leveraging the institution-based view (Peng et al., 2008), we focus on MNE-host government bargaining and apply it to a spectrum of organizational forms in private participation projects. We suggest that MNEs differ from host governments in their capacity to align actions and MNE-host government bargaining results in various ownership and governance structures. We extend Doh et al.'s (2004) research by identifying factors that contribute to the success and failure of private participation projects, thus provide guidance to MNEs investing in such projects in emerging economies.

Second, prior research on privatization does not recognize different modes of private participation (Zahra et al., 2000). We disagree that there is a uniform way of privatization and recognize different governance structures in privatization with respect to transactions between MNEs and host governments. We extend TCE that is traditionally focused on transactions between private entities to analyze MNE-host government relations.

Third, previous research suggests that governance structures should be viewed as interdependent with organization and institution-level characteristics. We conceptualize MNE-host government bargaining outcomes as different ownership and governance structures of the private participation projects. Our findings suggest that there are differences in the ability to facilitate transactions between MNEs and host governments with different governance structures. We propose that in order for private participation projects to survive, certain governance structures need to be configured depending on the characteristics of the investors and institutions.

There are some limitations to our study, which suggest a few areas for future research. The World Bank recognizes that privatization mode can be complicated and hard to categorize. Future research on arrangements of private participation projects needs to be conducted at a level of detail that enables us to distinguish the actual coordination mechanisms used to manage transactions. Further, the level of ownership in private participation projects can change during the course of these projects. Future research will need to take this possibility into account. Finally, while we have focused on MNEs that invest in emerging economies, an increasing number of firms headquartered in emerging economies have become a new breed of MNEs themselves (Hoskisson, Wright, Filatotchev, & Peng, 2013). Some of them have made investments in infrastructure projects in other emerging economies, such as those in Africa (Zoogah, Peng, & Woldu, 2015), which are interesting context for future research.

Overall, this study contributes to privatization research by focusing on the bargaining between MNEs and host governments and exploring the impact of bargaining consequences. In conclusion, our findings reject a "one size fits all" approach to governance structures (Aguilera et al., 2008) and provide a timely guide to nonmarket strategies for MNEs investing in private participation projects in emerging economies.

Appendix A

Status of private participation projects
Survived projects:

- *Under construction* projects for which assets are being built;
- *operational projects* that have started providing services to the public; and
- *concluded projects* for which the contract period has expired and has been neither renewed nor extended by either the government or the operator.

Failed projects:

- *Canceled projects* from which the private sector has exited in one of the following ways:
- Selling or transferring its economic interest back to the government before fulfilling the contract terms.
- Removing all management and personnel from the concern
- Ceasing operation, service provision, or construction for 15% or more of the license or concession period, following the revocation of the license or repudiation of the contract.
- *Distressed* projects where the government or the operator has either requested contract termination or are in international arbitration.

Source: Private Participation in Infrastructure (PPI) project database, World Bank.

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