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Apriliyanti, Indri Dwi; Dieleman, Marleen; Randøy, Trond

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Multiple-Principal Demands and CEO Compliance in Emerging Market State-Owned Enterprises

Indri Dwi Apriliyanti[a,b], Marleen Dieleman[c,d] and Trond Randøy[b,e]

[a]Universitas Gadjah Mada; [b]University of Agder; [c]National University of Singapore; [d]International Institute for Management Development (IMD); [e]Copenhagen Business School

ABSTRACT This study addresses multiple-principal–agent power dynamics in state-owned enterprises (SOEs) in emerging markets. We investigate under what conditions agents (CEOs) accede to demands of government-linked principals. Our qualitative study in Indonesia advances agency theory by disaggregating and categorizing government-linked principals. We also examine three types of principals' demands (commercial, social, and private) and five types of mechanisms influence agent responses with principals' *private* demands (collusion among principals, career-ending threats by principals, plausible deniability through CSR, political ties as enabler, political ties as buffer). Based on our findings and on insights from the public administration literature, we develop a conceptual framework that advances multiple agency theory.

Keywords: Indonesia, multiple agency theory, multiple principals, political ties, state-owned enterprise

INTRODUCTION

CEOs of state-owned enterprises (SOEs) must juggle a combination of demands imposed on them by governments as shareholders (Musacchio et al., 2015). While the performance implications of goal complexity associated with government ownership are fairly well investigated (e.g., Tihanyi et al., 2019), how CEOs prioritize different shareholder demands needs further clarification.

Government ownership of enterprises is often studied using agency theory (e.g., Grossman et al., 2019). Classical agency theory, as applied to firms, focuses on the

Address for reprints: Trond Randøy, Center for Corporate Governance, Department of Accounting, Copenhagen Business School, Solbjerg Plads 3, C5.09, DK-2000 Frederiksberg, Denmark (tra.ccg@cbs.dk).

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dyadic relationship between stockholders (principals) and management (agents), theorizing how a principal can ensure that the agent pursues the principal's goals (Jensen and Meckling, 1976). Subsequent management scholars unpacked this dyadic relationship, recognizing that principals and agents can consist of multiple entities (Arthurs et al., 2008; Child and Rodrigues, 2003). In the context of SOEs, multiple agency theory has advanced our understanding of goal conflicts between different principals (Grossman et al., 2019), but the management literature has focused on the diverging goals of public and private shareholders (e.g., Chen et al., 2019; Tihanyi et al., 2019). Public administration research that draws on agency theory, on the other hand, recognizes that government powers themselves are often dispersed (Moe, 1982; Shapiro, 2005). Such scholars see government bureaucracies as having multiple government principals (Miller, 2005), often with conflicting interests (Whitford, 2005), exercising influence over agents through a diversity of power levers (Brandsma and Schillemans, 2013; McCubbins and Schwartz, 1984). These scholars, however, typically do not take enterprises as their unit of analysis. This paper leverages insights from public administration to advance multiple-principal–agent theory in the context of SOEs, arguing that CEOs' responses to government demands can be better understood by disaggregating the government as an SOE principal.

The issue of dispersed government-linked entities placing demands on CEOs is especially pertinent in emerging markets. SOEs comprise 22 percent of the world's largest firms (OECD, 2016) but their role is even larger in emerging markets such as China, Russia, Indonesia, and Brazil, where they are under considerable pressure to meet the financial, political, or private objectives of government officials (Musacchio et al., 2015; Shleifer and Vishny, 1994). The presence of embezzlement in many emerging markets also leads to a situation where principals themselves are not 'principled' (Peiffer and Alvarez, 2016), more readily mixing narrow private benefits with government policy goals. For all these reasons, we argue that the challenge of juggling the multiple demands placed on CEOs by SOEs can be most vividly observed in emerging markets. Thus, our research question is: How do CEOs, as agents of state-owned enterprises, respond to multi-faceted demands by government-linked principals in emerging markets?

Through a qualitative study focusing on Indonesia, where SOEs are prevalent, we contribute to the management literature by extending multiple-principal–agent theory (e.g., Chen et al., 2019; Grossman et al., 2019) to the domain of SOEs. Drawing on insights from the public administration literature, we disaggregate government-linked principals into different categories. This classification is novel in the field of management and opens up a new research direction in the study of SOEs. Further, recognizing that the multifaceted demands by government-linked principals are frequently incompatible, we theorize how CEOs respond to the conflicting demands placed on them by government principals. Paying special attention to principals' private demands that have not been well understood in the agency literature in management, we propose five mechanisms that influence the agents' compliance levels, thereby advancing a new set of causal relationships that speak to the distortionary effects of governments on SOEs. With these contributions, we suggest that our findings have the potential to enrich the literature on SOEs through the application of multiple-principal–agent theory.

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LITERATURE REVIEW

SOEs

As the term suggests, the definition of state-owned enterprises has two components: SOEs take the legal form of an *enterprise* (or firm) and they are characterized by *state* ownership. The 'enterprise' component implies two distinct features: that SOEs are legally independent entities with their own budgets and governance systems, which sets them apart from government bureaucracies, and that SOEs sell goods or services, which sets them apart from government agencies providing public goods (Cuervo-Cazurra et al., 2014).

The 'state ownership' component sets SOEs apart from privately owned firms. When a state is the ultimate owner of the firm or possesses more than 50 per cent of a firm's shares, the firm is categorized as an SOE (Kowalski et al., 2013). Many of today's SOEs are characterized by hybrid ownership comprised of both state and non-state shareholders (Bruton et al., 2015). However, it is important to highlight that depending on the laws in each country, the state may have a minority stake (e.g., Christiansen and Kim, 2014; Florio, 2014), but could nonetheless exert de facto control through 'golden' shares or shares with veto rights. Thus, the key criterion is that the state has de facto control through its shareholding (Bernier et al., 2020), allowing it to engage in the appointment and monitoring of agents.

SOE Principals: Multiple Candidates

Agency theory focuses on the dyadic contractual relationship between a principal and an agent (Jensen and Meckling, 1976). The theory assumes both parties have divergent goals and proposes incentives and monitoring to alleviate the goal conflicts between the agent and the principal (Eisenhardt, 1989a; Hill and Jones, 1992). Multiple agency theory considers conflicts of interest when more than two principals and/or agents are involved (Arthurs et al., 2008; Child and Rodrigues, 2003). Multiple agency theory in management has advanced our understanding of goal conflicts between different principals such as majority and minority shareholders in family firms (Young et al., 2008), and shareholders and donors in business–NGO alliances (Rivera-Santos et al., 2017).

In the context of SOEs, Grossman et al. (2019) also use the multiple agency perspective to explain divergent goals of public and private shareholders (Grossman et al., 2019), in line with research suggesting that government ownership may negatively affect firm performance (e.g., Chen et al., 2019; Tihanyi et al., 2019). What SOE scholars in management have not yet fully captured is that government, as a public shareholder, is not a single entity. Various government entities can claim to act on behalf of 'the government', generating multiple and often extreme political pressures on CEOs (Lioukas et al., 1993; Musacchio et al., 2015; Zou and Adams, 2008). Kankaanpää et al. (2014, p. 412) argue that the government 'consists of different administrative levels, ministries, and units that may have different perceptions of what the goals should be or what the goals mean for practical implementation'. Therefore, the influence of different government entities on

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state-owned firms differs from their influence on privately owned firms, but precisely what influence these different government entities have on SOEs is currently not well understood (Chen et al., 2019).

Tihanyi et al. (2019) suggest that SOE performance can be better understood by integrating the state ownership literature with the political ties literature (e.g., Sun et al., 2012). We suggest that the political ties literature can contribute to a more precise classification of different government-linked principals. Political ties are dyadic in nature and can be categorized as formal (e.g., Zheng et al., 2015), informal (Albino-Pimentel et al., 2018), or both (e.g., Zhu and Chung, 2014). Recent management literature distinguishes between a political tie's institutional power in terms of type (e.g., legislative, government, political party, military) and level (e.g., central, local) and suggests that these may be complementary (e.g., Hiatt et al., 2018). This classification has led to more precise predictions of SOE behaviour (e.g., Zheng et al., 2015). However, the literature on political ties does not commonly apply an agency theory lens, despite calls to do so (Hadani and Schuler, 2013). Public Choice Theory (e.g., Boyne, 1998; Buchanan and Tullock, 1962), another relevant literature stream in public administration, assumes that bureaucracies consist of collectives of individuals who optimize their self-interest leading to complex principal-agent problems within the government (Buchanan and Tullock, 1962; Dunleavy, 2014).

While some scholars in public administration and political science identify citizens as principals and government officials as agents (Majumdar, 1998; Moe, 1984), others identify government officials as principals (Weingast, 1984; Whitford, 2005). The microscopic nature of each citizen's ownership stake in each SOE supports the argument that citizens cannot be viewed as residual claimants or the true owner (Caplan, 2001). Furthermore, the limited ability of citizens to monitor the SOEs and the diffused nature of SOEs' ownership reduces the incentives for citizens to examine the performance of firms they collectively 'own'. Based on the above arguments, we conclude that government officials can be conceptualized as SOEs' de facto principals.

The notion of dispersed government power (i.e., multiple agency) is fundamental in this line of research (e.g., Schachter, 2014). In line with our focus on SOEs, where the agents are the SOE's management and the principals are the government acting as the SOE's owner, we focus our attention on the public administration literature that discusses multiple-principal–agent relations within government bureaucracies. In this respect, some scholars classify principals according to whether they hold formal power, i.e., political, administrative, or monitoring power (Laffont and Tirole, 1993; Miller, 2005) or informal power, i.e., influence (Waterman and Meier, 1998). Public administration scholars have noted a separation between principals' formal powers: the power to delegate decision-making to agents does not necessarily entail the power to monitor agents (Miller, 2005) or the power to nullify agent's decisions (Coen and Thatcher, 2008). In order to capture the behaviour of a variety of government-linked entities with the power to incentivize or sanction agents, public administration scholars have broadened the definition of principals' powers by including informal powers, whereby principals possess a strong influence over agents without necessarily having formal, statutory authority (Waterman and Meier, 1998). While the public administration literature offers essential insights into the dispersed nature of government-linked principals, it primarily focuses

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on government bureaucracies. The typical principal–agent relationship in firms, however, is defined by corporate law. Thus, we currently do not know to what extent these insights into dispersed principals from public administration have explanatory power in the context of SOEs.

Overall, both the political ties literature and the public administration literature made advances in terms of understanding the powers of different branches of government. However, neither the public administration literature nor the political ties literature has specifically addressed the multiple-principal–agent context of SOEs. A typology of SOE principals is currently lacking, providing an opportunity for new theorizing.

Demands by SOE Principals

SOEs are infamously known to be politicized due to the potential for direct interference from the government (Musacchio et al., 2015), which may pursue social or private demands at the expense of firm profitability (Grosman et al., 2016; Shapiro, 2005). The agency literature, as applied to SOEs, commonly distinguishes between profit-oriented and social objectives (e.g., Cuervo-Cazurra et al., 2014). Governments may create SOEs to increase government revenue (Vernon, 1979) or to solve a range of social and economic issues including market failure (Musacchio et al., 2015; Zif, 1981). For instance, the government may require SOEs to serve less profitable market segments, provide goods below the market price (Goldeng et al., 2008), or invest in less populated areas (Musacchio et al., 2015), all of which are legitimate government objectives that we refer to as social demands.

Management scholars contend that SOEs tend to be more exposed to embezzlement or rent-seeking than private firms due to politicians interfering with business decisions (Alam, 1989; Inoue et al., 2013), but these studies rarely take an agency theory perspective, and instead view it through the lens of embezzlement. Embezzlement is commonly defined as the abuse of entrusted power for private gain (Fan et al., 2010). In the context of principal–agent relationships, however, public administration scholars have pointed out that it may be the 'unprincipled principals' (Peiffer and Alvarez, 2016) that drive agents to abuse their power for the principal's private gain (Persson et al., 2013), which is an important nuance.

We suggest that this specific form of embezzlement where principals make private demands can be better understood from an agency perspective. We define private demands as those that benefit a narrow group of individuals or organizations. For instance, elected politicians may require SOEs to provide goods and services to particular population areas in order to win votes (Apriliyanti and Kristiansen, 2019), to use SOE funds to bail out failed projects or firms, or to undertake projects that channel rents to themselves or their cronies (Khwaja and Mian, 2005; Musacchio et al., 2015). Such demands, which further the private interests of principals (and often those of agents too) are especially prevalent in emerging markets (Musacchio et al., 2015; Shleifer and Vishny, 1994).

Thus, drawing from the SOE literature and the public administration literature, we suggest that multiple SOE principals may pursue a combination of commercial, social,

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and private goals. However, which principal is most likely to make what type of demand, and under what authority, is an area where we still lack detailed knowledge.

CEOs' Degree of Compliance with Private Demands

The principals of an SOE have the authority to hire and fire the CEO, to approve or reject corporate decisions, or to monitor them. In fact, the most rational course of action for CEOs is to pursue the interests of the people who appoint them, that is, the government or the politicians (Musacchio et al., 2015). The public administration literature suggests that government principals have an array of sanctions at their disposal to ensure that agents comply with their demands, depending on their formal power and informal influence. Other than firing agents, principals may block or revise agents' decisions (Strøm et al., 2006), limit agents' authority (Gailmard and Patty, 2012), mete out monetary penalties to agents (Strøm et al., 2006), or bring legislative action against agents (Chen et al., 2019).

To the extent that principals' interests are in line with government priorities, agency theory suggests that agents fulfil principals' demands if the relationship is governed by incentives and sanctions that align principals' and agents' interests. However, an especially interesting case is that of principals making private demands, which often go against agents' fiduciary duties and sometimes amount to breaking the law. Public administration scholars suggest that principals' private demands may be tolerated in the absence of incentives for government principals to police themselves (Hidalgo et al., 2016) or their agents (Andvig and Fjeldstad, 2001). Indeed, management scholars have also observed that the decisions of politically connected CEOs are hard to monitor (Hadani and Schuler, 2013), and that these CEOs are sometimes able to evade scrutiny of their rent-seeking behaviour (Liedong and Rajwani, 2018). To ensure that CEOs follow their private demands, elected politicians typically appoint their cronies to serve as executives or board members (Apriliyanti and Randøy, 2019; Chong and López-de-Silanes, 2005). Thus, CEOs, who may be aligned with government interests, may nevertheless face greater incentives – and lower risks – if they become involved in embezzlement through acceding to the private demands of their principals.

What might drive a CEO to reduce or refuse compliance with principals' private demands? Amendments to agency theory indicate that agents tend to be boundedly rational; i.e., they may pursue their self-interest only as long as it does not conflict with commonly accepted norms, including legal and social expectations (Bosse and Phillips, 2016). Legal boundary conditions come into play if demands run counter to applicable laws (i.e., embezzlement), which could explain why certain demands by principals are resisted. Reciprocal expectations between individuals may also limit self-interested behaviour. For example, the management literature suggests that agency is socially constituted (Westphal and Zajac, 2013) and the public administration literature, drawing on agency theory, highlights the personal relations between agents and principals (Carpenter and Krause, 2015). Personal political ties can make executives vulnerable to government expropriation (Jia and Zhang, 2013), but also provide a 'buffer' against unwanted government interference (Zhang et al., 2016). Therefore, the strength of social ties may play a role in the prioritization of demands placed on the CEO (McCarthy and Puffer, 2008).

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The commonly held assumption of agency theory that agents are bound by legal norms may not sufficiently capture the nuances of emerging market SOEs, where government officials and politicians are less constrained by the rule of law. In such markets the social pressures to comply with private demands are commonly strong and legal norms are weak (Young et al., 2008). Thus, little is known about whether and how CEOs prioritize or moderate principals' private demands in the SOE context, which provides us with an opportunity to extend multiple agency theory thereto.

Advancing Multiple Agency Theory

Multiple agency theory has already been significantly advanced by investigating boundary conditions occurring in specific contexts, but it has not yet done so in the SOE context. Consequently, our current understanding of how multiple principals (i.e., government-linked individuals) pressure agents (i.e., CEOs), how the latter may respond, and how acceding to or refusing private demands may affect SOE outcomes is limited. Answering these questions by extending multiple agency theory to the domain of SOEs will lead to more accurate explanations of heterogeneous performance levels among SOEs.

While other literature streams, such as the public administration literature on agency theory and the management literature on political ties, do recognize that government officials with different institutional powers create different effects, they have not specifically considered the context of SOEs either. Thus, we will draw on these literature streams in order to extend multiple agency theory to the context of emerging market SOEs.

RESEARCH METHODOLOGY

Research Context and Design

We argue that Indonesia, ranked among the top 30 per cent most corrupt countries by Transparency International, represents a suitable 'extreme' emerging market context with extensive demands on SOEs (Henderson and Kuncoro, 2011). For instance, eight SOE directors (mostly CEOs) have been arrested by the Anti-Corruption Commission in the past five years (Banjarnahor, 2019). In 2018 Indonesia had 115 SOEs: 17 were publicly listed or privatized, 84 were non-listed, and 14 were special purpose (BUMN Indonesia, 2018).

The Indonesian political system is a multi-party presidential system, and a dual governance model for SOE[1] which typically features two ministries serving ownership functions in SOEs (OECD, 2018). Indonesia is unique in having the Ministry of State-owned Enterprises representing the Indonesian government and exercising ownership rights in SOEs. Board appointments in SOEs require the approval of the Minister of State-owned Enterprises. Performance evaluation is conducted by the Ministry of State-owned Enterprises; however, the key performance indicators (KPI) for SOEs are somewhat ambiguous, since social performance objectives, which depend to some extent on the social performance indicators for other ministries, hold significant importance.

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To explore principal–agent relationships that might lead to an extension of multiple agency theory to the SOE context, we chose a qualitative research design using in-depth interviews with principals and agents. We first conducted pilot interviews in 2016 and concluded that the results were sufficiently promising but inconclusive due to the highly sensitive nature of the issues discussed. Indeed, we had to take into account that individuals who exposed embezzlement cases in Indonesia had been verbally and physically attacked (Putri, 2019; Zuhra, 2018). Therefore, ensuring full confidentiality was important. We obtained verbal consent before the interviews, while guaranteeing the respondents' anonymity. We promised to use the interviews for academic purposes only (in the form of anonymous excerpts that could not be traced to individual respondents).

Anticipating that large numbers of interviews would be difficult, we decided on interviewing experienced CEOs (with over 2 years of tenure in the current SOE) of well-known SOEs who faced a complex set of political pressures. We focused on achieving depth through trusting relationships rather than breadth through wide coverage. Our aim was to collect multiple cases of government demands on CEOs of SOEs. We selected those SOEs that allowed us to interview other board members as alternative sources of information (Table I). Thus, our respondent selection was to a large extent driven by our access to high-profile SOE CEOs and management. By interviewing multiple respondents per SOE, we obtained diverse perspectives, enhanced our understanding of the issues, and reduced potential selection bias. Altogether, we carried out 10 in-depth interviews with agents (CEOs or board members) from four SOEs and a further 30 interviews with principals and other stakeholders.

We used a nested approach to elicit patterns of principal demands and agents' responses to the demands through in-depth interviews. Thus, our approach is an inductive and interpretative one aiming for transferable generality of theoretical model (Gioia et al., 2013). This differs from the more 'positivist' qualitative approaches, such as a comparative case study analysis (e.g., Eisenhardt, 1989b).

In the Indonesian context, SOEs are indirectly monitored by state auditing agency, the Anti-Corruption Commission (KPK), the Financial Services Authority, and the Centre for Reporting and Financial Transaction Analysis. To provide additional support to our findings, we also conducted interviews with officials from government institutions (the Ministry of State-owned Enterprises, including a former minister and the regulating ministry), state auditing agency, law enforcement agencies (police), political party members, business owners, anti-corruption activists, investigative journalists, and academic experts (see Table II). To

Table I. Interviews with agents

Characteristics	*SOE 1*	*SOE 2*	*SOE 3*	*SOE 4*
Industry	Mining	Transportation	Agriculture	Service
Revenue	>Rp 50 trillion	<Rp 10 trillion	<Rp 10 trillion	<Rp 10 trillion
Status	67% state ownership, listed on the stock exchange	100% state ownership	100% state ownership	100% state ownership
Interviews (10)	1 CEO, 2 board members	1 CEO, 1 board member	1 CEO, 2 board members	1 CEO, 1 board member

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Table II. Interviews with principals and stakeholders

Organization	*Respondent*	*Interviews (30)*
Ministry of State-owned Enterprises	Former minister (Former) high-ranking bureaucrat	10
Regulating ministry	(Former) high-ranking bureaucrat	3
Political party	Party member	2
Attorney general of Indonesia	Attorney	1
Police	High-ranking officer	1
State auditing agency	Team leader and auditor	3
Indonesia Corruption Watch	Researcher	2
Private firm	Corporate owner	3
Prominent mass media	Investigative journalist	2
Experts (academia)	Expertise: Indonesian SOEs, politics, and embezzlement	3

further enhance the reliability of our findings, we also checked each respondent's account against other respondents' accounts. Finally, we also analysed board composition, directors' backgrounds, and key events based on annual reports and news coverage of each SOE.

Interview Protocol

We opened the interview with the CEOs with general questions, e.g., about the principals of the SOE, the power of the principals, the demands of the principals, and how they interacted with these principals. We followed up with specific questions, e.g., about their responses to the demands, which demands required compliance, and which demands could be negotiated or refused. We then asked about the incentives (sanctions) faced by CEOs when acceding to (refusing) the demands.

All interviews were in Indonesian, face to face, and lasted 50–90 minutes. The audio recordings were transcribed and translated into English. As respondents were assured of complete confidentiality, all identifying information was removed.

Data Analysis

We borrowed procedures from grounded theory to analyse our data (Charmaz, 2014; Locke, 2001). In particular, we employed an iterative process in our data analysis, consisting of coding, clustering, interpreting, and theorizing (Gioia et al., 2013).

First, we examined secondary information on the industry, the SOE's financial performance, the shareholding structure and stakeholders, news coverage, and the composition of the board, including the backgrounds of the board members. This initial analysis helped us understand the firm, our respondents, and their backgrounds and relationships.

Second, we conducted open coding of our interview data. We initially coded the passages with the terms used by our respondents and grouped the passages with

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similar topics. We then combined passages into more abstract first-order codes, which we call themes. In the following step, we aggregated these first-order themes into second-order themes. The second-order themes (or constructs) functioned as building blocks for theory development. We followed an iterative process of cycling between data and theory to refine our findings (Gioia et al., 2013). We discussed coding options among ourselves in different rounds until we arrived at a consensus. Thereafter, we engaged a person unconnected to this study but fluent in Indonesian (the original language of the transcripts) with a good understanding of corporate governance to re-code our data. We obtained a Krippendorff's coefficient (alpha) of 0.91, which shows good intercoder agreement. This strengthened our confidence in the validity of the coding process and the interpretations that emerged from it (Corbin and Strauss, 1990). While there is an emerging trend toward transparency in qualitative research for the purposes of replicability that advocates for disclosure of raw data (Aguinis and Solarino, 2019), this was not feasible for our research design as it could inadvertently identify and endanger the respondents. For examples of our data structure and representative quotes, see Figures 1–3 and Tables III–V.

FINDINGS

Types of SOE Principals

The CEOs and board members interviewed for this study identified an array of government-linked principals with the ability to hold them accountable, or even to have them dismissed. We classify these principals into government bureaucrats (i.e., from

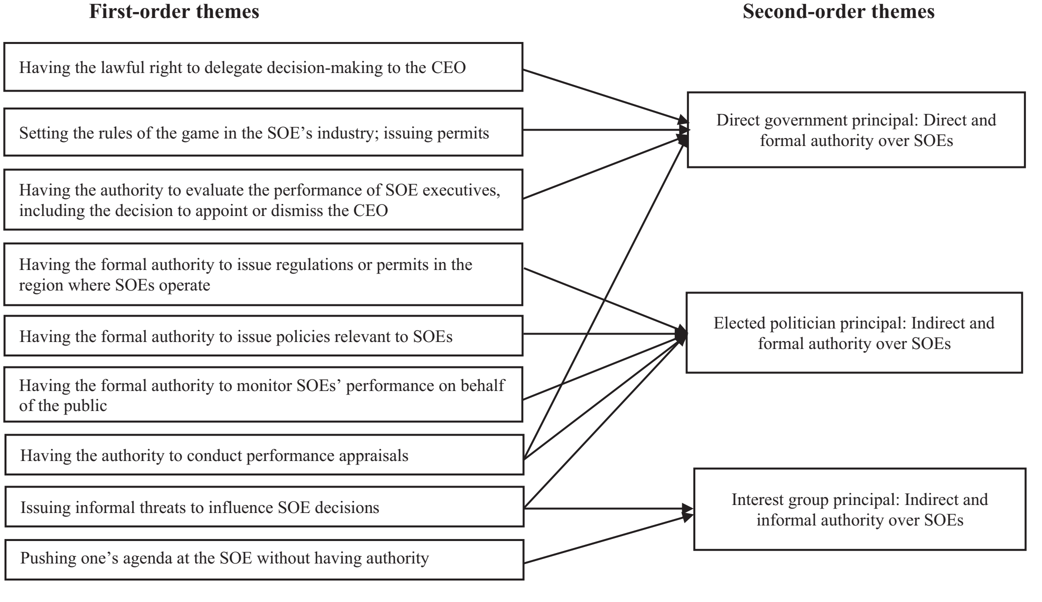

Figure 1. Types of SOE principals and their sources of power

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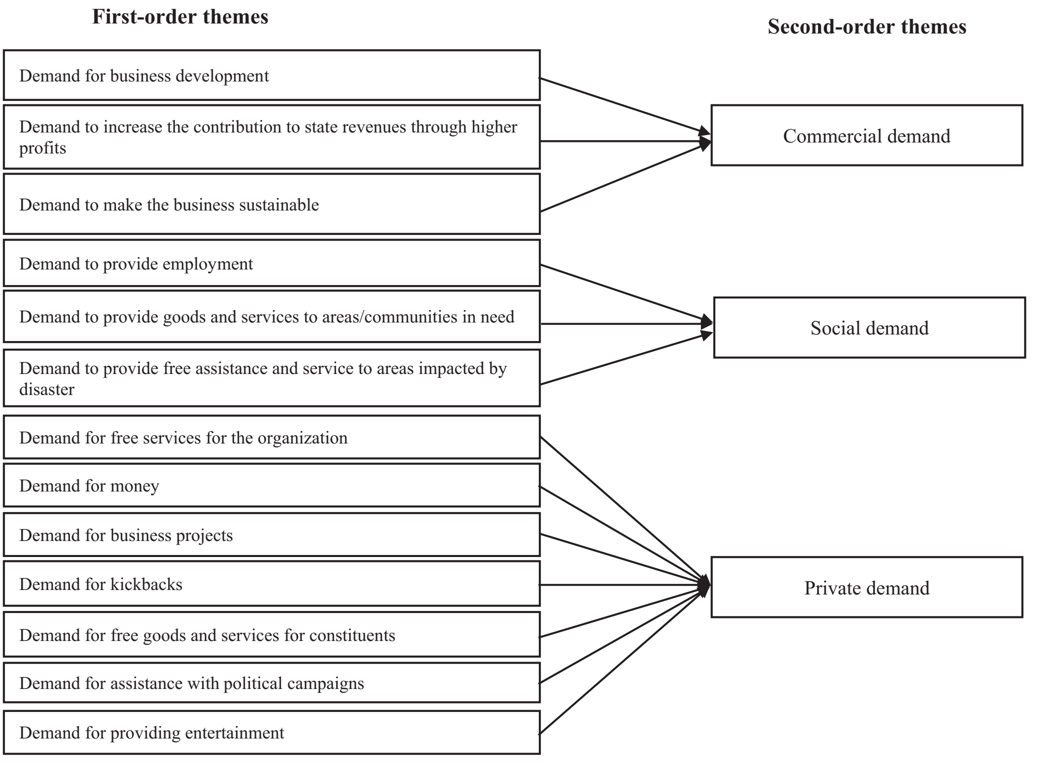

Figure 2. Types of principals' demands

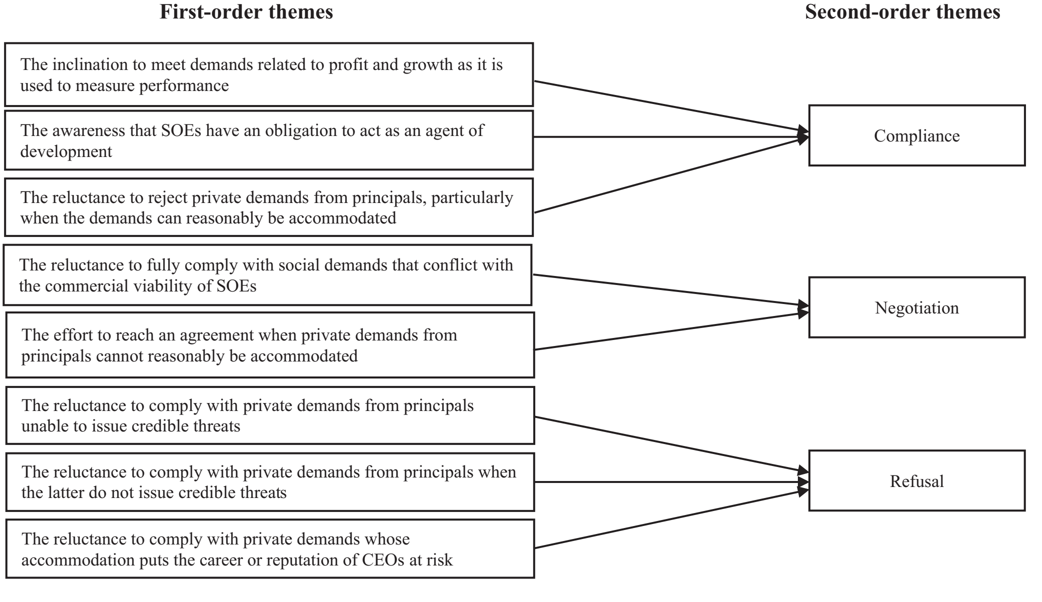

Figure 3. Types of agents' responses

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Table III. Types of principal demands: Representative quotes

Theme 1: Commercial demand	
Demand for business development	'The Ministry of State-owned Enterprises is more likely to focus on business and growth'. They want us to pursue business opportunities'.
Demand to increase the contribution to state revenues through higher profits	'The Ministry of State-owned Enterprises only emphasizes profit'.
Demand to make the business sustainable	'The Ministry of State-owned Enterprises forces us to make the business sustainable'.
Theme 2: Social demand	
Demand to provide employment	'One time, the ministry asked me not to have massive layoffs during the presidential campaign as it would create political turbulence that could harm the incumbent's reputation'.
Demand to provide goods and services to areas/communities in need	'We were asked to have business operations in areas that were not profitable. The regulating ministry said that the operation was part of the government's service to the community'.
Demand to provide free assistance and services to areas impacted by disaster	'Once, we were asked by the regulating ministry to provide free medicines, doctors, workers, and so on, to help communities after an earthquake'.
Theme 3: Private demand	
Demand for free services for the organization	'Sometimes there are demands from the regulating ministry to provide them with money or free merchandise for events in their organization'.
Demand for money	'Several SOEs were invited to a work meeting by central legislative members, where we were each asked to give a certain amount of money to them'.
Demand for business projects	'They [legislative members] were looking for projects for their party or themselves'.
Demand for kickbacks	'There was this former military general who pressured us to provide business projects to a certain businessman, and he wanted to get a commission from this arrangement'.
Demand for free goods and services for constituents	'Legislative members frequently demand CSR projects for their constituents, such as building mosques, bridges, and so on'.
Demand for assistance with political campaigns	'The incumbent regional head who was conducting a campaign asked us to provide free assistance for her/his constituents'.
	'During a presidential campaign, one party elite asked us to provide free products, t-shirts, stickers, and so on, to support the incumbent'.
Demand for providing entertainment	'SOE's corporate secretary often entertains regulating ministry officials. It was their attempt to influence regulations or policies'.

different bureaucracies such as ministries), politicians (ranging from the president to lawmakers), and what we call interest groups, such as party elites or other power brokers. We further find that these principals have different degrees of authority (formal/informal and direct/indirect). Formal authority refers to the legal right of a principal to

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Table IV. Types of agents' responses: Representative quotes

Theme 1: Compliance	
The inclination to meet demands related to profit and growth as it is used to measure performance	'The failure to make the firm profitable will affect my performance evaluation'.
The awareness that SOEs have an obligation to act as an agent of development	'We must understand that besides a firm, we are an agent of development. We carry out a social function to help the government enhance regional development'.
The reluctance to reject private demands from principals particularly when the demands can be reasonably accommodated	'It's very difficult to reject demands from powerful individuals, such as ministers, legislative members, or the inner circle of the president. A minister who was also a party elite once requested a large business project. Afraid of refusing this request, I left this delicate matter to the discretion of the Minister of State-owned Enterprises'.
Theme 2: Negotiation	
The reluctance to fully comply with social demands that conflict with the commercial viability of SOEs	'I often tell the ministry, "How much do you want?", or "How low can we go on in terms of compromising our business in not-so-profitable areas?", hoping the ministry will understand and lower their expectations when requesting public services from us'.
The effort to reach an agreement when private demands from principals cannot reasonably be accommodated	'One legislative member I know asked for a very large number of free products for her/his constituents. I asked her/him to lower the number so that it would be more reasonable and I could fulfil it'.
	'People keep requesting us to use our CSR fund, but we have our CSR criteria to decide which demand can be accommodated. It's very important to show that they don't easily "drive" us'.
	'Next year we will have a new CSR program where we focus on giving various types of social assistance to people with a particular physical handicap, and we will only accommodate CSR requests that are in line with our new program'.
Theme 3: Refusal	
The reluctance to comply with private demands from principals who are unable to issue credible threats	'There's a party elite who made a demand, threatening that if I didn't obey her/him, s/he would dismiss me as a CEO. I told her/him that I wasn't afraid, that I was more powerful than her/him/as I know other elites'.
The reluctance to comply with private demands from principals when the latter do not issue credible threats	'A party elite sent a letter to many CEOs asking for some favours. Other CEOs didn't listen to these demands and they're fine; so I did the same, I didn't respond to the demand'.
	'A committee chair in parliament made a demand, but s/he didn't force me to accede to her/his demand and neither did her/his party members. So, I didn't comply with her/his demand'.
	'One important thing before responding to a request is to investigate the person's power, to ask how powerful are they. If they're powerful but they do not make any threat, I will ignore their request. Then I'll wait and see if they impose a sanction. If not, I will just reject the request.'

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Table IV. (Continued)

The reluctance to comply with private demands when doing so puts the career or reputation of the CEO at risk	'It would have been easy for the Anti-Corruption Commission [KPK] to detect whether I complied with demands from party elites, such as selecting them as a contractor or supplier for our firm without going through the bidding process. I told them "Okay, I will give you what you want, but after that we can go together to the KPK". I said that half-jokingly, but my message was clear. I also said, "Your demand will put every one of us at risk and we won't sleep for a year, worrying that the case will be exposed by the KPK"'.

incentivize and sanction agents or SOEs (Miller, 2005), while informal authority refers to the nonlegal ability of a principal to do so. Direct authority refers to the involvement of a principal in an SOE's daily operations, while indirect authority refers to the involvement of principals in aspects indirectly related to an SOE's daily operations. Based on the interviews, we aggregate principals into four prevalent types: direct government (formal, direct authority), indirect government (formal, indirect authority), elected politicians (formal, indirect authority) and interest group (informal, indirect authority).

Direct government principals (direct, formal authority). The designated principal, as mentioned by our respondents, is the Ministry of State-owned Enterprises, which is legally responsible for the corporate governance of SOEs, including the appointment of board members and the CEO. One board member we interviewed said, '*There are many principals, but the most powerful one is the Ministry of State-owned Enterprises*'. One CEO mentioned that the Shareholders' Aspiration Letter, published annually by the Ministry of State-owned Enterprises, is used as the source of his/her SOE's annual targets. We label the Ministry of State-owned Enterprises as a direct government principal, with formal statutory power to delegate decision-making, evaluate performance, and impose incentives as well as sanctions on directors. Our respondents also mentioned other branches of the government that act as principals with direct formal authority, such as the regulating ministry: '*The regulating ministry set the rules in the industry sector*'. Even if these government branches do not have direct authority over director appointments, they directly influence the CEO's decision-making responses and have influence over the SOE's daily operations.

Elected politician principals (indirect, formal authority). We also found that elected politician principals without direct authority over SOEs make demands on CEOs, such as the president, regional political leaders (governor, city mayor, regency head), and law makers, use their formal authority to influence CEO decisions and appointments. In line with the public administration literature, we label these as elected politicians. A respondent said: '*Although legislative members don't have authority over SOEs, they are able and frequently summon the CEO and board members of the SOE to question their decisions or financial status*'. Two other CEOs we interviewed explained that they aligned their key performance objectives with the president's agenda. Finally, we note that elected politicians can use their formal powers (e.g., the power to call the CEO before parliament or to approve or veto CEO appointments) to pressure the CEO of an SOE.

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Table V. Selected causal mechanisms explaining agents' responses: Representative quotes

Causal mechanism 1: Collusion among principals	
Different principals combine their respective sources of power to influence CEOs	'That businessman is a local boss and very powerful, and the mayor of the city has his back. The businessman has obtained many business projects from this SOE'. 'Nowadays, ministries also engage in this shadowy practice, but they are dictated by the party. So, it's not their fault per se'. 'They [party elites] force their agenda through the president, minister, or their fellow members who become legislative members'.
Causal mechanism 2: Credible career-ending threats by principals	
Principals accompany their demands with credible threats of criminal prosecution	'In my opinion, the most terrifying principals we should be careful of are those who are ready to abuse their power to attribute public corruption crimes to us. These include legislative members'. 'I was threatened with criminal prosecution if I don't give them [legislative members] the business project they wanted. This was part of their terror tactics to make me concede to their request'. 'Legislative members often find grey areas in SOEs' daily operations and threaten to punish CEOs who refuse their requests. They went so far as to threaten to report me to the criminal investigation department if I didn't cooperate'.
Causal mechanism 3: Plausible deniability through CSR	
The CEO's ability to use CSR funds to cater to private demands	'Using the CSR fund is legal so it's safer for us'. 'If legislative members request CSR, any form of CSR, they must write a letter of application to our firm; I need to have that document as a legal proof. I also need to invent a compelling reason for why I provide our SOE's CSR goods and services to them. First, I need to show that the CSR request conforms to our core business strategy. Second, I need to show that the goods and services could not be provided by other SOEs'.
Causal mechanism 4: Political ties as enabler	
Demand made by an agent's patron or a close friend	'One party elite asked me for a donation to the presidential campaign. The fact that s/he's my good friend meant I couldn't refuse. Since I know using the firm's money is unethical, I paid from my own pocket'. 'A minister, a high official, or even a legislative member can say, "Can you please help me get this or that business project?". A CEO may refuse such a request when s/he doesn't have any close relationship with them, but for those who have close personal ties with them, the request will be perceived as a demand they have to obey'. 'When a CEO owes a debt of gratitude to a party elite, it is very easy for that party elite to pressure the CEO to do many favours for her/him'.

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Table V. (Continued)

Causal mechanism 5: Political ties as buffer	
CEO's ability to use political ties to mitigate private demands	'A former military general asked for a business project. To pressure us, he told me that he knows a deputy minister. But I also know that deputy minister and called her/him to verify whether s/he knew that former military general and whether s/he was behind such a request. S/he said that s/he didn't know him or about the request. See, you must have this broad political network to be able to ask these questions; otherwise, it's so easy for people to prey on you'.
	'Upon rejection of her/his demand, this principal threatened to put an end to my career. This threat annoyed me, and I said to her/him, "Go right ahead, I know the president". I calmly said that'.
	'I can say most of the CEOs who are able to not accommodate illicit requests are those who have abundant resources. By resources, I mean a strong political network. Such CEOs have the power to reject the request or to say, "Stop wasting my time"'.

Our data indicate that both the Ministry of State-owned Enterprises and the president are key principals of SOEs. Although the regulatory provisions state that the main principal of SOEs is the Ministry of State-owned Enterprises, the president, in reality, possesses far greater power than the minister as s/he is equipped with the executive power of the state including ministerial appointments. The Ministry of State-owned Enterprises is directly accountable to the president, and the president set the national agenda which regulates all ministries' policies and actions.

Interest groups (indirect, informal authority). The respondents also revealed that there are principals who have neither direct nor formal control over SOE management, but who can nevertheless make credible threats of firing the CEO. One CEO shared: '*A party elite pressured me to give her/him a business project; s/he could use her/his power to terminate me if I refuse the demand*'. Based on the accounts from the respondents, the interest-group principals were composed of party elites,[2] businesspeople (who backed politicians), and former military generals. Without assuming public office, these principals used financial leverage and network power to force CEOs to comply with their requests.

The literature on SOE governance suggests that there may be variation in the role of principals according to the type of SOEs (e.g., Girma et al., 2009; Goldeng et al., 2008). For example, non-government affiliated investors may supplement as principals in partially privatized SOEs (Gupta, 2005; Musacchio et al., 2015). However, our small sample does not allow us to systematically observe such variation and its potential impact.

Types of Demands

Our findings suggest CEOs face three different types of demands: commercial, social and private. Commercial demands are associated with goals such as making a profit,

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achieving business growth, and safeguarding the long-term financial sustainability of the SOE, and these typically come from the Ministry of State-owned Enterprises (direct government). We were told: '*The Ministry of State-owned Enterprises, as the largest shareholder, has the legal right to require us [the SOE] to meet the targeted profit*'.

Social demands occur when government–linked principals pressure SOEs to serve the public interest in line with government objectives. These demands are often made by regulating ministries (direct government) through formal requests, and sometimes by elected politician principals. Social demands include providing employment, goods, and services to communities in need and supporting areas impacted by disaster. One respondent said: '*We are obliged to provide a service to society even if we have to bear a loss*'.

The third type is private demands that serve the narrow interests of (groups of) individuals. We found examples of all types of principals making private demands to obtain personal benefits or benefits for a specific organization. Our respondents revealed that officials from regulating ministries occasionally ask CEOs to provide free services for their ministry or for their political party. A CEO said: '*That regulating minister was finally arrested by the KPK for alleged corruption*'. Elected politician principals, such as legislative members, were frequently mentioned by our respondents as seeking business projects for their party or themselves. It is estimated that 55 per cent of the Indonesian members of parliament are businesspeople (Aidulsyah et al., 2020).[3] Respondents also disclosed how the president and regional heads pushed CEOs to provide free assistance for political campaigns to their constituents, often using the SOE's CSR funds. We observed that interest-group principals, such as party elites, party members, and businesspeople who backed politicians, forced CEOs to hand them business projects, while former military generals leveraged their network to act as power brokers. As interest-group principals lack formal and direct power, one might assume that their demands cannot be backed up with credible sanctions. However, our respondents suggested that these principals use powerful indirect sources of power, such as their ties to government or elected politician principals or the power of influencing the media, to pursue their interests.

While these three categories of demands were clearly present in the interview transcripts, occasionally we saw that one principal might have multiple demands. For instance, one respondent shared that a minister prohibited layoffs, ostensibly with a social objective, but in reality also to avoid political turbulence during a presidential campaign. Thus, private demands may be presented as social demands.

Types of Agents' Responses

Our findings indicated that CEOs found it difficult to meet all the demands while running a profitable business. Thus, CEOs assigned a different value to each principal and to each demand, while developing response strategies ranging from compliance to negotiation to outright refusal. As for compliance, the respondents often acknowledged that they fully acceded to commercial demands. They were also inclined to meet social demands as they were aware of SOEs' role as an agent of social and economic development. A former high-ranking official in the Ministry of State-owned Enterprises said: '*All CEOs are afraid of not being able to comply with the demand of the*

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Minister of State-owned Enterprises, because they will run the risk of being suddenly dismissed'. Respondents believed that meeting social objectives carried the highest importance in performance evaluations.

While SOEs can legitimately pursue commercial and social objectives, private demands may conflict with a CEO's fiduciary duties under corporate law, and may even violate anti-corruption laws. Nevertheless, CEOs usually complied with private demands made by elected politician principals, provided the demand was reasonable and the CEO had a legitimate avenue to comply. One CEO, seeing no legitimate avenue for compliance but also fearing dismissal, said s/he asked the Minister of State-owned Enterprises to decide on a private demand made by another minister. Respondents also told us about acceding to private demands for fear of the consequences associated with non-compliance, such as dismissal by the president as a result of pressures by party elites or ministers. These accounts demonstrate CEOs' reluctance to reject private demands of principals who have the power to impose sanctions on them.

Another CEO response strategy was to mitigate demands through negotiation. CEOs perceived the demands made by various principals as incompatible with the financial sustainability of the SOE. One CEO asserted: '*I can help the ministry by giving them funds from the CSR fund but of course there is a limit to the amount of money I can give*'. Even private demands from powerful principals, such as legislative members or regional leaders, were negotiated when the demand was too excessive or the CEO had no legal authority to fulfil it. One CEO said: '*I gave a warning to one director who was approached by a legislative member to never agree to a request for an irrational amount of CSR*'. Drawing on these accounts, we notice a pattern that negotiation appears higher when commercial and social demands are incompatible with each other, or when private demands cannot reasonably be accommodated.

The final CEO response strategy was refusal. CEOs are more likely to refuse private demands when the principals lack formal authority or do not issue credible threats. One CEO was threatened with termination if s/he did not comply with private demands, but refused in the belief that her/his own political network was more powerful than that of the principal making the demand. Two CEOs decided to reject private demands when the principals did not force them. One CEO even shared her/his compliance strategy: the principal must be powerful and willing to impose sanctions. If both of these criteria were not met, the CEO refused the principal's private demand. Thus, even when the principal was powerful but appeared unwilling to impose sanctions, this CEO would reject the demand. CEOs also refused to comply when the perceived harms outweighed the benefits: '*It will hurt the firm's financial performance and hence affect my reputation as a capable leader*'. Moreover, CEOs refuse private demands involving SOE resources if the risk of being caught by anti-corruption authorities is high. About this ground for refusal one CEO said: '*I told them, "if I give you the money, do you want to accompany me to jail?"*'.

What Drives Agents' Responses?

CEOs face different principals with different types of authority who make different types of demands, leading to a decision to comply, negotiate, or refuse. While compliance

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with commercial and social demands is in line with the agency literature on SOE goal complexity, what interests us specifically in this paper are the circumstances that drive CEOs to comply with, mitigate, or refuse principals' private demands. Our findings show that CEOs are fully aware that not all principals are equal in their power and their ability to sanction their disobedience. Our findings also reveal strategies used by principals to increase CEOs' compliance as well as strategies used by CEOs to decide whether to comply with, negotiate, or refuse principals' demands. In particular, we introduce five mechanisms for explaining agents' responses to multiple principals' private demands.

Collusion among principals. We found that principals without any formal or direct power (i.e., interest groups) recruited other, more powerful SOE principals to act on their behalf and pressure CEOs to promote their interests. Political, business, and military leaders leverage their financial and networking power for such purposes. One frequently mentioned group was 'party elites', i.e., party members who have influence over their fellow party members serving in the government. In the words of a respondent: '*They force their agenda through the president, minister, or their members who become legislative members*'. Although these party elites do not have direct authority over the SOE, they can pressure other principals using their political power. Respondents also mentioned businesspeople with financial power intervening in SOE decision-making by way of collusion. One CEO said: '*Both the president and [his/her] political party forced the CEO to hire certain suppliers for business projects. They work hand in hand with conglomerates too*'. Respondents also mentioned how businesspeople use high-ranking officials in the government or supervisory board members in the SOE to carry out their agenda: '*Businessmen can bribe the government to offer them the business projects. The government officers abuse their position to provide the businessmen with what they want*'. Thus, these principals act as backers of other principals with formal and direct authority over SOEs, providing them with money or network connections. In short, we found that principals may join forces and combine their different power sources to increase CEO compliance.

Credible career-ending threats by principals. We found that principals threatened to sanction or terminate the careers of CEOs for refusing their private demands. One such sanction is public shaming. According to one CEO: '*It is almost becoming routine to be summoned by a legislative member and scolded publicly in a public hearing* [in parliament] *when you refuse to give them what they want*'. When principals used credible threats of criminal prosecution, the respondents showed greater inclination to comply with their demands. Importantly, the coercive power to make credible, potentially career-ending threats is not limited to principals with direct or formal authority, but can effectively be implemented by others too. One CEO said: '*Being charged with a crime means being prepared to go through a very exhausting and costly legal procedure*'. Our respondents mentioned that questionable legal cases involving state auditing agency were rampant in Indonesia. CEOs increase their level of compliance when the threatened sanctions can end their careers: '*Being criminalized means losing your career and reputation at one and the same time*'. When faced with private demands backed up with credible career-ending threats, CEOs face a perverse choice between certain legal charges (when they do not comply) and uncertain charges of embezzlement

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(when they comply, and their acts may be discovered). Unsurprisingly, they choose the second option.

Plausible deniability through CSR. We found that CEOs used Corporate Social Responsibility (CSR) funds to meet principals' private demands. Many respondents mentioned how they used CSR funds to comply with demands from legislative members, regional leaders, or interest groups to build mosques, bridges, or roads in a particular neighbourhood. Respondents argue that the use of CSR funds, which are discretionary funds, can serve as an avenue for compliance with private demands, while enabling them to avoid charges of embezzlement brought by state auditors or law enforcement officers. Principals' private demands often overlap with social objectives, providing an opportunity for a CEO to accommodate a private demand by presenting it as a social objective. Our findings suggest that CEOs are more likely to comply with private demands that contribute to societal goals, such that CSR funding can be used.

Political ties as enabler. We found that a CEO was more likely to accede to a principal's private demand if the CEO was a political appointee or had personal social ties to the principal. A former high-ranking official in the Ministry of State-owned Enterprises revealed: '*Not all CEOs are clean people, several CEOs have a patron, it could be a minister, an influential person in the president's circle, political party leader, or a big business owner. The patron helped this individual to attain a CEO position and in return, the CEO needs to provide some material benefits to the patron*'. This indicates that agents may have their own 'personal principals' beyond the SOE's principal–agent relationship, which increases chances of compliance with outside demands.

Political ties as buffer. On the other hand, political ties can help a CEO to reject private demands. Respondents mentioned the importance of having strong and broad political networks serving as a protective shield against pressures by principals: '*S/he claimed s/he got strong backup from the police when pressuring me about a business proposal s/he wanted me to approve, but I know the head of the police. My network with other elites can protect me from such pressure*'. The findings suggest that having good political network can enable a CEO to resist demands.

DISCUSSION

Our grounded model identifies four types of principals, clarifies the types of demands they impose on agents, and elicits mechanisms that explain the agents' level of compliance with private demands in the context of SOEs in emerging markets. We argue that this model significantly advances multiple-principal–agent theory as applied to SOEs in three areas: it clarifies the nature of different government-linked principals; it suggests that agency theory can be extended to explain how agents respond to principals' private demands if certain assumptions are relaxed; and it advances novel mechanisms that add to multiple-principal–agent theory.

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Categorization of Government-Linked Principals

Classic agency theory assumes that the interests of an agent and a principal can diverge, and that agents are self-interested (Bosse and Phillips, 2016; Eisenhardt, 1989a). As a result, the principal needs to engage in vigilant monitoring and provide incentives or impose sanctions in order to compel the agent's compliance with his/her demands (Eisenhardt, 1989a). To the extent that agents deviate from the interests of their principals, agency theory generally attributes this to weak incentives and inadequate oversight. In SOEs, however, the situation is more complicated as the agent is serving multiple government-linked principals, with varying power sources and interests.

Multiple-principal–agent theory has considered the deviating interests of SOE principals, but focuses on government-linked principals with commercial and social goals versus private-sector shareholders with commercial goals (Bruton et al., 2015; Chen et al., 2019). We are not aware of any management study that has disaggregated the government as the principal of a state-owned enterprise. This is an important omission because public administration scholars suggest that the government itself is not unified in carrying out its aims and decision-making may be delegated to an array of government institutions, which may have different goals and incentives (Miller, 2005; Shipan, 2004; Whitford, 2005). As a result of this dispersion of powers, agents need 'to manoeuvre through the tangled loyalties he or she owes to many different principals' and 'negotiate through their competing interests' (Shapiro, 2005, p. 278).

Past research on SOEs has shown how agents are susceptible to political interference (Tihanyi et al., 2019), but scholars have not clearly distinguished between the different government-linked actors influencing decision-making in SOEs. In line with insights into the dispersion of authority in government entities (Miller, 2005; Moe, 1984), this study offers a first categorization of government-linked SOE principals with the power to appoint, dismiss, or monitor agents in SOEs.

An Agency Lens to Explain Agents' Responses to Private Demands

Our study aligns with agency theory in demonstrating that SOE agents generally comply with the demands of principals, as long as these demands do not directly compete with each other. We extend the application of agency theory by suggesting that it is also a useful lens through which to theorize on the mechanisms driving CEO compliance levels with private demands, an area not normally covered by agency scholars. Agency theory implicitly assumes that laws and contracts provide the boundaries of actions by agents and principals (Moe, 1984). However, such conditions need not always apply in weak institutional settings, where government owners can become a 'grabbing hand' (Galang, 2012; Shleifer and Vishny, 1994). CEOs have good reason to serve their government masters (Chen et al., 2016), even if they are confronted with private demands that could land the CEO in trouble. Thus, the agency theory assumption of agents acting within legal or contractual limits (e.g., Fama and Jensen, 1983; Jensen and Meckling, 1976) needs to be relaxed in an emerging market SOE context. When this assumption is relaxed, we believe that agency theory offers explanatory power even beyond the realm of what Shapiro (2005) calls 'legitimate

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interests' by principals. In this respect, the public administration literature has drawn attention to 'unprincipled principals' that pressure agents to act in their own private interests (e.g., Brierley, 2020; Hidalgo et al., 2016; Schuster et al., 2021). While there is ample literature in management and economics on embezzlement (e.g., Cuervo-Cazurra et al., 2021), it commonly assumes a situation where government officials use their own power for private benefit, often by requesting bribes from businesses. We document a more nuanced situation where CEOs (agents) that are under pressure from unprincipled SOE principals use state resources for the benefit of a narrow group of individuals or organizations. We suggest that a multiple-principal–agent lens can explain the decisions of SOE management when confronted with private demands from various types of government-linked actors that hold power over them in the name of representing the government as SOE owners.

Mechanisms that Explain Compliance with Private Demands

Our research findings suggest that CEOs face pressure from multiple types of principals, but that they are not powerless. We propose five new mechanisms that influence agents' responses: collusion among principals, credible career-ending threats by principals, plausible deniability through CSR, political ties as enabler, and political ties as buffer.

In line with the elite collusion literature (D'Aveni and Kesner, 1993), we suggest that *collusion among principals* can drive agents to comply even with private demands that are at odds with managements' fiduciary duty to act in the interest of the company. Interest groups with indirect and informal power in the form of money and network connections can join forces with government and/or elected politician principals who can impose official sanctions (e.g., firing the CEO, refusing a permit, dragging the CEO to a parliamentary hearing for a public scolding). Using money or network connections, principals without formal power may increase the willingness of principals with formal power to use it, thereby raising the likelihood of agent compliance, such as when political party leaders influence the president to push for the dismissal of a CEO of an SOE. The notion of collusion among principals for obtaining private benefits is an extension of multiple-principal–agent theory, offering a new insight that can reorient the management literature on SOE governance.

Our findings also point to *credible career-ending threats*, such as criminal charges or public shaming, as a mechanism principals use to increase compliance. Past research shows that corporate reputation, including the reputation of the CEO, can be at risk if the firm or its actions are considered unacceptable by influential principals (Trebeck, 2008). Agency theory assumes that agents are self-interested, and that, therefore, CEOs calculate the benefits and costs of complying with private demands. According to the theory, if these private demands amount to acts of embezzlement, there are risks of criminal prosecution, and so the CEOs are less likely to comply. In the context of emerging markets, where principals might push agents to break the law, we suggest a mechanism that draws on behavioural agency theory. The behavioural agency model suggests that decision-makers are more motivated to act when they are confronted with choices framed negatively (e.g., losses) (Larraza-Kintana et al., 2007; Pepper and Gore, 2015), and that the

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prospect of reputational damage (i.e., negative framing) may lead managers to take greater risks (Wiseman and Gomez-Mejia, 1998). Thus, when principals possess a credible ability to impose career-destroying negative sanctions, such as criminal prosecution, CEO compliance with private demands may increase. This is an important insight, as the multiple-agency theory has mostly considered positive incentives for goal alignment, such as equity-based remuneration (e.g., Allcock and Filatotchev, 2010), but rarely negative ones such as legal sanctions or reputational damage.

We further draw attention to the avenues open to agents to justify or hide their compliance with private demands, in particular through *CSR funds that offer plausible deniability*. CSR funds are seen as discretionary slush funds that can be used to disguise compliance with demands made by principals as legitimate acts of a charitable nature, but this phenomenon has not yet captured the interest of the SOE literature. Since CSR funds do not need to demonstrate a clear business rationale (Barnett, 2007; Li and Zhang, 2010), these are subject to a different level of scrutiny. Our study showed that demands that exceeded CSR funds or that were clearly beyond the CEO's means or beyond the scope of the SOE's CSR policy led to negotiation or refusal, while requests that could be justified as being within the SOE's CSR policy were often complied with. This mechanism throws new light on corporate social responsibility, which has generally been painted in a positive light within the management literature (Aguinis and Glavas, 2012), and calls for a more critical investigation of such CSR policies in emerging market SOEs.

We also found that an agent's *political ties function as an enabler* of compliance. In emerging markets personal political ties may take precedence over the legal or contractual obligations of agents (McCarthy and Puffer, 2008). Our data clearly point to the importance of an agent's personal political ties to the principals. Specifically, CEOs were more inclined to comply with private demands when they themselves were embedded in political networks of a clientelistic nature. Clientelism is a well-researched topic in political science (e.g., Kitschelt and Wilkinson, 2007; Noel, 2020). Political clientelism involves an unequal reciprocal long-term relationship between a patron and a client (Kettering, 1988) that features a material exchange (Hicken, 2011). Berenschot (2018) argued that state control over the economy via SOEs can sustain a system of clientelism. For instance, a patron could provide a client with a government position while the client is expected to show loyalty and provide access to state resources in return (Robison and Hadiz, 2004). This idea aligns with the sociological view of agency theory (e.g., Shapiro, 2005; Westphal and Zajac, 2013), which has its roots in explaining the behaviour of agents in collaborative social settings. Although political ties literature rarely use agency theory, they too have pointed out how political ties make an organization vulnerable to demands by powerful government officials (Dieleman and Sachs, 2008; Jia and Zhang, 2013). Thus, self-interested principals can benefit by pressuring agents who are their clients in SOEs, making them a key target of extortion (Hellman and Kauffman, 2001; Peiffer and Alvarez, 2016). We suggest that implicit contracts between agents and principals in the form of patron–client ties increase compliance with private demands.

Our results also suggest an effect in the opposite direction, whereby *political ties function as a buffer* for CEOs, allowing them to resist private demands (e.g., Yan and Chang, 2018; Zhang et al., 2016; Zhu and Chung, 2014). A critical skill for any CEO in an SOE is

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the ability to manage relationships with principals, and the political ties literature points out that having a good personal political network helps CEOs to increase their decision-making options (Khwaja and Mian, 2005), including averting political threats. Zhu and Yoshikawa (2016) suggest that principals with multiple connections to firms and the government have less incentive to monitor agents, which suggests that agents with the right political ties can get away with lower levels of compliance. We contend that CEOs with strong personal political ties (beyond the SOE's primary principal–agent relationship) are in a better position to resist private demands.

The above mechanisms represent a theoretical generalization: they are grounded in our data and propose extensions to agency theory (Davis and Marquis, 2005). The mechanisms can be tested in future empirical studies on principal–agent relations in the context of emerging market SOEs. We now briefly consider to what extent these mechanisms are more widely applicable or not. One concern may be that our proposed theoretical mechanisms are unique to Indonesia as the Indonesian context indeed has various idiosyncrasies in its political system and in its corporate governance. Regarding the categorization of principals, our findings are context-specific, therefore different principals can emerge in countries featuring different governance models and political systems. For instance, ultimate principals in the Gulf monarchies could be monarchs (princes or sheiks) including their kinship groups (Hertog, 2010) which exhibit more narrow set of principals rather than in democratic states. Nevertheless, we assume the mechanisms we found in our study may surface in other contexts where SOEs become rent-seeking avenues for principals. We also believe our findings are broadly in line with literature on emerging market SOEs (e.g., Musacchio et al., 2015), with the important difference that we propose and extend a multiple-principal–agent lens to explain various forms of government intervention. Another question is whether our mechanisms resonate in the context of developed country SOEs. We think that, while those SOEs may also face different government-linked principals, private demands may be less prevalent in developed markets, but future research could investigate this further. A last question is whether the mechanisms described above apply to private firms too, as some studies have shown that there is blurry line between the private sector and SOEs, and that politicians also can exert just as much influence over private firms (Scherer and Palazzo, 2011). While it is true that private firms can face government pressure (e.g., Darendeli and Hill, 2016; Sun et al., 2012), we believe the nature of government intervention in SOEs is different from government intervention in private enterprises. When the government has control over an enterprise via ownership, the dispersed nature of government authority invites multiple government-linked parties to leverage their power to monitor or fire the CEO. This scenario of dispersion of government authority across multiple principals, we suggest, does not hold for privately owned companies. To the extent that privately owned companies face government pressure, we suggest that the political ties literature, rather than agency theory, is better suited to explain those mechanisms.

We now reflect on the limitations of our study, which provide opportunities for future research. In order to explore our highly sensitive research problem we applied a qualitative method that involved open-ended questions in face-to-face interviews. This could have exposed the respondents to recall bias and it also limited the number of observations that were accessible. Respondents could have left out relevant information,

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or their recollections could have been modified to align with their present perspective (Pasupathi, 2001). We mitigated these research constraints by triangulating our data and selecting multiple respondents from each SOE and other relevant institutions. For future research we recommend scholars to investigate whether our identified mechanisms hold under different research designs. Specifically, we note that we did not focus on private benefits to agents, which other studies with a different research design may explore further.

We focused solely on Indonesian SOEs and used a theoretical generalization to build a general theoretical model. One promising future research direction is to look at country-level variation, e.g., whether the number or type of dispersed SOE principals varies across countries and correlates with SOE performance. Another avenue for future search could be to explore variation in SOE ownership. Although our study did not find differences between wholly state-owned and partially privatized SOEs, future studies could investigate this with a larger sample study. Furthermore, we merely analysed cases of private demands and did not systematically compare our cases based on industry, time period, size, competition, mutual dependence between SOE and government, the ad hoc nature of mutual requests for support (Galang, 2012; Musacchio et al., 2015), heterogeneity of political ties, or other characteristics. We also did not look at any processes, such as CEO transitions (e.g., Cao et al., 2017; Musacchio and Lazzarini, 2014), which future research could look into using a larger sample of SOEs. Moreover, we focused on principal–agent alignment though monitoring and incentives. Other tenets of agency theory (e.g., information asymmetry) were not investigated and may be explored in future studies.

Overall, our generalizations reorient multiple-principal–agent theory by disaggregating the government as a principal and we begin to theorize on agent compliance levels to multiple principal demands, with specific attention to private demands. We suggest that agency theory has explanatory power, in particular when we relax assumptions that agents act within legal limits, when we draw on behavioural agency theory to account for the power of negative framing, and when we account for collaborative settings based on a sociological view of agency theory. We hope this new direction can spur further work that helps us to understand what powers these different government branches have over SOEs, which Chen et al. (2019) have argued are currently not well understood.

CONCLUSIONS

We examine how agents (CEOs of SOEs) in Indonesia respond to conflicting demands from multiple government-linked principals. Past research highlights that CEOs of SOEs need to decide on which principals' demands should be addressed (Arthurs et al., 2008; Musacchio et al., 2015). Our research deepens this argument by articulating four categories of SOE principals (direct government, indirect government, elected politician, and interest groups). These principals are associated with different sources of power regarding the appointment, dismissal, and accountability of CEOs. Our findings reveal what drives CEOs' level of compliance with their demands, particularly private demands, thus significantly advancing and reorienting the multiple-principal–agent literature, which primarily distinguishes between principals of wholly state-owned and partially privatized SOEs (e.g., Grossman et al., 2019), without acknowledging that the state consists of multiple principals.

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This study also advances multiple agency theory by articulating five mechanisms that drive compliance levels by agents facing multiple principal demands. The emerging market context required us to relax the common assumption of agency theory that principal–agent decisions occur within the boundaries of what is legally permissible and fair (Bosse and Phillips, 2016). Specifically, we observed how agents in our study were willing to break the law to accede to principals' demands, which shows that attention to specific institutional contexts is important in advancing agency theory (Aguilera and Jackson, 2003; Gomez-Mejia et al., 2005). Prior management research using agency theory has largely overlooked the possibility of compliance with 'unprincipled principals', thus leaving issues such as SOE expropriation to be explained primarily through the lens of embezzlement (e.g., Shleifer and Vishny, 1994). Drawing on insights from public administration, we put forth an expanded firm-based view of agency theory (behavioural, social, extra-legal) that can advance the understanding of governance of SOEs in the field of management.

In conclusion, we contribute to the agency literature with a new perspective on multiple-principal–agent conflicts in emerging market SOEs. Specifically, we argue that the government itself consists of multiple principals, and we draw on insights from public administration while theorizing on how agents respond to their demands. Emerging from this research we identify mechanisms that increase agent compliance toward private demands, include collusion among principals, career-ending threats by principals, plausible deniability though CSR, and political ties, while on the other hand, we identify how personal political networks can increase the CEO's ability to withstand principals' demands. The theoretical model of our inductive qualitative study extends multiple agency theory in the context of SOEs in emerging markets by drawing on insights from public administration.

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NOTES

[1] It is similar to the one applied in Brazil, Czech Republic, Germany, and Italy (OECD, 2018).

[2] Party elite is a commonly used term in Indonesia to denote prominent party members or a political figure, such as the party leader or high-ranking party members. Party elites are usually appointed as presidents, ministers, or well-known legislative members (chair of the parliament or of a legislative commission).

[3] Businesspeople often join a political party to influence business policies or permits. They may use their financial resources to rise to higher party ranks and to finance political campaigns during elections.

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