



New investor categories, agility and HRM: The case of Sovereign Wealth Funds



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ABSTRACT

This article reviews the existing literature on SWFs and the firm, focusing particular attention on the implications of the rise of SWFs strategic agility and HRM. This paper outlines three main channels through which sovereign wealth fund (SWF) investment has implications for employees. First, SWFs influence macroeconomic environments, and hence affect labor conditions. Second, institutional conditions in different countries shape the behavior of SWFs around the world, which in turn has implications for HR strategy and practice. Third, SWFs can have a direct effect on the corporate governance and hence HR strategies and employees of organizations in which they invest. We review and discuss these three channels and outline avenues for future research.

1. Introduction

It is widely accepted that external stakeholders and business conditions can affect both the strategic capabilities of firms and their HR practices (Ulrich and Dulebohn, 2015; Wood and Wright, 2009). However, despite growing interest in how new investor categories may impact on the capabilities and strategic agility of firms (Weber and Fried, 2011; Weber and Tarba, 2010, 2014), and their people (Wood and Wright, 2009), prior work has not fully considered how new investor categories may impact on strategic agility and HR management. Although strategic agility is seen as an increasingly desirable organizational characteristic, much of the literature on the subject focuses on the technological base of strategic agility or sees investors as posing challenges or constraints on agility, rather than enabling it (Shafer, Dyer, Kilty, Amos, and Ericksen, 2001). Yet, new investor categories can provide much needed new sources of capital to invest in physical or human assets; they may also drive new managerial directions, with beneficial or adverse consequences for people (Appelbaum, Batt, and Clark, 2013; Clark, 2007; Goergen, O'Sullivan, and Wood, 2014). Looking at the case of Sovereign Wealth Funds (SWFs), this paper reviews existing evidence on the impact of SWFs on a firm's people, and its ability to alter its HR strategies in an agile fashion in diverse organizational and institutional contexts. In other words, we explore the relationship between an increasingly important 'new' investor category, intra-organizational HR strategy and practice, and the implications for strategic agility. This builds a growing body of work that links prevailing institutional regimes and sources of firm finance to dominant HRM models within and between national contexts (Appelbaum et al., 2013; Brewster, Croucher, Wood, and Brookes, 2007; Brewster, Goergen, Wood, and Wilkinson, 2012; Kalmi, Pendleton, and Poutsma, 2005; Tuselmann, Allen, and McDonald, 2015). As such, it seeks both to advance our understanding on the implications of the activities of new financial actors for HRM, and our understanding of strategic agility through shedding further light on its HR foundations.

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SWFs are state-owned and controlled investment organizations that grow in importance both in developed and emerging economies. These funds are used by countries with large foreign exchange reserves to get better returns (Gospel, Pendleton, Vitols, and Wilke, 2011), to stabilize the country when it faces external economic shocks, to diversify revenues, as a form of inter-generational saving (Balin, 2010:1; Jory, Perry, and Hemphill, 2010:597), and/or as a means of political leverage (Dixon and Monk, 2012:104; Bertoni and Lugo, 2014); whatever their rationales, it is likely that their investment choices will have some impact on the strategies of target organizations and their employees (Gospel et al., 2011). Most SWFs center on oil, gas and mining, with the exception of some Asian exporting nations, most notably China (Caner and Grennes, 2010) and Singapore. SWFs may also seek to mitigate the effects of the “Dutch disease” through reducing dependence of resource revenues, diluting dependence on non-renewable assets (Chwieroth, 2014). SWFs have become increasingly prominent, and are quite large when compared to other types of institutional investors (Caner and Grennes, 2010), despite recent drawdowns following a spell of relatively low oil prices. Although there is much debate surrounding the work and employment effects of other new financial actors (Appelbaum et al., 2013; Clark, 2007; Goergen et al., 2014), SWFs have, to date, managed to avoid a great deal of the controversies in this area, that have, for example, embroiled the private equity industry (c.f. Appelbaum et al., 2013). According to the Sovereign Wealth Fund Institute's (2014) estimates, SWF holdings reached some 6.8 trillion USD by 2014, with 59.5% stemming from oil and gas related revenues. It ranks Norway as the largest SWF followed by the UAE.

Whilst accounts rooted in the economics and finance literature have characterized SWFs primarily as another source of capital for financial intermediaries and other seekers of investment capital (Megginson, You, and Han, 2013; Sa and Viani, 2013), others have depicted them as essentially political actors whose rise has far reaching implications for governments and firms (Cohen, 2009; Fernandes, 2014), and, indeed, their people (Gospel and Pendleton, 2014a, 2014b). Accounting for one eighth of global investment, SWFs are reshaping the global economy by transferring increasingly large levers of economic power and influence to the central authority of the state (Bremmer, 2010). But rather than a regulator of market activities, this new form of statism has been described as a system in which the state “plays the role of leading economic actor and uses markets primarily for political gain” or supports key inside economic interests, rather one that mediates the excesses of markets in the interests of society at large (Bremmer, 2010:29–30); others have argued that SWFs occupy a space that straddles both state and market (Wood and Wright, 2015), with implication for firm strategic performance and employees that may be beneficial or negative (Gospel and Pendleton, 2014a, 2014b; Haberly, 2013). Naturally, this has raised critical debate regarding the political influence of SWFs on global markets, organizational behavior and HRM, particularly since the redistribution of economic power to emerging economies challenges Western dominance of global capital flows (ibid.).

Clearly, the rise of SWFs as an investor category has important implications for the firm. However, whilst there is much work on the volume and destinations of SWF activities, the body of work on their implications for the strategic agility and capabilities of organizations and their people is rather fragmented. However, it can be argued that a key dimension of SWF activity is related to their impact on employment and labor relations both in their host and home economies. This impact may happen on multiple levels, including labor dynamics in SWFs' portfolio companies and macro-economic consequences of SWF investment in specific sectors and countries. At present, there is no comprehensive academic research focused on this particular aspect of SWFs, and this paper aims to address these conceptual and empirical gaps. More specifically, in this paper, we are focused on the implications of SWF investment for HRM, according particular attention to strategic agility. We identify three main channels through which SWFs may impact firm capabilities and employees: (1) SWFs affect macroeconomic environments and thereby labor conditions; (2) different institutional conditions shape the behavior of SWFs, which has implications for managers and employees; (3) SWFs affect corporate governance practices and hence HR policies. We describe each of these channels in this paper, discuss related research, and identify avenues for future research.

2. Defining strategic agility

Doz and Kosonen (2010) argue that there are three elements of strategic agility: sensitivity, leadership agility and resources. Sensitivity may be defined as an awareness of relevant issues, leadership agility represents the internal ability to adjust the business according in line with decisions, and resources fluidity indicates the ability to reconfigure and bring resources to bear in support of decisions (Doz & Kosonen 2008; c.f. Ambrosini and Bowman, 2009). Vecchiato (2015) argues that strategic agility simply represents the ability of organizations to respond rapidly to changes in external circumstances. Boxall (1998:265) defines strategic agility in terms of HR, as comprising “specific cognitive abilities, behavioral characteristics, and contextual conditions”, and it is this framework that is deployed in the main body of this paper. Weber and Tarba (2014:7) define strategic agility as “the ability of management to constantly and rapidly sense and respond to a changing environment by intentionally making strategic moves and consequently adapting the necessary organizational configuration for successful implementation”. Strategic agility is not just about managerial leadership, choices and flexibility, but also about internal and external resources (Grewal and Thansuhaj, 2001; Judge and Miller, 1991; Junni, Sarala, Tarba, Liu, and Cooper, 2015; Sarker and Sarker, 2009; Weill, Subramani, and Broadbent, 2002; Wilson and Doz, 2011). The latter, in turn, represents not only accumulated assets and capabilities, but also sufficient room accorded by investors to respond to challenges and opportunities, even if short term returns may be somewhat diminished. It has been argued that new investor categories may facilitate, even if they do not guarantee, strategic flexibility (Vagadia 2014). Marx (2008,1) defines “active inertia” as a structural lack of agility imposed by external or internal constraints.

Central to strategic agility is HRM policy and practice, yet this will be both confined and enabled not only managerial choices, but the financial resources available, and the expectations of those providing them. The institutional context - and the manner in which investors operate within this context - will mold both managerial practices and attitudes, and the range of options available to the

firm (Dyer and Ericksen, 2005; Dyer and Shafer, 1999; Shafer et al., 2001). In particular, it will affect the ability of a firm to adjust its workforce, the relative ability to invest in technology and people, relative autonomy and control, and the ability to cope with unforeseen external shocks. However, as the literature on institutional complexity alerts us, organizations may be subject to competing pressures from multiple institutional logics (Greenwood, Raynard, Kodeih, Micelotta, and Lounsbury, 2011). Whilst national institutions are never perfectly aligned or coherent (Greenwood et al., 2011; Lane and Wood, 2009), in the case of SWF investments, an additional layer of complexity is introduced in that the firm is also subject to institutional pressures from the country of origin of the fund. As SWFs are state owned, they are likely to be quite closely aligned to the formal and informal state level institutions in their country of origin, which, as we shall see, impart quite strong pressures on target firms.

Lengnick-Hall et al. (2011) suggest that a further key dimension is financial flexibility and the ability to more closely link rewards with organizational performance. Nissen and Paauwe (2012: 3315) argue that strategic agility is founded on human resource advantage, which in turn reflects “rare value...relative immobility and superior appropriability”. By this it is meant not only skills and flexibility, but the accumulated organization specific knowledge and understandings. Such agility is dependent on corporate governance and industry realities (ibid.).

Human capital theory assumes that labor is not a homogenous or readily interchangeable commodity, that institutions impact both on individual human capital development, and that the process of production is linked to wider societal and economic forces (Bowles and Gintis, 1975). At the same time, it has been argued that human capital is not like any other type of capital in that it is dynamic, bound up with individual choices, and is also affected by how individual capabilities work together in a specific workplace and societal context (ibid.; Aoki, 2010). Lepak and Snell (1999) argue that a key issue is that individuals possess knowledge and skills that are variable and of unequal strategic performance. The basic building blocks of human capital are knowledge, skills, and abilities (KSA) (Ballout, 2007). This has been linked to the resource based view of the firm, which suggests that each firm's competitive advantage rests on capabilities that are difficult to replicate; the latter encompasses human resources, which may become core competencies (Chen, Katila, McDonald, and Eisenhardt, 2010; Clardy, 2008; Ployhart, Weekley, and Ramsey, 2009). Hence, Aoki (2010) argues that, within the firm, individual human capital may, when combined across the workforce lead to a set of collective cognitive capabilities, which impart the firm with unique strategic advantages. Accordingly, it has been argued that OB resources are closely bound up with human capital resources to provide each firm with a unique set of resources and capabilities (Ployhart, 2015).

Consequently, human capital is closely bound up with strategic agility; it is not just about individual abilities and behaviors, but also has implications for how sets of individuals work together in a context, and how this may be leveraged to cope with external challenges (Boxall, 1998; Aoki, 2010). At the same time, both human capital and cognitive capabilities are very difficult to accurately cost, especially by external investors, who lack insider knowledge on the firm (Aoki, 2010; Goergen et al., 2014). This would suggest that new financial actors may systematically undervalue the human capital and cognitive capabilities of organizations, and, in doing so, weaken the sum of the organization's inherent resources, and its ability to respond to external challenges in a strategically agile fashion (Aoki, 2010; Goergen et al., 2014; c.f. Boxall 1998; Clardy, 2008). In other words, whilst new investors may provide welcome infusions of capital, a lack of insider knowledge may mean that the human dimensions of strategic agility are discounted.

As the literature on organizational ambidexterity alerts us, firms may attain strategic advantage through balancing explorative and exploitative capabilities (Junni, Sarala, Tarba, and Weber, 2015). Whilst it can be argued that new investor categories who lack insider knowledge may undermine the latter, even in challenging external circumstances, there may be room by key strata of managers to mitigate such pressures through their adjusting and refining the key dimensions of internal capabilities and processes (Burgess, Strauss, Currie, and Wood, 2015; Meglio, King, and Risberg, 2015).

3. Method

There is a growing body of literature on the effects of new investor categories on HR practice, and again, on the consequences of SWF investments (Appelbaum et al., 2013; Goergen et al., 2014; Megginson et al., 2013). However, there is much less work that links new investor categories to strategic agility, and, indeed, SWFs to HRM (c.f. Gospel and Pendleton, 2014a). In seeking to bridge these different categories of enquiry, through bringing together distinct, yet, at times, overlapping bodies of literature, this paper seeks to both consolidate the existing base of knowledge, and promote new inter-disciplinary applied research, that advances both how we understand strategic ability and HR management in a changing world. Although the study was not a fully systematic literature review, it did follow protocols characteristic of a systematic literature review as outlined by Adolphus (2014): define search terms; identify databases; decide on filters; and ensure representivity through redoing the filtering process. Firstly, we identified the search terms, following email discussions among the authorial team. Secondly, we identified a number of key journal publishers' repositories and journal databases, in this case, JSTOR, AB-Inform, Business Source Premier, Emerald, Blackwell Synergy, Elsevier, Scopus, TANDF, and Oxford Journals. We followed this on with a broader search through Google scholar. Thirdly, in the case of the publishers' repositories and databases, we deployed two filters: we filtered out articles not categorized in the 'social sciences' or 'business', 'management' and 'economics', and those that were not in recognized peer reviewed journals. We searched for the keyword 'Sovereign Wealth Fund' in both article titles and abstracts, as we believed this would allow the rapid identification of the body of work that treated SWFs as the main object of enquiry. In the case of Google Scholar, we looked for combinations of 'Sovereign Wealth Fund' and other keywords, namely 'sovereign wealth fund' + 'employment'/'employment relations' / 'industrial relations' / 'work'/'labour' / 'labour relations' / 'human resources management'. As Google Scholar trawls through text, this enabled the more rapid identification of relevant work on SWFs that did not feature 'Sovereign Wealth Funds' in the article title and abstract. This also enabled the capture of books and research reports not normally encountered in publishers' journal repositories. At the same time, the usage of different approaches to search for literature facilitated the grading of accounts according to quality (evidenced by peer

Table 1
Sovereign wealth fund ranking – Top 15.

Country	Sovereign wealth fund name	Assets USD billion	Inception year	Revenue source	Trans-parency ^a
Norway	Government Pension Fund Global	893	1990	Oil	10
UAE – Abu Dhabi	Abu Dhabi Investment Authority	773	1976	Oil	5
Saudi Arabia	SAMA Foreign Holdings	757.2	n/a	Oil	4
China	China Investment Corporation	652.7	2007	Non-commodity	7
China	SAFE Investment Company	567.9 ^a	1997	Non-commodity	4
Kuwait	Kuwait Investment Authority	410	1953	Oil	6
China – Hong Kong	Hong Kong Monetary Investment Authority portfolio	400.2	1993	Non-commodity	8
Singapore	Government of Singapore Investment Corporation	320	1981	Non-commodity	6
China	National Social Security Fund	201.6	2000	Non-commodity	5
Singapore	Temasek Holdings	177	1974	Non-commodity	10
Quatar	Quatar Investment Authority	170	2005	Oil & Gas	5
Australia	Australia Future Fund	95	2006	Non-commodity	10
UAE – Abu Dhabi	Abu Dhabi Investment Council	90	2007	Oil	n/a
Russia	National Welfare Fund	88	2008	Oil	5
Russia	Reserve Fund	86.4	2008	Oil	5

Source: Sovereign Wealth Fund (SWF) Institute, October 2014.

^a Linaburg-Maduell Transparency Index.

review and publication by a recognized publisher, or by the subjectively appraised quality of the research institution or NGO in the case of un-reviewed reports) and topicality (year of publication). Fourthly, we repeated our searches with the filters of subject area removed from our search of publishers repositories to see if we had missed a significant number of articles from our net; no little relevant work came to light. The findings were presented in narrative, rather than tabular form, organized thematically and in terms of the nature of the topics covered (c.f. [Adolphus, 2014](#)).

[Van Tuldor et al. \(2003\)](#) note that in conducting a literature review, a key dimension is the filtering out of extraneous or non-relevant articles. Where we departed from a textbook systematic literature review was in terms of the selection of articles to reject from coverage in this review. Rather than deploying mechanistic tools (e.g. filtering out papers deploying a certain method), we independently reviewed each submission, making subjective judgments as to its quality and relevance. On Google Scholar, for example, the keywords “Sovereign Wealth Fund” and “Human Resource Management” returned 128 papers, many of which are books or manuscripts that do not directly connect the two topics. However, the authors have extensive experience of reviewing and editing work, and this, and multiple author evaluation of key sources may have reduced the possibility for arbitrary or unfounded exclusions. We found 61 relevant and salient papers on SWF activity for the purposes of this paper after the filtering process. At the same time, the exclusion of an article should not be taken as a negative judgment of an author's work. Finally, no literature search is ever complete, given that articles are constantly being published. We concluded our search in October 2014.

4. SWFs, macroeconomic conditions, and labour outcomes

SWFs represent a wide range of investment institutions that are very different in terms of their size, investment focus and governance. [Table 1](#) provides an overview of the largest SWFs.

As indicated in this table, leading SWFs, although different in size, control significant financial assets by volume. With the exception of Norway's Government Pension Fund Global, they are based in emerging market economies. They also differ in terms of their maturity, with Kuwait Investment Authority being the oldest one while Russian SWFs have been created more recently; it could be argued that longer standing SWFs are more likely to be relatively patient, and seek to reap the benefits of proven organizational strategies and associated models of people management ([Haberly, 2013](#)). [Table 1](#) also shows that, as a rule, SWFs have relatively low levels of transparency. This is a very important characteristic since through their investment, SWFs do not only re-balance trade surpluses on an arm's length basis, but incorporate a new governance and power dimension in shaping the global circuit of capital, and the consequences of their investments may radically impact on the fortunes of target firms and their people. Unlike traditional forms of statism, as cross-border investors ([Megginson et al., 2013:539](#)) SWF activities transcend national boundaries, challenging the soft power of Western developed nations, and promoting new forms of cross-border relations encompassing potential cooperation and the sharing of practices between SWFs ([Chwieroth, 2014:10](#)). Indeed, [Lenihan \(2013:245\)](#) argues that they may provide a new form of non-military rebalancing of the international order, without immediately challenging its foundations. Indeed, it could be argued that the rise of SWFs represents actions by net exporting nations to deal with the problem of global imbalances, marking the beginning of a global shift in power ([Alberola and Serena, 2008:330](#); [Chwieroth, 2014:10](#)). However, such accounts focus primarily on the effects of their investments on the wider political economy, when it could be argued that more immediate effects will be felt on organizational strategies and capabilities, and employees.

As [Park and van der Hoorn \(2012:211\)](#) note, prior to the onset of the financial crisis, there was growing concern over the increasing holdings and influence of SWFs in developed nations (above all, the United States), but this has receded since the onset of the 2008- financial crisis when SWFs became a welcome source of capital. If the response of many Western governments to the financial crisis has been to nationalize private debt, the activities of SWFs have been to “bring to the public agenda the tools of the money manager” ([Datz, 2009:663](#)). For instance, SWFs from China and the Middle East “bailed out” major U.S. financial firms in the

subprime mortgage crisis of 2007–2008 (Jory et al., 2010). While they may be an investor of last resort in the case of organizations experiencing severe crisis, leading to a clash of interests between the investing country and the host one (ibid.). Thus, it is feared that SWFs might capture strategic industries, following the rationale of politics, rather than the market (Datz, 2009:663); in other words, it could be argued that the primary aim of many SWF investments has little to do with profits, meaning that strategic capabilities and people may only be treated as incidentals.

This growing significance of SWFs on macro-economic level translated into potentially material effects on strategy and people in targeted companies, including employment dynamics in portfolio companies, institutional characteristics and the very fabric of labor relations. As such, even if an SWF does not have explicit goals or objectives regarding labour-related issues, SWF investment behavior is nevertheless likely to have significant impact on labour issues through their influence on macroeconomic conditions in two main ways.

First, SWFs may smoothen the effects of economic cycles and support employment growth (Jory et al., 2010:591). In their role as investors of last resort, they may inject much needed capital into firms facing difficulties, and, hence, help safeguard jobs (ibid.); they may alleviate contextual pressures, enabling firms to build their strategic agility through being able to accord more attention to developing their internal capabilities. Nor is this role confined to investments abroad. SWFs can also provide a source of finance to enable states to cushion employees from the effects of economic downturn. Teague and Donaghey (2003) highlight the role of the Finnish buffer zone fund in enabling employment relations institutions to adapt to economic shocks and soften potential blows to labour. Raymond (2010:121) found that after the financial crisis, a number of SWFs directed the investment focus to their country of origin to fulfill this role. Moreover, investments in domestic banks may preclude a freezing of credit, in turn bolstering non-financial firms (Raymond, 2010:128). However, a lack of transparency may lead to investments following on personal networks, prejudicing better run firms and their people (Bernstein, Lerner, and Schoar, 2013: 220). At the same time, there appears to have been a move away from high risk companies, which, in turn, may diminish their investor of last resort status (ibid.). This may make their role in providing support for firms lacking agility that would otherwise have failed less central (and, hence, contributing to the safeguarding of jobs in countries of domicile).

Second, SWFs may sustain trade imbalances, finance the debt of Western economies and thereby support their labour markets, through propping up service sectors. The United States and the United Kingdom represent by far the largest targets for SWF investment (Jory et al., 2010:600); it is no coincidence that these are lightly regulated, Liberal Market Economies (LMEs) (Hall and Soskice, 2001; Hancke, Rhodes, and Thatcher, 2007). Of course, as such economies tend to be net importers, inflows via SWFs may, help prop up global imbalances in trade and consumption, and re-inflate asset price bubbles (Lenihan, 2013:228). In practice, this may help offset pressures on such economies to confront structural imbalances, which would include a long term shrinkage of good jobs and, hence, non-debt-based consumer demand (c.f. United Nations, 2013). The primary area of job expansion in the liberal market economies has been in low end service sector work (Wright and Dwyer, 2003). In propping the system up, SWF investments may have the indirect effect of artificially sustaining large numbers of organizations geared to servicing debt fuelled consumer demand on a low cost basis; such firms will lack the internal dimensions of strategic agility, and be associated with low value added instrumentalist HR policies (Cohen, 2009). Conversely, investments aimed at securing technology and capabilities may lead to target organizations reduced to a rump, with much production outsourced to the fund's country of origin, and, potentially, knowledge-stripping through the capture of proprietary technologies and expertise (Cohen, 2009:718; Wojcik, 2012; Meyer, Ding, Li, and Zhang, 2014). In other words, rather than technology providing the basis of agility and renewal, the capture of technology by external investors may emasculate firms, with their people being treated as a disposable commodity, once they have served their purpose. In HR terms, it has, as noted above, been argued that strategic agility is founded on context, behaviors and capabilities (Boxall, 1998); in the following sections, we place the activities of SWFs in terms of each of these three dimensions.

5. Contextual circumstances: SWFs, home and host country institutions

As Boxall (1998) notes, a significant proportion of strategic agility through HR is conferred by contextual circumstances. The impact of SWF investments on the firm is mediated by institutional context. SWFs, like any other multi-national companies, operate across national borders by investing in companies and other funds located in different institutional environments. Institutional theorists argue that legitimacy judgments are made in “action spaces” where individual entities interact socially, but the process of interaction is affected by various, often overlapping external factors, such as rules-in-use, attributes of the community and physical conditions (e.g., physical distance between the actors), in line with the “institutional polycentrism” framework (Ostrom and Basurto 2011). A number of macro-institutional theorists have developed these ideas further by suggesting the characteristics of institutional environments includes multiplicity, which scholars have defined as the confluence of different types of interrelated institutions (Batjargal et al., 2013; Holmes, Miller, Hitt, and Salmador, 2013). As Batjargal et al., 2013 argue: “The confluence of multiple institutions is theorized to have qualitatively different effects on outcomes than a single institution or several institutions, because the confluence is characterized by dynamic interaction, mutual reinforcement, and a cointegrated and nonseparable nature of diverse institutional rules and norms within the entire institutional order.” These authors focus on the confluence of regulatory, normative and socio-cognitive macro-institutions or “first-order” social boundary conditions (Kraatz and Block, 2008), which, in turn, hinge upon the cultural and historic developments in particular countries (see Holmes et al., 2013, for a detailed discussion). Recent advances in institutional complexity theory develop the notion of *conditioned action* to suggest that actions are structurally conditioned by historically embedded institutional arrangements (Delbridge and Edwards, 2013). New actors from abroad are less deeply embedded within such arrangements, with their actions potentially reinforcing existing ways of doing things, through forming alliances with local investors in order to capitalise on known complementarities reaped by the latter, or disrupting them, through

being driven by the institutional logics of their country of origin (c.f. [Morgan and Kristensen, 2006](#)).

Therefore, SWFs focused on global portfolio diversification face a challenge of balancing between various types of legitimacy judgments that include, in addition to instrumental (pragmatic), also relational and moral dimensions ([Bell, Filatotchev, and Aguilera, 2014](#); [Ntim and Soobaroyen, 2013](#); [Tost, 2011](#)). Institutional theory does not deny that there are regulative, normative and cognitive pressures on funds to compete for resources on the basis of economic efficiency. However, it also suggests that SWFs have to conform to expected social behavior and demands of a wider body of stakeholders. As [Ntim and Soobaroyen \(2013: 470\)](#) summarize this approach: “A major underlying assumption within an ‘overarching’ neoinstitutional perspective is that the actors are not only competing for resources (‘efficiency’), but they are also seeking ultimate legitimacy and social acceptance (‘legitimation’)”. In other words, the ability of SWFs to achieve political and social acceptance will depend, in addition to efficiency concerns, on their ability to demonstrate moral and relational responsibility by committing to stewardship management practices, stakeholders' interests including employees of their portfolio firms, and societal expectations in general.

Although research on “institutions – pressure – firm” triplet (e.g., [Eesley and Lenox, 2006](#)) suggests that legitimacy concerns should be a feature of any organization, these arguments may be particularly relevant for the SWFs who may suffer from “legitimacy deficit” associated with their strong government links. As we indicated above, governments as co-owners may attempt to set the non-financial goals to SWFs and their investee firms to capture “political benefit of control” at expense of other, private investors ([Hatton and Pistor, 2011](#); [Rosem, 2009](#)). Therefore, gaining legitimacy both in home and host economies is critical for a SWF both in terms of gaining entry into a specific market or industry segment and for securing its longer term viability. In other words, SWFs may be less concerned with organizational disruption or promoting agility, and more with establishing credentials as a patient investor, supporting continuity.

As [Cohen \(2009: 713\)](#) notes, many SWF's originate in contexts where there is a close juxtaposition of politics and business. In political terms, SWFs may increase state influence and clout, but may also be a form of resistance, protecting weak political mandates and/or limiting external interference ([Dixon and Monk, 2012: 108](#)). A good example of the latter are the Asian SWFs, with the range of tools open extending from the husbanding of foreign exchange to the investment in the economies of more powerful states (*ibid.*).

These arguments suggests a number of important institutional mechanisms that link SWFs and labour relations depending on a complex interface of institutional settings in their home and host countries. On one hand, there may be institutional pressures coming from domestic government and local business elites to promote employment and economic development locally, and this may have a profound impact on investment strategy of SWFs exposed to these pressures. An example may be Abu Dhabi's Mubadala Development Company, a SWF that made substantial contribution to the development of local aerospace industry through foreign strategic investments and alliances that now supplies components to EADS. On the other hand, a SWF may have an explicit mandate from the government to secure access to foreign resources, such as China Investment Corporation. Chinese authorities are generally hostile towards unionized labour outside tightly controlled and government-sponsored “official” trade unions. Therefore, SWFs from China and other emerging economies may succumb to institutional pressures associated with home country norms and regulations and become more hostile to organized labour in their portfolio firms. This may lead to harder line HR policies, rather than more affirmative and cooperative HR policies associated with human advantage approaches to agility ([Nissen and Paauwe, 2012](#); [Hillman, Keim, and Schuler, 2004](#)).

Concerns about political investment motives has led to many countries enacting laws to regulate incoming foreign investments, especially in strategic industries, in attempt to recalibrate “the great tradeoff” ([Cohen, 2009: 722](#)), pushing back on the efforts of capital exporting nations to have a greater and more active say as to where their money goes, in a process characterized as financial protectionism ([Sun, Li, Wang, and Clark, 2014: 655](#)). There is evidence of growing importance of global institutions such as UN's Global Compact and the institutionalization process of codes of conduct for SWFs and their subsidiaries such as the Generally Accepted Principles and Practices for SWFs (also known as Santiago Principles). The 2008 Santiago principles - to which most SWF's have signed up - commit SWFs to base their investments on “economic and financial grounds” ([Park and van der Hoorn, 2012: 218](#)), but, of course, the latter is open to a great deal of interpretation.

The importance of host country institutions suggests that local institutional pressures may also have far-reaching implications for corporate governance of SWFs. The fund's quest for moral and relational legitimacy may lead to changes in its corporate governance practices and processes. By responding to these institutional pressures, SWFs, in addition to enhancing monitoring capacity of their investment boards, may also incorporate stakeholder engagement mechanisms into their formal governance structures by assigning responsibility for sustainability to the board and forming a separate board committee for sustainability. For example, [Vasudeva \(2013\)](#) describes how by instituting the Council on Ethics which publicly “censors” and “certifies” the Norwegian Sovereign Wealth Fund's cross-border investments, the Norwegian government contributes to the professionalization of responsible investment principles. Moreover, this facilitates an institutionalized process of “spill-over” of responsible investment practices by other Norwegian firms. A system of remuneration that involves not only financial performance benchmarks but also factors associated with longer-term sustainability may be another governance factor contributing to moral legitimacy of the fund. Following the example of the Norwegian Sovereign Wealth Fund, other SWFs which are exposed to similar institutional pressures may introduce wider performance criteria and definitions of risk in their risk-movement systems that use non-financial indicators. Therefore, unlike studies in finance and economics fields, institutional framework suggests to consider corporate governance of SWFs as endogenous, socially embedded mechanism that may be highly responsive to various institutional pressures. This would suggest that rather than a provider of liquidity facilitating the adoption of more innovative practices, SWFs may impose in the portfolio firm's practices that are not necessarily bound up with the exigencies of short term profitability, or facilitating more effective or agile strategies. This leads to our first proposition:

Proposition 1. Significant SWF investments may promote a longer term view in firms, deepening the basis of strategic agility.

6. SWFs impact on firm governance: Country of origin impact

Boxall (1998) argues, that in HR terms, the second dimension of strategic agility is behavioral issues; SWFs more directly influence OB and HR through their direct influence in the corporate governance mechanisms of companies in which they invest, through infusing new, or reinforcing old, norms and values from their country of origin. Global norms expose SWFs to what Bell et al. (2014) call “multiple institutional logics”, and it is unclear how this exposure affects legitimation process and its implications for governance and HR policies of the firms SWFs invest in. In the context of “multiple institutional logics” the SWFs face heterogeneous and often ambiguous institutional pressures, and previously accepted standards of behavior, such as legal rules or self-regulation principles, become fragmented or outright ineffective. This may explain the growing heterogeneity of firm-level approaches to corporate governance and HR practice despite a growing trend for harmonization through various governance codes and principles of “good practice”.

In addition to the institutional diversity in their home countries, SWFs face significant differences in terms of institutional conditions in their host countries. Institutional theorists have identified a wide range of institutional logic, or the “socially constructed historical pattern of material practice, assumptions, values, beliefs, and rules by which individuals reproduce their material subsistence.... and provide meaning to life” (Thornton and Ocasio, 1999: 804).

Devinney, Schwalbach, and Williams (2013), for example, argue that in LMEs, the institutional logic of “shareholder supremacy” suggests that directors’ and managers’ obligations are mainly to the company and its shareholders. However, in stakeholder-oriented Coordinated Market Economies (CMEs), such as Germany, Scandinavian countries and Japan, managers and shareholders have to consider multiple stakeholder constituencies when making decisions (Hall and Soskice, 2001; Hancke et al., 2007). The *comparative capitalisms* strand of institutional analysis links national institutions, dominant corporate governance regime, with internal organizational practices (Aguilera and Jackson, 2003). What is argued is that national level institutions nurture and engender sets of formal and informal rules and associated relationships; in CMEs, these tend to be denser or ‘thicker’, with stronger embedded stakeholder rights. Within organizations, embedded and systemically sustained patterns of behavior underpin mutual interdependence, empowerment and delegation (Jackson and Deeg, 2008; Whitley, 1999). It has often been argued that new investor categories will drive a more arm’s length and transactional approaches both intra-organizational and external relationships, driving firms towards an ever more extreme versions of the calculative HR paradigms widely encountered in LMEs (Doz & Kosonen, 2010). An ability to rapidly adjust workforce sizes may enable quick responses to external challenges, but this may undermine the behavioral – and capabilities – dimensions of strategic agility (Doz & Kosonen, 2010).

As a result, differences in host country institutional logics suggest that HR practice should be of concern for SWFs targeting economies where stakeholder-oriented corporate models are particularly prominent. To conform to pressures for relational/moral legitimacy, SWFs operating in these countries have to develop and actively pursue a set of longer-term objectives geared towards organizational sustainability, as opposed to short-term financial performance (Ntim and Soobaroyen, 2013). This tips the balance towards a heavier reliance on “strategic” controls and the associated governance mechanisms. As Filatotchev and Nakajima (2014) explain, “strategic” controls are more likely to be associated with pro-active CSR policies in general, and labour relations in particular, that go beyond compliance issues.

Dowling and Pfeffer (1975) note that organizations ‘seek to establish congruence between the social values associated with their activities...and the norms of acceptable behavior of the society of which they are a part’. In doing so, they legitimize their actions, making it easier for new direction to win broad acceptance: all firms must heed to some extent how their actions will be perceived, and hence, legitimacy is closely bound up with strategic agility (Boxall and Purcell, 2007). A third source of norms of acceptable behavior may be diffused by an investor from abroad, based on what is acceptable in its country of origin. In case where country of origin ethical standards are high, this may constrain firms from responding quite so rapidly to changes in contextual circumstances, but it may also mean, that, in pioneering better behavior, the chances of costly reputational scandals is less. Where they are low, the opposite will the case: greater short-term agility, but greater risk of reputational scandals down the line.

Hence, in line with the institutional arguments above, SWF practices “tend to reflect their national norms of governance” (Aizenman and Glick, 2009:383). SWFs may affect labour through contributing to the diffusion of norms of their home countries (Vasudeva, 2013). As suggested by Gospel et al. (2011), there may be a link between SWF country of origin and HR policies in target organizations. Similarly, Kotter and Lei (2011) suggest that parent country effects and the manner in which the SWF is governed are likely to impact organizational behavior in target firms. For instance, the Norwegian State Pension Fund seeks to promote Norwegian values such as human rights, fairness and labour standards, while practicing transparency and democratic oversight over its investment. It explicitly engages companies on issues of working conditions and child labour, and divests from companies violating such principles as part of its responsible investment policy. Vasudeva (2013) found that this exerts normative pressures on home country firm’s cross-border investment decisions. In contrast, home country norms may also negatively affect labour policies. As most SWFs originate in authoritarian countries, they may be hostile to organized labour, and drive more hardline HR policies (Gospel et al., 2011: 281). This may impart greater flexibility to adjust HR policies in dealing with external challenges, but may also impose costs, as will become apparent. This leads to our second proposition:

Proposition 2. Institutional arrangements in SWF countries of origin will adjust the boundaries of acceptable behaviour within the firm: this may short up or undermine the human resource basis of strategic agility.

7. SWF and firm governance: Cognitive capabilities issues

Boxall (1998) argues that the third dimension of strategic agility in HR terms is cognitive abilities; we deploy the term ‘cognitive capabilities’ to encompass the combined capabilities of a workforce as a whole, both in terms of the sum of individual capabilities and synergies between them (Aoki, 2010). Questions arise over the nature of governance: if the owners use their influence, business decision become political, and if not, this strengthens the hand of managers compared to firms where there is no SWF holding (Caner and Grennes, 2010). As SWFs have traditionally had long-term objectives (Park and van der Hoorn, 2012), this may dilute the pressures on target organizations towards excessive short-termism and the type of agility founded on insecurity of labour and high staff turnovers. In turn, this may, as noted above, lead to a discounting of the value of a firm's accumulated cognitive capabilities (c.f. Aoki, 2010). The latter embodies not just synergies between the human capital of individual employees, but also accumulated knowledge and wisdom; the loss of such capabilities may impart short-term flexibility, but may hence undermine future strategic agility.

Conversely, Knill, Lee, and Mauck (2012) argue that the mediocre performance of SWFs may reflect not simply poor investment choices, but rather a longer term focus and a desire for political leverage. This may, in turn, give them less interest in squeezing labour for short term gain. Many SWFs remain committed to securing resources and knowledge, an agenda which transcends traditional concerns around profitability (Wojcik, 2012:363; Lenihan, 2013). The latter includes investments in the automotive, military and aerospace sectors (Wojcik, 2012:363), sectors founded on committed workforce, whose combined capabilities represent a unique source of competitive advantage (Chandler and McEvoy, 2000).

Finally, as state actors, SWFs do provide an implicit guarantee to creditors of firms they invest in, and appear to have a similar impact on creditor behaviour to direct state investment by the national government in question (Bertoni and Lugo, 2014: 34). As SWFs tend to be longer-term investors, they may have interest in promoting more cooperative work and employment relations policies, promoting lower turnover and more incremental skills development (Gospel and Pendleton, 2014a); this may relieve short-termist pressures on managers, and make for greater organizational stability and security for employees. In other words, managers would be under less pressure to meet short-termist shareholder pressures, and be able to nurture the collective capabilities dimension of strategic agility. This would encompass HR policies based around development and cooperation, and accumulated knowledge and understanding, rather than numerical flexibility.

However, to maximize returns (for example, in response to domestic political pressures or financial pressures from their country of origin), SWFs may force organizational restructuring. Research conducted in the EU suggests that this may indeed be happening (ibid.). Balin (2010:1) argues that a greater emphasis on short term returns, given increased scrutiny popular of parent governments in the aftermath of the financial crisis may result in a change in managerially strategies (c.f. Bernstein et al., 2013:220); arguably, this might force labour standards down, and lead to a loss of accumulated capabilities. Some high profile cases of SWF takeovers have been marked by job cuts and transfers of workers to positions with reduced pay or security of tenure (Gospel et al., 2011:281). As such pressures may mount during times when the country of origin is facing economic difficulties, this may mean that SWFs move from a contributor to financial stability to one worsening any financial instability in the global economy (Park and van der Hoorn, 2012). Bertoni and Lugo (2014:22) suggest that the transition from market to partial state ownership may make for organizational instabilities, in turn making things more difficult for stakeholders. Gospel and Pendleton (2014a) explicitly explore the relationship between SWF ownership and work and employment outcomes, and compare this with other “new investor” categories, such as private equity and hedge funds. They suggest that in lightly regulated liberal markets, SWFs may have more room to push for more instrumentalist work and employment relations (Gospel and Pendleton, 2014b). This leads to Proposition 3:

Proposition 3. Institutional arrangements in SWF countries of origin and domicile will affect the relative emphasis on short-term returns as opposed to the longer term; the latter will be associated with more cooperative HR policies, reinforcing existing cognitive capabilities, which will enhance strategic agility.

8. Examples of SWFs

Reflecting the multiplicity of institutional conditions in which they are embedded, SWFs are very diverse. As Cohen (2009:715) notes, SWFs differ greatly in propensity for risk taking, relative transparency and governance and sophistication. At the same time, Chwioroth (2014:1) argues that SWFs tend to follow their peers, with more established SWFs tending to follow more established ones. As a number of emerging market ones have increasingly shunned intermediation, and sought direct investments (and access to knowledge in strategic industries), it is perhaps hardly surprising that the Norwegian SWF, with its continued large scale usage of fund managers in the UK and US is upheld as an example of best practice (Wojcik, 2012:364). However, this enthusiasm has masked some nuances: the Norwegian SWF has, for example, always tended to shun private equity (Bernstein et al., 2013:225). Political controversies have resulted in considerable pressure on China's SWF to make greater use of third party fund managers; the response of the fund has been partial (Sun et al., 2014:660), but may be prompted by a desire to diversify risk (Miao and Liyan, 2011).

Given the difficulty of generalizing SWFs as one category, it is useful to review different types of SWFs in order to understand the different ways in which they may affect labour in line with our theoretical Propositions. We provide three examples below from the developing, monarchical petrostates of Middle East and Brunei, Norway, and China (see Table 2).

Table 2
Typology of sovereign wealth funds.

Type of SWF	II ('Monarchical')	I ('Ethical')	III ('Manufacturing')
Example	Abu Dhabi Investment Authority	Government Pension Fund of Norway	China Investment Corporation
Source of income	Primary commodity exports (oil)	Primary commodity exports (oil)	Trade surplus in manufactured goods
Governance	Autocratic	Democratic, Separate fund within central bank	Autocratic
Domestic policy aim of investment	Maximize revenues, intra-generational saving	Intra-generational saving, ensure greater economic stability and improve overall public welfare	Stabilize currency value, diversification of foreign exchange reserves
Foreign policy aim of investment	Enhance national influence	Diffusion of human rights and ethical values	Secure access to foreign assets and enhance natural resource security
Means of influence	Ownership	Divestment and exclusion (exit), active ownership (voice)	Ownership
Trans-parency ^a	Opaque (5)	Highly transparent (10)	Medium (7)
Impact on employment relations	Ambiguous: "patient owners" but under increasing pressure for short-term gains	Divests from companies with worst labour practices, such as using child labour	Hostility towards organized labour
Impact on HRM	Benefit from complementarities in country of domicile. May provide capital to support Coordinated Market patient investor models, forging alliances with national investors, who benefit from the complementarities flowing from cooperative HR paradigms, centring on high levels of co-determination and interdependence. In LMEs, may similarly seek to benefit from the ability to more readily adjust workforce sizes and pensions.	May promote greater interdependence with employees through reducing the propensity to make redundancies.	In developing world, the diffusion of country of origin HR practices may be facilitated by the substitution of labor with Chinese nationals. In developed world, may seek to harness firm specific skills and capabilities, but ultimately make them dispensable through replication and diffusion back to the country of origin. However, complex and competing institutional pressures may lead to compromise arrangements.

^a Linaburg-Maduell Transparency Index.

8.1. Developing Monarchial Petrostate SWFs - The Middle East and Brunei

Dixon and Monk (2012) note that the Middle Eastern petrostates are rentier states, in that oil revenues generated by a few free the government from having to significantly tax the population at large, reducing pressures for accountability. Again, the rents accruing mean that the rentier state is an effective position to bribe sectors of the population and repress opposition (ibid.). Whilst the accumulation of a rentier state's SWF may prop up the government, the prospect of higher returns and political clout may deepen and extend the rentier state's power and resources (ibid.). At the same time, as Clark (2008) notes, when freed from due scrutiny, such funds may be sheltered from any poor performance. So long as the SWF helps secure stability and increase the clout of the government home and abroad, the rentier state government is likely to be satisfied with the SWF's performance (Dixon and Monk, 2012). Hence, investment strategies may be arm's length, and often via financial intermediaries, with the SWF having limited interest in how target firms are actually run on a day to day basis (ibid.).

According to the SWF Institute (2014), the Abu Dhabi Investment Authority is the second largest SWFs with an estimated USD 773 billion in assets. Jory et al. (2010) argue that it is relatively unusual in that it has a track record of investing in joint ventures and private equity deals. The Kuwait Investment Authority, the sixth-largest SWF with USD 410 billion in assets (SWF Institute 2014) is very opaque, and, Dixon and Monk (2012:111) argue, "it is hard to view it as anything but a tool of the ruling elite". The Brunei Investment Agency is seen as the least transparent of all SWFs, with the assets effectively belonging to the Sultan personally (ibid.:111).

In looking at the case of Dubai World's acquisition of P&O, Gospel et al. (2011:285) note that this appears to be a strategic investment, rather than a commercial proposition. However, Gospel and Pendleton (2014a, 2014b) found that, in this instance, the investment was followed by a deterioration in pension provisions and employee representation. In other words, the investment was followed by the adoption of more hardline HR policies, and it may be that, in the case of significant SWF holdings, this is more the rule than the exception (ibid.). As pensions represent a form of deferred pay, a reduction of benefits will undermine the basis of the employment contract; in turn, employees are likely to see the firm in more instrumental terms, and be reluctant to invest in developing their organization specific (as adverse to externally marketable) human capital (Dixon and Monk, 2012); hence, this may undermine both the behavioral and capabilities dimensions of strategic agility.

However, as we suggest in Proposition 1, the effect of many SWF investments may be more limited, given that most involve minority shareholding (Gospel and Pendleton, 2014a). The above-mentioned takeover by Dubai World does not appear to have been marked by any other negative effect in HR practice or in job shedding (ibid.:286). By the late 2000s, both funds had been a lot more aggressive in taking larger stakes, including in the financial services industry and real estate in the US and UK (Karake-Shalhoub, 2008).

However, since the 2008- financial crisis, the focus of the Gulf SWFs has shifted somewhat, with a greater focus on German industrial firms; the focus here appears to be in reinforcing proven managerial models and organizational capabilities (Haberly,

2013). It also affected the relative size of different monarchical SWFs. For example, the Saudi Arabian Monetary Authority emerged less affected by the crisis than, say, Kuwait and Abu Dhabi (Cohen, 2009). This may also have forced a shift in orientation of the Gulf Funds. Losses racked up in financial services investments and through dealings with financial intermediaries have appeared to have driven a greater focus on more orthodox organizations who base their profits on conventional economic activities (Haberly, 2013:293). In turn, this has helped German industrial firms - including in the automotive sector - weather the stresses of financial restructuring, and reduce the risks of hostile takeovers (Haberly, 2013:293; Mietzner and Schiereck, 2011). Traditionally, patient ownership has been a feature of the German model, complementary with, and reinforcing stable employment and incremental organization specific skills development, and according employees significant say in the production process (Brewster et al., 2012; Hall and Soskice, 2001). Although a large proportion of the literature on dynamic capabilities has focused on 'light' or agile organizations (Ambrosini and Bowman, 2009), able to rapidly respond to the demands of evangelical managers driven by the need to maximize shareholder value, the strategic agility of the great German industrial firms (and their Japanese counterparts) is often underestimated. Such firms are able to rapidly adjust the process and the scope of production, innovate, and cope with the proliferation of lower cost producers from abroad, through continuous enhancement of quality, and the refinement and operationalization of technological advances; central to this agility are human resources, and the nurturing of desirable behaviors and skills through mutual commitment (ibid.).

Haberly (2013:304) notes that by 2007, the cross shareholding that characterized large German firms had largely disappeared, undermining one of the pillars of the German model, encompassing cooperative HR policies, and the above-mentioned high levels of mutual commitment between employers and employees. SWF investments, Haberly argues, have helped bolster the German model, through access to new types of patient capital, supplementing expansionist German family owned firms (ibid.; c.f. Mietzner and Schiereck, 2011). Indeed, Haberly argues that Gulf SWFs have become "trustworthy and supportive white knights to German firms" (Haberly, 2013:307); indeed, the 9.1% stake in Daimler in 2009 by Aabar (an Abu Dhabi SWF) was matched by commitment to be involved in Daimler "as long as Abu Dhabi exists" (Haberly, 2013:309). However, a limit of this argument is that declining oil reserves may pose great domestic pressure on Gulf governments in the future; the relatively low oil and gas prices of late 2015 and early 2016 has meant that significant inroads have been made into the Saudi SWF in particular. A broader decline of the Gulf SWFs may force a premature liquidation of key investments, and casting fresh doubt over the German patient ownership model, and firms reliant on patient investor capital elsewhere in the world. In terms of Propositions 2 and 3, it could be argued that Gulf SWFs may reinforce what is seen as acceptable managerial behavior, and dominant national HR modes of practice in target markets, rather than imparting significant country of origin effects, deepening existing bases of strategic agility (or, potentially worsening areas where there are, typically, significant shortfalls).

8.2. An ethical SWF - Norway

Norway's SWF has been concerned with securing and transferring a proportion of present oil wealth for future generations, helping future pension liabilities for an ageing population, and promoting Norwegian values (Dixon and Monk, 2012: 114). The Norwegian Government Pension Fund Global possibly the largest SWF in the world, with a market value of NOK 5038 billion in 2013. In 2014, the SWF Institute (2014) estimated its holdings at USD 893 billion, making it the largest in asset size. It held an average ownership stake of 1.3% globally and 2.5% in Europe. In 2013, it invested 61.7% in equities, 37.3% in bonds and 1% in real estate (Norwegian Ministry of Finance/NMF, 2014). It is restricted to 5% holding maximum in a company, limiting its influence in corporate affairs, in addition to their restrictions on unethical investments (Caner and Grennes, 2010: 602).

Norway is the fifth-biggest oil exporter and the Fund was founded in the 1990s with the mission of saving the country's finite petroleum wealth for future generations and to stabilize the implications of oil price fluctuations. Determined by Norway's finance ministry, it started out investing in government bonds. Over time, it has been allowed to buy up to 40% and since 2007 60% of shares but never more than 10% of one company. In 2008 the Fund was permitted to buy shares in companies in emerging markets and infrastructure assets and real estate. The Fund's investment strategy has been described as mainly passive, as it aims to hold a portion of companies world-wide, so that it "can over time reap a return close to the overall return in global capital markets" (NMF, 2014: 12). Unlike most Asian SWFs, it is not permitted to invest at home (Alm, 2012: 184; Truman, 2011).

While many sovereign wealth funds do not disclose their results, Norway considers transparency as a prerequisite for ensuring widespread confidence in the management of the Fund. The Fund publishes quarterly reports of its activities, detailed annual reports including management performance and an annual list of all investments, allowing outsiders to objectively evaluate its practices (Caner and Grennes, 2010). The Fund faced close public scrutiny such as when it suffered a negative return of 23% in just one year after the onset of the financial crisis, following on years of good performance (ibid.).

The Fund stands out in having the mandate to act as a responsible investor. The Fund is managed on behalf of the Norwegian Ministry of Finance, which, in line with its responsible investment strategy, has adopted ethical guidelines for asset management which are overseen by the Ethics Council. This stipulates the integration of environmental, social and corporate governance considerations in the investment activities, through environment-related investments, research and analysis, active ownership, as well as divestment from and exclusion of companies on ethical grounds.

In terms of active ownership, the mandate from the Ministry stipulates that active ownership shall be based on the UN Global Compact, the OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises, which are voluntary recommendations promoting good corporate governance expectations and responsible corporate environmental and social practices. The Fund's six strategic areas of ownership priorities are: equal treatment of shareholders; roles and responsibilities of the board; well-functioning financial markets; children's rights; climate change; and water management (NMF 2013). Even though ownership in

each individual company is low with an average of 1.3% of shares, the Fund is among the main shareholders of a number of companies, which places it in a strategic position influence markets and individual companies. In 2013, the Norwegian Central Bank managing the Fund reported voting in 9583 general meetings, submitting four and voting on 239 shareholder proposals on environmental and social issues. In the same year, over 2304 meetings were held between fund representatives and company executives and 77 meetings with the chairperson of the board of companies.

Furthermore, the Fund uses divestment to pursue its ethical policy. The Norwegian Ethics Council determines which companies should be excluded, such as if they produce certain products, such as tobacco, certain weapons or sell military material to specific states. As of 2013, such product-based exclusion affected 40 companies including Lockheed Martin, EADS, Boeing, Altria Group, British American Tobacco or Philip Morris. Companies may also be excluded if there is an unacceptable risk that they may contribute to, or are responsible for, grossly unethical activities, including systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour, the worst forms of child labour and other child exploitation, severe environmental damage or gross corruption. Conduct-based exclusions affected 21 companies, including Barrick Gold and Rio Tinto for severe environmental damage and Walmart for human rights violations centering on labor standards. In 2014, the Fund announced to drop its investments in coal, tar sands and palm oil sectors.

While the Fund claims it is “not a foreign-policy tool,” its exclusion principles have created debate. Most notably, the Fund's exit from Walmart (followed by Sweden's four national pension funds and the Netherlands' PGGM pension fund) triggered off a diplomatic row, with the US ambassador to Norway accusing the fund of passing a national judgment on a single company (Bernstein et al., 2013: 235). As exposed through a WikiLeaked cable (Aftenposten, 2011), U.S. diplomats have also grown concerned that the Fund's ethical policy disproportionately impacted U.S. corporations, particularly political influential arms manufacturers and those characterized by hardline HR policies.

What are the likely consequences of the Fund's activities for strategic agility and HRM? Firstly, the small size of holdings means that the Fund is unlikely to have much impact on day-to-day people management. However, the ability and willingness to exit firms where it has doubts over managerial policies and directions, means that firms have to temper their behavior. This is unlikely either to drive higher value added HR policies, or, in doing so, contribute to greater strategic agility in target firms. However, there is evidence from the UK that investments by the Fund are associated with a reduced willingness to shed labor by target firms (Goergen et al., 2018). In turn, this would provide incentives for workers to develop their organization specific human capital, enhancing the capabilities dimension of strategic agility. Secondly, this means that not only are certain industries are shunned, but also supply chain policies will be closely scrutinized; the latter will make it more difficult for firms to found their competitiveness on aggressive cost cutting, and, hence, will have more incentives to take their human assets more seriously; in turn, this will, ultimately, once more, impact the behavioral and capabilities dimensions of strategic agility. These arguments are in line with our Proposition 1 that links SWF investments with a longer term view in firms, deepening the basis of strategic agility.

Nonetheless, based on the existing evidence, and in terms of Proposition 2, it can be argued that NGPF-G will narrow the bounds of what constitutes acceptable managerial behavior in terms of HR policy and practice, and, hence, enhance the type of strategic agility founded on greater employer-employee interdependence. In terms of proposition 3, it could be argued that the NGPF-G may impart significant country of origin effects, diluting the country of investment effects on HR practice in target firms, and hence, the capacity for strategic agility.

8.3. Manufacturing export founded SWF - China

The China Investment Corporation (CIC) was established in 2007 as a ministry-level state owned enterprise, with the formal aim of diversifying foreign exchange holdings and raising the income from investments (Zhang and He, 2009). According to the SWF Institute, CIC is the fourth largest SWF with USD 652.7 billion in assets behind Norway, UAE and Saudi Arabia (at least until the latter's recent [2016] decline). Alberola and Serena (2008: 329) characterize the Corporation as the epitome of a compromise between net importing and exporting countries, with the US, above all, being reliant on inflows from bodies such as the Corporation to finance worsening trade deficits.

The CIC is unusual among SWFs in that it was founded through it borrowing special Chinese government bonds, for which it has to pay interest, a founding “original sin”, which makes it susceptible pressures to service this interest, as well as the political concerns of government, given it is staffed with government officials (Zhang and He, 2009:109). It has been particularly controversial owing to the close relationship between the Chinese state (Dixon and Monk, 2012:104). Dixon and Monk (2012: 111) argue that it is an example of a productivist SWF, which may be defined as being primarily concerned with promoting the domestic political economy and increasing its influence in global production networks. CIC investments initially looked at domestic firms, and overseas financial services firms, such as Blackstone (Zhang and He, 2009). Perhaps on account of large losses racked up in its dealings with Blackstone and other financial intermediaries (Datz, 2009:663), it gradually shifted focus to direct investments in firms, including in the mining and energy sectors, including in the developing world, and often supplementing investments by Chinese state owned enterprises in the same firms (Dixon & Monck, 2012:112; Wu, Goh, and Hajela, 2012). In addition to seeking energy security, in the case of emerging markets, there is evidence to suggest that Chinese investments have been particularly geared towards mineral resource seeking and, recently, agricultural land (Wu et al., 2012:353). In the case of Africa, Chinese investments have been marked by the preferential employment of Chinese nationals, even in unskilled positions (Negi, 2008). As many emerging governments are heavily dependent on such investments - particularly as Chinese investors typically do not deploy as conservative costing models as Western mining firms, meaning that more marginal mines are likely to be opened or stay open (Mohan and Power, 2008) - this means that efforts to regulate incoming Chinese labour have been limited or ineffectual. On the one hand, this allows for an inflow of human

capital, at least as far as skilled workers are concerned; target firms may be better equipped to cope with external environmental challenges through stronger internal capabilities. It may also make for a more closely knit organizational culture, reinforcing the behavioral dimensions of strategic agility. On the other hand, this has led to a further diminishment in job opportunities for locals (albeit that, in many instances, marginal mines would otherwise have closed), and increased horizontal tensions between different ethnic categories of labour (Negi, 2008). In other words, remaining African workers may become alienated, and be reluctant to support new managerial agendas. In turn, this may feed into populist politics, and at worst, ethnic based conflicts (Negi, 2008). However, as the literature on institutional complexity alerts us (Delbridge and Edwards, 2013), firms will still be affected by historically embedded institutional logics; there is empirical evidence that Chinese firms in Africa are both under pressure to, and may materially benefit from, developing shared languages of understanding, given embedded overlaps in African and Chinese values (Xing, Liu, Tarba, and Cooper, 2016). This may allow for the development of strategic agility that builds on the synergy of strengths conferred from each national context.

In the case of mature economies, investments have been also motivated by knowledge seeking (Mackinnon and Powell, 2010:168–170). On the one hand, this may again make for much needed investment in firms which would otherwise have experienced difficulties, helping secure jobs, and retain skill sets and knowledge relevant to particular industries (Epstein and Rose, 2009). In other words, this may help husband existing capabilities, enabling firms to retain and develop this dimension of strategic agility, even in difficult times. On the other hand, this may lead to the hollowing out of organizations, with a core pool of technical skills being retained, and the bulk of production shifted to China, leading to a loss of good jobs in the country of investment, and, even, knowledge stripping (Mackinnon and Powell, 2010). The latter would entail a process where the existing knowledge base, skills and capabilities are recorded, and then disseminated to other organizations in China, ultimately leading to the diminishment of the behavioral and behavioral foundations of strategic agility.

Finally, unlike most of the SWFs, the bulk of the CICs investments (some 81.5 \$bn) are domestic, outweighing the fund's albeit very substantial overseas investments (42.6 \$bn) (Megginson et al., 2013:545). On the one hand, this may provide key sources of developmental capital to domestic firms (Alberola and Serena, 2008: 315). On the other hand, a primary concern of the Chinese government has been domestic political stability, and this has encompassed the support and propping up of uncompetitive manufacturing firms producing low value added low cost goods (Zhang and He, 2009); structural barriers to exist and the continued ability to access capital, despite organizational failings, may alleviate pressures to become strategically agile, and devise and roll out new technical or HR strategies to enhance competitiveness.

In terms of Proposition 2, it could be argued that CIC investment may shift the governing norms of managerial behavior; in the developing world, this may represent a move from traditional recruitment strategies based on local informal networks of support, towards the importation of labor from China. This may either reduce the human basis of strategic agility through the loss of intra-organizational local knowledge, or enhance it through new skills and greater opportunities for cross cultural dialogue. In terms of Proposition 3, it could be argued that CIC investment may be geared to the capture and transfer of existing capabilities, rather than the further development of them.

As Table 2 and our case discussion clearly indicate, SWFs represent a heterogeneous population of investment institutions that differ in terms of their source of financial resources, overall objectives and governance characteristics including their transparency, and in terms of their consequences for firms and their strategic agility, and HR policies and practices.

9. Discussion and conclusion

Although the three SWFs we discussed have similarities in terms of their overall objectives aimed at preservation and enhancement national wealth, they are distinctively different in terms of possible impacts on labor and HR in host economies. For example, the Government Pension Fund of Norway considers employees as a key group of stakeholders whose interests should be taken into account when making investment decisions; this appears to feed through to a reduced willingness to shed labor, which may husband and mature the capabilities and behavioral dimensions of strategic agility (Baric et al., 2014). On the other end of spectrum is China Investment Corporation who is much less perceptive to employment concerns and demands of organized labour. However, in support of parent government concern with domestic political stability, this may provide continued access to capital for underperforming firms without necessitating changes in managerial strategy in the latter; in other words, no matter how challenging the external environment, CIC investments in domestic firms may reduce the need for strategic agility, with potentially serious long term consequences. Although Abu Dhabi Investment Authority may be currently passive in terms of engaging with portfolio companies, the mounting pressures to focus on the short-term financial performance may move this SWF towards the CIC's end of spectrum in the future. More broadly speaking, there is evidence that Gulf SWFs have been willing to supply patient capital to incrementally innovative manufacturing firms (Haberly, 2013), shoring up the behavioral and capabilities dimensions of strategic agility. Our case analysis and Table 2 indicate that researchers need to develop a more holistic, dynamic perspective on the specific SWFs and their economic impact.

In this paper we discuss four channels through which SWF affects HR strategies employees around the world. First, SWFs affect macroeconomic conditions, and hence affects labour markets. Second, there is interplay between SWF investment and institutional and legal conditions, which in turn affects HR policies and standards in home and host countries. Finally, SWFs directly impact employees in terms of their influence on the governance of companies in which they invest, and their relative interest in promoting different forms of strategic agility; the primary focus of this article has been on the latter, and how SWF investments may enhance the capabilities, behavioral and contextual dimensions of strategic agility through people.

The direct implications from SWF investment for HR strategies and strategic agility are particularly understudied and warrant

greater scrutiny, although this review of existing research evidence would suggest they are potentially far reaching. Further empirical analyses that link SWF investment to macroeconomic and labor market conditions are needed; the latter will directly impact on the contextual dimensions of strategic agility (Doz & Kosonen 2008; Ambrosini and Bowman, 2009; Weber and Tarba, 2010). Similarly, studies that examine the governance structures and political influences on SWFs and the related labour outcomes for SWF investees domestically and cross-border would provide much insight the welfare implications of SWF investment, and, the internal organizational consequences of this (Johan, Knill, and Mauck, 2013; Knill et al., 2012).

Currently, there are tremendous global imbalances between net exporting and net importing nations. Whilst it would be incorrect to assume the circuits of global capital are perfectly closed, to a large extent, balance of payments deficits were corrected by the inflow of credit from exporting nations. The rise of SWFs fundamentally changes this relationship from an arm's length credit supplying one, to one that has a stronger governance component. SWFs invest not only to ensure good and/or predictable returns. However, in their activities, they gain leverage not only directly over the firms they invest in, but also may impact on the behavior of firms seeking investment, and indeed, the wider political economy of the country of domicile. We should not assume that the decisions guiding SWFs are mechanistic or uniform. By the same manner, the rise of SWFs has infused the circuits of capital, and ultimately the orientation of the firm, with a stronger element of politics and power (Fotak, Gao, and Megginson, 2016).

However, those affected by the choices of SWFs will, first of all, be stakeholders in firms with SWF holdings, including workers. What this review has highlighted is the diversity of this impact, which can range from expectations of higher labour standards, greater job security and more ethical corporate behaviour (Norway), to job creation for parent country nationals at the expense of locals (CIC investments in Africa). The former may reinforce the behavioral and capabilities dimensions of strategic agility (Ambrosini and Bowman, 2009). Although the latter may promote uniformity organizational culture and desired patters of behavior – and, hence, agility (Doz & Kosonen 2008; Ambrosini and Bowman, 2009) – it may also lead to a loss of existing capabilities (even if informal, and particularly hard to quantify). It may further lead to political tensions, undermining the contextual basis of strategic agility (Weber and Tarba, 2010).

Further research linking SWFs to HR outcomes would be of much interest to academics, practitioners and policymakers alike. Above all, what this paper highlights is that SWF investments may have profound consequences for HR practice. Depending on institutional arrangements in home and host country, relative concern for ethics, and relative pressures for short term returns and the securing of technological expertise, the relative implications for, and type of strategic agility conferred, may vary. To establish legitimacy, SWFs may adopt a hands-off approach, whilst providing new capital for investment, in turn, allowing managers and employees more room to build agility through capabilities and in nurturing particular patterns of behaviour (Gospel et al., 2011). However, both long- and short-termist investment horizons may have direct consequences. In the case of the former, this may encompass a stronger emphasis on security and continuity, whilst providing the basis in terms of skills and mutual commitment for agility. In the case of the latter, this may result in a primary focus on numerical and financial flexibility making for a closer articulation between contextual and organizational trends, which may enable the firm to respond quicker to external shocks, but debilitating the behavioral and capabilities dimensions of strategic agility.

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