

**Point of View**

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## A Lesson from two Failed Foreign Investments: the Foreign (Ad)Venture of two Finnish State-Owned Enterprises

**ABSTRACT.** *As an organisational failure may teach more than an organisational success, this article describes the failed foreign investments of two Finnish state-owned enterprises (SOEs), namely Sonera and Stora Enso. In 2000, Sonera acquired a mobile phone licence in Germany and Italy for USD 4,000 million. Two years later, it turned out that the licence was worthless. In turn, Stora Enso acquired an American paper firm for USD 5,000 million in 2000, but seven years later Stora Enso sold this US unit at a loss of USD 2,000–3,000 million. These two cases reveal that the major reason for these failures was the inability of SOE management to predict business development. Other major reasons for failure were the conflicting motives of the management and the company (the main shareholder), and inadequate state control. Passive control of the state may encourage SOE management to exercise adventurous investment policies and take major risks. In Sonera's case, unrealistic risk taking led to serious financial difficulties, and finally, to a forced sale of the entire group to Telia, the Swedish telecom company. Stora Enso's stronger financial position saved it from an organisational failure. A lesson to policy-makers: a responsible minister and the minis-*

*ter's subordinates should exercise a more active ownership policy and keep the political interests of his/her party subordinate to the strategic interests of the state. Recent public discussion on SOE governance in Finland reveals that the Finnish Government still experiences difficulties in fully digesting the wisdom of the OECD Guidelines of Corporate Governance of State-Owned Enterprises.*

**KEYWORDS:** *foreign investment, Finnish state-owned enterprises, organizational failure, state control, Sonera, Stora Enso, Fortum*

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**Точка зрения**

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## Уроки организационного провала иностранных инвестиций: опыт двух финских государственных предприятий

**АННОТАЦИЯ.** Неудачный опыт столь же ценен, как и опыт успешный. В этой статье будут рассмотрены примеры двух финских государственных предприятий, а именно Sonera и Stora Enso. В 2000 году Sonera приобрела лицензию на производство мобильных телефонов в Германии и Италии за 4 миллиарда долларов США. Два года спустя выяснилось, что лицензия была бесполезной. В свою очередь, Stora Enso приобрела американскую бумажную фирму за 5 миллиардов долларов США в 2000 году, но спустя семь лет Stora Enso продала это американское подразделение с убытком в 2-3 миллиарда американских долларов. Эти два случая показывают, что основной причиной неудач была неспособность руководства государственного предприятия прогнозировать развитие бизнеса. Другими основными причинами неудач являлись недостаточный государственный контроль, а также различное видение перспективы со стороны руководства и основного акционера. Пассивный государственный контроль может побудить руководство предприятия осуществлять авантюрные инвестиционные стратегии и принимать серьезные риски. В случае с Sonera рискованное поведение привело к серьезным

финансовым трудностям и, наконец, к принудительной продаже всей группы шведской телекоммуникационной компании Telia. Более сильное финансовое положение Stora Enso спасло ее от организационной неудачи. Налицо урок для политиков: ответственный министр, как и его подчиненные, должны проводить более активную политику, соотнося управление соответствующими государственными предприятиями со стратегическими интересами государства. Недавняя публичная дискуссия о государственном управлении в Финляндии показывает, что финское правительство по-прежнему испытывает трудности с полным переосмыслением Руководящих принципов корпоративного управления ОЭСР государственными предприятиями.

**КЛЮЧЕВЫЕ СЛОВА:** иностранные инвестиции, финские государственные предприятия, организационный провал, государственный контроль, Sonera, Stora Enso, Fortum

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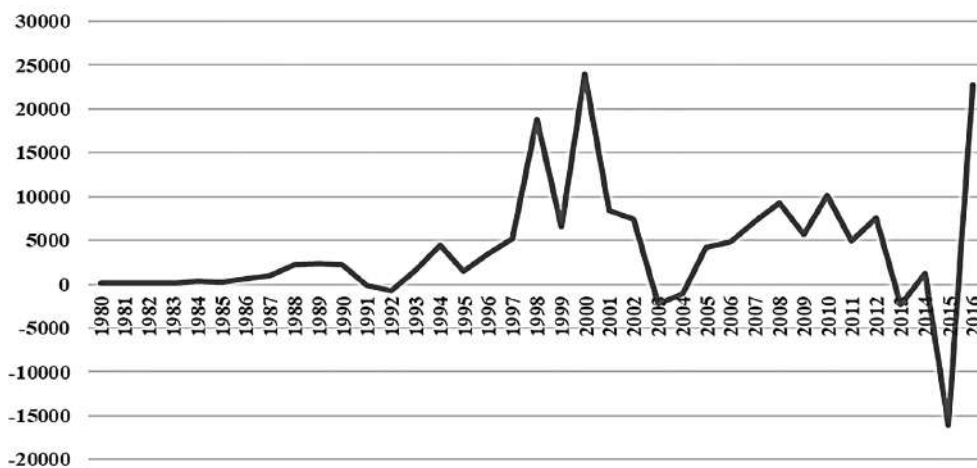
## 1. Introduction

Finland became a capital exporting country in the second half of the 1990s, i.e. after the country joined the EU in 1995. Finnish firms have invested more than USD 5,000 million overseas annually since 1997, excluding the years 2003–2005 and 2013–2015 (Figure 1). At the end of 2016, Finland's accumulated outward foreign

direct investment (FDI) stock exceeded USD 120,000 million. Finland's total outbound FDI stock was valued at approximately USD 25,000 million more in 2012 than four years later. The escalation of the Ukrainian crisis may partially explain the drop in 2015, i.e. part of Finnish indirect investment to Russia had returned home or the value of these investments to Russia may have decreased (Figure 2).

Traditionally, Sweden has been the main target of Finnish outward FDI. At the end of 2016, Sweden represented a quarter of Finland's accumulated FDI stock. The Netherlands follows Sweden with a share exceeding 15%. The Netherlands serves as a good example of a statistical illusion, as a high volume of Finnish FDI in the Netherlands has been invested further into another country<sup>1</sup>. The USA

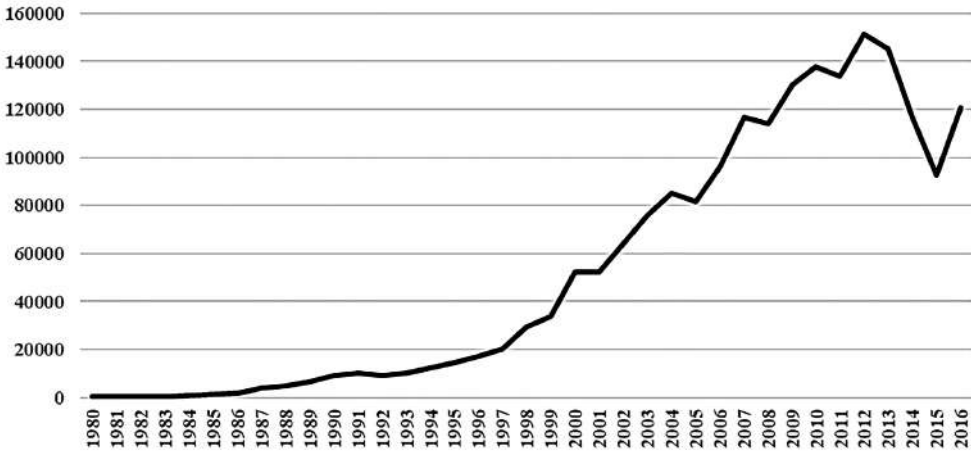
Figure 1. Annual FDI outflow from Finland 1980–2016 (USD million)



Source: Foreign direct investment. Statistical Service of United Nations Conference on Trade and Development. 2017. URL: <http://unctadstat.unctad.org/EN/> (Accessed: 19.12.2017).

<sup>1</sup> According to the Central Bank of the Netherlands, the Netherlands had received some EUR 400 million from Finland as of the end of 2016, whereas the Finnish statistics indicate that Finnish firms have invested in the Netherlands almost 50 times more, i.e. EUR 18,300 million. See: *Balance of payments and international investment position*. De Nederlandsche Bank. 2017. URL: <https://www.dnb.nl/en/statistics/statistics-dnb/balance-of-payments-and-international-investment-position/index.jsp> (Accessed: 19.12.2017); Statistics Finland. Statistical databases. 2017. URL: [http://tilastokeskus.fi/tup/tilastotietokannat/index\\_en.html](http://tilastokeskus.fi/tup/tilastotietokannat/index_en.html) (Accessed: 19.12.2017).

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accounts for 6.3% and Germany represents 1.9% of Finnish investment abroad. Since 2005, the share in Germany in Finland’s total outbound FDI has dramatically decreased (Table 1).

The Finnish FDI stock in Germany has also declined in absolute terms. At the end of 2012, the Finnish FDI in Germany to-

talled over USD 7,500 million, whereas four years later it valued slightly above USD 2,000 million<sup>2</sup>. However, growth will be rapid in the foreseeable future, since the Finnish state-owned power utility Fortum will complete its acquisition of German Uniper in 2018, and this single investment will lift the Finnish FDI in Germa-

Table 1. Share of Germany and the USA in Finland’s outward FDI stock (%) <sup>3</sup>

	2005	2010	2015	2016
<b>Germany</b>	7.2	4.6	2.2	1.9
<b>USA</b>	8.3	7.6	8.8	6.3

Source: Statistics Finland. Statistical databases. 2017. URL: [http://tilastokeskus.fi/tup/tilastotietokannat/index\\_en.html](http://tilastokeskus.fi/tup/tilastotietokannat/index_en.html) (Accessed: 19.12.2017).

2 Statistics Finland. *Statistical databases*. 2017. URL: [http://tilastokeskus.fi/tup/tilastotietokannat/index\\_en.html](http://tilastokeskus.fi/tup/tilastotietokannat/index_en.html) (Accessed: 19.12.2017).

3 Outward investments have a tendency to follow export flows. However, Germany’s share in Finland’s exports is clearly higher than Germany’s share in Finland’s outward FDI stock and its export share has grown, unlike Finnish direct investment to Germany. In 2005, Germany accounted for 10.6% of Finland’s total exports. In 2016, Germany’s share was 13.2%. The respective shares for the USA were 5.8% and 7.6%. See: Statistics Finland. *Statistical databases*. 2017. URL: [http://tilastokeskus.fi/tup/tilastotietokannat/index\\_en.html](http://tilastokeskus.fi/tup/tilastotietokannat/index_en.html) (Accessed: 19.12.2017).

ny by USD 4,000–9,500 million<sup>4</sup>, provided this investment is not conducted via any capital transit country, such as the Netherlands<sup>5</sup>.

Fortum's mega investment in Germany has engendered bitter memories of the unfortunate investment of state-owned telecom firm Sonera in Germany and a failed investment of state-owned paper firm Stora Enso in the USA at the beginning of the millennium. But is Fortum's investment comparable with these two notorious investment projects? And can other state-owned enterprises or policy-makers learn something from the failed foreign investments of these two Finnish state-owned enterprises?

This article presents two short stories of the failed foreign investment of two Finnish state-owned enterprises. These two investments are regarded as two of Finland's most unsuccessful business ventures ever<sup>6</sup>. This article utilises earlier theoretical findings on the internationalisation of state-owned enterprises and failed foreign investments, plus published material on the foreign investments of Sonera and Stora Enso to draw the conclusions at the end of the article.

The conclusions of this article are based on earlier analyses of these two foreign investments. The author has not attempted

to collect empirical data from the companies for two main reasons: 1) the companies were extremely reluctant to divulge information about their failed operations. In fact, it became apparent during the research process that the company management may even have tried to conceal the failure-related information; and 2) nearly two decades have passed since these investments were made, and such a time difference may endanger the reliability of the views of the (then) company directors, and moreover, most of these directors have already retired and some of them have even passed away.

## 2. Theoretical framework

### 2.1. INTERNATIONALISATION OF STATE-OWNED ENTERPRISES

Mazzolini, Vernon, Negandhi et al. and Anastassopoulos et al. can be regarded as the early pioneers of research into the internationalisation of state-owned enterprises (SOEs) (Mazzolini, 1979; Mazzolini, 1980; Vernon, 1979; Vernon, 1984; Negandhi et al., 1986; Anastassopoulos et al., 1987)<sup>7</sup>. Vernon puts the SOEs into a historical (biblical) context, when he wrote: "*state-owned enterprises, it is safe to assume, have existed for as long as the*

4 Steiz C., Rosendahl J. Fortum to launch \$9.5 billion bid for German utility Uniper. *Reuters*. September 26, 2017. URL: <https://www.reuters.com/article/us-uniper-m-a-fortum-bid/fortum-to-launch-9-5-billion-bid-for-german-utility-uniper-idUSKCN1C12VS> (Accessed: 20.12.2017); Luukka T. Energiayhtiö E.on hyväksynyt lopullisesti Fortumin lähes 4 miljardin euron ostotarjouksen Uniperista, *Helsingin Sanomat*. January 8, 2018. URL: <https://www.hs.fi/talous/art-2000005517291.html> (Accessed: 09.01.2018); Energiayhtiö E.ON hyväksynyt Fortumin ostotarjouksen Uniperin osakkeista – kaupan arvo 3,76 miljardia. *YLE uutiset*. January 8, 2018. URL: <https://yle.fi/uutiset/3-10012360> (Accessed: 09.01.2018).

5 Liuhto K. The Netherlands and the Baltic Sea region (BSR). Presentation, November 11, 2017. URL: [https://www.researchgate.net/publication/320988687\\_The\\_Netherlands\\_and\\_the\\_Baltic\\_Sea\\_region\\_BSR](https://www.researchgate.net/publication/320988687_The_Netherlands_and_the_Baltic_Sea_region_BSR) (Accessed: 09.01.2018).

6 Miettinen A. 10 pahinta bisnesmokaa. *Helsingin Sanomat*. April 6, 2014. URL: <https://www.hs.fi/sunnuntai/art-2000002722095.html> (Accessed: 23.12.2017).

7 According to the OECD definition, any corporate entity recognised by national law as an enterprise, and in which the state exercises ownership, should be considered as a state-owned enterprise (SOE). However, there are some limitations to such a broad definition. For example, entities in which the government holds equity stakes of less than 10% that do not confer control and do not necessarily imply a long-term interest in the target company, held indirectly via independent asset managers such as pension funds, should not be considered SOEs. Moreover, entities which are owned or controlled by a government for a limited duration arising from bankruptcy, liquidation, conservatorship or receivership, should not be considered SOEs either. See: OECD Guidelines on Corporate Governance of State-Owned Enterprises. 2015. URL: <http://www.oecd-ilibrary.org/docserver/download/2615061e.pdf?expires=1513803336&id=id&accname=guest&checksum=9CAE5A00C469163C8F01FF6F2A111327> (Accessed: 20.12.2017).

states themselves. Joseph’s grain speculations in Egypt were certainly not the first of these undertakings – and quite obviously not the last” (Vernon, 1984, p. 7).

Today, SOEs represent approximately one tenth of GDP globally (Bruton et al., 2015) and a similar proportion of global cross-border acquisitions (Li, Xia, 2017). Kalotay (Kalotay, 2017) estimates that approximately 1,500 state-owned multinationals operate in the world (Table 2).

Kalotay aptly asks whether state-owned multinationals are an emerging phenomenon in today’s global business. Due to the expansion of SOE internationalisation, it comes as no a surprise that SOEs have al-

ready faced resistance from host countries (Li et al., 2014). For example, Kuznetsov notes that US protectionism against foreign state-controlled companies could be one of the most cogent explanations of the reluctance of Russian SOEs to invest in the USA (Kuznetsov, 2017).

Nearly 40 years ago, Mazzolini wrote that “state ownership reduces the chance that a company will expand abroad” (Mazzolini, 1979, p. 26). Majocchi and Strange reached the same conclusion some 35 years later when they wrote that state ownership in companies based in advanced economies results in less international diversification (Majocchi, Strange,

Table 2. Geographical breakdown of the world’s state-owned multinationals by major home economy

Home economy	Number of firms	Share (%)	Home economy	Number of firms	Share (%)
<b>European Union</b>	420	28.7	<b>Developing Asia</b>		
Sweden	49	3.3	China	257	17.5
France	45	3.1	Malaysia	79	5.4
Italy	44	3.0	India	61	4.2
Germany	43	2.9	United Arab Emirates	50	3.4
Belgium	33	2.3	Republic of Korea	33	2.3
Portugal	26	1.8	Singapore	29	2.0
Slovenia	24	1.6	Qatar	27	1.8
Austria	23	1.6	Kuwait	22	1.5
Finland	23	1.6	Indonesia	13	0.9
Poland	21	1.4	Saudi Arabia	13	0.9
Spain	19	1.3	<b>Africa</b>		
Netherlands	11	0.8	South Africa	55	3.8
Croatia	10	0.7	Egypt	14	1.0
<b>Other developed Europe</b>			Zimbabwe	9	0.6
Norway	32	2.2	<b>Latin America and Caribbean</b>		
Switzerland	20	1.4	Brazil	12	0.8
<b>Other developed economies</b>			Colombia	5	0.3
New Zealand	24	1.6	<b>Economies in transition</b>		
Canada	18	1.2	Russian Federation	51	3.5
Japan	6	0.4	Serbia	22	1.5

Source: (Kalotay, 2017, p. 8).

2012). However, the aforementioned conclusion does not receive unreserved support in the context of emerging and transition economies. For example, PwC discovered that SOEs play an extremely important role in the overall internationalisation of Chinese corporations<sup>8</sup>. Liuhto has observed the same in a Russian context (Liuhto, 2017).

Shapiro and Globerman suggest that a clear distinction should be made between SOEs from developed countries and those from emerging and transition countries (Shapiro, Globerman, 2012). Firstly, there are relatively few SOEs from developed countries that operate in global markets and, secondly, the majority of them seem to be driven by commercial goals. In turn, SOEs from emerging and transition economies are more frequent and are often part of an explicit state strategy linked to national goals, notably in the energy and technology sectors.

The argument of Shapiro and Globerman on the scarcity of state-owned multinationals from developed countries may be true in North America, but in the EU, state-owned multinationals play a certain role in the international activities of multinational corporations (Shapiro, Globerman, 2012). All in all, UNCTAD data suggests that at least one third of the globe's state-owned multinationals are based in developed countries (Table 2). Despite the aforementioned statistical fact, empirical research on SOE internationalisation in the context of the developed countries is scant (Cuervo-Cazurra et al., 2014). The author was able to find just two relevant empirical studies in a developed country context. Firstly, Knutsen et al. analysed the FDI of Norwegian firms and their analysis suggests that Nor-

wegian SOEs invest relatively more than Norway's private sector firms in countries with high a level of corruption and weak rule of law (Knutsen, Ryghand, Hveem, 2011)<sup>9</sup>. Secondly, Majocchi and Strange studied 80 Italian firms and observed that state ownership in companies resulted in less international diversification (Majocchi, Strange, 2012).

If empirical studies on SOE internationalisation in a developed country context are rare, numerous contributions in an emerging and transition country context can be found. Already two decades ago, Cai found several motives for Chinese SOEs to invest abroad (Cai, 2012). Wang et al. observed that state ownership is more frequently reflected in resource-seeking than market-seeking motives in Chinese companies (Wang et al., 2012). In addition to resource-seeking, Ramasamy et al. found that Chinese SOEs are more prepared to invest in risky political environments than the country's private sector firms (Ramasamy et al., 2012). Duanmu arrived at the same conclusion, when they studied nearly 900 greenfield foreign investments by Chinese firms (Duanmu, 2014).

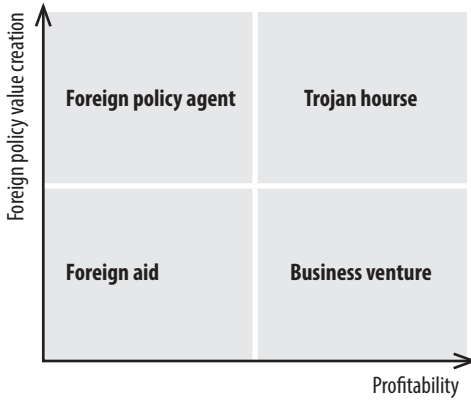
Cui and Jiang discovered that Chinese companies with high state ownership tend to prefer joint ownership ventures (Cui, Jiang, 2012). Similarly, Meyer et al. observed that Chinese SOEs use more acquisitions than China's private sector firms in executing their internationalisation (Meyer et al., 2014).

Liang et al. studied over 2,000 Chinese firms and identified two types of state control that influence the globalisation of SOEs, namely state ownership control and executives' political connections. When studying over 1,500 Chinese-owned subsidiaries (Liang et al., 2014), Pan et al. dis-

8 State-Owned Enterprises: Catalysts for public value creation? PwC. 2015. URL: <https://www.pwc.com/gx/en/psrc/publications/assets/pwc-state-owned-enterprise-psrc.pdf> (Accessed: 21.12.2017).

9 This finding from Norway is supported by the Chinese data (e.g. Ramasamy et al., 2012; Duanmu, 2014).

Table 3. The typology of SOE internationalisation through the use of foreign policy value creation and profitability dimensions



covered that state ownership and political connections moderate the relationship between the foreign institutional environment and the level of ownership of foreign subsidiaries (Pan et al., 2014).

Choudhury and Khanna analysed around 40 Indian state-owned laboratories and noticed that these organisations internationalise in order to reduce government control (Choudhury, Khanna, 2014). Tepavcevic stresses that the motives of Russian SOEs vary depending on the location of the outward investment, and the state’s interests may be fulfilled as an unintentional outcome (Tepavcevic, 2015).

All in all, Child and Rodrigues propose that the extension of traditional internationalisation theories is due to the significant role of the state in the internationalisation of Chinese firms (Child, Rodrigues, 2005). Inspired by earlier findings on SOE internationalisation, the author developed a typology that takes into account the internationalisation of SOEs. By using two dimensions of SOE internationalisation, namely foreign policy value creation and profitability, the researcher designed the matrix below (Table 3).

An SOE with foreign policy motives dominating its internationalisation could be called a ‘foreign policy agent’. On the other hand, if economic motives are the main driver of internationalisation, such an SOE could be called a ‘business venture’. If neither foreign policy nor profitability guide an SOE’s internationalisation, this type of SOE internationalisation could be characterised as ‘foreign aid’. Finally, if both the foreign policy objectives and economic goals shape the international activities of an SOE, its internationalisation could be called a ‘Trojan horse’. It is important to note that foreign policy and economic goals may have varying weight in the international operations of a ‘Trojan horse’ over time, and sometimes the underlying political motives can be hidden, even from the SOE management.

To sum up, the literature on SOE internationalisation suggests that the majority of SOEs from developed countries fell in the category of ‘business venture’, whereas a greater proportion of SOEs from emerging and transition countries could be called ‘foreign policy agent’.

**2.2. A FAILURE IN INTERNATIONAL BUSINESSES**

A market exit (withdrawal), divestment, bankruptcy or business closure is often considered to be a failure. However, a failure is a much more complex concept, since even a business closure does not necessarily mean a failure, as an owner may travel elsewhere, retire or he/she may have found more attractive entrepreneurial opportunities when an entrepreneur quits an active business (Watson, Everett, 1996; Cope, 2011). Coad gives an illustrative example as to why a closure should not always be considered to be a failure. Coad takes an old organisation as an example. The firm was established already in the year 578, and finally in 2006 it went into bankruptcy. Coad appropriately notes



that an organisational failure is not the best term to describe the entire operational life of 1,400 years of this particular company, even if its last moments may have contained certain aspects of failure (Co-ad, 2014).

In general, a failure constitutes a result that is significantly below the desired organisational outcome. Moreover, a failure causes considerable loss to a firm and its owners. A failure can be caused by an avoidable human error as well as unavoidable external factors, such as force majeure (Cannon, Edmondson, 2001; Cardon et al., 2011). Watson and Everett created five categories of failure: 1) ceasing to exist (discontinuance for any reason); 2) closure or a change in ownership; 3) filing for bankruptcy; 4) closure to limit losses; and 5) failing to reach financial goals (Watson, Everett, 1996).

In the context of international business, the term 'de-internationalisation' is sometimes used to describe a failure. If a firm withdraws completely from international activities, the action can be described as a full de-internationalisation. However, a partial de-internationalisation may also occur and may take several forms. For example, a firm may reduce its operations in a given market or it may withdraw completely from that market but leave its operations in other foreign markets untouched. Moreover, a partial de-internationalisation can manifest as a sell-off or closure of a foreign subsidiary. Furthermore, a partial de-internationalisation can be reflected as a voluntary reduction of an ownership stake in a foreign venture or a forced sale pushed by local authorities (Benito, Welch, 1997). Even when dealing with the term 'full de-internationalisation', it does not necessar-

ily mean that a firm will close its activities in the home market. In other words, even a full organisational failure abroad does not automatically lead to an organisational failure at home as long as foreign operations do not determine the destiny of the given firm.

Sharma and Mahajan have described an organisational failure process. In their model, unprofessional management leads to errors in strategic planning and the implementation of company strategy, causing a considerable decline in performance (Sharma, Mahajan, 1980). On the other hand, the decline could be caused by unprecedented and unpredicted events in a firm's external business environment. If poor performance continues for an extended period it will eventually lead to failure if no corrective measures are taken or the corrective measures themselves fail.

### 3. Two failed foreign investments

#### 3.1. SONERA'S ODYSSEY IN GERMANY AND ITALY

The Sonera annual report of 1999 describes the company as follows: "*Sonera is an international forerunner in mobile communications and a Smart Partner in the development of mobile-based services and applications*"<sup>10</sup>. In 1999, the corporation's turnover was around USD 2,000 million, it employed over 9,000 people and the corporation was highly profitable; its profit-revenue ratio was approximately 20%. The Finnish State owned nearly 60% of the company<sup>11</sup>.

In 2000, the Finnish telecom company Sonera bought the third-generation mobile phone license known as 'UMTS'

<sup>10</sup> Sonera Annual Report 1999. URL: <https://www.teliacompany.com/globalassets/telia-company/documents/reports/1999/annual-report/sonera-annual-report-1999-en.pdf> (Accessed: 21.12.2017).

<sup>11</sup> Ibidem.

in Germany and Italy for approximately USD 4,000 million. Commissioning of the new technology was delayed and Sonera did not have sufficient funds to invest in the telecommunications network and services. Two years later, Sonera management admitted that this investment had become worthless. The investment worsened the financial position of Sonera considerably and the company finally drifted into the hands of Telia, the Swedish state-owned telecom company<sup>12</sup>.

The analysts concluded that the main reasons for this failed investment were unprofessional and arrogant management and the company's inability to assess market development and market risks. Moreover, the management and main shareholder invested too much trust in the advice of two American investment banks, namely Goldman Sachs and Lehman Brothers. In addition to errors on the part of the management, board of directors and advisors, the investment was too large compared to the company's own financial resources; the investment was twice the company's annual turnover and ten times the company's annual profits. Besides, there was a major imbalance between the management's own risks and

the company's risks. In other words, the management did not play with its own money but with the state company's money. Finally, inadequate control by the main shareholder (the Finnish Government<sup>13</sup>), made it possible for such an adventurous investment to take off<sup>14</sup>. None of the responsible managers were fired. On the contrary, the vice-CEO responsible for Sonera's internationalisation was nominated as CEO a few months after the UMTS deal was completed. However, he served as CEO for only six months because he then resigned for 'personal reasons' (Kuisma, Seppänen, 2015).

Hindsight offers the worst form of wisdom. It could be argued that this foreign investment is the worst investment ever made by a Finnish SOE in the country's 100-year history<sup>15</sup>. Sonera bought air, i.e. a worthless licence, for USD 4,000 million. Thus, each Finnish citizen contributed USD 1,000 to this investment. In 2000, the total revenues of the Finnish State amounted to USD 40,000 million<sup>16</sup>.

### 3.2. STORA ENSO'S (AD)VENTURE IN THE USA

At the turn of the millennium, Stora Enso was one of the leading paper man-

12 Failed German Sonera deal haunts Finns. *The Baltic Times*. August 22, 2002. URL: <https://www.baltictimes.com/news/articles/6833/> (Accessed: 28.12.2017); Kapanen A. Sonera pudotti Saksamaa-lisenssin arvon nollaan. *Taloussanomat*. July 25, 2002. URL: <https://www.is.fi/taloussanomat/art-2000001367791.html> (Accessed: 28.12.2017); Soneran umts-kaupat. *Helsingin Sanomat*. April 6, 2014. URL: <https://www.hs.fi/sunnuntai/art-2000002722042.html> (Accessed: 21.12.2017); Juuso T-M. Suomen katastrofaalisen kauppa: "Jokainen suomalainen lahjoitti saksalaisille tuhat euroa". *Kaleva*. March 8, 2015. <http://www.kaleva.fi/uutiset/talous/suomen-katastrofaalisen-kauppa-jokainen-suomalainen-lahjoitti-saksalaisille-tuhat-euroa/691532/> (Accessed: 21.12.2017); Telia's management was intelligent enough to withdraw from the UMTS tender, in which Sonera in turn wasted its fortune and future (Kuisma, Seppänen, 2015).

13 During the UMTS deal, Olli-Pekka Heinonen was the responsible minister and Paavo Lipponen Prime Minister of Finland. In 2001, Heinonen resigned from his ministerial position and withdrew from national politics. See: (Kuisma, Seppänen 2015).

14 Martikainen T. Kohupankit Soneran UMTS-emämökan takana. *Taloussanomat*. February 22, 2013. URL: <https://www.is.fi/taloussanomat/art-2000001787543.html> (Accessed: 21.12.2017); Soneran umts-kaupat. *Helsingin Sanomat*. April 6, 2014. URL: <https://www.hs.fi/sunnuntai/art-2000002722042.html> (Accessed: 21.12.2017); Juuso T-M. Suomen katastrofaalisen kauppa: "Jokainen suomalainen lahjoitti saksalaisille tuhat euroa". *Kaleva*. March 8, 2015. <http://www.kaleva.fi/uutiset/talous/suomen-katastrofaalisen-kauppa-jokainen-suomalainen-lahjoitti-saksalaisille-tuhat-euroa/691532/> (Accessed: 21.12.2017).

15 Miettinen A. 10 pahinta bisnesmökää. *Helsingin Sanomat*. April 6, 2014. URL: <https://www.hs.fi/sunnuntai/art-2000002722095.html> (Accessed: 23.12.2017); Juuso T-M. Suomen katastrofaalisen kauppa: "Jokainen suomalainen lahjoitti saksalaisille tuhat euroa". *Kaleva*. March 8, 2015. <http://www.kaleva.fi/uutiset/talous/suomen-katastrofaalisen-kauppa-jokainen-suomalainen-lahjoitti-saksalaisille-tuhat-euroa/691532/> (Accessed: 21.12.2017).

16 Valtion tulot ja menot. Veronmaksajain keskusliitto. 2017. URL : <https://www.veronmaksajat.fi/luvut/Tilastot/Julkinen-talous/Valtion-tulot-ja-menot/> (Accessed: 22.12.2017).

ufacturers in the world, and the corporation wanted to strengthen its global position by acquiring a unit in the USA, which is the largest paper market in the world. In 1999, Stora Enso's sales exceeded USD 10,000 million, the corporation employed over 40,000 people and its operating profit was 13%. The largest shareholder in Stora Enso was the Finnish State with an 18% stake<sup>17</sup>.

In 2000, Stora Enso acquired Consolidated Papers, a US paper company, for USD 5,000 million<sup>18</sup>. The acquisition price was nearly 70% higher than the market value of the company. A day after the acquisition was published, Stora Enso's stock price dropped by 15% (Kuisma, Seppänen, 2015). Seven years later, Stora Enso sold this American unit at an estimated loss of USD 2,000–3,000 million. The weakening of the USD exchange rate against the Euro deepened the loss in Euro terms (Koulumies, 2010)<sup>19</sup>.

The experts have concluded that the main reason for this failure was the inability of the management and board of directors to predict the market development and accurately assess the real state and value of the acquisition target. It must be stressed here that the profitability of the acquired company was deteriorating due to harshening competition from Asian competitors years before the deal was made. At least two Ameri-

can investment bankers, namely Salomon Smith and Barney, later Citibank and Goldman Sachs, were actively involved as advisors behind this deal (Koulumies, 2010)<sup>20</sup>. Some analysts argue that Stora Enso's executive management concentrated more on raising its own managerial value than the value of the company. The CEO who orchestrated the deal continued in his position until 2007, when he retired with a golden pension, i.e. USD 60,000 per month<sup>21</sup>. Stora Enso's (ad)venture in the USA has been regarded as the second worst business error by a Finnish firm<sup>22</sup>. Kuisma and Seppänen argue that none of Finland's major corporations have ever succeeded in the US market (Kuisma, Seppänen, 2015).

Despite the failure of the aforementioned acquisition, Stora Enso is still one of the world's major paper manufacturers. In 2016, the corporation had a presence in over 30 countries, its sales were around USD 10,000 million and it had around 25,000 employees<sup>23</sup>.

Perhaps the main lesson of this unfortunate foreign investment is that any corporation could take major risks and sometimes these risks may materialise. However, it is essential that a company's financial position is capable of withstanding the investment failure, be it either in the home market or abroad.

17 Stora Enso Annual Report 1999. URL: <http://web.lib.hse.fi/FI/yrityspalvelin/pdf/1999/Estoraenso1999.pdf> (Accessed: 22.12.2017).

18 Deutsch C. H. Another Big Paper Company Acquisition. *New York Times*. February 23, 2000. URL: <http://www.nytimes.com/2000/02/23/business/another-big-paper-company-acquisition.html> (Accessed: 22.12.2017).

19 Vaahtio J. Tämä meni pieleen Stora Enson Amerikan-harharetkellä. *Iltä-Sanomat*. July 13, 2010. URL: <https://www.is.fi/kotimaa/art-2000000058119.html> (Accessed: 21.12.2017).

20 Vaahtio J. Tämä meni pieleen Stora Enson Amerikan-harharetkellä. *Iltä-Sanomat*. July 13, 2010. URL: <https://www.is.fi/kotimaa/art-2000000058119.html> (Accessed: 21.12.2017); Stora Enson Amerikan valloitus ajoitettiin mahdollisimman väärin. *YLE uutiset*. July 14, 2010. URL: <https://yle.fi/uutiset/3-5596674> (Accessed: 28.12.2017).

21 Stora Enson Consolidated Paper-kauppa. *Helsingin Sanomat*. April 6, 2014. URL: <https://www.hs.fi/sunnuntai/art-2000002722045.html> (Accessed: 22.12.2017).

22 Miettinen A. 10 pahinta bisnesmokaa. *Helsingin Sanomat*. April 6, 2014. URL: <https://www.hs.fi/sunnuntai/art-2000002722095.html> (Accessed: 23.12.2017).

23 Progress Book: Part of Stora Enso's Annual Report 2016. URL: [http://assets.storaenso.com/se/com/DownloadCenterDocuments/Progress\\_Book\\_2016\\_ENG.pdf](http://assets.storaenso.com/se/com/DownloadCenterDocuments/Progress_Book_2016_ENG.pdf) (Accessed: 21.12.2017).

## 4. Conclusions

When compared with the OECD principles of good SOE governance<sup>24</sup>, the Finnish Government’s SOE governance seems passive or even phlegmatic (Kuisma, Sepänen, 2015) and such a governance culture still prevails<sup>25</sup>. Another weakness in the Finnish Government’s SOE governance would appear to be that the political interests of ruling parties may sometimes take precedence over the strategic interests of the Finnish State<sup>26</sup>.

Finland’s SOE governance would require a comprehensive reform towards strategic long-term thinking and more active use of independent professionals, including academics, in the SOE boards of directors. In addition to a more active ownership policy, the Finnish Government should seek clarification regarding what primarily motivates Finnish SOEs to internationalise. Even if the Finnish Government sees internationalisation of Finnish SOEs solely as ‘business ventures’, the rest of the world may hold a different view, which has even been acknowledged by the current minister responsible for state ownership in business and ownership control<sup>27</sup>.

Two stories of Finnish foreign investments reveal that the main reason for fail-

ure has been the inability of SOE management to predict future market development. Another major reason for failure has been the imbalance between the interests/risks of SOE management and the company (the state). As SOE management usually has relatively little to lose, even in the case of a major financial failure, such a situation combined with inadequate control by the state may encourage SOE management to exercise ambitious investment policies and take enormous risks. Sonera’s odyssey in Central Europe is a good example of such investment behaviour. Its huge foreign investment – twice the size of its annual turnover – led to an organisational closure. Even if Stora Enso lost almost as much in its American (ad)venture as Sonera did in Central Europe, Stora Enso’s investment was not excessive compared to its turnover and, finally, its solid financial position saved the corporation from a complete disaster. Thus, Stora Enso’s Consolidated Paper investment can be regarded as an investment failure, not an organisational failure, which was the case with Sonera. In fact, Stora Enso has continued to operate in the North American market despite the unsuccessful investment (Table 4).

If Fortum is able to finalise its USD 9,500 million deal in full<sup>28</sup>, such a me-

24 OECD Guidelines on Corporate Governance of State-Owned Enterprises. 2015. URL: <http://www.oecd.org/ocserver/download/2615061e.pdf?expires=1513803336&id=id&accname=guest&checksum=9CAE5A00C469163C8F01FF6F2A111327> (Accessed: 20.12.2017).

25 Kuolleena syntynyt ajatus – Lintilä torjuu Heliövaaran kritiikin. *Kauppalehti*. December 22, 2017. URL: [https://www.kauppalehti.fi/uutiset/uutinen/DvCt84Ge?ext=ltr&utm\\_source=Kauppalehti\\_Uutiskirje&utm\\_medium=email&utm\\_campaign=Kauppalehti\\_Uutiskirje](https://www.kauppalehti.fi/uutiset/uutinen/DvCt84Ge?ext=ltr&utm_source=Kauppalehti_Uutiskirje&utm_medium=email&utm_campaign=Kauppalehti_Uutiskirje) (Accessed: 22.12.2017).

26 It is important to recognise that the state’s interests are not homogeneous and stable because of changes in political power, i.e. due to the election results (Kuisma 2016). See also: Omistajaohjauksen jättävä Heliövaara: “Poliittinen taho ei pysty olemaan erinomainen omistaja pörssi-yhtiössä”. *Kauppalehti*. December 22, 2017. URL: <https://www.kauppalehti.fi/uutiset/omistajaohjauksen-jattava-heliovaara-poliittinen-taho-ei-pysty-olemaan-erinomainen-omistaja-porssiyhtiossa/47u7rDP4> (Accessed: 22.12.2017).

27 Kuolleena syntynyt ajatus – Lintilä torjuu Heliövaaran kritiikin. *Kauppalehti*. December 22, 2017. URL: [https://www.kauppalehti.fi/uutiset/uutinen/DvCt84Ge?ext=ltr&utm\\_source=Kauppalehti\\_Uutiskirje&utm\\_medium=email&utm\\_campaign=Kauppalehti\\_Uutiskirje](https://www.kauppalehti.fi/uutiset/uutinen/DvCt84Ge?ext=ltr&utm_source=Kauppalehti_Uutiskirje&utm_medium=email&utm_campaign=Kauppalehti_Uutiskirje) (Accessed: 22.12.2017).

28 At the end of 2017, Fortum acquired 47% of Uniper with around USD 4,000 million (Taloussanomat 2017). By the time of finalising the article (start of February 2018), Fortum has not managed to acquire the whole company, i.e. its investment is considerably lower than USD 9,500 million. See: Eonin toimitusjohtaja: Fortum-Uniper-järjestely on hyödyllinen molemmille. *Ilta-Sanomat*. January 23, 2018. URL: <https://www.is.fi/taloussanomat/porssiuutiset/art-2000005535621.html> (Accessed: 25.01.2018).

Table 4. A summary of key data

Investing company	Sonera	Stora Enso
Industry	Telecommunications	Pulp and paper
Ownership of Finnish State 1999	57.6% <sup>29</sup>	18.0% <sup>30</sup>
Turnover 1999	Around USD 2,000 million	Around USD 10,000 million
Profit 1999	Around USD 400 million	Around USD 1,500 million
Target of foreign investment	UMTS mobile phone license in Germany and Italy	Acquisition of Consolidated Papers in the USA
Investment year	2000	2000
Value of foreign investment	Around USD 4,000 million	Around USD 5,000 million
Foreign investment / Turnover 1999	2.0	0.5
Foreign investment / Profit 1999	10.0	3.3
Outcome	Organisational failure: a few years after the UMTS deal, the Swedish telecom company Telia acquired Sonera, and the merged unit received the brand name TeliaSonera. In 2017, Sonera was erased from the company name.	Investment failure: seven years later, a sell-off of the acquired American unit, causing a loss of USD 2,000–3,000 million. Stora Enso has continued its other operations in the North American market and elsewhere in the world.
Main reasons for failure	Unprofessional management, control failure of the state.	Management's failure to predict market development and assess the real value of the acquired company.
Peculiarities	Failure of investment project advisors.	Failure of investment project advisors. Accusation of manipulation of company accounts by the management <sup>31</sup> .

29 At the end of 2016, the Finnish pension fund and its personnel fund held 0.03% of Telia's shares. See: Leading the way in a digital world. Annual + Sustainability Report 2016. URL: [https://www.teliacompany.com/globalassets/telia-company/documents/reports/2016/annual-report/telia\\_company\\_annual\\_and\\_sustainability\\_report\\_2016\\_en.pdf](https://www.teliacompany.com/globalassets/telia-company/documents/reports/2016/annual-report/telia_company_annual_and_sustainability_report_2016_en.pdf) (Accessed: 22.12.2017).

30 At the end of 2016, Solidium (wholly owned by the Finnish State) held 12.3% of Stora Enso's shares, social insurance institution of Finland (KELA) 3.3% and other Finnish institutions 13.3%. Thus, Finnish institutional ownership in Stora Enso was 28.9%. Correspondingly, FAM AB, a privately-owned holding company that manages assets as an active owner with a long-term ownership horizon, and the Swedish institutions held 16.8% of Stora Enso. See: Progress Book: Part of Stora Enso's Annual Report 2016. URL: [http://assets.storaenso.com/se/com/DownloadCenter/Documents/Progress\\_Book\\_2016\\_ENG.pdf](http://assets.storaenso.com/se/com/DownloadCenter/Documents/Progress_Book_2016_ENG.pdf) (Accessed: 21.12.2017).

31 An employer's accusation about the account manipulation did not result in legal action. The whistleblower was fired from Stora Enso in 2010 and died in March 2013 at the age of 52. See: Kova väite: Stora Enso vääristeli kirjanpitoaan. *Kauppalehti*. May 17, 2003. URL: <https://www.kauppalehti.fi/uutiset/kova-vaite-stora-enso-vaaristeli-kirjanpitoaan/xKkSeAwn> (Accessed: 21.12.2017); Länkinen T. "Stora Enso ei ole jakanut osinkoja laittomasti". *YLE*. October 7, 2013. URL: <https://yle.fi/uutiset/3-6867967> (Accessed: 21.12.2017); Rumpunen R. Hesari morkkaa kuollutta miestä. *Uusi Suomi*. October 9, 2013. URL: <http://ristorumpunen.puheenvuoro.uusisuomi.fi/151256-hesari-morkkaa-kuollutta-miestä> (Accessed: 21.12.2017); Santaharju T. Stora Enso vääristelyväitteistä: Perättömiä ja käsiteltäviä. *YLE*. May 17, 2013. URL: <https://yle.fi/uutiset/3-6647686> (Accessed: 28.12.2017); Stora Enso: Kirjanpidossa inhimillinen virhe. *YLE uutiset*. October 8, 2013. URL: <https://yle.fi/uutiset/3-6868860> (Accessed: 28.12.2017).

ga investment exceeds the company’s annual sales by over two-fold and its yearly profit by over 10 times, as Fortum’s turnover amounted to some USD 4,000 million and profit USD 700 million in 2016<sup>32</sup>. This means that both the foreign investment annual turnover ratio and the foreign investment annual profit ratio will be higher in Fortum’s Uniper acquisition than in Sonera’s UMTS licence acquisition in 2000.

Fortunately, this time a Finnish SOE does not simply buy air, a worthless UMTS license, from Central Europe using billions of dollars, but the acquirer now also receives some tangible assets (Virta, Heiskanen, 2017). Hopefully, the unanticipated indirect commitments and unforeseen consequences of Fortum’s Uniper deal will not shake the parent company’s financial position in such a way that it would risk the future of all of Fortum’s units abroad, including those in Russia, and even the overall existence of Fortum as a Finnish state-owned energy producer.

Even if the Roman poet Publius Vergilius Maro (A.K.A. Vergil) aptly wrote “*fortune favours the brave*” nearly 2000 years ago, one should not forget the wisdom of Chinese philosopher Laozi (A.K.A. Lao-tzu/Lao-tse), which is 500 years older. He reasoned that “... *there is no greater disaster than greed*”.

The author sincerely wishes that fortune favours Fortum, and there will never be any reason to include its expansion to the German energy market in the list of Finland’s worst business disasters<sup>33</sup>. If Fortum’s investment fails, we should not regard its management as being culpable of

failure but rather the board of directors and the minister responsible for Finnish state properties, since it is a well-known fact that management may sometimes maximise its own interests before the interests of the company, and that sometimes such maximisation could be carried out in the short term, which could be extremely harmful to a company’s long-term development.

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32 “At the end of 2016, the Finnish State owned 50.76% of the Company’s shares. The Finnish Parliament has authorised the Government to reduce the Finnish State’s holding in the Fortum Corporation to no less than 50.1% of the share capital and voting rights”. Financials 2016. URL: [http://apps.fortum.fi/investors/Fortum\\_Financials\\_2016.pdf](http://apps.fortum.fi/investors/Fortum_Financials_2016.pdf) (Accessed: 22.12.2017).

33 Miettinen A. 10 pahinta bisnesmokaa. *Helsingin Sanomat*. April 6, 2014. URL: <https://www.hs.fi/sunnuntai/art-2000002722095.html> (Accessed: 23.12.2017). Kuisma and Seppälä criticised the lavish bonus policy of Fortum’s executive management and addressed their criticism to Prime Minister Paavo Lipponen, Sinikka Mönkäre, the minister responsible for Fortum’s state control, and Fortum’s chairman of the board, who both participated in developing the bonus system and were among the ultimate beneficiaries of the bonus system (Kuisma, Seppälä, 2015).

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