INDIAN INSTITUTE OF MANAGEMENT KOZHIKODE

Working Paper

IIMK/WPS/181/SM/2015/17

March/2015

Is institutional traction a double edged sword? : a case of state owned enterprises

Anubha Sekhar Sinha[1]
Sougata Ray[2]
Preet S. Aulakh[3]

[1] Indian Institute of Management Kozhikode, India, email: anubha@iimk.ac.in
2 Indian Institute of Management Calcutta, India
3 York University, Toronto

Is institutional traction a double edged sword? : a case of state owned enterprises

State owned enterprises (SOEs) are responsible for redistribution to citizens of an economy on behalf of governments. They also play important roles for the governments in being their strategic arms for multiple objectives. Simultaneously, as commercial organizations in the world of business, they earn money for their governments, who are their owners. Therefore, they have a position with respect to their governments that they derive by being important to them. This position is associated with potential advantages. This position with potential advantages is termed as "*institutional traction*" in this paper. Normative literature on SOEs in the new world order emphasizes efficiency as an important end to achieve. We try to explore the effect of institutional traction of SOEs on their productivity, a measure of efficiency of SOEs. Also, competition and extent of private ownership are emphasized as new moderators to increase efficiency in SOEs. In this paper, therefore, we explore the effect of institutional traction on efficiency of SOEs, in the face of competition and extent of private ownership.

Keywords: Productivity, Efficiency, State Owned Enterprise, Institutional Traction

Introduction

State-owned enterprises (or public sector organizations: PSUs or PSEs in India) are part of the organizational landscape in most economies. They play an important role in fulfilling some of the redistribution objectives of the state. They also have an important function in different economies when markets for certain factors of production are either absent (institutional voids (Khanna & Yafeh, 2007)) or inefficient (market failures (Stiglitz, 2000)). The relative importance of the SOEs in an economy during a given time period depends on a combination of political (forms of government, government ideologies, ruling coalitions etc.) and economic (market failures, degree of development etc.) factors (Boix, 2001; Stiglitz, 2000).

SOEs are in interdependent relationships with government and its agencies (or the quasi- environment[1]). In these interdependent relationships, an SOE possesses a ***position*** that it derives from its being important to the government in various ways viz. economic, political and social. This *position* of SOEs with respect to their quasi-environment might vary for different SOEs depending on their institutional contexts[2] viz. firm, industry or sector and country contexts. This *position* grants a ***potential advantage*** to SOEs in their dealings with the government (and its agencies) on various matters. However, these *potential advantages* might or might not be used by the particular SOE. We present a construct in this proposal – the construct of ***institutional traction***. We define it thus: Institutional traction is the *position* that a state owned enterprise (SOE) possesses due to its institutional context, because of its historical as well as current

---

[1] Government (and its formal and informal agencies) constitute a part of the external environment in SOEs, just as they do in other business organizations. However, they are also insiders (controllers) to SOEs as their owners, but with non-unitary and constrained controls, which have diffused further with public sector reforms in the new world order. ***So, not truly external or internal to the environment of the SOEs, I conceptualize government and its formal and informal agencies of control, as "quasi-environment" for SOE organization***.

[2] In this paper, ***we describe institutional context on the basis of old institutional theory***. Therefore, ***it covers the external environmental contexts like country, sector and industry contexts as well as internal environmental context like firm context***. Old institutional theory is substantially different from the new institutional theory in the way it perceives institutionalization in an organization. Under the new institutional theory, organizations are influenced by their external environment or "environment as institution" view of Zucker (1987). Here models of isomorphism through coercive, mimetic or normative forces of the environment (DiMaggio & Powell, 1983; Hannan & Freeman, 1977) govern the process of institutionalization. Old institutional theory, on the other hand, looks within the organization. Proponents of old institutional theory (Merton, Selznick, Stichcombe) built on early institutional thinkers (Veblen, Parsons, Durkhiem) to describe institutional processes within an organization, where multiple forces of bureaucratization produce normative order.

standing. For instance: An SOE might be a good dividend payer, a foreign exchange earner or an investment engine for the government (Internal and Extra Budgetary Resources of Public Sector constitutes about two-third of Capital Plan Outlay in India). It might have high forward and backward linkages in the national industry and might therefore be very important for the multiplier effect on the economy. Such an SOE might have a strong *position* in its interdependent relationship with the government for economic reasons. This *position* can be understood as an economic potential or ***economic traction*** of the SOE with respect to their quasi-environment. Another SOE may be a political ally for the government in that it fulfills certain political agendas like creating and sustaining important relationships viz. bilateral relationships in international arena, federal relationships with state and relationships with a large section of people or a particular community. Further, an SOE might have important *political position* by virtue of its huge geographical dispersion or size. This *position* with respect to its quasi-environment can then be understood as a political potential or ***political traction*** of the SOE. Also, some other SOE might exist for important social goals like those of regional development, care and emancipation of some sections of the society, or promotion of arts, crafts or other activities in the economy, with special emphasis on products or skills of artisans rather than economic returns. Their *position* with respect to their quasi-environment can be understood as a social potential or ***social traction*** of SOEs.

During the past few decades convergence to market capitalism across the globe has led to fundamental institutional transitions especially with reference to SOEs (Pollitt & Bouckaert, 2004). In developing and emerging economies, like India, there have been fundamental changes in the expectations and requirements from the SOEs. Public sector reforms have been adopted in many economies in the spirits of economic liberalization. Reforms have embraced top-down

approaches towards instilling efficiency, productivity and market orientation in SOEs (Pollitt & Bouckaert, 2004; Hood & Peters, 2004). Two major top-down changes initiated and driven by government in India are 1) Increasing Competition by adopting various measures like deregulation, encouraging private participation in business etc. 2) Disinvestment including efforts at corporatization, listing and including private shareholders as minority owners in SOEs.

In this paper, we investigate whether institutional traction (economic traction, political traction and social traction) facilitates or constrains productivity of SOE organizations. We envisage that institutional traction might be a double edged sword. Institutional traction is costly. To be important to government, an SOE might have to do certain activities, which might not be in the best interests of being a business organization. Therefore, on the one hand, institutional traction might lead to lower productivity (as it is costly to have that *position*). On the other hand, it might enhance the productivity of the organization, if SOEs are able to draw the benefits of this position towards increasing their production possibility frontiers. These possibilities might be dependent on factors like competition in the industry or the extent of private ownership or the leadership of SOEs. In this paper, we wish to test how factors like competition in the industry or extent of private ownership moderates the relationship between institutional traction (economic, political and social) and productivity.

THEORY AND HYPOTHESIS

In this paper, drawing upon arguments proposed by organizational ecology (e.g., Hannan & Freeman, 1977, 1984) and institutional (e.g., Greenwood & Hinings, 1996) theories, we argue that given the founding conditions of SOEs, where they developed as institutions (Selznick, 1957: organizations infused with value beyond the requirement of task at hand) and continue to have embeddedness in their past institutional frameworks and organizational routines relevant to

process orientation, SOEs will possess greater inertial processes that resist change. Studies have identified firm age (Amburgey, Kelly, & Barnett, 1993; Guillen, 2002; Sorensen and Stuart, 2000), size (Kelly & Amburgey, 1991; Miller & Chen, 1994) and founding conditions (Boeker, 1989) as sources of inertia that restrict adoption of difficult options of enhancing productivity. Increasing productivity requires activities like restructuring, which entails cessation of employment in SOEs along with other measures to increase productivity. In this study, we specifically focus on productivity based on number of employees. However, we also test the results with productivity based on assets, as investments in technology and other such methods also increase productivity.

Further, SOEs are less likely to adapt in response to institutional transitions because 1) They might use institutional traction (social, political and economic) to create a buffering effect and 2) Even if they perceive the threat of environmental change, their ability to respond may be hampered due to institutional legacies and founding characteristics. 3) Interference by the dominant power coalitions within the SOEs and their quasi-environment and task environment (due to citizens' ownership rights on SOEs) may impede entrepreneurial decision making, thus acting as a strong impediment to increasing productivity. Given their entrenchment and intricate nexus with prevailing institutions and saddled with endowed resources, SOEs are more likely to follow strategies in their comfort zone. Based on the above set of arguments, we hypothesize that:

Hypothesis 1a: SOEs with social traction are less likely to pursue increasing productivity as a strategic response to institutional changes.

Hypothesis 1b: SOEs with political traction are less likely to pursue increasing productivity as a strategic response to institutional changes.

Hypothesis 1c: SOEs with economic traction are less likely to pursue increasing productivity as a strategic response to institutional changes.

SOEs were created for redistributive and interventionist purposes (Pollitt & Bouckaert, 2004). They had soft budget constraints (Kornai, 1979: budgetary support was provided whenever they failed on commercial fronts) to enable them to intervene and create contra cyclic pressure whenever businesses were getting into recession or investment was not forthcoming in capitalistic economies (Keynesian Economics) or to generate capacity for self-dependence in resource constrained economies (Kaleckian Model). Therefore, they continued to believe that their existence was for welfare objectives of the state. However, with institutional transitions the concept of efficiency was enforced in the system through top-down approaches of public sector reforms. Deregulation of various industries and sectors happened post economic liberalization in India in1991. Administrative, regulatory and other frameworks were brought in to boost private entrepreneurship and businesses. Hard budget constraints (Kornai, 1979) were brought in and a number of SOEs couldn't perform or survive. Earlier, the concept of efficiency or productivity was unheard of in SOEs. However, when these SOEs faced disruption due to competition, they were forced to look for strategic choices like increasing productivity in the organization. Therefore, we hypothesize that such SOEs, who faced competition as critical to their survival and growth, utilize their institutional traction and adopt the strategic choice of increasing productivity.

Hypothesis 2a: The negative impact of social traction on SOEs' productivity is mitigated when they face competition in their industry.

Hypothesis 2b: The negative impact of political traction on SOEs' productivity is mitigated when they face competition in their industry.

Hypothesis 2c: The negative impact of economic traction on SOEs' productivity is mitigated when they face competition in their industry.

Further, uncertainty and opportunist behavior, typical of economies with institutional voids (Khanna & Yafeh, 2007), is prevalent in the emerging economies like India. These increase the transaction and agency costs (Luo, 2005; Lins, 2003) for free market transactions and operations. It is also commonplace to witness misappropriation of control rights over cash flow rights (Schleifer & Vishny, 1986; Claessens, Djankov & Lang, 2000; Rammohan, 2005) in such economies. Under such conditions entrenched interests of SOEs, government (government is a non-unitary entity with ambiguity deliberately maintained to appease various constituencies (Ring & Perry, 1985)) as well as various interest groups could prevail without accountability to external shareholders. However, post-liberalization private shareholders were included as minority owners in a number of SOEs. Corporatization was carried out and a number of CPSEs were listed on stock exchanges. Corporate governance in public sector improved (Dewan, 2006) and excess of government control rights over cash flow rights was questioned. Therefore, induction of private shareholders among owners is also likely to cause disruption. SOEs are forced to look for strategic choices like increasing productivity in the organization. Therefore, we hypothesize that such SOEs, who have higher private shareholding, shall utilize their institutional traction and adopt the strategic choice of increasing productivity.

Hypothesis 3a: The negative impact of social traction on SOEs' productivity is mitigated when they have private shareholding in their ownership.

Hypothesis 3b: The negative impact of political traction on SOEs' productivity is mitigated when they have private shareholding in their ownership.

Hypothesis 3c: The negative impact of economic traction on SOEs' productivity is mitigated when they have private shareholding in their ownership.

DATA, MEASURES AND METHODOLOGY

This study uses data available in Public Enterprise Survey (PES), which is published annually on the population of almost 240 Indian Central Public Sector Enterprises (CPSEs). CPSEs function under the Department of Public Enterprises, New Delhi. Additionally, CMIE (Prowess) database is used for some additional data not available in these surveys. Further, annual reports of these 240 companies and their websites were also used in the data collection process. The data spans 18 years (1991-2008).

Setting and Sample

India has operated as a mixed economy where SOEs have been engaged in head-to-head competition in several industries. However, post-1991, the rules of the game have changed. Indian SOEs are facing characteristically altered values, norms, beliefs and competitive conditions in the market and in the society, in general. Further, under the agenda of divestment, private shareholders have been brought in. Thus, there is mixed ownership in a number of SOEs, though a majority ownership has largely been retained under government.

Measures

Employee Productivity: This is key dependent variable. PES division II gives annual data on total revenue and total number of employees in each of these firms. The variable was defined as the natural logarithm of ratio of total revenue to the number of employees.

Social Traction Index: It is defined as the position that an SOE possesses by being an instrument of or by being directly involved in issues and works of social importance like regional or population development or humanitarian causes. This measure is composed of three binary categorical variables viz. mission code, organizational social focus and regional development focus. Mission code refers to SOE's defined mission and whether that mission entails social objectives of the state as central to SOE's existence. It is coded as 0 if nothing is entailed and 1 if it is described. Similarly, when PES (Div II) clearly mentioned social objectives for a CPSE, it was coded as 1. When it was not mentioned clearly, websites of these CPSEs and their annual reports were surveyed, and coded as 1 if such a focus was evident. If a social focus was not found it was coded as 0. Similar process was followed for CPSEs' focus on regional development. Thus, the index ranged from 0 to 3, with a minimum score of 0 for no social capital and 3 for maximum social capital.

Political Capital Index: It is defined as the capital that an SOE possesses by virtue of political importance to the central and state governments (India has federal government structure). Geographical dispersion is an important determinant for political importance. A CPSE having presence only in a few states is expected to have less federal ties or political clout as only a few

states or regions would be hurt if a policy of shutting down the enterprise or privatization is envisaged. Therefore, CPSE having presence in only one or two states was coded as 0. When they were present in more than two states or in a region for example in North India, then it was coded as 1and for a CPSE having pan-national presence, it was coded as 2. Another important factor in India about SOEs is that while some SOEs were conceived of in government sector like some statutory corporations, SOEs of strategic interests and so on, a number of others originated and functioned in private sector and were taken over by the government or nationalized later. While the former group had an institutionalized affiliation or genealogy of being born within government the latter group experienced adaptation to changed ownership. This factor has implicit contribution to political capital of a CPSE. Thus origin code was 1 for the group having origins in the government and 0 otherwise. The political capital index ranges from 0 to 3, with minimum score being 0 and maximum score being 3.

Economic Capital Index: It is defined as the capital that an SOE possesses by virtue of being important to economy of state. Such CPSEs find mention in Five-Year Plans of India and Annual Economic Survey of India. The 11^{th} Five Year Plan and Economic Survey were thoroughly surveyed for mention of CPSEs. Whenever a CPSE was mentioned, it was coded as1, otherwise

0. Further, PES and company archives were searched for mention of economic linkage and business to business operations as proxy for being present in investment goods sector (Kaleckian Model (B2B coded 1 otherwise 0)). Thus the political capital index ranges from 0 to 3.

Competition Code: This is a binary categorical variable taking the value of 1, if competition was mentioned in the description of a CPSE in PES or annual reports or

websites. When Div II clearly mentioned competition faced by a CPSE, it was coded as 1. When it was not mentioned clearly, websites of these CPSEs and their annual reports were surveyed, and coded as 1 if such a competition focus was evident. If a competition focus was not found it was coded as 0.

Private Ownership: This is a continuous variable directly obtained from PES and Prowess, in that order of preference. A categorical variable was created for subgroup analysis at about 10% of private ownership.

Control Variables: Age and size of a firm have been found to be important according to ecological and institutional theories. Financial slack has been found in numerous studies to have impacted the strategies that firms adopt. Also, past performance of a firm has a significant impact on future firm strategic options. R&D intensity has been used as a proxy to control for entrepreneurship drive of a company and therefore lagged RnD_intensity has been used as a control for these SOEs. There were 30 industries based on NIC (upto 2 digits) and judgment (based on prior knowledge and economic activity of the firm). These variables were controlled for in the models.

Models and Data Analysis

Hierarchical panel data linear regression was used to test for the hypotheses. Table 1 gives the correlation of these variables with significance. It also gives the summary statistics of the dependent variables, predictors and controls. The first model, Model1, incorporates all the control variables and predictors. The Model 2 incorporates all control variables, main effects of predictors and moderator of presence of competition and their interaction effects. Model 3 incorporates the main and interaction effects of private ownership. Model 4a presents subgroup without competition, while 4b is with competition. Model 5a presents subgroup with less than

10% private ownership, while model 5b is with greater than 10%. Table 2 gives the linear and moderated regressions of employee productivity with institutional traction variables with the moderation of competition and private ownership.

It is likely that the variation in DVs is partially caused by firm-specific unobservable factors, which, if correlated with the independent variables, can cause pooled OLS regression results to suffer from heterogeneity bias. Accordingly, a Breusch and Pagan (1980) Lagrange multiplier test was performed for the null hypothesis of no random effects. We found significant random effects. Then we performed fixed effects and random effects regressions. We found significant relationships between the DVs and IVs in Fixed Effects Regressions as well as in Random Effects Regressions. Next, a Hausman's (1978) test was used to determine where the unobservable heterogeneity is correlated with the independent variables by testing for systematic differences in the fixed- and random-effects coefficient vectors. Hausman Test confirmed that fixed effects should be used for both the DVs. Further, the model was tested for both panel (one way) fixed effects as well as panel and time (two-way) fixed effects and found both the result in line. We report one-way fixed effects. Thereafter, data was tested heteroscadesticity and serial correlation. Heteroscedasticity was reported and therefore all results reported here in Table 2 are robust results. Serial Correlation was also reported. AR(1) was calculated and AR(1) adjusted values, were in line with our findings.

Table 1
Descriptive Statistics and Correlations [a]

	Variable	1	2	3	4	5	6	7	8	9	10	11	12
1	Employee Productivity	1											
2	Asset Productivity	0.37	1										
3	Social Traction Index	-0.08	-0.06	1									
4	Political Traction Index	0.13	0.26	-0.05	1								
5	Economic Traction Index	0.06	-0.08	-0.08	0.16	1							
6	Competition	0.14	-0.05	-0.28	-0.06	-0.30	1						
7	Private Shareholding	0.09	-0.17	0.04	-0.17	-0.14	0.12	1					
8	Firm Age	-0.09	0.04	-0.16	-0.14	-0.02	0.00	-0.09	1				
9	Firm Size[b]	0.37	0.1	-0.07	0.20	0.46	-0.20	-0.07	0.20	1			
10	Firm Slack[b]	0.04	0.23	0.04	0.02	0.02	-0.02	0.06	-0.05	-0.02	1		
11	Performance_Lagged	0.23	0.31	-0.02	0.07	0.04	0.05	-0.05	-0.12	-0.00	0.03	1	
12	R&D Intensity Lagged	-0.11	-0.13	0.01	0.06	-0.03	0.1	-0.00	0.15	0.07	-0.16	-0.05	1
.													
	Observations	2921	3072	3101	3119	3097	3000	3119		3098	3098	2872	2882
	Mean	.3359	.70	1.22	1.90	1.42	.55	.1		5.12	-.55	3.24	.11
	Std. Dev	.6549	1.78	.90	1.09	.94	.5	.17		2.54	25.17	21.40	.34
	Min	0.00	-10.00	0	0	0	0	0		-4.60	-1147	-42.5	0
	Max	5.522	7.95	3	3	3	1	.49		12.52	96	452.22	3.93

[a] Correlations greater than 0.04 in magnitude are significant at 5%
[b] Descriptive statistics figures in INR Crores

Table 2
Results of Panel Data Fixed-Effects Regression
Dependent Variable = Employee Productivity[a]

	Period (1991-2008)			Subgroup Without or with Competition		Subgroup Without or With Private Shareholding > 0%	
	Model 1	**Model 2**	**Model 3**	**Model 4a**	**Model 4b**	**Model 5a**	**Model 5b**
Firm Age	-0.0035*	-.004*	-.0038*	.000	-.006**	-.005*	0.00035
	(0.090)	(0.055)	(0.073)	(0.908)	(0.003)	(0.013)	(0.95)
Firm Size[b]	0.2870**	.221**	.2849**	.2544**	.312**	.274**	0.3157**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Firm Slack[b]	-0.0034**	-.003**	-.0034**	-.0032**	-.003**	-.003**	-.0037**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Performance_Lagged	0.000	-0.000	-0.0003	.0025^{+}	-.0004	.0027**	-.0011**
	(0.49)	(0.47)	(0.481)	(0.101)	(0.323)	(0.006)	(0.000)
R&D Intensity Lagged	0.0179	0.022	0.0188	.0008	.0384*	.0289*	-.1102**
	(0.25)	(0.223)	(0.21)	(0.965)	(0.068)	(0.066)	(0.004)
Social Traction Index	-0.17*	-0.223**	0.53**	-0.693**	-0.00377	0.0964	-0.125**
	(0.02)	(0.000)	(0.000)	(0.000)	(0.956)	(0.18)	(0.005)
Political Traction Index	-0.034	-0.094**	-0.25**	-0.271**	-0.200**	-0.2245*	-0.027
	(0.60)	(0.000)	(0.000)	(0.000)	(0.000)	(0.042)	(0.775)
Economic Traction Index	0.20**	-0.227**	-0.766**	0.241*	-0.48**	0.222**	0.0054
	(0.000)	(0.000)	(0.000)	(0.022)	(0.000)	(0.000)	(0.957)
Competition		-1.165**					
		(0.000)					
CompetitionXSocial Traction		0.168**					
		(0.000)					
CompetitionXPolitical Traction		-0.0907^{+}					
		(0.095)					
CompetitionXEconomic Traction		0.145**					
		(0.003)					
Private Shareholding			3.67**				
			(0.000)				
PrivateXSocial Traction			-0.07*				

			(0.03)				
PrivateXPolitical Traction			0.6217**				
			(0.000)				
PrivateXEconomic Traction			0.0756*				
			(0.05)				
Year dummies	Included	Included	Included	Included	Included	Included	Included
Constant	2.278407**	2.278**	0.15	0.014	0.045	0.028*	0.025
	(0.000)	(0.000)	(0.565)	(0.02)	(0.04)	(0.01)	(0.02)
N	2573	2573	2671	1183	1390	1973	698

$^{+}$p < .10, * p < .05, **p < .01 (significance levels based on two-tailed test); ^{a} Values within parentheses are standard error values

Results

CPSEs with high social traction tend to focus significantly less on increasing productivity of employees. Thus, H1a is supported. Competition tends to have negative but insignificant effect on employee productivity. However, the interaction effect is positive indicating support for H2a.This result is seconded by the subgroup analysis. On the other hand, private ownership has significant negative interaction effect on employee productivity. This negates H3a.

High political traction has negative but insignificant effect on productivity of employees and H2a is not supported. However, in the presence of high competition, CPSEs with high political traction tend to have significant negative orientation towards productivity. This negates H2b. On the other hand, private ownership has significant positive main effects with employee productivity but has almost positive interaction effect on productivity, supporting H2c.

CPSEs with high economic traction tend to focus significantly more on increasing productivity of employees, negating H3a. But, competition has significant positive effect on productivity. This supports H3b. On the other hand, private ownership has significant positive interaction effect on employee productivity. Thus, H3c is also supported.

Additional Analyses

We ran regression models for asset productivity (defined as the natural logarithm of ratio of total revenue to the gross fixed assets) as dependent variable, similar to those reported in Table 2. Largely the results were similar. Only important difference was observed in H1b. This was negated with asset productivity while supported for employee productivity.

REFERENCES

Amburgey, T.L., Kelly, D. & Barnett, W.P. 1993. Resetting the clock: The dynamics of organizational change and failure. ***Administrative Science Quarterly***, 38(1): 51-73.

Boeker, W. 1989. Strategic change: The effects of founding and history. ***Academy of Management Journal***, 32: 489-515.

Boix, C. 2001. Democracy, development, and the public sector. ***American Journal of Political Science***, 45(1): 1-17

Claessens, S., Djankov, S., Lang L.H.P., 2000. The separation of ownership and control in East Asian Corporations. ***Journal of Financial Economics***, 58 (2000) 81}112

Dewan, S.M. 2006. ***Corporate Governance in Public Sector Enterprises***. Pearson Education: India

Greenwood, R., & Hinings, C.R. 1996. Understanding radical organizational change: Bridging together the old and new institutionalism, ***Academy of Management Review***, 21: 1052-1081.

Guillen, M.F. 2002. Structural inertia, imitation, and foreign expansion: South Korean firms and business groups in China, 1987-95. ***Academy of Management Journal***, 45(3): 509-525.

Hannan, M.T. & Freeman, J.1977. The population ecology of organizations, ***American Journal of Sociology***, 82(5): 929-964.

Hannan, M.T. & Freeman, J.1984. Structural inertia and organization change, ***American Journal of Sociology***, 49: 149-164.

Hood, C., & Peters, G. 2004. The middle aging of new public management: Into the age of paradox? ***Journal of Public Administration Research and Theory,*** 14: 267–282.

Kelly, D & Amburgey, T.L. 1991. Organizational inertia and momentum: A dynamic model of strategic change. ***Academy of Management Journal***, 34: 591-612.

Khanna, T., & Yafeh, Y. 2007. Business groups in emerging markets: Paragons or parasites? ***Journal of Economic Literature***, XLV: 331–372.

Kornai J.; 1979; Resource-Constrained versus Demand-Constrained Systems; Econometrica, Vol. 47, No. 4, pp. 801-819

Miller, D. & Chen, M. 1994. Sources and consequence of competitive inertia: A study of the U.S. Airline industry. ***Administrative Science Quarterly***, 39(1): 1-23.

Pollitt C., & Bouckaert, G. 2004. ***Public management reform: A comparative analysis.*** Oxford: Oxford University Press.

Ring, P. S., & Perry J. L. 1985. Strategic management in public and private organizations: Implications of distinctive contexts and constraints. ***Academy of Management Review,*** 10: 276–286.

Selznick, P. 1957. ***Leadership in administration.*** New York: Harper and Row.

Shleifer Andrei and Vishny Robert W.; Large Shareholders and Corporate Control; The Journal of Political Economy, Vol. 94, No. 3, Part 1, (Jun., 1986), pp. 461-488

Sorenson, J.B. & Stuart, T. 2000. Aging, obsolescence, and organizational innovation. ***Administrative Science Quarterly***, 45: 81-112.

Stiglitz, J. E. 2000. ***Economics of the Public Sector***. 3rd. Ed. New York: W.W. Norton.

Indian Institute of Management Kozhikode

*Type of Document: (***Working Paper/Case/ Teaching Note, etc.)** **Working Paper**	*Ref. No.: (to be filled by RCP office)* **IIMK/WPS/181/SM/2015/17**
Title: **Is institutional traction a double edged sword? : a case of state owned enterprises**	
Author(s):	*Institution(s)*
Anubha Shekhar Sinha Sougata Ray Preet S Aulakh	Indian Institute of Management Kozhikode Indian Institute of Management Calcutta York University, Toronto
Subject Areas : **Strategic Management of State Owned Enterprises**	*Subject Classification Codes, if any:*
Supporting Agencies, if any:	*Research Grant/Project No.(s):*
Supplementary Information, if any: ***(Work in Progress: Please do not cite or utilize unless express permission is obtained from authors)***	*Date of Issue: (to be filled by RCP office)* **March 2015**
Full text or only abstract to be uploaded on website: (please choose one) - ***Full Text***	*Number of Pages:* ***22 Pages***

Abstract: State owned enterprises (SOEs) are responsible for redistribution to citizens of an economy on behalf of governments. They also play important roles for the governments in being their strategic arms for multiple objectives. Simultaneously, as commercial organizations in the world of business, they earn money for their governments, who are their owners. Therefore, they have a position with respect to their governments that they derive by being important to them. This position is associated with potential advantages. This position with potential advantages is termed as "*institutional traction*" in this paper. Normative literature on SOEs in the new world order emphasizes efficiency as an important end to achieve. We try to explore the effect of institutional traction of SOEs on their productivity, a measure of efficiency of SOEs. Also, competition and extent of private ownership are emphasized as new moderators to increase efficiency in SOEs. In this paper, therefore, we explore the effect of institutional traction on efficiency of SOEs, in the face of competition and extent of private ownership.

Key Words/Phrases: Productivity, Efficiency, State Owned Enterprise, Institutional Traction

Research Office

Indian Institute of Management Kozhikode

IIMK Campus P. O.,

Kozhikode, Kerala, India,

PIN - 673 570

Phone: **+91-495-2809238**

Email: rcp@iimk.ac.in

Web: http://www.iimk.ac.in/faculty/respub/workingpapers.php