

Government Characteristics and the Legitimacy of State Ownership: A Cross-National Analysis

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Abstract

The legitimacy challenges experienced by state-owned companies are often described as resulting from intrinsic deficiencies of state ownership as compared with private ownership. However, this perspective cannot explain cross-national differences in the attitudes toward state-owned companies—that is, why liabilities associated with state ownership have much more detrimental impact on their legitimacy in some countries than in others. In exploring factors that may account for cross-national differences in the legitimacy of state ownership, we focus on government characteristics that are likely to influence public attitudes toward state ownership: the political orientation of the government, its ability to maintain the rule of law, and its effectiveness in providing public services. Using the data from 95 countries, we demonstrate that the legitimacy of state ownership is greater in countries with authoritarian governments and in countries with governments incapable of maintaining the strong rule of law. As for the government effectiveness in providing public services, its relationships with the state ownership legitimacy are nonlinear—at the low levels of public services, their improvements are

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associated with a more favorable perception of state ownership, but this positive effect gradually fades away and turns negative when the quality of public services increases beyond the average values.

Keywords

government, legitimacy, political orientation, public services, rule of law, state ownership

Several recent streams of research demonstrate that relations between business and society cannot be understood without taking into account the government's role. First, much attention has been paid to various ways through which the government can shape, orchestrate, or facilitate corporate social responsibility (Albareda et al., 2007; Dentchev et al., 2017; Gond et al., 2011). Another stream of research has explored business–society relationships in countries and regions where the government is weak, thus demonstrating how businesses operate in societies with “limited statehood” (Azizi et al., 2021). The third stream of research, which is particularly relevant for our study, explores business–society relations in countries with different types of capitalism and how the governments play a key role in how various capitalist systems are organized (Orru et al., 1997). This last stream of research extends the original “varieties of capitalism” literature focused on differences between liberal and coordinated market economies (Hall & Soskice, 2001) to describe capitalist systems with an especially pronounced role of the government, as can be seen in studies of state-permeated, state-led, or authoritarian capitalism (Hofman et al., 2017; Muller et al., 2023; Situ et al., 2020).

We share the opinion of scholars who argue that the state plays a key role in any capitalist economic system, even if its role is not as apparent and omnipresent as in countries with authoritarian capitalism (Sallai & Schnyder, 2021). This idea is reflected in cross-national studies of state capitalism understood as proactive state interventions, using various tools, in the production process and the functioning of markets (Wright et al., 2021). Tools of state capitalism, including ownership of companies, are employed in countries with different political regimes and political ideologies (Aguilera et al., 2021). Companies affiliated with the state through ownership and/or close political ties often benefit from the government support (Sun et al., 2012), but may also suffer from state interventions (Okhmatovskiy, 2010). The downside of state ownership is emphasized in a theoretical argument about “liability of stateness” (Mariotti & Marzano, 2019; Musacchio et al., 2015) and

legitimacy challenges faced by state-owned companies (Cuervo-Cazurra & Li, 2021; Li et al., 2017; Meyer et al., 2014). An important limitation of this literature is that legitimacy challenges are assumed without being tested empirically. These assumptions are often linked to the evidence that state-owned companies underperform. That evidence may be sufficient to shape the critical perception of state ownership by researchers and policy makers, but it does not necessarily imply that the public opinion of state ownership is also negative. To understand legitimacy challenges faced by state-owned companies, we need to consider public attitudes toward state ownership. The public perception of state ownership is likely to be different from the expert opinions (Yeyati & Negri, 2023) and might be influenced by considerations that go beyond evaluating economic performance.

Legitimacy challenges are also often treated as a universal problem faced by all companies with state ownership. We argue that implications of state ownership may vary depending on characteristics of the government acting as a shareholder of these companies. Since the government of a given country assumes responsibility for state-owned assets, characteristics of this government will influence what happens with state-owned companies and how they are perceived by the public. Our goal is to systematically consider the differences across countries in public attitudes toward state ownership and to explore whether these differences can be accounted for by government characteristics. We formulate our research question accordingly: How do government characteristics affect the legitimacy of state ownership in public perception?

Legitimacy has been defined as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate . . .” (Suchman, 1995, p. 574). In management studies, this entity is usually an organization and, correspondingly, legitimacy is understood as the perceived appropriateness of organizational forms and organizational practices (Deephouse et al., 2017). The entities being considered in the political science literature are political regimes or governance arrangements, and legitimacy is defined as “a condition where people regard a regime to exercise its authority in an appropriate manner” (Scholte, 2019, p. 48). Given this convergence between management and political science studies in understanding what legitimacy is about (Suchman, 1995; Tallberg & Zurn, 2019), we can define public legitimacy as being perceived by a public audience as desirable, rightful, and appropriate.

To test our hypotheses about the impact of government characteristics on the legitimacy of state ownership, we analyze data on 95 countries. The attitudes toward state ownership have been captured by periodically conducted World Values Surveys (WVSs) that have included questions about public

perception of state ownership since 1990. We take country-year as a unit in our analysis and match data on attitudes toward state ownership with data on government characteristics and other factors that may affect how state ownership is perceived. The results of our analysis demonstrate that perceived legitimacy of state ownership is greater in countries with authoritarian governments and with the weak rule of law. We also observe nonlinear relationships between the state ownership legitimacy and the government effectiveness in providing public services—at low levels, the quality of public services is positively associated with favorable perception of state ownership; in contrast, at high levels, the quality of public services has negative relationships with the legitimacy of state ownership.

Our study contributes to the management literature on state ownership and, more generally, to research on business–society relations. First, we complement the existing research about implications of state ownership for corporate strategies and performance with the empirical analysis of state ownership legitimacy, which has not been done in management studies yet. Next, we contribute to the literature on state ownership by demonstrating that public perception of state ownership is systematically related to key government characteristics. This implies the importance of national context for research on state ownership because governments in different countries have different characteristics. More generally, our study extends boundaries of research about the role of government in shaping business–society relations. In many countries, a significant proportion of large business corporations are owned by the state and our study demonstrates how government characteristics matter for understanding society’s attitude toward state-owned business.

Finally, our study contributes to the growing literature on state capitalism (Alami & Dixon, 2024; Musacchio & Lazzarini, 2014; Wright et al., 2022). This literature points out that governments around the world exercise influence over companies and get involved in the functioning of markets beyond playing the role of a neutral arbiter that defines and enforces “rules of the game” (North, 1990). These government interventions vary across countries in their scale, in how they are exercised, and in how they are perceived by the public. The state capitalism perspective highlights both the worldwide use of tools of state interventions in the market economies and the cross-national difference in how these tools are employed (Wright et al., 2021). We contribute to the state capitalism literature by exploring how state control over business companies is perceived in countries with different government characteristics. We demonstrate how governments may create political and institutional context that influences whether companies with state ownership are perceived as an “aberration” in the capitalist economy or as legitimate market participants.

The remainder of the paper is structured as follows. The next two sections provide background information about state ownership around the world and introduce the state capitalism perspective. The hypothesis development section presents our argument about government characteristics that are likely to influence public attitudes toward state ownership. The methodology section describes our data and analytic approach, with the subsequent section reporting the results of our analysis. In the concluding section, we discuss the implications of our study.

State Ownership and Its Perceived Legitimacy Around the World

In this study, we focus on ownership of companies by the state (sometimes these companies are also described as state-owned enterprises or government-owned companies). While state-owned companies can be found in any country, their roles may differ greatly from one country to another (Bernier et al., 2020; Wright et al., 2021). State ownership of companies is more common in emerging economies (e.g., in BRICS countries) than in advanced economies, but even in some developed economies, state-owned companies continue to play an important role (e.g., Canada, Singapore, many countries in Western Europe). State ownership is used as a mechanism to maintain control over “strategically important” companies in infrastructure industries that supply basic services to the population, typically including water, electricity, telecommunication, and transportation (Ramamurti, 1999). In emerging economies, strategic importance is also often attributed to financial services and natural resources industries, thereby justifying state ownership of banks and oil companies (A. A. Khanna, 2017).

The 1960s and 1970s have been described as the “golden age” of state ownership. Aggressive industrial policies were commonly implemented through generous investments in state-owned “national champions” that were supposed to drive economic development following the Second World War. Large state-owned industrial holdings were operating in France, Italy, and other European countries (Colli, 2022). During the same period, state investments propelled the development of technologically advanced industries in Japan, Taiwan, and South Korea. In the 1980s and 1990s, privatizations substantially reduced the amount of state ownership in many developed and emerging economies (Liu et al., 2006; Megginson & Netter, 2001; Ramamurti, 1997).

In the early 21st century, the privatization trend slowed and even reversed in such countries as China and Russia, where state-owned “national champions” were consolidating their dominance through mergers and acquisitions. In Western economies, the state ownership of companies expanded through

government bailouts of privately-owned companies in response to the financial crisis of 2008 to 2009 (Alami & Dixon, 2020) and the coronavirus pandemic of 2020 (Wood et al., 2023). At the same time, the states that continued to implement privatization programs often favored partial over full privatizations because the former represented an attractive compromise solution when the state was able to raise funds from private investors (and strengthen incentives for managers to perform better), while retaining sufficient influence over the company's strategic decisions (Bortolotti & Faccio, 2009).

The research about attitudes toward privatization of state-owned companies demonstrates relatively weak public support for privatization often associated with concerns about the fairness of this process (Denisova et al., 2012). In many transition economies, the privatization process was mired with corruption scandals and complaints about new private owners engaging in asset-stripping and the tunneling of resources to extract wealth instead of investing in the long-term development of privatized companies (Black et al., 2000). Not surprisingly, the studies of public attitudes toward privatization conducted in several transition economies demonstrate that respondents often critically evaluate the outcomes of the privatization programs implemented in the 1990s (Runst, 2014). Attitudes toward privatization have also been studied in the aftermath of privatization programs in Latin America. For example, Stanisevski and French (2020) report the waning public support for privatization since the 1990s in such countries as Chile and Mexico. In the developed countries, privatization programs targeted selected industries (electricity, banking, health services, etc.), and the public opinion was mixed regarding the benefits of these privatizations (Battaglio, 2009; Kallio et al., 2015).

Another important trend that affected the operation and perception of state-owned companies during the last two decades was their aggressive international expansion (Cuervo-Cazurra et al., 2022). While traditionally state-owned companies served the domestic market, "national champions" have more recently transformed themselves into multinational corporations by entering global markets and expanding their presence abroad through acquiring assets in other countries. This trend has been especially pronounced among "emerging market multinationals" (Cuervo-Cazurra et al., 2016) that are often partially owned by the state and benefit from the state support of their internationalization strategies provided through low-interest loans, foreign diplomacy assistance, etc. State-owned companies expanding abroad may face legal restrictions and "legitimacy challenges" in a host country, reflecting cautious attitudes toward companies controlled by foreign governments. Concerns about domestic state ownership usually focus on the inability of the home government as a shareholder to exercise diligent monitoring and to provide strong performance-linked incentives for managers (Musacchio et al., 2015). When control over companies operating in a host country is

exercised by the government of another country, concerns about foreign state ownership are usually related to national security, potential losses of technology leadership to foreign competitors, and unfair competitive practices (Bremmer, 2009).

Empirical studies about state-owned companies expanding abroad often address the overseas acquisitions made by large Chinese corporations (Boateng et al., 2022; Hong et al., 2015; Karolyi & Liao, 2017). These studies often point out that state-owned companies from China face legitimacy challenges when operating abroad, especially when entering markets in Europe and North America (Huang et al., 2017; Li et al., 2017, 2018; Meyer et al., 2014). Such challenges may range from suspicions that China's government is providing support that interferes with conditions of "fair competition" to accusations that China's government is using state-owned companies to steal technologies and to spy on customers in foreign markets.

Several studies consider how companies from other emerging economies face legitimacy challenges in Western markets (Aray et al., 2021; Panibratov & Klishevich, 2023). Cuervo-Cazurra (2018) provides examples of how the investments of state-owned companies are perceived differently in the United States depending on whether these companies are controlled by governments of emerging economies (such as China or Russia) or by governments of advanced economies (such as Germany or France). However, legitimacy judgments depend not only on the object of evaluation, but also on the audience making these evaluations. While perceived with suspicion by audiences in North America, state ownership boosts company legitimacy in China (Luo et al., 2021; Shi & Wang, 2023).

Legitimacy of state ownership has been studied not only by management and international business scholars, but also by political scientists (Eaton & Hasmath, 2021; Turner, 2018), economists (Denisova et al., 2012), and public administration scholars (Guangqi & Tianqu, 2023; Stanisevski & French, 2020). These scholars have explored how state ownership is perceived in various regions of the world including Europe, Asia, and Latin America, but these studies usually focus on individual characteristics of respondents affecting attitudes toward state ownership in specific countries (Denisova et al., 2012; Eaton & Hasmath, 2021; Turner, 2018). Our study, on the other hand, presents a cross-country analysis of how government characteristics are associated with public attitudes toward state ownership.

The State Capitalism Perspective

The image of state-owned companies has been changing since the beginning of the 21st century as some successful state-owned companies (e.g., Statoil/Equinor, Emirates Airline, etc.) have defeated the stereotypical association of

state ownership with bureaucracy, corruption, and inefficiency. Accordingly, the focus of research about state ownership around the world has been shifting from comparing efficiency and profitability of state-owned versus privatized companies (Megginson & Netter, 2001) to exploring various forms taken by state ownership (direct vs. indirect state ownership, federal vs. municipal ownership, majority vs. minority ownership) and the variety of goals pursued by state-owned companies (Cuervo-Cazurra et al., 2022; Fainshmidt et al., 2018; Musacchio et al., 2015; Rygh & Benito, 2022). Researchers have recently explored whether state-owned companies are out- or underperforming privately-owned companies on such dimensions as financial performance (Aguilera et al., 2021), innovations (Lazzarini et al., 2021), and sustainability (Hsu et al., 2023).

This shift in the focus of research about state ownership is linked to the rising prominence of the state capitalism perspective witnessed over the last 10 to 15 years. State capitalism is defined as “an economic system in which the state uses various tools for proactive intervention in economic production and the functioning of markets” (Wright et al., 2021, p. 2). We see several advantages in embracing the state capitalism perspective. First, it is important for us that the state capitalism perspective treats state interventions in the economy as a matter of degree rather than a binary category. This implies that we can evaluate the intensity of state interventions in the market economy in any country instead of focusing on only a handful of countries in which state involvement in the economy is very pronounced (as in studies of authoritarian or dirigiste capitalism). Second, the state capitalism perspective acknowledges the existence of several tools that can be used by the state to intervene in the economy—from relying on regulation to promote certain sectors of the economy, to ownership of strategically-important enterprises, to financial and political backing of private enterprises that help the government with the implementation of its industrial policies (Baltowski et al., 2022). Third, the state capitalism perspective emphasizes cross-national differences in how these tools are employed by the state and in the outcomes of its interventions (Musacchio et al., 2015).

In this study, we consider state ownership as one of the key tools of state capitalism. Companies with state ownership can be found in countries all around the world; however, there are enormous differences across countries in how extensive the state ownership is, how ownership rights are leveraged by the state, which goals the state is pursuing when exercising its ownership rights, etc. If we consider studies about state-owned companies, the lion’s share of these studies comes from China (Bruton et al., 2015; Panibratov & Klishevich, 2023). China has often been taken as an example when scholars analyze performance, governance, internationalization, or social responsibility of state-owned

companies (Hofman et al., 2017; Li et al., 2019; Situ et al., 2020; Wang et al., 2020). Such studies often point out features of the Chinese economic model that reflect the monopoly of the Communist Party in China's politics. These characteristics of the political system in China are the reason why its economic system is often referred to as authoritarian capitalism (Muller et al., 2023). Researchers have described authoritarian capitalism as state capitalism practiced by authoritarian governments (Sallai & Schnyder, 2021). While authoritarian capitalism, by definition, may exist only in countries with authoritarian political regimes (Carney, 2018), it is important to study how state capitalism is practiced in countries with different political regimes and not just in countries with authoritarian governments.

Politics is not the only source of variation in how state capitalism is practiced around the world. The institutional development matters as well, and state interventions in the economy in countries with advanced regulation systems and institutional infrastructures take different forms and have different implications than in countries with weak and unstable institutions. Here, the state capitalism literature draws from research on "institutional voids" to argue that state interventions, including state ownership of companies, may alleviate problems in the functioning of financial, labor, and product markets associated with weakness of institutions supporting these markets (Inoue et al., 2013; Pan et al., 2020).

Besides politics and institutions, an important source of variation in how the tools of state capitalism are employed in different countries is, naturally, the ability to use these tools. A skillful and thoughtful intervention by educated, motivated, and well-organized policy makers has far better chances to succeed than a haphazard intervention by incompetent and inexperienced government officials. Availability of relevant competencies or capabilities has been discussed in the political science literature on developmental states (Evans, 1995), and the state capitalism perspective draws from this literature in exploring how the cross-national heterogeneity in such capabilities accounts for successes and failures in using the tools of state capitalism to stimulate economic growth and industry development (Aguilera et al., 2021; Musacchio et al., 2015).

In the following section, we build on the state capitalism perspective to examine the government characteristics that should affect how state ownership is used to intervene in the economy and how these interventions are evaluated in public opinion. There is a lively debate in the academic literature about merits and risks associated with state capitalism (Alami & Dixon, 2024; Kurlantzick, 2016; Musacchio & Lazzarini, 2014; Panibratov & Klishevich, 2023) intended to determine how much state intervention in the economy is acceptable or even desirable. However, if we consider how the

extent of state involvement in the economy is determined in practice, we must acknowledge that it is a political decision that cannot be made without taking into account public opinion (even in authoritarian countries). Therefore, we complement the existing research about cross-national differences in performance implications of state ownership with a study that explores cross-national differences in the public perception of state ownership, demonstrating that its legitimacy is closely tied to government characteristics.

Hypotheses About Government Characteristics Affecting the Legitimacy of State Ownership

We follow the studies cited in the previous section and focus on politics, institutions, and capabilities in identifying government characteristics that would be relevant for our analysis. We know that politics, institutions, and government capabilities matter for strategies and performance of state-owned companies (Aguilera et al., 2021; Musacchio et al., 2015)¹—it is natural to expect that these factors may also impact public opinion about state ownership. First, what we call a political orientation (and what has been described as a political regime or a political ideology in other studies) may affect how the government uses the state property with implications for how state-owned companies are perceived by the public. Second, the institutional conditions—to what extent the laws enabling market transactions are effectively enforced by the government—should influence whether state ownership is considered favorably or skeptically. Third, the government’s capability to execute ownership functions, presumably, affects what happens with state-owned companies and how they are perceived.

Political Orientation of the Government

The liberal market proponents favor private ownership and depict state ownership as an aberration acceptable only under extreme circumstances. If state intervention is needed to keep companies afloat during a major crisis, the liberal market proponents insist that the state ownership over the bailed-out companies is justifiable only as a temporary measure, and ownership of those companies should be returned to private hands as soon as possible (Samuelson, 2015). Other political orientations are less averse to state ownership (Jakobsen, 2011; Lindh & Sevä, 2018). Notably, authoritarian governments often rely on state ownership to maintain control over the national economy and to facilitate economic development (Carney, 2018; Sallai & Schnyder, 2021). The “dirigiste” approach embraced by authoritarian

governments justifies state ownership of companies as an instrument for maintaining economic stability (e.g., through impact on prices and unemployment), and more broadly, as a guarantee of social security and national sovereignty.

We expect that the government's political orientation not only affects the dynamic (extension or contraction) of the state-owned sector but also influences public attitudes toward state ownership. Dirigiste-authoritarian governments are not only reluctant to privatize state-owned companies but also defend state ownership of companies as appropriate and beneficial for the society, thereby bolstering its public legitimacy (e.g., the government of China consistently emphasizes the important role played by state-owned companies in the growth and modernization of the economy). In contrast, liberal-democratic governments tend to support privatizations and to emphasize the role of private business in achieving policy goals, thus undermining the legitimacy of state ownership.²

It is also plausible that in countries where the public opinion is critical of state ownership, liberal-democratic governments are more likely to win elections and remain in power. The causality in the relationship between governments' political orientation and public attitudes toward state ownership is likely to be complex and run both ways. What we expect to find is the evidence that the political orientation is systematically related to the legitimacy of state ownership and this relationship should hold when we control for the relative size of the state-owned sector. In other words, we argue that governments' political orientation is associated with public attitudes toward state ownership above and beyond the relationships between the political orientation and *de facto* state ownership. Specifically, we suggest a hypothesis contrasting public attitudes toward state ownership in countries where governments can be characterized as liberal-democratic (e.g., Canada or Australia) and in countries where governments can be characterized as dirigiste and authoritarian (e.g., Saudi Arabia or Belarus).

Hypothesis 1 (H1): In countries with dirigiste-authoritarian governments, the legitimacy of state ownership will be higher than in countries with liberal-democratic governments.

The Government as a Provider of Law and Order

Providing law and order is one of the basic functions of the government. Institutional economics describes this function as defining "rules of the game" (North, 1990). Well-defined and properly enforced rules, also described as institutions, facilitate market transactions. The literature about

emerging and transition economies highlights the importance of market institutions for economic development (Acemoglu et al., 2005; Rodrik, 2008). However, the economic processes can be coordinated not only through market institutions. Coordination can be achieved alternatively through direct state ownership of the means of production. The extreme form of direct state control over the economy is exemplified by the Soviet Union and other socialist economies before the market reforms of the early 1990s. The dominant view during the period of market reforms, as reflected in the Washington Consensus (Rodrik, 2006), was that coordination through state ownership would be gradually replaced by markets with privately-owned companies. However, in many countries, this process has remained incomplete and sometimes even reversed (Banalieva et al., 2018).

Smooth functioning of markets is enabled by market institutions, with the rule of law being the basis for any further development of the market infrastructure. When the government is incapable of maintaining the strong rule of law, the functioning of markets is hindered by “institutional voids” (T. Khanna & Palepu, 2010). Problems associated with institutional voids that impede the functioning of markets will increase attractiveness of state ownership as a potential alternative coordination mechanism (Musacchio et al., 2015; Pan et al., 2020). In particular, partial state ownership can facilitate access to resources in countries with weak institutional infrastructure (Doh et al., 2004; Inoue et al., 2013). When witnessing government inability to provide law and order essential for the functioning of markets, the general public is likely to view state-owned companies as more reliable and trustworthy than privately-owned companies because actions of state-owned companies are constrained not only by the rule of law but also through direct control exercised by the state as a shareholder. For example, many customers favor state-owned banks during periods of socio-economic instability if they have doubts that privately-owned banks will comply with laws and regulations protecting customers’ savings deposited in these banks (Spicer & Okhmatovskiy, 2015). In contrast, when the government is effective in maintaining the rule of law, the public is less likely to consider state ownership as a tool needed to prevent deviant corporate behavior and thus public attitudes toward state ownership will be less favorable.

The argument about favorable attitudes toward state ownership under conditions of weak rule of law does not imply that state-owned companies operate better in countries with weak rule of law than in countries with strong rule of law. Presumably, state-owned companies are less reliable in the absence of strong law, but we expect that the attitudes toward state ownership are determined by the availability of alternative coordination mechanisms. We build on the argument that treats coordination of the economy through state

ownership as the second-best solution to adopt when the rule of law is weak and cannot provide effective safeguards for economic transactions (Rodrik, 2008). If coordination through the rule of law is considered as the first-best solution, then in countries with strong rule of law, the public is less likely to view state ownership of firms as rightful and appropriate. However, in those countries where the first-best option of coordination through strong rule of law is not available, the perception of state ownership is expected to be more positive—not because state-owned firms in those countries operate better but because the imperfect coordination through state ownership is better than no coordination at all. When the public is skeptical of the government’s ability to effectively implement a sophisticated form of economic coordination through the rule of law, they are likely to favorably perceive a relatively simple form of economic coordination through direct state ownership.

Hypothesis 2 (H2): In countries with governments capable of maintaining strong rule of law, the legitimacy of state ownership will be lower than in countries with governments incapable of maintaining strong rule of law.

The Government as a Provider of Public Services

In addition to maintaining law and order, the government is usually expected to provide public services including healthcare, education, utilities, transport infrastructure, and public security. Poor capacity to provide these public services is distinct from problems with the rule of law and reflects the incompetence of government officials or poor functioning of the government bureaucracy. To be effective in providing public services, government agencies should possess corresponding capabilities. Some of these capabilities are needed to perform specific public services, but others have a more general impact (such as complex coordination of activities performed by various government agencies) and can be leveraged across various functions performed by the government. Considering these general government capabilities is important for understanding the implications of state ownership (Aguilera et al., 2021; Musacchio et al., 2015). Evidence of the government’s inability to provide public services is likely to undermine the legitimacy of state ownership because it might be expected that problems with organization and qualification of government officials (as reflected in poor quality of public service) will also impair the government’s ability to perform ownership functions.

At the low end of the competence continuum, we find those governments that are unable to provide basic public services to the residents of their countries (Ault & Spicer, 2020; Ferreira, 2017). Such failure is likely to raise

public concerns about the capability of these governments to perform ownership functions, thus contributing to skepticism of state ownership. The concerns about the government capabilities are likely to have substantial detrimental effect on state ownership legitimacy at the low levels of public services quality. As the quality of services improves and approaches the level deemed satisfactory, further incremental improvements in the quality of public services will have less noticeable impact on the legitimacy of state ownership. We expect this because possessing the basic level of organizational and governance competencies is a necessary condition for performing ownership functions, but once sufficient competencies are available, other factors are becoming decisive in shaping the public opinion whether business companies should be owned by the state or by private shareholders. In other words, if we start at the low end of the public service continuum, the initial incremental increases in the quality of public services will result in relatively large improvements in attitudes toward state ownership. However, further increases in the quality of public services beyond the satisfactory level will have less pronounced effects on legitimacy of state ownership. Once a shortage of the relevant organizational competencies needed by the government is not a concern anymore, further increases in the quality of public services would not boost public attitudes toward state ownership because the public attention is switching to other factors that affect the legitimacy of state ownership.

Hypothesis 3 (H3): In countries with governments demonstrating poor capacity to provide public services, the legitimacy of state ownership will be low. With improvements in the government capacity to provide public services, the legitimacy of state ownership will be increasing but at a decreasing rate.

Methods

Data

We use yearly cross-national panel data with variables defined at the country level within the observation period from 1990 to 2020. All available data points are included. However, for many countries, annual data are available for only a portion of this period or for only a subset of variables. We, therefore, work with the unbalanced panel data available for the initial sample of 1,543 country-year observations obtained from 95 countries between 1990 and 2020. Table SA1 of the Supplemental Appendix includes information about the total number of observations per variable conditional on the availability of data on the dependent variable. As we work with the unbalanced

panel data, the number of observations varies across the reported regression models.

Dependent Variable

Our dependent variable (DV) is *Legitimacy of state ownership*. We build on the extensive political science literature that relies on surveys of public support to measure legitimacy (Caldeira & Gibson, 1992; Dellmuth & Chalmers, 2018; Mau, 2005; Rohrschneider, 2002). Political science and management scholars agree that legitimacy refers to being perceived by an audience as rightful and appropriate (Suchman, 1995; Tallberg & Zurn, 2019); however, there is no consensus about how legitimacy should be operationalized. Management scholars use a broad range of empirical indicators of legitimacy—from the organizational density (Carroll et al., 1996; Dobrev, 2001) to media coverage (Bansal & Clelland, 2004; Vergne, 2011). Diez-Martin et al. (2021) review multiple measures of legitimacy used in management research and suggest that researchers should pick an indicator of legitimacy that corresponds to the objectives of their research project. Given our focus on the public perception of state ownership across countries, we use a survey item from the WVS to empirically measure public support for state ownership. This item captures preferences for state versus private ownership, inviting respondents to rate their agreement with the following statements on a scale of 1 to 10: “Private ownership of business and industry should be increased” (1) versus “Government ownership of business and industry should be increased” (10). While earlier research has interpreted this item as reflecting the legitimacy of privatization (Stanisevski & French, 2020), we use it as an indicator of support for state (government) ownership. We use all responses from the surveys conducted between 1990 and 2020 (Inglehart et al., 2020). Additional information about *Legitimacy of state ownership* can be found in Table A1 of the Appendix.

Independent Variables

To capture cross-national differences in the governments’ political orientation, we use the *Authoritarian political orientation* variable with the highest score (+10) assigned to the most autocratic political regime of hereditary monarchy and the lowest score (−10) assigned to the most democratic political regime of consolidated democracy. The *Authoritarian political orientation* variable is generated through a linear transformation of the “Polity” scores reported by the Centre for Systemic Peace for 167 countries and frequently used in prior cross-national studies (Munck & Verkuilen, 2002). To

capture the government ability to maintain law and order, we use the *Rule of law* variable derived from the corresponding index included in the World Governance Indicators (Kaufmann et al., 2010). This rule of law index captures the extent to which citizens of a country abide by the rules of law as indicated by compliance with court decisions, effectiveness of contract enforcement, respect for property rights, etc. The rule of law index has often been used in earlier research (Amin & Mattoo, 2006). We use the *Public services* variable as an indicator for the government capability to provide basic services to the society. The *Public services* variable ranges from 0 (poor quality) to 10 (high quality) of essential public services. All independent variables were lagged by 1 year to alleviate concerns about potential reverse causality in our analysis. Information about data sources for each independent variable is provided in Table A1 of the Appendix.

Control Variables

If we observe a certain social phenomenon frequently, it is more likely to be perceived as normal, appropriate, or even taken for granted (Goffman, 1971); sociologists and organization theorists describe such perception as cognitive legitimacy (Carroll & Hannan, 2000; Suchman, 1995; Zeng & Xu, 2020). According to this logic, people may perceive state ownership as more legitimate in those countries where state ownership is common. To capture state ownership in a particular country for a given year, we use *State ownership of assets* that is based on the homonymous index obtained from the Fraser Institute of Economic Freedom database. This index reflects the extent of state ownership and control of assets in industrial, agricultural, and service sectors. We use several variables to control for general economic conditions: *GDP per capita* (Gross Domestic Product of a country weighted by its population) to control for potential differences between poorer and wealthier countries, *Gini index* to control for the degree of economic inequality within a country, and *Import to GDP* variable to capture the extent to which a country has been affected by the globalization trend. Data on *GDP per capita*, *Gini index*, and *Import to GDP* were obtained from the World Bank. We also control for two time periods with events that impacted attitudes toward state ownership in many countries—the wave of privatizations from 1990 to 1999 (the *1990s decade* dummy variable) and the consequences of the global financial crisis (the *Financial crisis aftermath* dummy variable for the 3 years following the 2008–2009 financial crisis). Due to the difficulties in comparing performance of state-owned companies across countries, we could not obtain reliable country-level indicators that would reflect the cross-national differences in the aggregated performance of those companies.³

Analytic Approach

We follow Wooldridge (2012, pp. 492–501) in choosing pooled Ordinary Least Squares (OLS) regressions with clustered standard errors as the most suitable for this study. As advocated by Papke (1999), this method is preferred for unbalanced panel data with the limited number of panels for each country to track changes over time (Fitrianto, 2016; Reed & Ye, 2009). We adjust the OLS models by employing robust standard errors that accommodate data clustering and heteroskedasticity.⁴

Multicollinearity is a common issue in studies that analyze government characteristics across countries—that is, research that has investigated factors affecting attitudes toward government faced challenges due to high correlations among various social, economic, and cultural variables (Bjornskov & Paldam, 2012; Gilley, 2006). Following the analytic approach used by Bjornskov and Paldam (2012), we test the effects of *Authoritarian political orientation*, *Rule of law*, and *Public services* on the legitimacy of state ownership separately (Tables 2–4). Instead of including all control variables simultaneously, we run models that include controls for *State ownership of assets*, *Financial crisis aftermath, the 1990s decade*, and one of the economic indicators—*GDP per capita*, *Gini index*, or *Import to GDP*. We also perform two robustness checks to explore the combined effect of our independent variables. Table A2 of the Appendix presents the regression results for the composite index calculated as a weighted sum of explanatory variables (following Gilley, 2006). Table A3 of the Appendix reports the results obtained with the orthogonalization procedure that transforms the original variables into noncorrelated variables (following Golub & Van Loan, 2013).

We address potential endogeneity in the relationships between our dependent and independent variables using instrumental variable (IV) analysis (Bascle, 2008; Semadeni et al., 2014). Below, we provide theoretical justifications for our choice of the IVs. The results of the first-stage regressions for the IV models from Tables 2 to 4 are reported in the Supplemental Appendix (Tables SA8–SA10).

To select an instrument for the *Authoritarian political orientation*, we follow Pettersson (2004), who proposes using the share of democracies in a region as an instrument for the political regime. Countries situated in regions with a higher concentration of democracies face increased political pressure to adopt democratic governance. While the regional share of democracies is likely to influence a country's political system, it is unlikely to directly affect individual beliefs about the legitimacy of state ownership. To instrument the effects of the *Rule of Law*, we follow earlier studies (Amin & Mattoo, 2006; La Porta et al., 1999) and use the ethnolinguistic fractionalization and the legal origins as instruments.

Ethnolinguistic fractionalization, as noted by Mauro (1995) and La Porta et al. (1999), is an exogenous factor negatively affecting institutional quality and the rule of law. Ethnolinguistically fragmented societies often have disagreements over public goods, reducing demand for strong institutions (Alesina et al., 1999). Government officials in ethnolinguistically fragmented societies may favor their own ethnolinguistic group, further hindering legal development and impartial law enforcement (Mauro, 1995). While it can influence the rule of law through its impact on social and political interactions, ethnolinguistic fractionalization is unlikely to directly affect public attitudes toward state ownership. Legal origin refers to the foundational rules of a country's legal system, typically categorized as civil law, common law, or other traditions. These origins shape judicial structures and affect the rule of law by introducing unique implementation challenges. While affecting the judicial system and the rule of law, legal origins are not expected to have a direct impact on economic outcomes (Acemoglu & Johnson, 2005) or on public attitudes toward state ownership.

As an instrument for the *Public services* variable, we utilize an index of press freedom as suggested by Ezcurra and Rodríguez-Pose (2014). Research has shown that greater press freedom positively impacts government quality (Brunetti & Weder, 2003; Chowdhury, 2004; Enikolopov et al., 2011). A free and pluralistic media shapes public perceptions of government actions, acting as a vital check for the proper functioning of government and high-quality public services. Free media disseminate unbiased information about government performance, stimulating reforms that improve government quality (Acemoglu & Robinson, 2012). Press freedom is likely to influence attitudes toward state ownership indirectly, through its impact on the quality of public services. Control over public opinion, including public opinion about state ownership, through media is limited because people do not accept media messages uncritically (Philo, 2008), as can be seen in historical contexts such as Eastern Europe before the dissolution of the Soviet Union (Fiedler et al., 2019). However, through facilitating access to reliable information, freedom of press has a direct impact on the quality of public services.

Further details about each IV are provided in Table A1 of the Appendix. We have validated the IVs with first-stage regression results, confirming significant relationships between our instruments and the instrumented variables (as reported in Tables SA8–SA10 of the Supplemental Appendix). We have also conducted instrument validity tests for under-identification and weak identification. Under-identification was assessed using the Kleibergen-Paap rk LM statistic, which indicated that the instruments are relevant predictors of the instrumented variable. For weak identification we compared the Cragg-Donald Wald F statistic and Kleibergen-Paap rk Wald F statistic against Stock-Yogo critical values, confirming that the instruments are strongly correlated with the endogenous regressor, thus avoiding the issues of weak

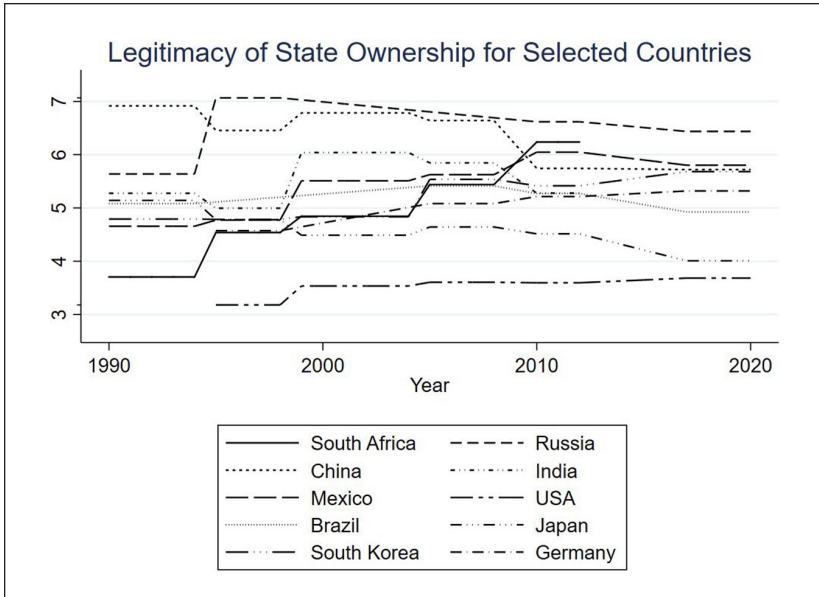


Figure 1. Changes in the Legitimacy of State Ownership from 1990 to 2020 for a Sample of 10 Countries.

instruments, which could lead to biased and inconsistent estimates (Table SA11 of the Supplemental Appendix).⁵

Results

Main Results

The analysis of the WVS data demonstrates significant cross-national differences in attitudes toward state ownership. While public attitudes toward state ownership are changing over time, cross-national differences tend to persist. For example, the WVS conducted in 1995 to 1998 shows a significantly higher legitimacy of state ownership in Mexico (4.77) than in the United States (3.18). The WVS conducted in 2017 to 2020 shows an increase in the legitimacy of state ownership in both countries, but the average value is still much lower in the United States (3.68) than in Mexico (5.80). Across all countries covered by the WVS in 2017 to 2020, the overall average is 5.70 and the standard deviation is 0.76. Mexico is, therefore, slightly above the world average, while the United States is more than 2.5 standard deviations below the world average (Figure 1).

Table 1 reports descriptive statistics and pairwise correlations for the variables used in our analysis. Table 2 presents the results of testing H1 about the

Table I. Descriptive Statistics and Pairwise Correlations.

Variable	Mean	SD	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
1 Legitimacy of state ownership	5.455	0.806	3.179	7.514																
2 State ownership of assets	4.040	2.199	0	10	.219															
3 1990s decade	0.299	0.458	0	1	-.172	.078														
4 Financial crisis aftermath	0.090	0.286	0	1	.089	-.073	-.205													
5 GDP per capita	14.054	17.323	0.286	154.096	-.239	-.051	-.208	.071												
6 Gini inequality index	39.644	8.837	20.7	65.8	.134	-.022	.109	-.059	-.413											
7 Import to GDP	41.855	22.641	0	191.458	.079	-.003	-.138	.055	.133	-.187										
8 Authoritarian politic. orientation	-4.004	6.166	-10	10	.173	.712	.068	-.025	-.051	.052	-.080									
9 Rule of law	-0.014	0.999	-2.255	2.1	-.409	-.378	.153	-.019	.680	-.373	.155	-.459								
10 Public services	4.417	2.493	0	9.373	-.299	-.237		-.029	.761	-.450	.171	-.305	.833							
11 Share of democracies	0.575	0.305	0.118	1	-.331	-.580	-.107	.030	.264	-.142	.099	-.668	.499	.523						
12 Ethnolinguistic fraction	0.458	0.262	0.001	1.269	.150	.118	-.007	.002	-.164	.313	-.104	.233	-.335	-.415	-.337					
13 British legal origin	0.329	0.470	0	1	-.241	.062	.005	.002	.021	.158	.043	.030	.094	-.044	-.116	.186				
14 French legal origin	0.525	0.499	0	1	.361	.038	-.002	-.001	-.142	.180	-.067	.151	-.368	-.236	-.125	.060	-.736			
15 German legal origin	0.107	0.310	0	1	-.121	-.124	-.004	-.002	.096	-.312	.095	-.212	.245	.262	.233	-.237	-.243	-.365		
16 Freedom of press	53.295	24.333	0	100	-.371	-.645	.005	-.008	.236	-.147	.194	-.786	.724	.495	.683	-.216	.172	-.316	.180	

Note: Pairwise correlations. All correlations above |.0384| are significant at the 5% significance level. GDP = Gross Domestic Product.

Table 2. The Results of Testing HI From Regression Models With and Without an Instrumental Variable.

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
DV: Legitimacy of state ownership								
	OLS (with clustering by country)							
Authoritarian political orientation	.024 [†] (0.013)	-.005 (0.017)	-.009 (0.018)	.000 (0.017)	.071 ^{***} (0.022)	.091* (0.044)	.105 [†] (0.054)	.123* (0.052)
State ownership of assets		.071 (0.049)	.125* (0.059)	.092 (0.056)		-.172 (0.098)	-.101 (0.112)	-.163 (0.111)
1990s decade		-.387 ^{***} (0.087)	-.392 ^{***} (0.096)	-.311 ^{***} (0.082)		-.313 ^{***} (0.105)	-.324 ^{***} (0.116)	-.231* (0.107)
Financial crisis aftermath		.213 ^{***} (0.071)	.088 (0.077)	.104 (0.065)		.169* (0.079)	.089 (0.087)	.070 (0.082)
GDP per capita		-.015 ^{***} (0.006)				-.012* (0.005)		
Gini inequality index			.020* (0.009)				.020* (0.008)	
Import to GDP				.003 (0.004)				.002 (0.006)
Constant	5.594 ^{***} (0.095)	5.482 ^{***} (0.267)	4.377 ^{***} (0.463)	5.116 ^{***} (0.340)	5.820 ^{***} (0.128)	6.566 ^{***} (0.549)	5.669 ^{***} (0.718)	6.618 ^{***} (0.693)
N	1,253	1,229	935	1,198	1,253	1,229	935	1,198
R ²	0.030	0.145	0.126	0.087	—	—	—	—
Mean VIF	1.00	1.46	1.38	1.44	1.00	1.58	3.46	2.21

Note. Standard errors in parentheses.

[†] $p < .10$ * $p < .05$ ** $p < .01$.

effect of the governments' political orientation on the legitimacy of state ownership. In the OLS regressions with standard errors clustered by country (models 1–4), the coefficients for the *Authoritarian political orientation* are not statistically significant. However, IV models (models 5–8) yield statistically significant coefficients for *Authoritarian political orientation*, indicating more favorable attitudes toward state ownership in countries with dirigiste-authoritarian governments and less favorable attitudes in countries with liberal-democratic governments. While these mixed results can be interpreted as marginal support for H1, we put more weight on supportive evidence from IV models because these are less likely to be biased by the potential endogeneity in our analysis.

Table 3 demonstrates strong support for H2, which predicted that the government ability to provide law and order is negatively associated with the state ownership legitimacy. The *Rule of law* variable has a consistent negative effect on the *Legitimacy of state ownership* across all the models with different control variables (Table 3).

Table 4 presents the results of testing H3. The positive coefficients for *Public services* and negative coefficients for *Public services squared* indicate the existence of nonlinear (concave) relationships between the quality of public service and the attitudes toward state ownership. The *Legitimacy of state ownership* is low in countries with the poor quality of public services. As the quality of public services improves, the attitudes toward state ownership become more favorable, but as the quality of public services approaches average values, the increases in *Legitimacy of state ownership* become less pronounced and reach an inflection point at which further increases in the quality of public services are associated with lower *Legitimacy of state ownership*.⁶ This pattern provides support for H3 and is consistent with the argument that improvements of public services should increase the legitimacy of state ownership when the quality of public services is poor but not when the quality of public services is increasing above the satisfactory level.

In addition to assessing the statistical significance, we also examine the effect size for each of our independent variables, that is, we analyze how *Legitimacy of state ownership* varies when *Authoritarian political orientation*, *Rule of law*, or *Public services* increase by one standard deviation. We rescale *Legitimacy of state ownership* to the 0 to 1 range and use model 6 of Tables 2 to 4. When we increase *Authoritarian political orientation* by one standard deviation above the mean, *Legitimacy of state ownership* rises from 0.53 to 0.66 (+25%). The same increase in the *Rule of law* results in

Table 3. The Results of Testing H2 From Regression Models With and Without an Instrumental Variable.

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
DV: Legitimacy of state ownership								
OLS (with clustering by country)								
Rule of law	-.324** (0.080)	-.319** (0.120)	-.366** (0.103)	-.338** (0.082)	-.559** (0.128)	-.873** (0.281)	-.473** (0.141)	-.636** (0.143)
State ownership of assets		-.002 (0.043)	-.016 (0.046)	-.004 (0.039)		-.145 ⁺ (0.079)	-.105 (0.064)	-.125 ⁺ (0.066)
1990s decade		-.214 ⁺ (0.116)	-.243* (0.113)	-.202* (0.095)		.083 (0.200)	-.210 (0.141)	-.082 (0.123)
Financial crisis aftermath		.119 ⁺ (0.066)	.044 (0.067)	.108 ⁺ (0.062)		-.002 (0.078)	.030 (0.077)	.124 (0.085)
GDP per capita		.000 (0.007)				.025 ⁺ (0.013)		
Gini inequality index			.004 (0.009)				.001 (0.009)	
Import to GDP				.001 (0.004)				.006 ⁺ (0.003)
Constant	5.550** (0.071)	5.545** (0.153)	5.523** (0.400)	5.502** (0.213)	5.571** (0.081)	5.661** (0.169)	5.898** (0.493)	5.748** (0.217)
N	1,020	1,000	766	957	789	789	616	762
R ²	0.177	0.183	0.213	0.197	—	—	—	—
Mean VIF	1.00	1.79	1.34	1.20	1.00	2.48	2.13	2.04

Note. Standard errors in parentheses.

⁺p < .10. *p < .05. **p < .01.

Table 4. The Results of Testing H3 From Regression Models With and Without an Instrumental Variable.

Model	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
DV: Legitimacy of state ownership								
OLS (with clustering by country)								
Public services	.454** (0.044)	.456** (0.107)	.445** (0.128)	.493** (0.108)	.518* (0.260)	.537* (0.234)	.391 ⁺ (0.227)	.446* (0.178)
Public services squared	-.056** (0.004)	-.057** (0.011)	-.056** (0.013)	-.059** (0.011)	-.063* (0.028)	-.059 ⁺ (0.031)	-.046 ⁺ (0.026)	-.051** (0.020)
State ownership of assets		.025 (0.037)	-.005 (0.042)	.031 (0.033)		.036 (0.050)	.022 (0.049)	.044 (0.038)
Financial crisis aftermath		.010 (0.060)	-.038 (0.063)	.005 (0.060)		.018 (0.055)	-.024 (0.058)	.000 (0.056)
GDP per capita		.002 (0.006)				-.002 (0.012)		
Gini inequality index			-.008 (0.010)				-.003 (0.011)	
Import to GDP				-.003 (0.004)				-.002 (0.004)
Constant	5.024** (0.103)	4.873** (0.285)	5.419** (0.497)	4.897** (0.323)	4.875** (0.492)	4.584** (0.462)	5.093** (0.515)	4.843** (0.403)
N	697	607	476	589	610	564	462	546
R ²	0.269	0.269	0.234	0.294	—	—	—	—
Mean VIF ^b	1.00	1.63	1.28	1.12	1.00	3.33	4.30	2.86

Note. Standard errors in parentheses. The models with Public services variable do not include the 1990s decade dummy because Public services variable is only available from 2006 to 2020.

^aAs instruments for the models with Public services squared, we use *Freedom of press* and *Public services* fitted values squared from the first stage regression, following the approach described by Wooldridge (2000, pp. 236–237).

^bMean VIF of the corresponding linear equation.

⁺ $p < .10$. * $p < .05$. ** $p < .01$.

Legitimacy of state ownership declining from 0.52 to 0.31 (−42%). The percentage decreases demonstrate that these effect sizes are quite substantial. As for *Public services*, its nonlinear relationship with *Legitimacy of state ownership* is illustrated by Figure SA1 of the Supplemental Appendix — a substantial jump in *Legitimacy of state ownership* from 0.30 to 0.41 (+37%), when *Public services* quality increases from 1 to 2, contrasts with the negligible change when *Public services* quality increases from 4 to 5 (thus approaching its average value).

Robustness Checks

We use two approaches to explore the combined effect of our correlated independent variables that were not included simultaneously in the models reported in Tables 2 to 4 due to multicollinearity issues. The first approach is using a composite index that includes as components several variables expected to influence the dependent variable (Gilley, 2006).⁷ We use this approach to explore the combined effect of our explanatory variables on state ownership legitimacy by generating *Composite index* as the combination of the three independent variables used to test H1, H2, and H3—*Authoritarian political orientation*, *Rule of law*, and *Public services* (as described in Table A1 of the Appendix). The regression coefficients of the *Composite index* demonstrate a combined effect of our independent variables in explaining *Legitimacy of state ownership* (Table A2 of the Appendix).

As the second approach in testing the combined effect of our independent variables, we follow the modified Gram–Schmidt procedure (Golub & Van Loan, 2013) and orthogonalize our independent variables, thus creating a set of variables that are not correlated. We include all of the orthogonalized independent variables simultaneously into the same regression (Table A3 of the Appendix). The coefficients for *Rule of law* and *Public services squared* are statistically significant in this regression. The coefficient for *Authoritarian political orientation* is not significant, as observed in the original regressions without IVs. The coefficient for *Authoritarian political orientation* becomes significant when we use an instrument in the original regression (Table 2), but in the analysis with orthogonalized variables, we cannot use instruments.⁸ We have also performed additional robustness checks to examine how our results are affected when we control for government investments and replicate our analysis with the reduced sample. The results of these robustness checks (reported in Tables SA2–SA7 of the Supplemental Appendix) are consistent with our main analysis.

Discussion and Conclusion

Summary of Findings

Our findings demonstrate that state ownership legitimacy is affected by several government characteristics. As predicted in H1, the legitimacy of state ownership is associated with the political orientation of the government—it is higher in countries with authoritarian governments and lower in countries where governments are constrained by the system of political checks and balances that characterizes democracies. However, the relationships between the government political orientation and the public perception of state ownership are complex and cannot be described in terms of simple causality. In particular, while authoritarian governments promote positive attitudes toward state ownership, the public welcoming state ownership may also be more supportive of authoritarian governments. What our analysis demonstrates is a strong association between these variables. Earlier studies have demonstrated that state ownership of companies is often used to exercise control over the economy in countries with authoritarian governments (Bremmer, 2009; Hofman et al., 2017). Our study provides evidence that the public opinion of state ownership is more likely to be favorable in countries with authoritarian governments, even if we control for other factors, including the extent of state ownership.

We find support for H2, which links state ownership legitimacy with the government's ability to maintain law and order. When the rule of law is strong, the public does not see the need for extensive state ownership of companies, while the weak rule of law is associated with a favorable perception of state ownership. This finding can be interpreted as the evidence consistent with the “institutional void” logic (T. Khanna & Palepu, 2010; Musacchio et al., 2015; Pan et al., 2020). Specifically, the public can perceive state ownership as a potential solution to the problems created as the result of inability of privately-owned companies to implement large-scale and high-risk projects in the absence of sophisticated and reliable rule of law. However, it is also possible that the demand for strong rules regulating market behavior is weaker in countries with broad public support for extensive state ownership. According to the latter scenario, state ownership is not perceived as a way to fill in institutional void—instead, there is limited interest in the development of market institutions in countries with weak public support for privatization and marketization of the economy. Again, the relationships between the development of market institutions and the attitudes toward state ownership are likely to be more complex than a simple one-directional causality. What

our study demonstrates is that state ownership is perceived more favorably when governments fail to maintain the rule of law and less favorably when governments are effective in doing that, even after controlling for other factors affecting public attitudes toward state ownership.

Finally, when testing H3, we find that the relationships between the quality of public services and the state ownership legitimacy are not linear—at low levels of public services quality, it is positively associated with the legitimacy of state ownership; however, after reaching average values, further improvements in the quality of public services do not enhance a favorable perception of state ownership. Moreover, we find that countries with very high values of *Public services* tend to have lower *Legitimacy of state ownership*. Apparently, the low quality of public services can undermine legitimacy of state ownership—a lack of general government competencies reflected in the inability to provide public services may be a warning that the government would also be unable to perform the ownership functions properly. However, in the absence of obvious problems, when the level of public services is satisfactory, the logic of relationships between the ability to provide such services and the public attitudes toward state ownership is different—the governments providing high quality services may be expected to do just that without intervening in the governance of business enterprises as a shareholder.

Contributions to the Literature

Our study makes several important contributions to the literature about state ownership, state capitalism, and business–society relations. First, management studies tend to discuss legitimacy of state ownership without using empirical measures that would capture how state ownership is actually perceived (Cuervo-Cazurra & Li, 2021; Li et al., 2017; Meyer et al., 2014). Our study contributes to the management literature about “liability of stateness” by introducing empirical measures of attitudes toward state ownership. Second, we tackle the unexplored relations between government characteristics and public attitudes toward state ownership. This analysis is important for the management field because it demonstrates the need to shift the conversation in the management literature from the “context-free” view of legitimacy, which implicitly assumes that state-owned companies face the same legitimacy challenges around the world, to the “context-informed” view that acknowledges substantial cross-national differences in attitudes toward state ownership. Third, our study contributes to the research about the government’s influence on business–society

relations by extending this conversation beyond the frequently discussed topic of corporate social responsibility (Dentchev et al., 2017) to explore how government characteristics affect society's attitude toward state-owned business. Fourth, this study contributes to the state capitalism literature by complementing research about performance implications of state control over companies through exploring public attitudes toward state capitalism. This is important because policy decisions that involve tools of state capitalism (Baltowski et al., 2022) have to take into account not only their economic effect but also how these tools are perceived by the public. Below, we provide more details regarding each of these four contributions.

While management scholars have often mentioned legitimacy challenges faced by state-owned companies, we have not encountered any management studies (i.e., published in management journals) that use empirical measures to capture how state ownership is perceived by relevant audiences. In the literature on public administration and political science, there are studies based on surveys of attitudes toward state ownership of domestic companies (Denisova et al., 2012; Eaton & Hasmath, 2021; Stanisevski & French, 2020; Turner, 2018), but these studies mostly focus on individual characteristics of respondents that affect their attitudes toward privatization of state-owned companies. Our analysis of attitudes toward state ownership is driven by a different research question, and the novelty of our study is in exploring how cross-national differences in public attitudes toward state ownership are related to government characteristics.

Our study brings attention to cross-national variation in the legitimacy of state ownership and explores antecedents of this variation. Existing studies on ownership legitimacy have explored the legitimacy of family ownership (Berrone et al., 2022), employee ownership (Pierce et al., 1991), and ownership by nonprofit foundations (Prewitt et al., 2006). The legitimacy of state ownership has been explored so far mostly in the context of studying legitimacy challenges faced by China's state-owned companies operating abroad (Huang et al., 2017; Li et al., 2017, 2018; Meyer et al., 2014). In that context, state ownership is usually perceived as a reason for concerns, and such a perception contributes to "liabilities of stateness" (Mariotti & Marzano, 2019; Musacchio et al., 2015). However, the same owner—the government—is often perceived favorably in China, where the legitimacy of state ownership is less likely to be challenged (Luo et al., 2021; Shi & Wang, 2023). Similar to Berrone et al. (2022), who have demonstrated that the legitimacy of family ownership varies across countries and explored the antecedents of this variation, we consider a cross-national variation in the legitimacy of state

ownership and its antecedents. We contribute to comparative research on state ownership around the world by identifying government characteristics that are likely to influence the legitimacy of state ownership and by exploring these relations empirically.

Our study demonstrates the importance of considering a national context (in particular, government characteristics that vary across countries) in studies of state ownership. For decades, the research on state ownership has overlooked the role of a national context. Researchers have contrasted state ownership with private ownership assuming that what is true about state ownership in one country would also be true in other countries (Megginson & Netter, 2001). Recent comparative corporate governance research has started to challenge this assumption by attracting attention to cross-national differences in corporate governance practices, strategies, and performance of state-owned companies (Grosman et al., 2016; Hu et al., 2019; Wright et al., 2021). Our study contributes to this stream of research that highlights the role of cross-national differences in understanding implications of state ownership (Aguilera et al., 2021; Heugens et al., 2020; Mariotti & Marzano, 2019) and “liability of stateness” experienced by state-owned companies (Cuervo-Cazurra & Li, 2021; Musacchio et al., 2015). What has been described in earlier studies as legitimacy challenges contributing to the “liability of stateness” cannot be treated as a universal phenomenon, and we should not expect to observe it everywhere. Our results suggest that depending on the government characteristics, these legitimacy challenges would be pronounced in some countries and barely detectable in others.

Broadly speaking, our study contributes to the literature demonstrating how the government affects the relationships between business and society. Of course, the government may affect these relationships in many ways. We focus on state ownership of business companies and explore how the perception of state-owned business in societies around the world is associated with government characteristics. Data on public attitudes provide us with an opportunity to assess the broad social impact of businesses owned by the state—this angle in evaluating state-owned businesses is important given that serving society is their *raison d'être* (Vagliasindi et al., 2023).

A recent review article “The Role of Governments in the Business and Society Debate” (Dentchev et al., 2017) focused exclusively on social responsibility of business; while acknowledging the importance of this stream of research, we believe that there are other aspects of business–society relationships, beyond the realm of corporate social responsibility, in which the government plays an important role. In particular, public attitudes (in other

words, society's attitudes) toward business are an interesting area of research that deserves more attention. We explore society's attitudes toward state-owned business across countries that vary in government characteristics. By demonstrating that the government's political orientation, its ability to maintain the rule of law, and its provision of public services are related to the legitimacy of state ownership, we make a connection with earlier research that examines business–society relations by addressing such topics as authoritarian capitalism (Hofman et al., 2017; Muller et al., 2023; Sallai & Schnyder 2021), institutional voids (Doh et al., 2017; Mair et al., 2012), and limited statehood (Ault & Spicer, 2020; Azizi et al., 2021).

The phenomenon of state capitalism has attracted the growing attention of management scholars who study implications of state control over companies for their strategic choices and performance (Cuervo-Cazurra & Li, 2021; Heugens et al., 2020; Lazzarini & Musacchio, 2018). Based on the evidence about efficiency, profitability, innovations, or social responsibility of state-owned versus privately-owned companies (Aguilera et al., 2021; Hsu et al., 2023; Lazzarini et al., 2021), researchers draw conclusions about benefits and shortcomings of the state control over companies. However, such conclusions will have limited practical value for policy makers if they ignore how state ownership and private ownership are perceived by the public in a given country. To understand the phenomenon of state capitalism and why state-owned companies remain an important part of the business landscape in many countries, we need to consider the public opinion regarding state control over companies. Government policies affecting the scope of state ownership and the governance of state-owned companies cannot disregard this public opinion; the public attitude toward state intervention in the economy is an integral part of the state capitalism phenomenon.

Practical Implications

Public attitudes toward state-owned companies may impose considerable constraints on their management. Understanding the sources of critical public attitudes is especially important as a necessary condition for choosing effective strategies for alleviating such attitudes. Critical public opinion toward state ownership may call for interventions to diminish the negative reputation effects of state ownership (manifested through customers' expectations of inferior service, investors' expectations of inferior returns, business partners' expectations of inferior reliability, etc.). When operating in the context in which state ownership is perceived as a liability, state-owned companies may

consider taking actions that can curb the negative effects of the perceived “liability of stateness” (Cuervo-Cazurra & Li, 2021; Musacchio et al., 2015). It could be useful to demonstrate that the top management team has substantial autonomy in making decisions that do not require state shareholders’ approval, that interventions of the state in the governance process are within certain limits, that many aspects of company management are unaffected by these interventions, and that the state as a shareholder is pursuing goals that are consistent with the interests of other stakeholders. In contrast, if state ownership of business is perceived as legitimate, then state-owned companies would not be under pressure to emulate privately-owned companies resulting in more flexibility for state-owned companies to pursue multiple goals (Rygh & Benito, 2022) and to use hybrid governance arrangements (Okhmatovskiy et al., 2022). Potential business partners of state-owned companies can also benefit from understanding the extent to which the public opinion in a given country is critical or supportive of state ownership. This understanding may affect their willingness to create business partnerships with state-owned companies and to publicize such partnerships if they are created.

Limitations and Future Research

In this study, we consider public attitudes toward state ownership at the country level. One limitation is that we could not analyze more granular data reflecting the variation in attitudes toward state ownership within countries. The survey data obtained from representative country samples cannot be used to explore attitudes toward state ownership across different types of stakeholders. Another limitation of our study is that we could not find suitable aggregated measures of state-owned companies’ performance at the country level. As a result, we do not consider how public attitudes toward state-owned companies are affected by their performance.

Future research exploring public attitudes toward state ownership at the industry level can account for more favorable perceptions of state ownership in some industries and less favorable in other industries. Exploring the variation in attitudes toward state ownership among customers, employees, competitors, and investors interacting with state-owned companies is another promising direction for future research. Finally, researchers should explore how the political, economic, and health crises of the last several years, as well as the responses of national governments to these crises, are affecting the legitimacy of state ownership.

Appendix

Table A1. Information on Dependent, Independent and Instrumental Variables.

Variable	Description
Legitimacy of state ownership	Based on a survey item from the World Values Survey. This survey has been conducted in “waves” since the 1980s (Inglehart et al., 2020). The first wave (1981–1994) did not include the question about government ownership—it was introduced in the second wave (1990–1994) and is included in all subsequent waves of the survey. National-wide representative samples of the adult population have been surveyed in every country/territory in every wave, but there is no continuity between the samples across waves, that is, each wave has different respondents. The number of countries covered has been increasing with each subsequent wave and about 100 countries have been covered by at least one wave.
Authoritarian political orientation	Based on the scores generated by the Centre for Systemic Peace that continuously monitors political behavior in almost all countries around the world and reports on emerging issues and persisting conditions related to the problems of political violence and state failure. The dataset covers all 167 major independent states with a total population of 500,000 or more over the period 1995 to 2018. Further details are available at (https://www.systemicpeace.org/polityproject.html).
Rule of law	Based on the rule of law index from the World Governance Indicators and available for over 200 countries and territories from 1996 to 2022. Data sources include surveys of firms and households, as well as the subjective assessments by a variety of commercial business information providers, nongovernmental organizations, and a number of multilateral organizations and other public-sector bodies (Kaufmann et al., 2010, p. 5). Further details are available at https://www.govindicators.org
Public services	Based on a sub-index of the State Fragility Index developed by the Fund for Peace. The sub-index is made of several measures that capture the provision of essential services, such as health, education, water, sanitation, transport infrastructure, electricity, and internet connectivity. The State Fragility Index and its components are available for more than 190 countries for every year during the 2006 to 2020 period. Further details are available at https://fragilestatesindex.org
Share of democracies in a region	The instrumental variable for <i>Authoritarian political orientation</i> . We define <i>Share of democracies in the region</i> as the share of countries with a coherent democracy (defined by the score of 0.8 or above on the scale from 0 to 1) in the region during the preceding time period. Countries were assigned to the regions based on their geographical location: Sub-Saharan Africa, Middle East and North Africa, Asia, Latin America, Eastern Europe, Former USSR, and the West.
Ethnolinguistic fractionalization	One of the instrumental variables for <i>Rule of law</i> . To measure ethnolinguistic fractionalization, we use the HIEF developed by Draganova (2020). This index reflects the probability that two randomly drawn individuals within a country are not from the same ethnic group. The HIEF covers annually the period 1945 to 2013 and contains data for 165 countries across all continents. In order to include the last wave of the VWS survey, the HIEF dataset was extrapolated for the period 2013 to 2020 using the “epolate” command in STATA.
British/French/German legal origin	One of the instrumental variables for <i>Rule of law</i> . Following La Porta et al. (1999), we use the legal origin variables that trace back the roots of the current legal system of a country. We use dummy variables indicating British, French, and German legal origin.
Freedom of press	The instrumental variable for <i>Public services</i> . We use the Freedom of press index obtained from the Freedom House as an instrument suggested by Ezcurra and Rodríguez-Pose (2014). This index is available for more than 190 countries for the period from 1994 to 2017.
Compositive index	We calculate <i>Compositive index</i> by taking each independent variable with equal weight: <i>Compositive index</i> = $1/3$ <i>Authoritarian political orientation</i> – $1/3$ <i>Rule of law</i> + $1/3$ × (<i>Public services</i> – <i>Public services squared</i>).

Note: HIEF = Historical Index of Ethnolinguistic Fractionalization.

Table A2. The Results From Regression Models With the Composite Index.

Model	(1)	(2)	(3)	(4)
DV: Legitimacy of state ownership				
Composite index	1.455** (0.391)	1.309** (0.495)	1.607** (0.457)	1.374** (0.370)
State ownership of assets		.055 (0.039)	.027 (0.046)	.060 (0.039)
Financial crisis aftermath		.038 (0.060)	-.051 (0.061)	.028 (0.061)
GDP per capita		-.001 (0.007)		
Gini inequality index			-.004 (0.011)	
Import to GDP				.000 (0.004)
Constant	4.620** (0.306)	4.527** (0.481)	4.628** (0.402)	4.461** (0.407)
Observations	608	607	476	589
R ²	0.143	0.170	0.162	0.179

Note. Standard errors in parentheses. The Composite index has been calculated with equal weights attributed to all three independent variables.

* $p < .10$. ** $p < .05$. *** $p < .01$.

Table A3. The Results From Regression Models With the Orthogonalization.

DV: Legitimacy of state ownership	(1)
Authoritarian political orientation	.071 (0.073)
Rule of law	-.327** (0.082)
Public services	.073 (0.068)
Public services squared	-.239** (0.065)
State ownership of assets	.095 (0.061)
Financial crisis aftermath	-.027 (0.020)
GDP per capita	-.129 (0.118)
Gini inequality index	-.084 (0.062)
Import to GDP	-.111 (0.085)
Constant	5.570** (0.076)
Observations	492
R ²	0.362

Note. Standard errors in parentheses. The orthogonalized model does not include the 1990s decade dummy since *Public services* variable is only available from 2006 to 2020.

+ $p < .10$. * $p < .05$. ** $p < .01$.

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Supplemental Material

Supplemental material for this article is available online.

Notes

1. Musacchio et al. (2015) mention institutional voids and government capabilities as key country-level contingencies that determine comparative performance of state-owned versus privately-owned companies. Aguilera et al. (2021) describe political ideology, state capacity, and political institutions as conditions moderating performance implications of state ownership.
2. For example, even though the U.S. Government assumed large ownership positions in several corporations hit by the 2008 economic crisis, such as General Motors (Samuelson, 2015), this intervention was usually described as a financial aid rather than as a nationalization since the former is more consistent with the liberal-democratic political orientation than the latter.
3. Methodological obstacles prevent us from deriving a reliable country-level indicator of performance of state-owned companies. First, different countries have state-owned companies in different industries, which creates difficulties in comparing performance of these companies across countries. For example, if we were to focus on performance of the largest state-owned companies from various countries, we would be comparing performance of oil and gas companies from the Persian Gulf countries with performance of public utilities from Western European countries. Even if we were able to control for the industry effect, the cross-country performance comparison is complicated by the availability of data—many prominent state-owned companies are not traded at stock exchanges and do not disclose performance data (Kowalski et al., 2013). Moreover, some governments have been providing large subsidies to state-owned companies, thereby artificially boosting their performance.
4. We have considered fixed-effects, random-effects, and pooled OLS models with clustered standard errors. Even though fixed-effect models can provide robust results in the analysis of panel data (Wooldridge, 2012), they would capture the effect of within-country variation over time, while we are particularly interested in the effect of the variation across countries in our key variables. Random-effect models require an assumption that the unobserved error term is uncorrelated with the explanatory variables (Wooldridge, 2012), which is not the case in our study because we cannot treat our observations as a random sample from a large population. We complement this theoretical reasoning against using the random-effect models with results of the Hausman test. Under the current specification, random effect models have been rejected as not suitable for testing the hypothesized relationships (H1: $\chi^2=39.07$, $p < .001$; H2: $\chi^2=26.80$, $p < .001$; H3: $\chi^2=33.65$, $p < .001$).
5. We have also conducted the overidentification test for the *Rule of law* models, using the Hansen J t-statistic that validates the use of ethnolinguistic fractionalization, British legal origin, French legal origin, and German legal origin

as instruments without overfitting the model (Table SA9 of the Supplemental Appendix). When employing just one instrument, as we did with *Authoritarian political orientation* and *Public services* variables, a robust theoretical argument for the instrument's exogeneity is sufficient to address overidentification concerns (Bascle, 2008, pp. 296–297).

6. The average values of *Legitimacy of state ownership* are increasing when *Public services* quality rises from 0 to 4.11; after this inflection point, further growth in the quality of *Public services* (from 4.11 to the maximum value of 9.37) is associated with a decline of *Legitimacy of state ownership*. Notice that this inflection point is determined for average values of all control variables and thus countries with above/below average values of control variables may be expected to have a somewhat different inflection point.
7. Gilley (2006) explored several factors affecting government legitimacy across 72 countries and demonstrated that a composite index of these factors was a strong determinant of government legitimacy.
8. We cannot use instruments in the orthogonalized model because in the analysis with IVs all endogenous regressors are instrumented by all exogenous variables and instruments, even though we assign a separate instrument to every independent variable based on theoretical considerations. We would encounter the overidentification issues if we were to use instruments for all three independent variables in our orthogonalized model.

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