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LEVIATHAN AS A MINORITY SHAREHOLDER: FIRM-LEVEL IMPLICATIONS OF STATE EQUITY PURCHASES

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In many countries, firms face institutional "voids" that raise the costs of doing business and thwart entrepreneurial activity. We examine a particular mechanism that may address those voids: minority state ownership. Minority stakes are less affected by the "agency distortions" commonly found for full-fledged state ownership. Using panel data from publicly traded firms in Brazil, where the government holds minority stakes through its development bank, we find a positive effect of those stakes on firms' returns on assets and on the capital expenditures of financially constrained firms with investment opportunities. However, these positive effects are substantially reduced when minority stakes are allocated to business group affiliates and as local institutions develop. Therefore, we shed light on the firm-level implications of minority state ownership, a topic that has received scant attention in the strategy literature.

Strategy scholars adopting an institutions-based view have argued that emerging economies are plagued with myriad voids in institutions that critically affect firm-level behavior and performance (e.g., Chacar, Newburry, & Vissa, 2010; Cuervo-Cazurra & Dau, 2009; Hoskisson, Eden, Lau, & Wright, 2000; Khanna & Palepu, 2000; Peng, Sun, Pinkham, & Chen, 2009). Shallow capital markets, ineffective legal systems, and a poor supply of qualified labor are typical voids that raise the cost of doing business and thwart entrepreneurial activity. Scholars have studied various strategies to overcome these voids. One possibility is to forge collaborative networks to build trust and pool collective resources (Boisot & Child, 1996; Mesquita & Lazzarini, 2008; Peng & Heath, 1996). Firms can also build large business groups: collections of units belonging to common controlling shareholders, usually via cascading chains of ownership. Through their internal, corporate markets, groups can provide affiliates with capital, labor, or other inputs that are scarce in external markets (Khanna & Yafeh, 2007; Leff, 1978; Wan & Hoskisson, 2003).

This article examines another possibility for addressing institutional voids: *minority state ownership*. Development economists have em-

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