Analytical Study of Sovereign Wealth Funds' Strategies and Policies: A case study of Oman Sovereign Wealth Fund

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ABSTRACT

This thesis documents a study of the factors affecting the sustainable growth and performance of the Sovereign Wealth Funds (SWFs). Despite the increased interest of governments, analysts, central bankers, academics and SWF managers and the unprecedented growth in the last two decades, SWFs research is still in its infancy. Two main problems are: current debate between sponsoring and investee countries about governance and transparency of major SWFs including Oman SWF; and how these SWFs can manage their sustainable growth, performance and success rate. These two issues are addressed in this thesis. .

An extensive review of the industry and academic literature was done in order to find the relevant facts about the domain of SWFs. The case study research strategy was adopted and primary data were collected by questionnaire survey and semi-structured interviews from employees and other stakeholders of Oman SWF. Norway SWF was analysed for the purposes of data triangulation, comparison and validation. The theoretical framework comprising factors affecting growth, performance and success rate was proposed and tested using multiple evidences from secondary data, interviews and statistical analyses of the questionnaire responses.

The literature reveals that existing theories of trade, finance, economics and management are able to resolve conflicting issues within SWFs and between sponsoring and investee countries. Results reveal that qualitative factors such as governance, policy and planning and quantitative factors such as structure, investment strategy and decision making ultimately affect the long term growth and success rate of global SWFs. It is also found that external or investee country laws do not affect the SWFs as much as issues within the SWFs. Findings suggest that Oman SWF has issues of concern in many aspects such as governance, transparency, accountability, investment strategy, organisational structure, asset allocation, updating laws and policy mechanisms; thus requiring overall restructuring and transformation of Oman SWF into a professional organisation. This thesis makes a significant contribution by linking theories to SWFs, an extensive literature review, a theoretical proposition comprising factors affecting the growth of SWFs, methodological combination and creating further research streams in the SWF domain.

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I dedicate this thesis to my mother's spirit who had instilled the right values in me for the life which has brought me to the current status of doing this research.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

KEY WORDS

Sovereign wealth fund, governance, transparency, investment strategy, asset allocation, investee and sponsoring countries, structure, objective, performance and growth of sovereign wealth funds

ABBREVIATIONS

ACGA	-	Asian corporate governance association
ADIA	-	Abu Dhabi Investment Authority
ANOVA	-	Analysis of variance
bn	-	Billions
BOP	-	Balance of payments
BRIC	-	Brazil, Russia, India and China group of countries
CAP model	-	Capital asset pricing model
CBO	-	Central bank of Oman
CEO	-	Chief executive officer
CFIUS	-	Committee on foreign investments in the United States
CII	-	Council of institutional investors
CIC	-	China Investment Corporation
COFER	-	Composition of official foreign exchange reserves
EFIM theories	-	Economics, finance, international trade and management theories
EU	-	European union
FDI	-	Foreign direct investment
FE	-	Foreign reserves
FER	-	Foreign exchange reserve
FERF	-	Foreign exchange reserve fund
FINSA	-	Foreign investment and national security act
FTA	-	Free trade area / agreement
FX / Fx	-	Foreign exchange
GAFTA	-	Greater Arab free trade area
GAO	-	Governance and accountability office
GCC	-	Gulf co-operation council
GDP	-	Gross domestic product
GIC	-	Global investment corporation of Singapore

GPF	-	Government pension fund
GPFG	-	Government pension fund global
GPIF	-	Government petroleum insurance fund
ICGN	-	International corporate governance network
ICT	-	Information, communication and technology
IMF	-	International monetary fund
KIA	-	Kuwait investment authority
KMO	-	Kaiser – Meyer – Olkin test
KPMG	-	Klynveld, Peat, Marwick and Goerdeler
		= Founders of KPMG accounting firm created from
		Merger between KMG and PMI in 1987
MENA	-	Middle East and North Africa
MENASA	-	Middle East, North Africa and South Asia
MoF	-	Ministry of finance
NAFTA	-	North American free trade agreement
NBIM	-	Norges Bank Investment Management
NoK	-	Norwegian Kroner, Currency of Norway
OAPEC	-	Organization of Arab petroleum exporting countries
OECD	-	Organization for economic co-operation and development
OGSF	-	Oman state general stabilization fund
OPEC	-	Organization of petroleum exporting countries
PCA	-	Principal component analysis
P/E	-	Price earnings ratio
PE	-	Private equities
PPF	-	Public pension fund
P & O	-	The peninsular and oriental steam navigation company
		Now, known as P & O Nedlloyd
QIA	-	Qatar investment authority
RBV	-	Resource based view
RDT	-	Resource dependency theory
ROI	-	Return on investments
SAMA	-	Saudi Arabia monetary agency
SGRF	-	State general reserve fund
SWF	-	Sovereign wealth fund
SWFs	-	Sovereign wealth funds

UAE	-	United Arab Emirate
UK	-	United Kingdom
US / USA	-	United States / United States of America
US$	-	United States dollar
VIF	-	Variance inflation factor
VRIN	-	Valuable, rare, in-imitable and non-substitutable
WTO	-	World trade organization

Chapter 1 Introduction

1.1 Research context

This thesis presents research in the form of an analytical study of sovereign wealth funds (SWFs), their policies and investment strategies. The research study involves two different perspectives. Firstly, this study includes analyses of underlying theoretical patterns of development of sovereign wealth funds, their investment strategies, operations, objectives and impacts on financial markets. This results into the theoretical proposition formed by factors affecting growth, performance and success rate of SWFs. Secondly, based on the global patterns and analyses of the other successful funds outside the GCC region such as comparison between Oman and Norway, the primary data analyses and synthesis present testing of the theoretical proposition and the final recommendations for global SWFs in general and for Oman's SWF which can lead to their sustainable growth. The research study also involves investigations of the conceptual development of sovereign wealth funds in the form of links with existing theories and the influence of SWF on various components such as economy, trade, regional development, financial system and capital markets. These analyses allow review of SWF's operations in detail to further recommend the development of investment strategies and policy issues whilst preparing a set of goals for future actions in SWFs globally and for Oman SWF. This future plan of action for SWFs suggests what can be done by the sponsoring governments of these SWFs along with institutional and global industry views so as to achieve the sustainable growth and required performance. Thus, the context of the thesis is defined within the domains of international system of SWF operations and policies along with solutions set for long term success of SWF by identifying factors affecting sustainable SWF growth.

This would also help in realising the future strategic plan of the government of Oman to develop non-oil dependent economy in the next decade. In addition to the above

mentioned context, thesis identifies political, economic, legal and financial issues between investee and sponsoring countries. Next section explains the background of sovereign wealth funds.

1.2 Background of sovereign wealth funds

As the name suggest, SWF is an array of financial instruments, owned by a sovereign state, where a nation's savings are accumulated. For these funds, the primary focus is on the development of a foreign portfolio of investments. Other definitions of SWFs in the literature suggest their funding, purpose and objectives of setting up (Hassan, 2009). There is no single definition of these funds but the term 'Sovereign Wealth Fund' (SWF) was first provided by Rozanov (2005) as SWFs are created from foreign exchange reserves earned by a sovereign state to meet specific purposes. From then on an overwhelming response for SWFs research from academic researchers, industry analysts and government institutes has led to the number of definitions in the literature outnumbering the actual number of funds. In general, SWFs are large amount of funds managed by governments and are generated from accumulating foreign exchange (FE) reserves, commodity exports, privatization proceeds or fiscal surpluses.

The emergence of SWF has changed the underlying assumption in the international finance world that money would always flow from developed economy countries to emerging and developing markets that is from USA, UK and Germany to Middle East and Asia. Central bankers outside USA in UK, Japan and China were always investing and buying national bonds (treasury notes) from USA considering it as a safe and risk free investments. These two aspects in the global financial markets for money flow and secured place of investments has been fundamentally re-written and it is more influenced by economic recession or credit crunch in the last three years. Major

reasons for establishment of SWFs stem from the fact that central bankers have learned from earlier experiences that it is better to have a substantial account of money in the foreign exchange accounts because if sufficient cash is available in readily accessible accounts then it could help the governments during any fiscal crisis, currency devaluation, national economic emergency and even change in the government (Anderson, 2009). Major sources of funding to these SWFs come from oil income or non-commodities. For example, GCC region SWFs have utilized their oil income to establish SWFs where as China and Singapore are non-commodity based funds and are funded from trade surpluses. SWFs serve the purpose of having necessary cash or to meet short term requirement while investing remaining excess securely in low return investments. The pool of SWF cash is usually separate from currency and liquidity management (Lam and Rossi, 2010; Kotter and Lel, 2011). US treasury defines SWFs as

"Government investment vehicles funded by foreign exchange assets that are managed separately from official reserves. They seek higher rates of return and may be invested in a wider range of asset classes than traditional reserves. SWFs generally fall into two categories based on the source of their foreign exchange assets: commodity and non-commodity funds" (US GAO Report, 2008, p46).

The major characteristic and issues of concern as portrayed by western governments is the return of state power and influence within global financial system and their political economy (Wolf, 2007; Garten, 2008; Helleiner and Lundblad, 2008). Other key traits of SWF include high foreign currency exposure, lack of explicit liabilities, high risk tolerance and long investment horizons (Jen, 2007; www.IMF.org, 2008; Anderson, 2009). SWFs' characteristics can be defined as: state ownership, separate management from official FE reserve, high foreign currency exposure, no explicit

liabilities like pension funds, high risk tolerance and probably long term investment motives (Singh, 2008;). Their investment choices and asset allocation strategies may create implications worldwide for example, increasing investments in risky businesses for high return may reduce liquidity issues in market for low risk businesses (Balin, 2010); or less inclined investment strategy for high tech, research and development based industry would reduce development of the specific industry in the investee country (Fernandes and Eschweiler, 2008). Thus, growth and investment strategy of SWFs lead one to the debatable aspects of how much recipient countries can allow SWFs influence on their industries and markets considering their bilateral relations and; how much investments SWFs would allocate considering the risk and return balance. For example, which investment is better from these two: US treasury notes at low secured return or high return equities in volatile stock markers of developing economies with more than 8% GDP growth rates. Detailed discussion of emergence of SWFs is provided in the next chapter of the literature review. Many current issues involve dilemma for both investee and sponsoring countries about growth, return, transparency and protectionism which are discussed in the following section.

1.3 Current trends and management of SWF

1.3.1 Current trends

Publicly managed government institutes have large amount of assets and they are currently influencing the global financial industry significantly while drawing attention as an important investor of global equity. They can be categorised into three types: sovereign wealth funds (SWF), foreign exchange reserve funds (FERF) and public pension funds (PPF) (Mitchell et al, 2008). Their governance, investment strategies and political value may be different but their usage in financial terms can be defined as

common to use them for country's economic growth (Bernstein et al, 2009). This thesis discusses about sovereign wealth funds only and not any other type of funds.

Sovereign wealth funds are in existence from more than half a century but their size and impacts have been recently increased in the last decade. Growth of SWF is evident from total assets increased from US$500bn in 1990s to more than US$3.5 trillion as of today (Kotter and Lel, 2011). For example, these wealth funds have contributed 35% of mergers and acquisitions activities in 2007 and in a year span, have purchased equities worth US$ 83bn in 183 deals for various financial and high tech institutions like Barclays, Citigroup, Credit Suisse, Merrill Lynch and Morgan Stanley (Kern, 2007; Drezner, 2008). According to International Monetary Fund (IMF) forecasts, SWF assets' accumulation may reach more than US$ 8 trillion by 2011 (*Surprisingly this has not happened by December 2011*) and US$12 trillion by 2015 respectively continuing the current growth rate. Major reason for the growth during 2006 to 2008 may be the oil prices soaring to a level ofUS$150 a barrel because leading funds like Abu Dhabi, Norway, Saudi Arabia, Kuwait, Oman and Qatar are oil income based SWF (Truman, 2008; Anderson, 2009). Recent surge in the investments made by SWFs and their sponsoring governments' role of high finance and high politics with unapproved but likely inherent or apparent motives is widely criticised by American and EU Governments (KPMG, 2007; Patelis, 2007).

On the other hand, SWF investments look large but they are actually small in size compared to other global financial industry sectors since SWFs share less than 2% of the total global financial assets worth more than US$ 190 trillion (Davidson, 2010). For example, in 2007, pension funds were managing assets worth US$ 28 trillion, mutual funds US$ 25 trillion and insurance funds US$ 18.5 trillion which make SWF less than 5% of when compared to these funds. The total market capitalization of all

publicly traded companies in the world is approximately US$ 57 trillion and USA GDP is US$ 12 trillion which proves again that SWF are not much significant in size to other financial segments (www.swfinstitute.org, 2009; Balin, 2010).

1.3.2 Management issues

Generalization about SWF as a legal entity or their structure is not possible because across the world, every country has different sources of funds, governance structures, operations, investment patterns, financial policy and goals, company and laws of institutional formation (Singh, 2008; Anderson, 2009).

Amount and investment deals' size of SWF may not be the issue always as known from above discussion but policy researchers, analysts and governments of investee countries view SWF assets' buying behaviour as more political rather than financial. The reason being cited for this view is; credit crisis provided these SWF to exercise power and existing liquidity with them to acquire strategically vital targets in investee countries. Their acquisition pattern when analysed clearly supports this view (Drezner, 2008).

However, view point of business lobbyists is in the favour of SWF since these funds are a way of tackling the current and any future financial turmoil, if dealt with a non-destructive competition for growth and profitability without adding more protectionism and having unnecessary fright from SWFs' investments. Just like any other growing industry, new benchmarks of transparency, accountability, governance and other regulatory standards can be formulated for SWF without dragging into the debate of objecting their motives. This can be attributed to more of a development perspective rather than political (Stiglitz, 1993 as cited in Bernstein et al, 2009). Many such issues of transparency, best practices, ideological implications, bargaining leverage in

economical – political decisions and finally, the shift of global power away from advanced and industrialized nations to developing countries are major issues emerging out of this sudden growth and recent investment activities of SWFs (Truman, 2008).

Limited transparency and investment motives of SWFs are growing issues of investee countries which lead investee counties to create more protectionism mechanism. This ultimately results into the management of SWF to a sustainable growth level becoming crucial for governments who have sponsored them and investing money to acquire assets anticipating profitable returns from deals. These complex issues of SWF management can be better understood from their various definitions, objectives, purposes to set up, investment strategies and type of deals. According to Mitchell et al (2008) sovereign wealth funds are developed by governments utilizing various resources such as natural, taxes, fiscal or trade surpluses. SWFs usually manage assets separately from foreign currency reserves and tend to be investing internationally and when needed, in domestic operations, infrastructures and in stabilizing the industries. These SWFs are at present very important to global financial world for two reasons. Firstly, it holds liquidity worth more than US$ 3.5 trillion and other unknown figures in their portfolios. Secondly, their performance and management impact on economy in their own countries. Hence, these SWFs require asset increase and profitable returns (Lyons, 2007; Chhaochharia and Laeven, 2009). In principle the financial perspective of SWF leads them to seek higher profits, asset diversification so as to improve the fund's efficiency of asset allocation and reduce risk for wealth of their citizen on whose behalf they make investment (Chhaochharia and Laeven, 2009). But, SWF policies of many countries in the present situation is mixed and not standardised as they tend to invest in open economies of USA and Europe, attempts to increase their portfolios but when it comes to receiving or allowing foreign direct investments from other countries they turn to protectionism (Koyama and Golub, 2006). Also, the

transparency agenda and their investment strategies have created big concerns. It has been repeatedly stated by Western countries that their investment objectives are politically motivated (Summers, 2007). For example in 1988, Kuwait Investment Authority was asked to reduce 22% stake acquired in British Petroleum (BP) to 9.9% by UK monopoly and merger commission on the grounds that such an acquisition would exercise considerable influence over BP. In another example, Dubai Ports World of UAE acquired P&O British owned shipping company in USA in 2005 giving it controls over several USA port facilities, then a year after Dubai Port World was asked to divest the operations citing national security issues (Singh, 2008; Chhaochharia and Laeven, 2009). These types of cases can be reduced with standardization and common principles such as Santiago principles when followed by both investee and sponsors of SWF. In 2007 major SWFs sent a hostile response to the International Monetary Fund (IMF) in reply to the code of conduct compliance request from G-7 countries. USA treasury department has persuaded two large and influential SWF of Singapore and UAE to adhere to governance and transparency standards with a commitment to have commercial criterion for investments rather than politically motivated (Greene and Yeager, 2008; Anderson, 2009).

Above discussion explains that not only scope, definition and investment strategies in managing SWF are important but concerns about transparency, decision making policies, governance, planning also shape the growth, performance and transformational agenda of SWF. Next section discusses current status of economy of Oman and issues emerging for Oman's SWF.

1.4 Oman's economy and SWF

The ruling of Oman since 70s by Sultan Qaboos has provided growth and development to the country whilst acquiring a good reputation among GCC countries. Oman has become a major hub of global trade, finance and economy in the Middle Eastern and Asian region. However, country's major source of income is from oil and gas exports. Therefore, government of Oman has planned series of developments in terms of policy reforms, restructuring hierarchies and industry support to create non-oil dependent economy. This is where the major contribution can be made by SWF of Oman. The SWF of Oman is however affected by national culture, political economy and the issues within SWF such governance, strategy and structure. This study attempts to find the factors affecting and their impacts on SWF growth which would lead to create the solutions in the form of recommendations for Oman SWF. The statistics also reveal that Oman started SWF in 1980 however Oman SWF was not able to create a large asset base such as Kuwait or ADIA. Oman SWF has reached to US$ 8 to 13bn here as its competitors Kuwait and ADIA have reached more than US$ 250 billion and US$ 850 billion respectively. Therefore, one must find the factors affecting growth, success rate or overall performance of SWF which is major component of the problem statement as discussed next.

1.5 Problem statement

Sovereign wealth funds' current trends of unprecedented growth, governance and profitability issues with global debates of transparency and protectionism mechanisms from sponsoring and investee countries make management and operations of SWFs and their investment decisions very difficult and complex. Also, each SWF in its own

is affected by political economy and cultural background of respective sponsoring country and issues within the SWF organisations. Therefore, it is very important for all SWF sponsoring countries and their executive decision makers to know which factors are crucial for its long term growth and success rate. Thus, this is the first problem addressed in this thesis.

Secondly, with a significant decrease in the oil prices from its peak beyond US$ 130 per barrel to a range of US$ 40 to 60 per barrel and economic recession worldwide has affected the income and growth of GCC region. The oil revenue dependent economies of GCC and OPEC have less to take into SWF with more sales of oil resources. Oil price more than US$100 a barrel during 2008 has given boost to the large assets buying behaviour of oil income funded SWFs before the global credit crunch, however big investments have also been made during the same period (Drezner, 2008; Truman, 2008). With economic downturn and decreased demand of oil, multiple problems have emerged for GCC region such as sudden collapse of stock market indices, weaker currency exchanges against British Pound sterling, Euro and US Dollar, less liquidity for local developments and loss making transactions in SWF investments. The government of Oman has realized that sustainable growth needs to be drawn from development of non–oil sectors such as construction, manufacturing exports, retail, tourism, transportation and financial services. Economies of these countries can be in more disastrous position if oil prices falls below US$ 40 a barrel but this may not become the reality as global oil demand increases every year. To survive further economic downturn many GCC governments have already saved large amounts from their excess oil revenues which has provided larger than expected liquidity to SWF (Santiso, 2008; Farrell et al, 2008; Chhaochharia and Laeven, 2009). From this context, what if the broader recession continues with tight credit markets, lower house prices, lower oil demand and slow GDP growth.

Thus, a major question for smaller SWFs such as Oman's SWF with only US$ 8.2bn to 13bn is how to manage SWF better to increase financial leverage, consumption, and profitability so as to be more sustainable before an economic recovery can happen. The technological innovation and political stability are crucial for survival or growth in industries and SWF. Countries with large SWF may survive by continuously monitoring opportunities and making right choices for their investments.

During such period, the economic growth or transformation depends on how successfully governments can formulate their policies, investment strategies and reforms of privatization or de-regulation. How government takes actions as a regulator of the market dynamics would decide the level of turbulence among the businesses and industries. Other countries may not want to replicate highly leveraged debt based economic growth as in case of development of Dubai in the last two decades since they can see the problems of re-paying high debt or re-negotiating further finances. This provides difficult financial outlook for GCC region. Thus, SWF as a major source of liquidity and large cash reserves emerges as a feasible solution to manage the domestic financial turbulence however, willingness for investments from SWF sponsoring Governments and can they manage SWF sustainable for a longtime is again poses a big question.

These recent financial and economic problems, SWF characteristics and current trends, situation of Oman's SWF collectively enable one to formulate the following major problems to be addressed in this thesis.

1. Which factors are vital to the success and development of SWF in general and for Oman's SWF?
2. What shall be the approach to be adopted by SWFs to be more competitive and profitable in the long term?

3. What changes are required in terms of new policies, reforms, preventive measures, specialized systems or control mechanisms?
4. How can Oman's SWF adopt and implement new initiatives in terms of economic policies, investment strategies and operations of SWF?

Finding answers to these specific issues from factors to implementation of recommendations would form the basis of this research study. This study aims the wider scope of contribution in finding what is crucial for global SWFs and also, aim to recommend changes required by SWF of Oman.

1.6 Aim and objectives

The main aim of this research is "**to review sovereign wealth fund strategies and policies; and to find out the factors impacting sovereign wealth fund so as to provide recommendations for their long term growth and development**".

Following objectives would be met in the process to achieve the main aim of the study.

a. To understand the concept of SWF in detail with existing theoretical linkages in finance, trade, economics and management. This may help in analysing SWF problems and findings the root causes of the problems in SWFs.
b. To find out factors significantly impacting SWF growth and success rate based on the analyses of sovereign wealth funds.
c. To validate the factors identified based on the analyses of multiple evidences from selected sovereign wealth funds.
d. To analyze present status of strategies and policies of Oman's SWF so that one can recommend an action plan comprising new initiatives such as investment strategies, policies and asset allocations.

1.7 Focus and significance of the study

1.7.1 Focus of the study

SWF has attracted much attention from researchers and governments for investments, growth, transparency and other related issues. This is evident from the recent surge in number of academic papers and reports from banks and investment analysts. However, overall research in case of SWF is limited in terms of in-depth analyses of SWFs for policies, investment strategies, global patterns, comparison of deals between SWF. And, there is not much evidence found in the literature presented by professionals engaged in managing or administering SWF and its relevant components.

This research study is based on the following major research themes which form the main features of analyses in the thesis.

- Scope, size and operations of SWF
- Investment strategies, regulatory standards and policies of SWF
- Management issues of SWF for their sponsoring countries and investment recipients
- SWF performance and its impact on global and domestic finances
- Factors impacting positively or negatively the growth of SWF

This study is not directly extending the work from any previous research however it uses the literature analysis as a foundation to develop the research, for example studies of Pistor and Hatton (2011) about political economy of SWF; Bernstein et al (2009) about the investment strategies of SWF; Meggison et al (2008) about the investment patterns and performance of SWF and Mitchell et al (2008) about how to manage the public investment funds. Such studies are recent and concentrate on analysing SWF structure, operations, factors affecting, investment deals, investment strategy, performance and objectives of SWF.

The research study is divided into three parts:

- Collecting and analyzing literature and industry data to formulate the theoretical proposition comprising factors affecting the growth and success rate of SWF
- Collecting and analyzing primary and secondary data from Norway and Oman's SWFs to validate the proposed framework
- Preparing a set of recommendations for global SWFs and Oman's SWF

1.7.2 Significance of the study

The detailed literature review offers insights into the various aspects as listed in earlier sections. This research study utilizes the secondary and primary data from SWF such as their characteristics, performance indicators, investment strategies and patterns, policies, operations and management issues. This thesis mainly concentrates in the following four domains:

a. To identify the key literature and review this would contribute to the body of knowledge.

b. To develop and validate the research framework by way of testing hypotheses which enables addressing key research questions. The proposed framework comprises factors affecting long term growth, performance and success rate of SWFs.

c. To provide insights to practicing SWF professional managers to use the findings and set of the practical and logical recommendations from this study to improve their investment strategies.

d. To enable Oman's SWF to utilise the results of this study in the form of practical recommendations with a proposed action plan to improve long term growth.

e. To yield validated methodology which has further scope of research for example, study using longitudinal data sets.

1.8 Research methodology

In this study, it is proposed to utilize both the inductive and deductive research approach for developing and testing the theoretical proposition based on the case study research strategy. The data collection would be done in the form of secondary data from documents and primary data through interviews and questionnaire (Saunders et al, 2009). The research methodology proposed for this study can be explained by both process and stage models. According to the process model given by Philips and Pugh (1994), the research process for this thesis can be as follows.

Back ground theory – This would enable one to identify topic, problem; to carry out review of literature and evaluate the existing research.

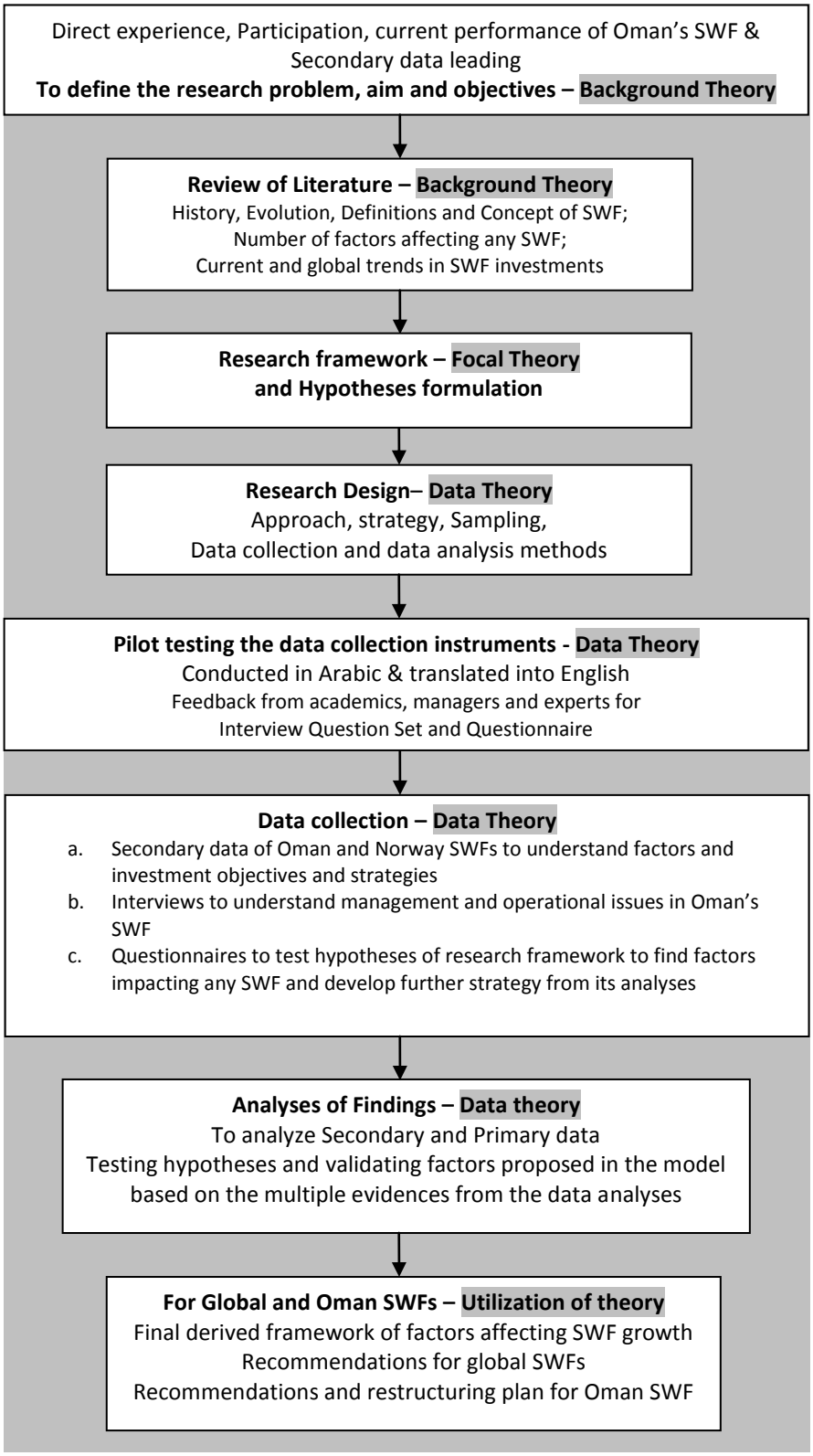
Focal theory – This would enable to formulate the framework, hypotheses and to specify the main idea of the research to push forwarding the subject area.

Data theory – This would justify appropriateness of research methods selected; relevance and validity of the data collected and analysed to support the research aim.

Utilization of theory – This is basically an application of derived theory based on findings and practical recommendations. Such an application validates the findings and allows generalizations whilst correlating findings and recommendations to the existing literature, theoretical framework, adopted research methodology and practice of the field.

The above explained research process can correspond to various stages in the following diagram which provides details about research activities proposed in this study.

Figure 1.1 Proposed research stages



Source: Philips and Pugh (1994); Saunders et al (2009)

1.9 Structure of the thesis

This research thesis is divided into eight sections, each one described as a chapter as follows. **First chapter** comprises of history, back ground and main research themes' overview with problem statement and significance of this study to academics and managerial communities. **Second chapter** discusses academic literature and its criticism and analyses to understand various factors related to sovereign wealth funds. **Third chapter** introduces the proposed theoretical research framework based on the literature reviewed which would be tested by primary data. **Fourth chapter** outlines the selection and reasoning behind choice of all research methodology components selected into this research. **Fifth chapter** analyses the secondary data of the two cases: Norway and Oman. **Chapter six** analyses the results of primary data collected through interviews and questionnaires. This chapter include testing of the theoretical framework, analysis of findings and discussion. **Finally seventh chapter** is in the form of conclusion which details the research summary, recommendations for global SWFs and Oman SWF, implications for theory and practice, novelty and utilization of this research, limitations encountered during the research and further research scope in the SWF domain. **Appendices** include graphs and tables from questionnaire data analysis, final questionnaire and interview transcripts.

1.10 Conclusion

This chapter outlines the scale and scope of the entire structure of the thesis. It presents the conceptual development of the central theme of research and what is involved in the study whilst explaining research problem, aim, objectives and significance of the study.

Chapter 2 Literature review

2.1 Introduction

The aim of this chapter is to review the existing literature relevant to the roots of sovereign wealth funds to understand these funds in detail. The chapter attempts to find information regarding main research questions, major components and characteristics of sovereign wealth funds (SWFs). This chapter provides analyses of SWFs history, growth, role, investment strategies, regulations, operating standards, current trends and their debates about impacts on the global finances. Such analyses of each different aspect about sovereign wealth funds allows one to identify the factors affecting SWFs. Current issues having worldwide attention in the media are governance, transparency, accountability, investment motives which are discussed within domains of assessment of SWFs. It shall identify key issues within the global trends about SWF such as their influence on the economy, regional development and impacts on global financial markets and international trade. Such a reflective and critical analysis of literature would provide the comprehensive view of these sovereign wealth funds and its systematic management. This section of thesis can be considered as explaining back ground theory as it presents critical analyses of the existing literature from the previous research studies in the academic and industry for sovereign wealth funds and their related topics (Philips and Pugh, 1994).

This starts with the development of SWF as a pure financial institution from years back when it was considered just another government owned national capital reserve entity. Next sections follow entailing SWF into their importance, strategic influence and

different implications. This literature review chapter finally outlines the literature analysis summarising from analyses, inferences and limitations from the literature.

First formal and official setting up of SWF dates back to 1953 and then few GCC region SWFs started in 80s; however, much attention has been given to these SWFs very recently by investors, analysts, governments and researchers after 2005. Much less research is published till end of 90s for SWFs. Due to this fact this literature review has been limited to data from the last decade. Hence, this review can be defined as 'post- 2001' research study. The next section starts the review of literature explaining different definitions of SWFs.

2.2 Definitions, history and concept of sovereign wealth funds

This section discusses definitions, historical evolution and conceptual development of sovereign wealth funds.

2.2.1 Definitions of SWF

Following definitions of SWF provides different perspectives of these funds' origin, purpose, sources of money and their major aim or objective of starting a wealth fund.

"SWFs can be defined as government owned investment vehicles with no explicit liabilities to their owners other than internal to the government, significant exposure to high-risk foreign assets, and a long-term investment horizon"(Kotter and Lel, 2011, p.3).

"SWFs are the investment vehicles managing portfolios on behalf of their governments and their investment capital is usually derived from either petroleum revenues such as GCC region funds, Russia or Norway; or persistent current account trade surpluses such as China or Singapore"(Dewenter et al, 2010, p.1-2).

"SWFs are state owned investment funds set up for the investment of excess foreign exchange reserves or natural resource export surplus. These are part of the large collection of sovereign investment tools including state owned pension funds" (Zhang and He, 2009, p.2).

"*The term SWF generally describes state-owned or state-controlled pools of capital that are actively invested, at least partially, outside the country"* (Helleiner, 2009, p1).

"*SWFs are government owned investment entities, set up for a variety of macroeconomic purposes. They commonly take the form of long term investments of foreign exchange assets in overseas holdings"* (Bahgat, 2008, 2010, p.1).

"Rather than all aspects of SWFs, the crux of issue is state capitalism. That is the use of government controlled funds to acquire strategic stakes around the world" (Lyons, 2007, p.1).

These definitions explain the sources of input reserves to sovereign wealth funds and funds' utilisation of that input into investments. The following sections explain history and conceptual development of SWF which enables one to understand the theoretical links of sovereign wealth funds and their existing roots.

2.2.2 History of SWF

The development of transactions shifting financial power from west to east has its roots in the re-adjustment, re-emergence and post world war balancing theories. Major countries included in this balancing of financial power or relative decline of USA economy's control over the world are BRIC group (Brazil, Russia, India, China), Japan and an energy rich GCC or Middle East countries.

The western countries in recent years have suffered from various problems like financial imbalances, increased dependence on service economies, ageing population and workforce, disintegrated leadership and competition issues. However, these problems can be solved but consequences of these issues are long term and far reaching which can create new world order of global economy. This provides a new perspective on the old assumption that money would always flow from developed countries to developing countries (Hassan, 2009). This assumption has been proved wrong as these SWF have started acquiring stakes and created investments and assets portfolios worth over US$ 3 trillion. These funds are best understood as national investment vehicles or state repository of wealth from the meaning of their structured name in three parts: 'sovereign' – state entity or government ownership, 'wealth' – savings, assets or investments and 'funds' – financial institution or financial vehicle different from normal a bank or private equity company (Anderson, 2009; Hassan, 2009). These are best understood as govt. owned enterprises with excess cash on hand for liquidity, currency stabilization and investments. The idea behind these SWF creation is to keep funds available for origin country to meet the demands of market fluctuations, cover import bills due in a year time or other foreign liabilities. History dates back their starting of these SWF to 1816 in France, 1953 in Kuwait and 1956 in Kiribati. Later on in 70s and 80s major Gulf countries funds have come up. SWF have two major criteria:

to use excess money for reserve adequacy measures and other to make profit out of it with minimum risk. Once, the monetary requirement of origin country is met then the remaining excess or surplus is left for investment. But, this surplus is used in risky investments also with short term profit making goals. Definitions applied by academia and industry provide fair view of this concept of SWF.

2.2.3 Concept of SWF

Main participants in the financial markets are either surplus or deficit funds units. Federal governments usually act as deficit units in this. These units control the flow of money and other institutional operations in money and capital markets. Non-depository institutions have a major motive of generating funds from sources other than deposits and they have a vital role in the financial intermediation. These institutions include banks, finance companies, wealth funds and insurance firms to name a few (Madura, 2003). These national reserve and pension funds were earlier comprised of gold reserves before gold standard was dropped in 1930s. Then onwards, the objectives of regulatory control and reserves for managing any future economic turbulence have provided an origin to the concept of foreign currency reserves which are finally branched out as investment and development funds, called as Sovereign Wealth Funds (SWF). The term 'SWF' came in the last decade but set up of SWF can be dated back to 1953 when Kuwait launched first GCC SWF (Singh, 2008; Hassan, 2008, Pistor and Hatton, 2011).

There is not a single overarching definition or meaning of SWF, however as Kirshner (2009) analyses them as S + W + F, they are investment agencies– funds that deals in maximising assets and return on the investments – wealth and is controlled or managed by ministries of respective national governments – sovereign, which is actually owned

by population of particular sovereign state. SWF is a capital flow from surpluses to recipient countries which is generated from current account surpluses. This was followed by developed countries in 1870 as well. For example, such income has provided surplus benefits to UK government investment account since 1870s. The major differences between past and today's SWF are: a century ago, developed countries invested funds where capital was scarce and natural resources high and hence the high returns. Investors were mainly the private sectors. In the present scenario, capital is moving from emerging to developed economies by SWF and investors are majority central reserve banks and government entities. Oil is not a renewable source and hence, it is sensible move from GCC region that profit margins of this oil income is spread as a saving investment which can provide income when cases arise of 'no oil income' or 'reduced oil income' or to tackle 'inflated economy' in future. This makes emerging markets shift their position from debtors to being creditors. Post-Asian economy crises a decade ago, at least 10 SWF are set up and more over India, Brazil and Japan are planning to join the same competition. Emerging markets current account position was in surplus of US$ 685bn i.e. 1.3% of global GDP and developed countries were running 5% of global GDP in current a/c deficits these include USA, UK, Australia, New Zealand, Greece, Iceland, Portugal and Spain. Another evidence of this scenario is 60% higher than the required foreign exchange reserve held by emerging markets economies i.e. approx. US$ 3 trillion (Gieve, 2008).

Major aims of such these funds are to improve liquidity in the system while monitoring the process and to increase the profitability and asset base as set out by regulations by their respective Governments or ministries managing the funds. Alternatively, inferring the basic meaning of SWF from name itself: 'Sovereign' component adds the strategic and state ownership means to these funds whereas 'wealth' as a term in the SWF is said to be more associated with creation and maintenance of different financial assets,

for example, stocks of equities, bonds, properties, precious metals and other financial instruments. To a large extent, SWF can be defined as asset and investment fund owned and managed by the government. The inflow fund sources for SWF are foreign exchange reserves, commodity exports, privatizations proceeds or fiscal account surpluses. Apart from wealth creation, the SWFs have major objectives of currency stabilization, bilateral trade improvement or economic controls within the country such commodity prices or inflation (Singh, 2008; Bahgat, 2008, 2010). It is not possible to consider them homogeneous according to characteristics as their fund sources, governance structures, investment patterns, objectives and operations management are very much different. For example, Norway's government pension fund is not separate legal entity from nation's central bank where as Korea has created another legal entity as Korea Investment Corporation (Berstein et al, 2009).

Based on resources, they can be broadly categorised as stabilization, savings and pension funds. Stabilization funds are set up during commodities price increase and funds are sourced usually when prices are low. For example, reserve fund of Russia. Savings funds are created with aim of long term wealth accumulation to manage future liquidity requirements. Pension funds are created to provide finance for future pension disbursements. These are directly managed and owned by governments and often considered as SWF. Examples are Irish national pension reserve fund and Oman Government's nine different pension funds (Singh, 2008; Mitchell et al, 2008).

But, these funds are not new and as history claims, the first SWF was set up in 1816 by France, namely Caisse des Depots Et Consignations. The next fund took more than a century gap with Kuwait investment board in 1953 and Kiribati revenue equalization in 1956, both by British administration when these countries were still operating as

colonies. The next wave came in 1970 – 80s when Middle Eastern oil producing countries set up SWF. For example, Temasek – Singapore (1974), Abu Dhabi – UAE (1976), Oman (1980) and Brunei (1983) and Norway (1990) set up reserve or stabilization funds as investment and development vehicles. The difference between pension funds and SWF is not always obvious as suggested by Truman (2008) while analysing all 56 SWFs on a common scorecard. Many governments linked SWFs hold significant stakes in the listed companies. The best examples are France and Russia, who holds US$ 280bn and 250bn respectively in listed equities (Balding, 2008).

The concept of developing SWF is to switch 'debt economic regime' to 'credit economy regime' by developing countries or emerging markets where growth and expansion of SWF can lead to economic transformation by higher returns on investments and increase in asset portfolio (www.Pimco.com, 2007). This has worked well for the central banks in developing countries as SWFs are increasing US$ 500bn a year since start of this century.

Another rationale being reason for setting up SWF by developing countries can be utilization of accumulated foreign exchange can help protecting economy in the times of higher capital inflow–outflow and speculative attacks on currency and to meet challenges generated by economic, trade and financial liberalization policies. The massive global trade differences have also become significant reason for SWF. Following table provides few more clear examples of SWF creation sources and purposes.

Table 2.1 Various SWF sources and purposes

Source Purpose	Commodity/ Revenue	Fiscal sources	Foreign exchange (FE) reserves
Stabilizing revenue stream	Kuwait reserve fund, Mexico oil stabilization fund		
Public pension or future utilization	Russian national welfare fund, Norway govt. global pension fund	Future fund of Australia, New Zealand super fund	
Govt. holdings management	Oman Investment company, Mubadala (UAE)	Temasek (Singapore), Khazanah (Malaysia)	China bank holdings managed by China investment corporation
Wealth or risk/return optimization	Oman state reserve fund, Abu Dhabi investment authority (ADIA)	Govt. Investment Corporation (Singapore)	Singapore FE reserve managed by govt. investment co. Or Korean foreign reserve by Korea investment co.

Source: JP Morgan (2008)

As any increase or decrease in oil prices and GDPs of Asian economies can make or break these SWF as they are predicted in range of US$ 5 trillion in 2012 based on the economic downturn (Fernandez, 2008) or US$ 12 to 14 trillion in 2014 by positive outlook and results (www.IMF.org, 2008).

It can be seen from the above table that government bodies and wealth management are interwoven to each other. As these funds are managed by ministries (political bodies) and are managed for economic developments of their respective countries. Therefore, one can say that there is relation between politics and economics in the conceptual evolution of SWF. To explore more such links of SWFs with existing theories are reviewed in the next section of this chapter.

2.3 Theoretical foundations of sovereign wealth funds

The following theoretical foundations of sovereign wealth funds (SWFs) are existing theoretical underpinnings from various subjects in business and management. Such analyses reveal the identity of sovereign wealth funds in terms of their creation, source of income, objectives, structure. More importantly, these theories explain the factors affecting sovereign wealth funds and impacts on markets and industries as implications of investments made by these funds.

2.3.1 International trade theory

International trade can be defined as an exchange of capital, goods or services between countries. The international trade represents a major share of gross domestic product (GDP). The factors such as industrialization, advanced modes of transportation, globalisation, growth of multi-national corporations and outsourcing activities can impact an international trade. Increasing international trade is required if countries want stable economies and to continue with globalisation process. Without the international trade, countries would have access to limited goods and services produced within their own country; and no access to the products or services from around the globe. Now, the trade is carried out using international currency system and exchange rates of currencies during each transaction of export and import. This makes all countries with either deficit or surplus in their total trade activities annually. To meet any trade uncertainties within and outside the country, each nation's central bank attempt to reserve the foreign exchange earned through the exports revenue.

Today, the international trade mechanism involves currencies, accounts, standards, central banks, trade unions such as EU, NAFTA and GAFTA; and regulatory bodies such as IMF and WTO. Each country attempts to reserve the foreign currencies earn

through the international trade because they want to be in the stable conditions of economical components such as interests rates, own currency exchange rates with global reserve currencies such as US dollar or Euro or foreign exchange reserves to meet the import bills payment demand and in case of any emergency arises within the country. For this purpose, they try to hold the current and capital accounts in surpluses within the balance of payments (BOP) system. Foreign currency reserves and gold reserves are considered to be two major sources of economic stability and wealth of nations. Thus, countries with excess foreign exchange reserves go for wealth multiplication or at least secured earnings on their reserves. This is one of the basic purpose, countries with surplus wealth set up the Sovereign Wealth Fund. Hence, SWFs has its first root in the foreign exchange reserve generated from favourable international trading system of export and imports made by the sponsoring country. Thus, accumulation of foreign exchange plays a crucial role in creating an economic climate for the country where they can set up a SWF. For example, world's total currency composition of official foreign exchange reserves (COFER) has increased from USD 1389bn in 1995 to 9258bn at the end of 2010 and gold reserves has increased to more than 7800bn. The rapid increases in gold and foreign currency reserves are observed after 2002 (www.imf.org, 2011). This rise in the reserve growth has become an international policy agenda and is viewed from different perspectives, such as financing of fiscal deficits, increasing reserves of developing and GCC region economies, sustainability of this foreign exchange funds and low returns within and outside the US (Pineau et al, 2006 at European Central Bank). This accumulation of foreign reserves through international trade facilitates main sources of funding to SWF.

An important development in the financial markets post-Asian crisis in 1997–98 is that developing Asian economies have become surplus in their balance of payments being

net capital exporters from previous status of net capital importers. This transformation came from the persistent current account surpluses maintained by developing Asian economies through their post-crisis reforms and mechanisms to avoid another such crisis in the future. These reserves have increased to a level beyond traditional requirements of liquidity purposes. Thus, these economies have started to shift their concentration from managing liquidity shortages to multiplying these reserves by making profitable investments. Hence, this is one of the basic motives of launching SWFs which provides a blueprint for transforming these excess reserves to profit making assets allocations (Park and Estrada, 2011). Therefore, main aim of these SWFs should be profit making or return on their investments as funds available for SWFs are beyond liquidity requirements and thus do not need guaranteed but low returns from investments such as US government debt papers. Thus, international trade explains the formation of SWF and its income sources. On the other hand, international trade with financial management forms international economic system which revolves around the demand and supply of goods and money. The commercial profit seeking or wealth creation from trade surpluses have to be balanced between risk and return with appropriate asset allocation based on the robust investment strategies of the financial management as explained in the next section.

2.3.2 Financial management theory

The above discussion regarding international trade allows one to understand that governments and central banks attempt to accumulate foreign exchange reserve and once it has accumulated beyond their threshold of required future import bills' liquidity, governments turn to increase their wealth by investing these foreign exchange reserves. This principle has given rise to the countries launching sovereign wealth funds for increasing returns (Rozanov, 2010). When it comes to the gaining

return on the investments in general, it has been observed by researchers that with increase in return, the risk increases. This clearly means that low level of uncertainty (or low risk) is proportionate to low return, whereas high level of uncertainty (high risk) is associated with high return (Madura, 2003). This is one of the fundamental assumptions of the modern portfolio theory which mainly categorises all investment strategies into two types: one that maximizes return for given risk and other that minimizing risk for expected return. Return increase or risk reduction is enabled by allocating investments in different types of assets to create a balanced portfolio (Daniel et al, 2001). This holds true in case of SWFs investments where a collection of diversified portfolio of assets as a whole have less risk as compared to an individual asset. Researchers have observed SWFs investment strategies to reveal that depending on the decision making structure, investment capital availability and targeted returns from the portfolio, the risk varies in the SWF investments. For example, investment decisions made by political leaders, domestic equity prices or influence of professional external managers have impacts on the return of investments made (Bernstein et al, 2009). The implications of the riskier approach by SWFs towards higher returns can cause easy access to the capital for riskier businesses and tougher situation for low return businesses (Balin, 2010). Thus, SWFs risk and return approach can cause imbalances within the money supply system in the markets or economies if these investments are large enough for the markets as concerned raised by analysts and governments (Gieve, 2008). Apart from portfolio theory, other investment theories include capital asset pricing model (CAP), arbitrage pricing theory and efficient market hypothesis; however, their detailed analyses are not in the scope of this research study. These theories support the decision making process of selecting assets classes and investment deals with a main aim of higher returns at lower costs and risks (Crabbe, 1996; Chandra and Shadel, 2007). Thus, SWFs investments can have effects from

financial and economic factors on their return as well as, they can impacts the money supplies and economic conditions of the markets. The next section deals with SWFs investments and their association with demand and supply of capital in the market economies.

2.3.3 Economics theory

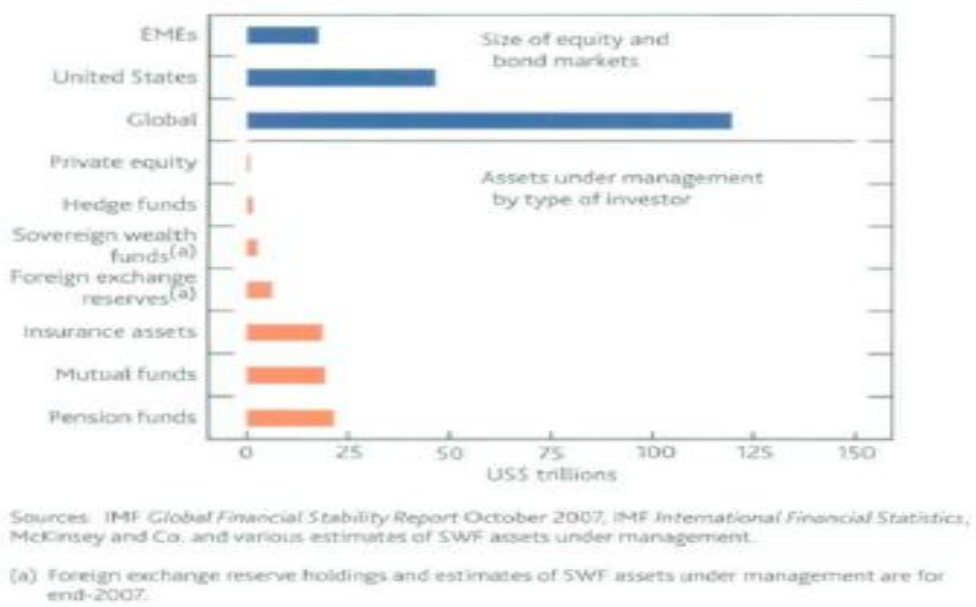
The economics theory of supply and demand helps determine the status of markets, economic conditions, prices of goods, money supplies and changes required to be made in the monetary policy. This theory explains that consumers wants to buy more products at a decreasing price and suppliers wants to sell more products at an increasing price. Thus, equilibrium reaches when suppliers and consumers agree for a price at particular quantity supplied and till then price varies in the markets for goods.

This is called economic equilibrium of price and quantity. The conditions of market changes from equilibrium when one of the demand or supply remains unchanged and the other attribute changes. These changes in consumers' demands and supplies from businesses or governments affect the prices of the products and services (Ahlersten, 2008). Applying this concept to capital markets and financial system; one can understand that money supplies basically work from surplus financial institutions to monetary deficient financial institutions. For example, investors make a savings deposit at bank to earn interest and bank loans that money to the businesses at a fixed interest rate to earn margin and pass on to the investors. Thus, money is supplied from individuals and banks that are in surplus to the companies requiring money (Madura, 2003). As seen from the previous discussion of the international trade theory, sovereign wealth funds are the financial institutions with surplus foreign reserves to make profitable investments for their countries citizens, governments and central banks.

These "i*nvestments by SWFs are one type of capital flow between countries so they have always been closely related to global imbalances in trade. When countries run surpluses on their current account, they generate equal and opposite net capital outflows of one sort or another and those capital flows produce an investment income"* (Gieve, 2008, p.196; www.BIS.org, 2010).

The supplies of capital to markets from SWF can change the stock prices, costs of capital for businesses and in turn can affect the supplies and demand of money. On the other hand, their current and future estimated growth does not make them bigger than 2% to 6% of the global financial assets. Their current position compared to other financial industry segments is shown in the chart below. Hence, their overall impacts can be negligible; however, persistent foreign exchange accumulation by SWFs sponsoring countries can create vulnerabilities in the world economy and financial system. The advantage of SWF investments is multiplied: long term investment horizon can help moderating financial market downturns and their strategy for higher growth returns can bring efficiency of global asset allocation (Gieve, 2008).

Assets under management by SWFs and relative to other investors and size of capital markets at the end of 2006



Sources: IMF *Global Financial Stability Report* October 2007, IMF *International Financial Statistics*, McKinsey and Co. and various estimates of SWF assets under management.

(a) Foreign exchange reserve holdings and estimates of SWF assets under management are for end-2007.

Source: IMF Global Financial Stability Report, October, 2007

Thus, economics theory helps to analyse the effects of SWFs investments on capital markets.

2.3.4 Agency theory

Agency theory helps explaining the problems between principal and agent, owners and managers, employer and employee having a fundamental assumption that each of these parties has conflicting interests between them as well as their self interests on their own. It is a dominant approach in the economics and finance. This is basically an issue of motivation of agents and governance from principals in one perspective; that is either of them blames other for not achieving their functional targets or not doing their moral duties (Fama and Jensen, 1983; Eisenhardt, 1989). The solutions for removal of such conflicts are mechanisms by organizations for efficient wages, profit sharing schemes, performance measurement, bond or contractual terms, employee stock option plans, counselling and training for competency and motivation development. The principal – agent relationship can be affected by basic problem of organisation

management such as delegation of authority, bureaucratic management style or financial incentives or performance. For example, shareholders hire top management executives to run the corporation and their differences can be within strategy and financial domains of what is the top priority. Thus, agency theory issues requires governance and management control mechanisms to be in place as either side of principal – agent is responsible and accountable for their actions within the organisation and their results.

In the context of sovereign wealth funds, agency theory framework is observed to replicate in three different types of conflicts. Since it is a sovereign wealth, the real owners of the accumulated wealth are citizens of the SWF sponsoring country. Thus, citizens are the actual principals and custodian/ mangers of the wealth that is government officials or central bank managers are agents. Hence, it is government officials' moral and professional responsibility to make SWF profitable and growing which can help the economy of the country. The second principal – agent conflict is between top management of SWF and employees or external managers who are hired to run the organisation. This is same as discussed above in the agency theory. Third type of conflict is between SWF as an investment vehicle and investment recipient company. In this case, company avails the finance / capital in return of equity and profit of the company to SWF. Hence in this type of conflict, the principal is an investee company and an agent is the SWF. Thus, one can observe that in a single transaction of sovereign wealth being invested in a foreign company, agency theory can explain all three major types of conflicts and thus required mechanisms to control or to mitigate those conflicts. However, there is not much evidence of academic research in this domain of SWF in the literature. There are critics of agency theory that it has negative impacts on corporate and national cultures and it enables the conflicts to

arise instead of providing solutions for it (Ghoshal and Moran, 1996; Huse, 2005). One cannot agree with critics of agency theory, since agency theory can be viewed as a fundamental concept which helps to increase the understanding of these principal – agent conflicts. The evidence of these conflicts can be seen in the recent political upheavals in the form of revolutions in Tunisia, Libya and Egypt. In these cases, citizens are principal who entrusted the governments and ruling elites that the economies and interests of citizens will be protected by substantial resource and accumulated wealth; however, increasing adversaries and turmoil provides the strong evidence to the agency theory concept. SWF can help resolving these issues, if their legitimacy and transparency is increased and the wealth is used to mitigate domestic issues and to signal the growth of economies and industries in these countries. This highlights the importance of these political economies and their strong relationship with SWF objectives, governance structures and their behaviour. There were few protests in specific regions of Oman. These protests could have risen to larger scale conflicts; however, Sultan Qaboos – the current ruler of Oman took the right decisions of more reforms, committing to funds to domestic demands and complete restructuring of the council ministers and portfolios of ministers with new and young faces having more opportunities to serve the country. Thus, agency theory can explain the differences between SWF management and the sponsoring countries' citizens and enable to resolve the issues such as current issues in Oman and restructuring of ministerial portfolio allocation by the Govt of Oman.

2.3.5 Stewardship theory

The alternative theory of agency theory is that, managers when allowed to act without instructions or supervision on their own initiatives, will act with due responsibility as if they are the stewards or custodian of the assets under their management (Barney and

Hesterly, 2008). This is the basic principle of hedge fund operations where investors rely on the performance of stewards of their wealth. In the SWF context, citizens at first rely on government as their stewards of national wealth; then top management, central bank, or ministries rely on the recruited employees or hired external wealth managers, investment banks as their trusted stewards of sovereign wealth or public finances. For example, this is similar to president is expected to govern or to manage the national administration within the domain of constitution set by country's legal framework. The central bank and government officials are the stewards of the sovereign wealth for SWFs management. This has been extensively claimed in the literature and global practices in SWF management (Bernstein et al, 2009; Norway GPFG report, 2010).

The stewardship theory assumes that principal would be satisfied by the agents' single handed performance or collective success of agents would reflect in the organisation's overall success (Davis et al, 1997). Thus, stewardship theory suggests that managers are assumed to be self-motivated and have no vested self-interests such as corruption. This means that goals of principals and agents are closely aligned and matching. The only conflict arises when in reality decisions made by stewards on behalf of their principals turned out to be not profitable, for example, GCC region SWFs lost approximate US$100bn in banking industry investments during 2007 – 09. If principals and agents can reconcile their differences over non-profitable decisions made such as banking industry example of GCC SWFs then they can move forward in pursuing organisational goals rather than putting blames on each other. Thus, success of stewardship theories depend on the acceptance of accountability by managers and decentralization of power and control by top management as these work together to bring results for organisations (Barney and Hesterly, 2008). Following the stewardship

theory for SWF, one can understand that citizens of the sponsoring nation expect the government and central bank to work together in the national interest. The successful examples are SWFs of Norway, China, Singapore and Saudi Arabia where central banks have active roles in managing SWFs and providing the legal and regulatory mechanisms for financial and non-financial decision making (Anderson, 2010).

2.3.6 Resource based view (RBV) and resource dependency view

The resource based view is concerned with resources available to determine strategic position of the company as compared to their competitors. Thus, fundamental principle of the RBV is that firm can create or sustain the competitive advantage by utilizing the resources available to the firm (Wernerfelt, 1984). The edge over competitors is possible when these resources are valuable, rare, in-imitable and non-substitutable (VRIN) as suggested by Barney (1991). These resources can transform the short term advantage into long term competitive advantage for the firm if they are heterogeneous in nature and not mobile (Peteraf, 1993) and thus, these resources become in-imitable and non-substitutable (Barney, 1991). These characteristics of internal organisational resources make them necessary to be important; however, they are not alone sufficient for organisations to create sustained competitive advantage. Thus, organisations need external resources or conditions to be favourable to sustain or to create competitive advantage. This concept of external resources dependence is called resource dependency theory. The resource dependency theory is based on the assumption that procurement of external organisational resources is of strategic importance for behaviour of an organisation. Basic argument of resource dependency theory can be defined as organisation A' competitive advantage over organisation B is equal to the organisation B's dependence over the organisation A (Salancik, 1979). This means that organisations even when competing with each other are dependent on resources,

resources are generated within the external environment and resources required by one organisation can be a power in the hands of another organisation. This theory attempts to establish a direct link between competitive advantage and resource dependence (Pfeffer and Salancik, 1978; Boyd, 1990; Hayward and Boeker, 1998). These resource can be employees' knowledge or expertise about business or technology, financial resources, suppliers alliances, information know how or an advanced technology. The interdependency between two organisations for power of such resources would vary based on the availability of resources, VRIN characteristics of resources, resource allocation by an organisation, dynamic capabilities to generate or to utilise these resources by an organisation which has these resources. The arguments of external environment and internal resources develop these two concepts as if they are contradictory to each other; however, they are not contradictory but they are complementary to each other. Because, resource dependency theory (RDT) argues about resources in the external environment which is owned by other organisation as a power but these resources are the VRIN characteristics resources which are owned by other organisation as explained by the resource based view (RBV). Hence, these are two different perspectives discussing same resources an organisation can develop, own and utilise to sustain a competitive advantage. Thus, in the context of SWFs these resources can be country's accumulated foreign reserves, national and political economy supporting the business and investments culture or profit making asset portfolio which is lacked by other SWF. Comparing Oman SWF current portfolio worth of US$ 8bn to 13bn with other GCC SWFs having more than US$ 250bn; it can be said that Oman SWF requires more VRIN resources. Resource based view and resource dependency theory explain that what is required by SWFs to grow as an organisation and also help to analyse any conflicting issues regarding resources development, availability and utilisation.

2.3.7 Stakeholders management theory

The traditional view of the firm considers that organisations' prime duty is to create value for their shareholders and in the process satisfy employees, suppliers and consumers. On other hand, concept of stakeholders theory given by Freeman (1984) suggests that apart from these direct stakeholders: investors, suppliers, employees and consumers; there are other parties which must be considered by organisations in their operations and relationship management such as government bodies, political groups, pressure groups like campaigners, trade associations or unions, associated corporations, potential employees, potential consumers, community in which business operates and even their competitors in the industry. This stakeholder approach of organisation is able to explain both internal – resource based view and external – market based view as it integrates which stakeholder group can exert how much pressure on the management of the organisation. Also, stakeholders can be identified based on their social acceptance, behaviour, time sensitivity and urgency of the organisation to manage the stakeholder demands (Mitchell et al, 1997). Also, it enables the managers to list out specific stakeholders which are crucial to the survival of the organisation – a normative view as well as why these groups shall be treated as important stakeholders – a descriptive view (Donaldson and Preston, 1995). The stakeholders' relationships with organisations can be examined by analysing compatibility of each others' interests and necessity of connections as defining attributes of the relationships (Friedman and Miles, 2002). When analysing every stakeholder or attempting to satisfy every stakeholder, managers in organisation come across solving inconsistencies in their management style, behaviour, accountability and governance. Thus, stakeholders can affect the decision making of the organisation and vice versa, decisions and policies of the organisation can affect the specific group of stakeholders (Clarkson, 1998). The stakeholders' management and decision making differs in private companies and

government agencies. Sovereign wealth funds will have different criteria in this regard because their primary objective is to improve country's economy and portfolio of assets to growth and profitability. SWF management have six major stakeholders: government, citizens and industry of the SWF sponsoring country; company, government and community of investments recipient country. Decision making of SWF management shall be in such a way that the interests of these six types of stakeholders are maintained. This criterion enables the development of transparency and governance mechanisms. The major obligation for SWFs is to citizens of their own sponsoring country; their interests are similar as investors or shareholders in the private profit making companies because citizens are the actual owners of sovereign wealth.

2.3.8 Isomorphism view

Institution theory researchers suggest that organisations are socially constructed templates from actions within the organisations and interactions with the environment. Thus, they consider organisations operating with precise procedures and mechanisms. The neo-institutionalism explains social theory as a basis while developing a sociological view of institutions in ways that they interact and affect society, a view different from economical threads. The theory explains using social environment fundamental that why many organisations end up being evolved in different ways still having same or similar organisational structures. This is defined as isomorphism view. The concept of isomorphism was introduced by Dimaggio and Powell (1983).

Institutional theory researchers argue that organisations achieve legitimacy, stability and resources from the environment by adopting procedures and mechanisms. Four basic types of isomorphism achieved by organisations are: competitive isomorphism – pressures on organisations due to market competition; coercive isomorphism – stemming from political influence and legitimacy issues; mimetic isomorphism –

standard or similar responses by organisations to uncertainty or market dynamics and normative isomorphism due to same level of professionalism. The concept of isomorphism hold true in case of sovereign wealth funds as they attempt to imitate each other in terms of organisational structure, political influence, asset creation and investment strategy for growth and similar responses to western countries demand for governance and transparency. For example, similar protectionist approach is adopted by many GCC region SWFs in response to Santiago principles for governance and transparency of SWF operations and investments (Anderson, 2009). Isomorphism can increase the chances of survival together as it may reduce the impacts of uncertainty for a group of organisations such as SWFs from a region; however, it may lead to formation of a cartel or a group being isolated in a wider industry perspective.

2.3.9 Strategic leadership theory

Strategic leadership has two major functions: management of communication internal and external to the organisation and refinement of decision making process (Cornelissen, 2004). The roots of the strategic role of the leadership are in the managerial roles (Mintzberg, 1989) and upper echelons perspective developed by Hambrick and Mason (1984) and organisational behaviour of the firms. Hence, decision making of the top managers is affected by many factors as explained by these theories; however, economically rational decisions are often difficult to make as decision making is influenced by various factors such as external environment, social context and multi-purpose stakeholder demands. This holds true in case of sovereign wealth funds as many sponsoring countries of SWFs do not have democratic political economies where decisions can be influenced by non-financial motives. Therefore, their decision making can reveal what are the values and objectives of their leaders. The extension of this concept is called strategic leadership theory (Finkelstein and

Hambrick, 1996). Thus any observations regarding managerial cognition or organisational outcomes can help predict each other (Knight et. al., 1999). This theory gives strong emphasis to executives own orientation rather than governance conflicts as a cause of poor performance. Thus, analyses of decision making or managerial perception can explain the operations and predict the future of sovereign wealth fund. Both these methods are applied as part of this study: interviewing managers and structured questionnaire about decision making in Oman SWF.

2.3.10 New mercantilism theory

The mercantilism is considered to have economic exchange resulting in a zero – sum gain with capital is accumulated by winner in the exchange. Gilson and Milhaupt (2008) have defined SWFs as neo-mercantalism stating that SWFs use company level behaviour to maximize the return for country level benefits such as economic, social and political benefits. According to this theory SWF objectives and management should aim country level benefits. Gilson and Milhaupt (2008) found similar characteristics in Chinese economy, trade policy and China Investment Corporation (CIC). This is not same for other SWFs such as Norway or GCC region funds. Schweitzer provides alternative explanation that SWFs are imperialist – capitalist institutions and they can exploit the capitalist system for their own. Thus, neo-mercantalism theory is not able to explain the behaviour and structures of all SWFs.

2.3.11 Autonomy maximization theory

Sovereign Wealth Funds have received much of attention in this decade and more during the global financial crisis as critical investors. Mixed reactions have ranged from their political motives, state intervention and long term investors who will take on higher risks for new technologies and higher return. The fact overlooked by investors

and researchers is that SWFs are deep rooted in their respective political economies of sponsoring countries. Pistor and Hatton (2011) analyzed the four large SWFs: Kuwait, Abu Dhabi, Singapore and China to conclude that strategies deployed by management of these SWFs can be better explained by autonomy – maximization theory. Each of these four SWFs are controled by political economies of decades of elite families ruling whose grip on power is attached to the economic fortune of their country and their ability to balance against any foreign intervention. The establishment of SWF is to balance the demands of capital to foreign markets / governments and profit sharing and welfare to their own citizens. Thus, setting of SWF has a major objective of continuing grip on power and wealth of the sponsoring country for these elite ruling families. SWFs help in protecting and maximizing their autonomy within the global financial system and reduce the risks of any turmoil at domestic level within the country; however, recent uprising in Middle Eastern and North African countries of Tunisia, Egypt and Libya are the examples that benefits of accumulated wealth were not shared to citizens of these countries. Under the concept of autonomy maximization theory, SWFs attempts to maximize the autonomy of the ruling elite over the management of SWF and within sponsoring country. Thus, SWFs are controlled by government without any direct beneficiary or liability except reporting and responding to ministry in government. Many SWFs sponsoring countries do not have democratic political economies and thus, SWFs are not directly accountable to their citizens. Internal structures of these SWFs make sure that they are directly accountable and managed by ruling elite or their trusted stewards. Thus, SWFs first objective is to help maintain the position and autonomy of ruling elites in the sponsoring country. This was evident in the analyses of four large SWFs done in their research of SWFs management and behavior by Pistor and Hatton (2011). Next sections review the literature of SWF development and management in detail beyond their theoretical roots.

2.4 Development of sovereign wealth funds in the last two decades

This section discusses how SWFs have grown into current status of more than US $ 3 trillion from its early stage developments and how trade and regulators view SWFs.

2.4.1 Early SWFs

The SWF is not to be considered as a new phenomenon because the concept of utilizing execess national income for long term investments is over 60 years old, with establishment of Kuwait investment authority (KIA) in 1953 and Kiribati Revenue Equalization Reserve Fund in 1956. The goal of the fund was to ensure that state's population will benefit from revenues of their diminishing resources (Anderson, 2009). SWF of Kuwait is an example of the commodity funds because of investing surplus oil revenue, now having approximately US$ 250bn. The two first SWFs (Kuwait and Kiribati) were set up so that wealth from a finite commodity source can be channelled wisely with a vision for the future. Thus, the primary goals of the funds' establishments have been reducing the fluctuations in government revenues, countering the boom-bust cycles of oil and phosphate prices, and building up savings for future generations from an exhaustible natural resource. The logic and motivating factors behind establishing these funds have been based on the idea of spending some wealth on current consumption, some on current investment and yet some saved for future generations (Hassan, 2009). The ADIA (Abu Dhabi Investment Authority) was established in 1976, but its foundations date back to the 1960s when Abu Dhabi was under colonial rule and advisors to royal family managed their investments. Therefore, ADIA has global level management and investment strategy well before its establishment (Hassan, 2009). The underlying attribute is the same, which is to invest earnings of exhaustible natural resources which can bring returns for the next generations to safeguard an existing regime and to create incrementally the non-oil dependent economy structure

(Anderson, 2009; Oman Vision 2020 report). The first few GCC funds have been oil income based commodity funds; however in 1981, the Singapore launched Global Investment Corporation (GIC) which was non-commodity based whilst having its primary aim of getting higher returns from Singapore's international trade imbalances.

2.4.2 Trade and regulators' view of SWF

The owner of a SWF is a 'sovereign' or a state – it is an account for the nation's savings so it has to do with 'wealth' but it is also a 'fund' because it is a basket of financial instruments or, in short, it could be termed as "*a state repository of wealth*". There is a great variety of definitions of SWFs (Hassan, 2009, p. 11) used within the literature and practice, some of them are as follows:

- "*Pools of money derived from a country's reserves, which are set aside for investment purposes to benefit the country's economy and citizens. The funding of SWFs comes from central bank reserves that accumulate as a result of budget and trade surpluses, and even from revenue generated from exports of natural resources*" (Hassan, 2009, p.11 from Investopedia.com, 2007).
- "*Some governments create special-purpose government funds, usually called SWFs, to hold assets of the economy for long-term objectives. The funds to be invested commonly arise from commodity sales, the proceeds of privatizations, and/or the accumulation of foreign financial assets by the authorities*" (IMF Balance of payments and international investment position, www.IMF.org, March 2008).
- "*At a most basic level, SWF is a mechanism for moving a country's savings from the present to the future. SWF can be ranging from central bank's section to being an independent financial corporation*" (Ang, 2010, p.1-2).

There are some common characteristics of the SWFs regardless of the various definitions. Firstly, more and more the SWFs comprise of "*alternative assets such as stocks, property, venture fund, private equity fund or hedge fund holdings, infrastructure assets or other non-bond type financial assets*." (Hassan, 2009, p. 11)

The goal is to realise higher returns from these assets as opposed to the low return environment which has been dominant in the treasury markets (where historically the official reserves have invested). In order to attain the higher returns, the SWF managers can take more risks than the private companies' managers as the leverage of SWF is nil as this money comes from government's excess reserves and not created by issuing debt. Therefore, SWF managers can have more aggressive approach towards profit seeking and make investment for longer term without worrying about depositors. This is how SWFs are different from private equities, hedge funds and wealth management banks as they do not have any liabilities or coupon redemptions like bonds or debentures (Clark and Monk, 2009; Hassan, 2009; Ang, 2010). As a result of this, SWFs' investment strategy has long term outlook with capacity to be resilient for short term volatility.

In the most general terms, SWF can be described as a surplus capital which is a national investment tool of its own, considered to be in excess of a country's foreign reserves and thus also managed separately. These excess funds can be used in ways which have never been common for the managers of foreign reserves. The latter have very specific usage – typically they can provide short-term currency stabilization and liquidity management and that has determined, in historical perspective, the preferred size of a nation's foreign exchange reserve. In addition, because there is a need to provide ready availability in times of crisis or market fluctuation, usually the practice

has been to invest foreign reserves in short-term 'safe' markets. When a country possesses excess monetary holdings, above the foreign reserve requirement, then they are a surplus which could lead to increasing the currency in circulation, support consumption, and/or be invested to meet future needs. However, in cases when such surplus is accumulating faster than it could be used in the economy (without the risk of currency devaluation, inflation or both), it could become a sovereign wealth fund. The latter provides a tool for investments which do not have to immediately result in a profit or could even generate a loss over a short period.

"*This makes the sovereign wealth fund a pool of money that can be put back into international circulation through corporate acquisitions, stock purchases, and even real-estate speculation*" (Anderson, 2009, p.14–17).

Consequently, the sovereign wealth fund managers can be the new instrument of national power, making investments previously limited to hedge-fund managers, and with the capabilities to acquire, invest and sell in a way which could profoundly affect a competitor's domestic and foreign policies.

The usual accumulators of such excess funds are the oil-producing states but some non-commodity exporting countries are also making a fortune. For example, in 2006 China had reserve assets which were 12.5 times the size of Beijing's short-term foreign debt; also Japan and Korea "*had roughly twice the reserves required to defend against a repeat of the 1997-98 Asian financial crisis*." Essentially sovereign wealth funds can be used for risky investments because they supply cash without the need to secure outside audit, partners, or tangible collateral deposits (Anderson, 2009, p. 14-18). For examples, ADIA of UAE and GIC of Singapore are among top ten SWFs having assets worth approximately US$875 bn and US$330 bn in 2007 (Appendix-G).

The few large and wealthy multinational companies which already have this option can hardly compare to the sheer size of some of the sovereign wealth funds. Next section discusses the importance of such bigger asset base SWFs and their growth in the last two decades.

2.4.3 Growth of SWFs in the last two decades

SWF in the last decade has grown to a considerable in size where it can influence the composition and participants in the global capital markets. Mc Kinsey analysts Farrell et al (2007) suggest that new pool of investors such as GCC funds, central banks from Asian developing economies, private equities and hedge funds from Middle East together hold approx. US$ 170 trillion assets at the end of 2007 which may grow beyond US$ 200 trillion by 2013 which may help strong formation of existing and new SWFs in coming years (Farrell et al, 2007; Greene and Yeager, 2008). Rise in oil prices to the level ofUS$150 per barrel during 2002 to 2008 has given total known liquidity of approx.US$3.4 to 3.8 trillion in SWF as shown in Appendix G.

As one can see in the Appendix G, that SWFs are divided into mainly two sections: first section of Oil income based SWFs which are GCC funds, Norway, Russia, Venezuela and Indonesia; and second other non-commodities based funds such as China and Singapore. Their collective assets are approx. US$ 3.4 trillion; however it is far less than pension funds - US$21.6 trillion, mutual funds US$19.3 trillion and insurance companies US$18.5 trillion. This emphasizes less influence of SWFs over the market movements as compared to other asset classes. But these private capital markets have continued to grow in recent years, for example private placement of equities has been increasing at the rate of 60% whereas initial public offerings' growth

at a rate of 17% since 2002. Bulk of global foreign exchange reserve is still held in dollars (Gieve, 2008; Greene and Yeager, 2008).

SWFs investments have earned more publicity than profit in recently which has become a political issue in terms of foreign governments getting control over strategic assets of an investee country, its economy and markets (Yi-chong, 2009). This went onto emerged in democratic party primary debate in US presidential campaign between the then Senators Hilary Clinton, Barack Obama and John Edward on 14th January, 2008 (www.nytimes.com, 2008). This may overemphasize SWFs as a threat which may be unnecessary and not advantageous in terms of economic advantages globally (Kotter and Lel, 2011). Before branding SWF as a negative aspect for an investee country, it would be necessary to look at their varying investment objectives and strategies, their existing and long term benefits and to see if present system can be improved for transparency and accountability (Greene and Yeager, 2008). This unprecedented growth of SWF can be attributed to following reasons:

- Commodity prices boom and heavy tax on private commodity exporters in SWF countries
- Accumulation of foreign reserves from current account surpluses
- Fundamental difference from monetary authorities, central banks or private equity or hedge funds operations (Aizenman and Glick, 2008).

These reasons allow SWF to operate on long term and high risk investments creating them as separate type of financial institution or industry. This summarily changes their determinants and influence of global finance which is explained in the next section.

Most of the SWF growth is recent; hence there is a greater effort to systematically generate data. In 1990 fund assets were estimated at US$ 500bn and new suggestions point that SWFs may reach over US$ 10 trillion in a decade time (Jen, 2007; Hassan, 2009). Much of this growth is due to the rising price of oil and gas, and is predominantly concentrated in producing nations: Saudi Arabia, Norway, the United Arab Emirates (particularly Abu Dhabi), Russia, Qatar and Kuwait. However, other important countries, such as China, have achieved trade surpluses and generated reserves as a result of their exports.

SWFs establishment from governments around the world has increased dramatically in the last decade. Analysts have found that out of 20 largest SWFs only seven SWFs were there prior to 90s (Anderson, 2009). Hassan (2009) points out that 45% of the top 40 SWFs came into existence during 2000 and 2007, while 21% of SWFs were established during 1990 and 1999. The success and assets of Singapore SWF has made Korea and China establishing SWFs. India and Japan are considering to launch similar non-commodity based sovereign wealth funds from their foreign exchange reserves (Anderson, 2009).

The Asian financial crisis in 1997 which resulted in the collapse of currencies and created fears about a global economic meltdown, led to a boom in the Asian SWFs because Asian governments set up pools of funds to protect against currency crisis. Firstly, it was international institutions which recommended that "*countries have reserves that should be a multiple of their import bills*" (Hassan, 2009, p.31). Then, there was a significant growth in such funds, above the countries' immediate needs as a result of the international trade imbalances. Exchange rates also fuelled the growth as stronger currency rates for China and other East Asian countries' exports reached high

levels. Such excess sums of money led to the formation of SWFs which would provide sponsoring countries the means for diversifying their reserves for asset creation in terms of foreign investments. Particularly, the Gulf Cooperation Council (GCC) countries, including Russia, generate resources for their SWFs from oil revenues and these resources are far above their immediate needs. Regardless of domestic spending and fiscal requirements, GCC countries managed to save vast sums from oil exports in last decade when oil price was more than US $ 50 per barrel as anything more than import bills requirement was utilized for asset accumulation (Hassan, 2009). This created net private inflows above the official asset accumulation for many Asian and GCC economies. Here, it is important to note that all SWFs do not have same sources of fund. As one can see in the Appendix G, top six funds are far ahead of others in asset base and they control more than 75% total assets owned by all SWFs. Next section details these SWFs current investment strategies and related performance issues stemming from their current attempts to grow their asset base as discussed above.

2.5 Investment strategies of SWFs

As defined in the previous sections, SWF is a state controlled investing entity as contrary to state controlled operating companies which can be categorised based on their fund sources, investment objectives and perspective of setting up SWF (Greene and Yeager, 2008). As cited in Bernstein et al (2009), there can be three major categories of SWF perspectives, i.e. development perspective – broader expansion objectives with savings collection and long term view of sustainable development, political perspective – investments made with political agenda or favouring the projects of political leaders or ministerial decision making or agency perspective – for example a state owned bank with an idea to maximize community welfare. Their findings of 2662 deals of SWF between 1984 and 2007 suggest that investment strategy differs

with ‘who takes decisions’: political leaders or professional managers. This can even lead to high or low return before or after investment. Also, it influences the numbers of investments made within the country or out the country or region in case of GCC nations. Hence, governance structure can affect the investment strategy, objectives and performance of the fund.

Megginson et al (2009) claim from their study of 1216 investments made during 1986 to 2007 that average investment is of US$ 55million and over 30% are made in financial firms. They suggest that there can be two rationales behind SWF investment patterns and that affecting firm performance and value. If SWF act as passive investors then recipient firm and SWF both loses the money and value. This is also true in case of short term buy and hold investments by SWF. On the other hand, if long term and large stake investments are involved then it helps both SWF and investee firm to derive value and profitable return leading to growth from it. Therefore, it can be inferred that better governance and transparency with larger stake involvement is necessary but it can arise conflicts with minority shareholder and create negative influence in most cases. There could be reason of SWF picking poor investment opportunities due to political pressures and that leads to investments blocked in matured or deteriorating industries with no regulatory framework.

Rose (2008) suggest while supporting this fact, existing regulations induce passive investor behaviour to SWF which actually reduces the threat of SWF as politically motivated investors. Passivity may be of two types: one by rule that investors cannot buy the stake to control the issuers of securities and secondly, SWF may voluntarily do not take any interest in engaging to management of the firm. In either case, it may trigger the divestment by SWF in case firm could not perform and deliver the

profitable returns. This may turn push – pull effects in the investment patterns of SWF as they inject the money seeking the opportunity but passivity lead to pull out the funds. This can lead to the conclusion that SWF as a long term co-share holder is a better perspective than highly leveraged hedge and private equity fund. In dealing with this qualitative issues of governance, objectives and investment purpose, SWF have become trend follower even though having US$ 3.1trillion of wealth accumulation. Thus, SWF management shall pay at the least equal attention to pure quantitative and financial measures of asset allocation, profitability and risk – return balance. While these management tradeoffs happen in decision making within SWF, they fear to disclose little information of their investment activities (Balding, 2008). This raises the performance issues of SWF stemming from maintaining a balance between qualitative and quantitative fund management practices and measures. Also, the performance can be affected by in country rules and management of SWF by decision makers in addition to regulatory frameworks and investments controlling laws such as in EU or USA. These regulations of recipient countries and standards of sponsoring countries are explained in detail as follows.

They differ from private equities (PE) where funds follow the managerial expertise and every intricate details of investment receiving company is analysed by PE groups. In case of SWF, decisions are taken by political leaders and ministers of the government and only suggested by professional managers. This can have counter effects on the performance of SWF investments made and management of the rest of financial reserve. Bernstein et al (2009) found that profit earnings ratios and post-investment performance of the industries which receive the money differ in both cases where politicians are involved in the decision making and external managers are involved. Bernstein et al (2009) analysed 2662 investments deals done during period of 1984 to 2007 by 29 different SWFs in various forms such as acquisitions, venture capital, PE

investments and other structured public firms positions. This investment strategy difference found in their research study can be attributed to capabilities of politicians and managers in addition to the ultimate goals of SWF as it can be social needs, economical balance needs or political influence. In this study, it is attempted to analyse SWFs in all three different perspectives: development, political and company. This shall enable to provide recommendations comprising investment strategies, new regulatory reforms and policies to strengthen the SWF system and business process in case of Oman. Next section provides more detailed overview of these global perspectives regarding SWF and their management in terms of policy and investment strategies.

Major characteristics of SWFs investment strategies include being passive investors, long term fund flow guarantee, no liabilities, minimal FDI component, no high leverage like PE or Hedge funds and gradually moving towards diversified portfolio. For example, GCC funds from Qatar and UAE have increased their exposure to PE group and alterative assets. The following table shows composition and asset allocation of selected SWFs as of December, 2006.

Table 2.3 Composition and asset allocation of SWF investments

Fund	Asset Allocation	Geographic Allocation
Global Pension Fund	40/60 equity/fixed income, equity to increase to 60%, may add Private equity, property	Equity: 50% Europe, 35% Americas/Africa and 15% Asia, Fixed income: 60% Europe, 35% Americas/Africa and 5% Asia
Abu Dhabi Investment Authority	high equity ratio, perhaps 50%, some private equity, property	unknown breakdown
Kuwait Investment Authority	high equity allocation, private equity allocation as high as 5%	Equity portfolio based on share of global GDP, slightly overweight Europe, under-weight U.S.
Qatar I.A.	high private equity allocation	unknown breakdown
Dubai International Capital	mostly private equity	Most reported purchases have been in UK, Eurozone, MENA
Kazakhstan National Fund	25/75 Equity/Fixed Income split	fixed income: 45% US, 30% eurozone, 10% UK 10% Japan 5% Australia

Source: Singh (2008)

Focusing on the SWF's direct private equity investments is one way of analyzing their investment strategies since the private equity market has greater information asymmetries than public markets. Therefore, such an analysis exposes differences among institutions (Lerner et al, 2009; Bernstein et al, 2009). Bernstein et al (2009) have analysed such differences in terms of SWFs investment styles and performance; and focused their analyses on three factors: domestic investment level, equity prices at the deal time and size of the acquired stakes. As a result, there are six patterns emerging with regard to SWFs (Bernstein et al, 2009, p.3), which can be summarized as follows:

i. The high level of domestic and foreign equity prices determines directly the likelihood of investing home or abroad respectively;

ii. Domestic investments happen at lower price-earnings (P/E) ratios when higher P/E levels are outside mainly in case of Asian and GCC funds while the opposite is true for the Western funds' investments.
iii. Asian and GCC SWFs to a lesser extent experience drop in the P/E ratios of their domestic investments in a year time whilst their foreign investments see appreciation and increasing P/E ratios.
iv. When politicians are involved in the governance or decision making, it is likely to have higher investments domestically as compared decisions of external managers. Bernstein et al (2009) observed "trend chasing" and "worse performance" because of "less sophisticated decision structures within these funds or outright irrgularities in the investment process due to political or agency problems". The politically motivated investments select industries with higher P/E ratios.
v. When the variable "propensity to invest domestically" is controlled for, external managers tend to invest in lower P/E ratio industries whereas ministerial decisions tend to invest in higher P/E ratio industries.
vi. Since, external managers invested in lower P/E ratio companies, their investments see higher P/E rations later in the deal as compared to investments involving politicians.

Bernstein et al (2009) state that what the various accounts by practitioners and observers suggest is that institutional investors vary substantially in their investment criteria and sophistication, some concluding that institutions often rely on excessively rigid criteria or do not have "a sufficient understanding of key asset classes." The reasons behind this is, they are connected to inappropriate incentives, e.g. restricted compensation and autonomy for investment officers (resulting in frequent turnover),

choosing safe investments even with modest returns, pressure to invest in locally sponsored projects even if the social benefits and returns again will be modest. Across different types of institutional investors one can identify great heterogeneity in investment strategies and returns (Gompers and Metrick, 2001 and Lerner, et al., 2007 *as cited* in Bernstein et al, 2009). The examples of Singaporean SWFs investing in China and India and Norway's Government Pension Fund decreasing the shares of Icelandic banks, show that the choice of certain investment strategies of SWFs, or the abandonment of particular investment intentions, can be the result of political interests and geopolitical strategy. Next section details how these strategies and performance issues of SWF affect them in their role for sponsoring and investee countries.

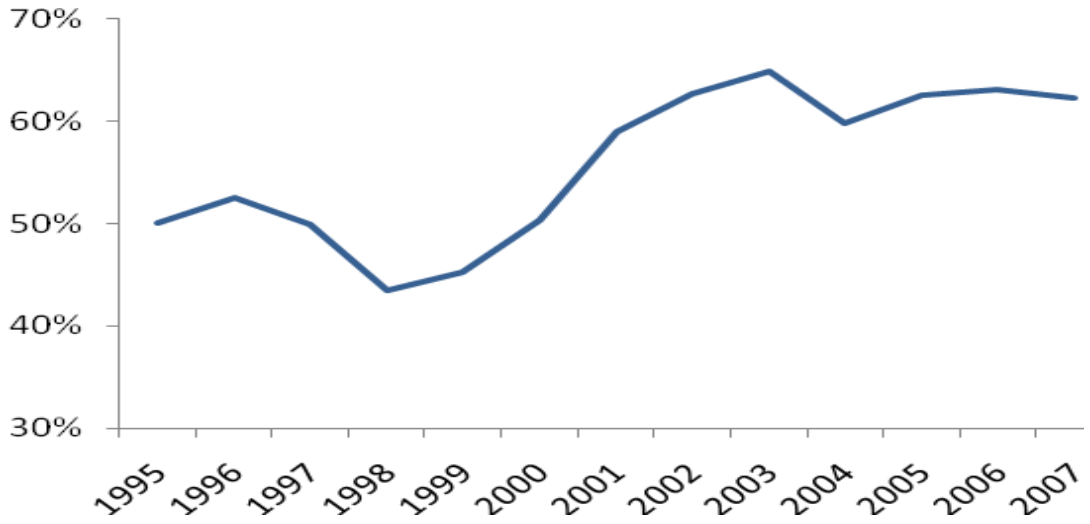
2.6 The role of SWF for sponsoring and investee countries

This section attempts to explore the role of SWFs can play for sponsoring and investee countries as they are interwoven with different components such as international trade or money supply. This review would bring more policy implications and factors affecting SWFs to the fore.

SWF are part of a tectonic shift of decoupling financial markets where growth is no longer belongs to OECD (Organization for Economic Co-operation and Development of 30 developed countries consortium) countries but emerging markets have more to contribute in the form of investments made by many Middle Eastern and Asian countries' SWF (Pimco, 2008). The figure 2.1 below shows the contribution of emerging markets and developing countries to global output growth. For example, the Latin American companies like Cemex, Vale, and Petrobras are actively worldwide and becoming major influencers in their respective industries with expansion and

investments. The trend is followed by companies from Russia, India, China and South Africa.

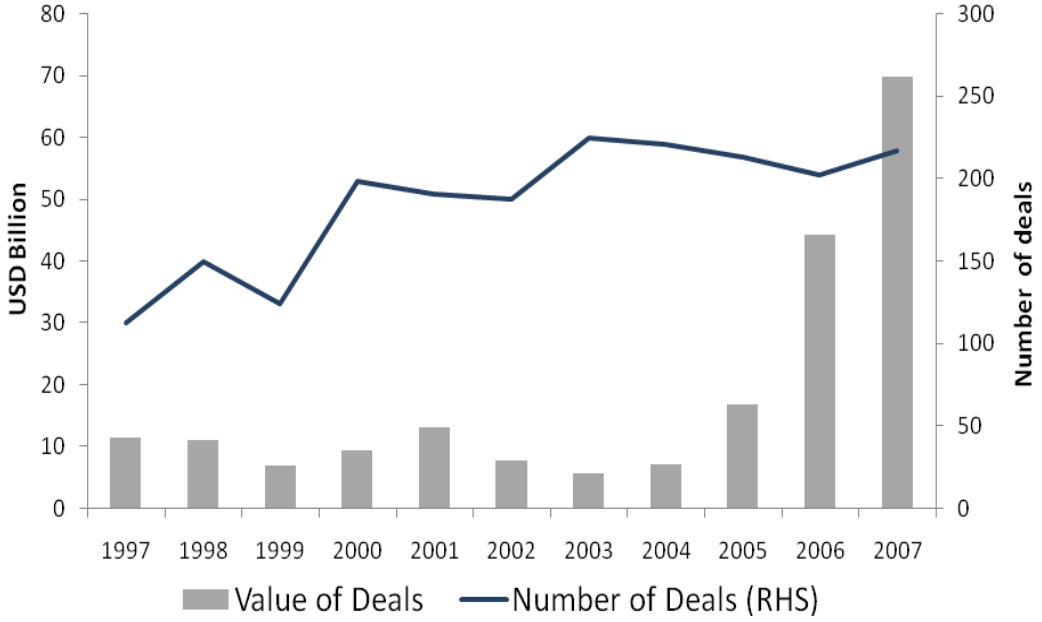
Figure 2.1 Developing countries & emerging markets contribution to world GDP



Sources: OECD Development Centre and IMF (2008)

Asian markets were not always on the periphery but they are re-emerging in the context that India and China were actually contributing more than 40% of world GDP during 1700 to 1820 then reduced to less than 10% and now again increasing and already reached to a level of 22% expected to become 32% by 2030. In terms of capital inflows, emerging markets received US$ 953bn and outflow was US$ 1600bn in 2007 (Santiso, 2008). In 2007 foreigners invested US$ 920bn in US markets, bonds and govt. securities in which 39% came from emerging market economies. This flurry of activity is attributed to consolidation of their national wealth from various sources like commodity revenues or foreign exchange reserves leading social, financial and economic consolidation. This is proved in figure 2.2 below from rise in the last decade value and number deals by sovereign wealth fund management.

Figure 2.2 SWF deals quantity and value



Source: OECD Development Centre; based on David Marchick, Carlyle Group Thomson Financial as mentioned in Santiso (2008)

The advantages from these deals can be materialised to both SWF and country receiving funding only upon positive performance of the businesses. There is obvious positive outlook on the intervention of SWF investment on businesses such as SWF involvement can create positive atmosphere to stock market about the firm which is receiving funds. Research conducted on 166 investment announcements during 1990 – 2009 show that there was no destabilization effects on the markets and companies whilst SWF acquisition took place after these announcements (Sun et al, 2009). This proves the positive financial impact of SWF investments in the stock market. For example, Fotak et al (2008) find positive mean returns of SWF holdings in publicly traded companies. As far as funds and investments are concerned, behaving same as other investment vehicles such as private equities, SWF may provide improved governance and profitability in the acquired holding by acting as monitors at the least. Some SWF portfolio analyses suggest that they act as economic driven investors having greater influence than expected on the global capital markets (Balding, 2008).

Since, SWFs are not only managed as investment vehicles but are managed by central reserve banks and their respective finance ministries, as in the case of Oman, these funds shall be aligned with risk reducing approach to monetary and fiscal policies, treasury and debt management decisions leading to wide scope of government operations. Within the country SWF is a key resource safeguarding the economic progress and foreign currency stabilization but to achieve such a macro-economic objective, SWF shall operate on the basis of best practices in meeting the challenges and trade offs in the decision making for investments (Mitchell et al, 2008).

Western countries governments specifically few EU countries and USA were started worrying about motives of SWF investment and claim that the extent of SWF acquisitions must be regulated and controlled with full disclosure of investments by SWF to avoid any catastrophic effects on financial markets as debate continues for their potential impact on global finances and trade. Western countries may pay attention to the emergence, progress and development perspective of SWF which shows the larger section of investment activities by SWF comprise domestic development issues (Reisen, 2008). This wave of fear in western governments is possibly generated from the fact that 75% SWF are from Middle East and Asia and only 15% are from OECD countries. For example, few SWFs have sole agenda of industrial development in homelands like Malaysia's Khazanah (Radhi, 2008). The debates about western countries' fear of low governance, transparency and objectives of SWF investments have its roots in long standing policy issues such as EU neglecting Gulf region except its energy needs, market access and security motives (Baabood, 2006). However there is no need to be wary of SWFs for western governments mainly in EU and USA because improved relations between GCC and EU/USA can bring in enormous benefits to both regions by sharing their experiences for regional

cooperation, economical and political reforms and business interests such as in education, training and media beyond trade and politics (Baabood, 2009). Also, SWFs are not only coming from GCC region as that can be seen from their worldwide origins in table 2.2. Further, the losses made in the banking industry investments amounting to US$ 31bn by SWFs during 2007 – 2009 are also evidence that there is no need to spread unnecessary fear of their investments by western governments.

Table 2.2 SWF origin in 2008

Region	**Number of SWFs**	**Total assets in US$ billions**	**% of total**
Middle East	7	1533	48
Asia	9	867	27
OECD	10	489	15
Russia& central Asia	4	177	6
Africa	7	109	3
Latin America	5	23	1
Pacific Islands	6	1.2	.04
Total	**47**	**3194**	

Source: Santiso (2008)

Hence, this poses two major questions for SWFs: how to invest funds for nation's profit? And, if returns are low in OECD countries like what happened in USA banking industry investments then is it wise enough to invest in short term liquid securities of industrial countries? Many professionally managed funds have diversified their investments towards MENASA region (Middle East, North Africa and South Asia) which shows their major motive is to be development oriented with profit maximisation for their investments (Summers, 2008).

This has happened as OECD countries have really low returns rate, for example as calculated by a fund manager and cited in Kjaer (2008), the rerun on a dollar invested in oil for a century long period is just another dollar more by 2005 but the same dollar can generate 375 dollars return if invested in equities and 5 dollars if in fixed income instruments. Hence, asset allocation and portfolio management is very important if SWF want to be a major growth vehicle for their national economies. The simulation conducted by European Central Bank shows that SWF asset allocation strategies are more like a capital asset pricing model (CAPM) which is more market capitalization based rather than liquidity base. This can results into high return – high risks strategies and fund flow to high GDP growth countries such as Brazil, Russia, India, and China (BRIC) group. This results into increasing role of SWFs those countries plus money supply available to riskier businesses rather than low return less risky businesses (Beck and Fidora, 2008; Balin, 2010). In this slow paced manner, SWFs can bring change to the economies and market conditions rather than affecting stock markets all of a sudden. The only issue here is: emerging markets are very volatile, commodity dependent and exhibit low risk and high return but politically not more stable than OECD countries. More investments for higher return to emerging markets can crate need for financial policy restructuring in low and middle income countries of emerging and developing markets. These fund winning countries shall understand that SWFs are development and financing institutions with profit and long return motive. Neither SWF are donating money nor do they have regional development goals like World Bank. Many SWFs are professionally managed and not by ministers so they are rational and economic driven investors (Balding 2008; Mitchell et al, 2008).

Apart from this, there is no evidence that SWF have destabilized any market. Because, western government concerns that SWF holdings in key assets could pose threat to

prices, volatility in stock markets and imbalance to complete system. This may not be true as SWF are small in size compared to other markets and institutional assets. Many SWF have also adopted professional approach such as Norway uses globally designed divestment process to avert price and stability pressures. Unlike hedge funds and private equity groups, SWF do not use any debt or leveraged to raise the finances which could prove more stabilizing than disturbing to markets. Also, SWF have long term investment criteria with no liabilities so that they can have longer funds locked-in period. SWF are more diversified than central banks, have no investors which would force them to divest, have stable incoming revenue sources, all these in turn allow SWF to contribute growth and stability in the markets and buffer against commodity prices' volatility (Singh, 2008).

Sir Gieve (2008) in his speech emphasised that SWFs are a result of persistent large global imbalances and have helped in creating vulnerabilities in the world economic and financial systems. Major cause of this is SWF and their respective central banks have started to invest for higher returns and for diversifying their asset allocation. This actually shall improve global asset allocation but this is possible by increase in long term investment vision, improved transparency and different approach by recipient countries to collectively move towards global financial integration instead of new form of protectionism. Much debate about SWF has focused recently on political concerns after their steady growth in the last decade and emergence as strong financial vehicles. Such as, do SWF help pursuing political motives or will resistance to SWF investments can create protectionism issues.

The above discussion confirms that SWF have a critical and larger role to play in global finance. Their present size is not considerable compared to other financial markets. The arguments of political motives, conspiracy and lack of transparency have

emerged which can be resolved with co-operation between growing SWFs and knowledge pool for financing and investments from developed countries such as USA, UK and Germany (Santiso, 2008). The fact is that SWF help in stabilizing the markets where they invest and based on the earnings long term higher return in their nations also.

There are multiple reasons for creating a SWF and it is likely that its creation would lead to wealth accumulation. One of the primary objectives of the SWF is income stabilisation, i.e. the SWF can act as a stabiliser for the respective government, especially with the commodity based funds. Some of the benefits for a domestic economy are due to the fact that the government can rely on the SWF to smooth out the discrepancies between the price of a commodity in an international market (which price may fluctuate) and the needs of domestic spending. For example, when commodity prices are high, governments can increase funds inflow to their respective SWFs to reduce the events of an excessive inflation. This increased inflow however reduces the domestic spending. On the other hand, when commodity prices are low governments can utilize returns from the increased inflow of SWFs for fiscal purposes such as to balance budget and provide services to population (Hassan, 2009). According to Alberola and Serena (2008, p.326) "*SWFs are the result of a policy action to smooth extreme economic impact—and drastic adjustments—derived from large exogenous shocks*".

Hence, according to economic theories SWF setting up is more beneficial as compared to simple reserve accumulation by central banks (Ang, 2010). The SWF set up can also benefit income transfer across generations, i.e. there is an inter-temporal effect created by the SWF. Some of the income which is earned from the sales of commodities or export earnings can be saved for future generations by placing it into secure assets such

as government securities or US treasury bills (Anderson, 2009). Alternatively, some income can be allocated to different assets by diversifying the portfolio to reduce the risk for meeting any future pension liabilities (Hassan, 2009). The industry sectors and regional economies in which SWFs have invested the results tend to be value creation. Therefore, there are certain benefits from quick and large infusions of liquidity. SWFs are a stabilising force for sectors and economies because they are long-term investors which do not have pressures to liquidate their holdings on short-term needs. To have capital available for the long duration means managers can have recovery time from short to medium economic downturns. This can have an especially positive effect on companies with general stability but which may have been experiencing the effects of an overall economic downturn. Another advantage of the SWFs is that, unlike publicly listed companies, they do not have extensive processes for disclosure. So, if their investment committees take a decision, then the SWFs can also react with a quick decision. Thus, the combination of size and speed in times of market turbulence can prove to be very beneficial. The recent global credit crunch example has shown how SWFs can support the capital base of distressed companies in a situation in which even the important banks were under threat. However, as the crisis deepened, the SWFs had to step aside and wait for calming of the markets, while the governments via Central Banks had to interfere and shore up or even nationalise distressed financial institutions. In general, SWFs are not affected by market volatility as their reserves are not leverage based whilst having no investor pressure for investments sell off. Hence, SWF as an investor can support long term stability of investee companies (Hassan, 2009). Also, the SWFs contribute to the stabilisation of asset prices because of their large and prompt liquidity. There is a psychological factor when SWFs enter into a market – when a major firm has a turn around, then other firms in the same sector are positively affected.

The presence of SWFs has the effect of reducing interest rate in the investee countries since businesses have option of funding from SWFs (Hassan, 2009). The fact of SWFs can take a longer term view of their investments that enables them to make strategic bets, and they can accept short-term volatility in return of a long-term gain. SWFs can protect the costs of borrowing because their investment allows "*the firm soliciting the investment to not disclose their troubles in public*" (Hassan, 2009, p. 74-77).

By avoiding public disclosure the company could be saved from a possible downgrade. Assuming the position of a recipient of SWF funds, its benefit derives from the potential of having privileged access to the markets of the SWF's country. For example, if Singapore invests in Merrill Lynch, then the latter will also receive the support of the Singaporean authorities to access the Asian market. Also, after a substantial investment by Singapore in Merrill Lynch, "*then if Merrill is planning to locate a hub in the Asia region, there will be natural predisposition to locating it in Singapore*."

Thus, the benefits can be two-way, similar to a joint-venture undertaken across markets – "*one of the benefits is that the outside firm gets access to new markets, along with the added benefit of getting an infusion of capital*" (Hassan, 2009, p.74).

SWFs have started to shift their previous two decades old policy of market engagement through equity funds to the new investment strategy by direct acquisition of stake in companies for example deals of Qatar Investment Authority in Barclays in 2008 during credit crisis or deals of Citigroup or Credit Suisse by other GCC SWFs. The benefits of old policy were more favourable for hedge funds and private equity groups as money from SWF to their accounts were low cost debts as compared to market rates (Hassan, 2009). During March 2007 to June 2008, SWFs have invested approx. US$ 59bn in financial institutions such as Citigroup, Barclays, Credit Suisse, Morgan Stanley, Merrill Lynch and UBS; such a buying spree has resulted in 35% merger and

acquisition deals of 2007 accounted for SWF investment deals. The entry into real estate market was also remarkable as UAE SWF bought 90% of Chrysler building in New York in July 2008 (Farrell et al, 2008 as cited in Drezner, 2008). This shows the "*explosive growth*" of SWFs has started raising questions and concerns over their *buying behaviour of strategic assets, regulatory – transparency and geopolitical issues* (Drezner, 2008, p. 115).

Next sections provide detailed view of how these SWFs are being regulated by investee and sponsoring countries which may hamper their spiralled growth of the last two decades.

2.7 Effects on SWFs from barriers by investee countries

The rise of the SWFs has provoked security concerns in the US; mainly the issues are with respect to macro-economic imbalances and diversification of energy supply for USA. These issues lead one to think about the influence and interdependence of Asia - Pacific and Middle Eastern countries with USA which is the result of the SWFs investments (Drezner, 2008).

Ultimately, these investments can have potential negative consequences, for example adversely influencing the promotion of democracy in the developing world, while also making global financial co-operation more unstable (Drezner, 2008, p.115-116).

This gives rise to issues related to SWFs such as corporate governance and transparency of SWFs for western countries; limited investor rights and protectionism frameworks of recipient countries for SWFs sponsoring countries. The problems with insufficient transparency are even more acute when coupled with the size and sovereignty of the SWFs. Anderson (2009) observes that since SWFs are state extensions and are maximising the country's long-term strategy more than profit per

se, and it is exactly the emerging strategic pattern of acquisitions which is a cause of concern (Drezner, 2008). With SWFs the missing ingredient to safeguard against potential financial misbehaviour is "*counterparty surveillance*" (Drezner, 2008, p. 118). This is echoed by IMF and other regulatory institutions as well as researchers (Lyons, 2008). In a country like Norway, there are existent democracy checks (through National Parliament) on investment strategies; however same cannot be true where political economy is different and also, standards for governance, legitimacy, transparency and accountability changes with every SWF, for example Russia and China SWFs (Monk, 2009; Ang, 2010). There is a strong relationship between characteristics of SWFs and the political situation (law, democracy, accountability factors) of that SWF sponsoring country (Pistor and Hatton, 2011). SWFs can also control recipient country's policies and capabilities by gaining control over strategic assets or infrastructure; or by threatening the divestments. In the recipient countries, the size of capital for companies and domestic economic interests can increase the lobbying for SWFs investment deals acceptance. This can block any protectionism measures from OECD countries to SWF sponsors (Drezner, 2008; Bean, 2010).

However, one can argue about the lack of evidence in the economic coercion and interdependence literature to prove that SWFs have the capability to influence the OECD economies because the SWFs must be significantly more powerful at the least financially, if not technically and politically than their target economy. One of the main arguments emerges that considering the ambiguous political configurations between SWF sponsoring countries and the investee countries, it is possible that investee countries would be reluctant to create policy frameworks and operational barriers that may require these SWFs to disclose their intention. This is because at some point liquidity and investments become more important for businesses than political agenda

and protectionism of investee country governments (Santiso, 2008; Kotter and Lel, 2011).

Furthermore, SWF sponsoring countries' regulatory mechanisms in response to protectionism barriers and disclosures rules such as Santiago principles can fuel the debate of regulating SWFs further with the developed countries in Europe and USA. In particular, the USA has taken initiatives to scrutinize foreign investments in depth such as formation of *FINSA – an act and CFIUS – a senate committee* (Greene and Yeager, 2008, p.266). In a response to protectionism approach by recipient countries, the sponsoring countries have created various mechanisms and regulations to safeguard their economic position, currency and markets. One such example is the China and the review of foreign investments of China has been seen as non-transparent.

"*The 2006 provisions for merger and acquisition of domestic enterprises by foreign investors require prior approval for foreign investments that affect national economic security, involve a major industry or result in the transfer of a famous trademark or a traditional Chinese brand*" (Greene and Yeager, 2008, p.267).

OECD considers this measure from China as advantageous to them for increased transparency according to global standards. China has further categorized foreign investments on the basis industry targeted such as encouraged, permitted, restricted or prohibited (US GAO Report as cited in Greene and Yeager, 2008). Following China, UAE also has current requirements in company law which states foreign companies can not own more than 40% share of any Emirati (UAE) company. In case of Russia, the Federal Law of 1999 on Foreign Investments is not considered as fully protective of national interests so Government of Russia is reviewing the situation to implement US style mechanisms to assess foreign investments (Greene and Yeager, 2008). Therefore, responses from investee and sponsoring countries to create more and more investment barriers against each other affect the trade, market access and investment

decisions for SWFs and investee companies. This ultimately results into negative effects on the growth of SWFs.

2.8 Current trends and impacts on the global finance

If one considers the amount in numbers then being it more than US$ 3.5 trillion looks very much significant; however the assets held by all SWFs collectively is less than 5% of what is held by other financial segments such as pension funds, hedge funds, mutual funds and insurance companies and private equities. SWF accounts for less than 2% of equity and bonds market globally. Morgan Stanley (2007) projections for 2012 by the fastest rate consideration also do not take SWF beyond 6% of global financial assets. Since having no commercial liabilities as such like private investors, during the economic crisis time, SWF have positive effects on markets to reduce the pressure of liquidity issues. They play vital role as a stabilizer in saving the firms with their investment at the time of stressed markets (Gieve, 2008).

According to the IMF foreign currency reserve data, the overall share of US dollar as a foreign reserve currency worldwide has declined from 68.1% to 64% during 2003 to 2007 (Greene and Yeager, 2008; www.imf.org, 2008); still global foreign exchange reserve (FER) currency is US ($) dollars. The dollars share of FER can decrease more as money flow into SWF from oil and other commodity exports by MENASA region economies. Lyons (2007) in his testimony to US senate committee on banking said that if central banks were to switch reserves to match the countries with which they have trading accounts, they would require to sell an amount to a level of US$ 1.39 trillion, that is approx. 25% of global FE reserves. This FE reserve accumulation system has decreased US long term interest rates and rates of investments from petro-dollars. Also, exporting countries have inflationary pressure. Five out of six GCC

countries have their currency reserve pegged to US dollar. Kuwait has started to diversify its currency portfolio from 2007 to higher yielding rates which could lead to significant effect on US current account. These facts and figures show that sovereign wealth is shifting away from US dollar (Greene and Yeager, 2008; Santiso, 2008). Major numbers of GCC and Asian countries have not limited their investments in OECD (Organization for Economic Co-operation and Development of 30 developed countries consortium) countries. The institute of international finance has reported in 2007 that foreign investments of GCC SWFs have become global during 2002 to 2006 as 20% outflow was to Europe and 11% each to MENA and Asian regions. As the unrest grows in the two forms for SWF, getting branded as politically motivated investment vehicles from western governments and losing money like US banking investments in billions during 2007– 09, they tend to find alternative routes of channelling the money into profitable investments. In doing so, SWFs have started to shift away from the dollar and also more inclined towards aggressive asset categories. That shows SWF have started to move investments from low return and government debt to higher return – high risk assets and to leave the traditional investment style of fixed and equity deals (Greene and Yeager, 2008). So far, no research study has made firm conclusion about effects and impacts of SWF on global financial markets but research shows SWF impact on individual firm performance and it has been debated to that extent and other governance and investment strategy issues of SWF. These issues are covered in the next topic of discussion.

2.9 Implications based on the challenges of SWF

The last two decades have seen exponential growth of SWFs from less than US $ 500bn in 1990 to current approximate US $ 3500bn; and more large economies like India and Japan may join the race of developing profitable SWFs. Morgan Stanley

estimates SWFs can reach to a level of US$12 to 13 trillion by 2015 (Jen, 2007; Anderson, 2009). The major exporters BRIC countries and Korea, Japan, Singapore can each accumulate FE reserves to an amount of US$ 400bn and create trade imbalances for EU and USA. The non-commodity funds of China, Korea, Singapore, Japan and India (provided Japan and India develop SWFs in the near future) can catch up to an asset growth with similar to Abu-Dhabi, Norway and Kuwait; however many researchers and analysts believe that such a change may be incremental over long duration and not quickly (Anderson, 2009). Many researchers warn that potential impact and control of SWFs can be significant (Lyons, 2007; Drezner, 2008; Bean, 2010). Many on the other hand argue that there is no danger from SWFs to investee countries (Hassan, 2009; Kotter and Lel, 2011) and this is just re-emergence of BRIC countries where in a century ago only India and China were contributing more than 40% of world's total GDP (Santiso, 2008). SWFs managers have avoided risks taking but now trend is changing, for example Asian banks have invested somewhere between 65% and 70% of their foreign exchange reserves in US dollar assets such US treasury notes (Anderson, 2009; Zhang and He, 2009; Bahgat, 2010). Many aspects of such an investment focus have been beneficial for the US economy and the US consumer, including managing lower levels of the interest rates. But there will be negative consequences for the US economy if foreign governments decide to look for a more profitable return on their investments, for example by leaving the country's money at home rather than receiving a lower return on U.S. bonds and securities. Those who can afford more risky investments (Seoul, Beijing, Singapore, Taipei and Tokyo) are those "*whose foreign reserve holdings have now dramatically exceeded even the most conservative definition of a prudent foreign reserve account*" (Anderson, 2009, p. 18). It is highly likely, that two factors: recession in the developed nations and higher return from risky investments in MENASA region will make SWFs realize that it is beneficial

to invest either at home or restructure their portfolios which are currently dominated with mainly US treasury notes. China is likely to be the primary beneficiary of the transition and change in investment patterns as their foreign exchange reserve is more than US $ 1.5 trillion (Anderson, 2009). Because the oil income based GCC region SWFs (like their counterparts) do not need to show a return immediately, they can deal with higher levels of risk by taking a long-term approach to investing. For example, analysts at the Abu Dhabi Investment Authority justify their 14% allocation of fund's portfolio to emerging markets' equities based on their assessment that atleast 33% global growth in coming years would come from emerging markets. This figure can even grow according to the current investment patterns of CIC and Temasek Holdings (Anderson, 2009). Another trend forecasted by the McKinsey Global Institute is the increased flow of capital between Middle East and Asia which is evident in a growth rate of 22% during 2001-2005 at cash flow on US $ 15bn in 2006 alone. At this rate it could reach as high as US$ 300bn by 2020 (Barton and Boer, 2007; Zhang and He, 2009). The Middle Eastern and Asian SWFs are not only seeking markets abroad but also increasingly keen on investing (and stimulating investment) in the domestic markets. Some of the choices made by the SWFs have led to policymakers including the governments of US, France and Germany express concerns about macro and micro economic impacts of SWFs (Mitchell et al., 2008). With the growth of GCC region SWFs, developed OECD countries have increased protectionism. However the factual evidence suggests a different perspective, for example, UK, Japan and Germany are three leading countries for investments in the USA and 94% of foreign assets in US are owned by 25 industrialized and democratic OECD member countries (Eizenstat 2006 as cited in Anderson, 2009). Mitchell et al (2008) point out that the exact magnitude of SWFs impacts is unknown; however SWFs are far smaller than existing currency stabilization and pension funds. Alberola and Serena (2008) state that SWFs can

increasingly contribute to global trade imbalances provided commodity and oil prices continue to be at high levels. The new SWFs formation may take place as Asian economies have increasing trade balances and accumulation of foreign exchange reserves. Such a trend can lead to increased growth for SWFs (Alberola and Serena, 2008). On the other hand, debt economies of developed countries may face higher costs of financing and negative trade balances due to growth of SWFs (Truman, 2007; Alberola and Serena, 2008; Gieve, 2008; Anderson, 2009).

Another issue as argued by Truman (2007, 2008) is globalized and developed economies have private companies larger than government enterprises and government decision making is supported by private agencies where as in SWFs sponsoring countries total control is in the hands of government decision making agencies such as MoF or Central banks. This again leads to management influence on governance, transparency and accountability on part of SWFs. Drezner (2008) warns that SWFs may not disrupt macro-economy or security of the country however SWFs can influence overall governance and co-operation levels in the global financial system and can diminish the power of developed economies in the coming years. This fear also may not be true, if one can analyse the political and economic structures of regions such as Gulf, EU, America and South Asia. These regions require the growth of one another as they depend of one another for needs such as energy, markets, security, currency stability through trades and fiscal – monetary balances (Baabood, 2006 and 2009). Thus, it is in the best interests of investee and sponsoring countries to reduce barriers or protectionisms for SWFs investments and consider SWFs as market friendly investors whilst helping sponsoring countries' governments to implement governance and transparency reforms.

2.10 Implications of SWF investment decisions

This section analyses different views on the positive and negative implications of SWFs in the global economy, politics and capital markets which may emerge as a result of their continued growth or divestments from world markets.

a. Because of assured long term and adequate capital into stock markets from SWF, companies may see higher demand of their stocks and thus increased liquidity in the market while lower costs of capital for businesses resulting ultimately in the higher equity prices. Any collective divestments by group of funds and political instability in SWFs sponsoring countries can create market risk leading to operational and liquidity risks. SWF growth may increase demands for the investment banking industry, asset managers and advisors (Chhaochharia and Laeven, 2009; Balin, 2010).

b. The high return high risk, profit seeking investment strategy by SWF will provide easy access to capital for riskier businesses and a tougher access to capital for low return, low risk investment opportunities, for example Government bonds. On a larger scale, this can skew the global capital distribution to riskier investments (Balin, 2010).

c. Major funds such as the Abu Dhabi Investment Authority, China and Russia have ruled out seeking any national security interest or political objective through their SWFs. And to assure this, these SWFs have opted for professional management style, hired professionals and crafted their investment strategy for profit seeking as number one priority. However, their policy of invisible investments and asset allocations in specific equities have raised concerned within western governments (Balin, 2010; Pistor and Hatton, 2011).

d. Less opacity in the investments infuses speculative behaviour in the financial markets. However, if recipient countries and their companies demand compliance

to strict disclosure rules then these investments will be eventually visible within annual reports of investee companies, even if they are not visible in the documents of the funds. This will attach a price tag to investments' announcements while bringing speculation and increased volatility to stock markets of recipient and sponsoring countries both (Truman, 2008; Balin, 2010; Dixon and Monk, 2010).

e. The more SWFs grow in their asset size and geographical reach, the more will be the demand of reciprocity or openness in their transaction which may bring a crackdown on these funds through number of laws, operational principles and protectionism tactics from investee countries similar to Santiago Principles in 2008 (Santiso, 2008).

f. Unless there is consideration of making SWFs investments a separate industry status like private equity or hedge funds, these funds may continue to exert legal, political and administrative load for regulatory organizations like security and exchange commissions, central banks and IMF.

g. The impacts on financial market prices and government bond yields generated from SWFs capital flows is difficult to measure and to quantify. No rigorous research study has been performed to address these issues. However, the literature suggests that SWFs can affect the asset prices and exchange rates through changes in price or risks. These effects developed from SWF demand (e.g. equities) or supply (e.g. government bonds) can be considerable when the demand curve in the respective markets is downward-sloping (Beck and Fidora, 2008).

These implications are resulting impacts of SWFs investments in the foreign assets. As one can see, these implications do not pose any direct security threats but like any other industry has effects from its investments. These implications can have more profound effects on the emerging market economies due to lack of proper regulatory frameworks and many companies requiring capital. In addition to this, effectiveness of these wealth

funds in the form of governance, transparency and objectives raise questions over their investment practices. Finally, these funds can create volatility and power struggles in the sponsoring countries for funds disbursement and management control (Hassan, 2009; Pistor and Hatton, 2011). Thus, a comprehensive and detailed analyses of the practices and goals of sovereign wealth funds is required if a country wants to develop the benefits of these funds without suffering from the less desirable drawbacks of the emergence of SWFs (Anderson, 2009; Monk, 2009). These required analyses to understand SWFs are carried out based on primary and secondary data in the later chapters of this thesis.

2.11 Factors affecting SWF growth

It is important to preserve a commitment to openness in markets and keeping to a minimum the restrictions of direct investments – often such restrictions are the result of cautiousness that direct investments coming from foreign entities. Unnecessary barriers may lead to retaliatory restrictions, so applicable existing guidance may need to be revisited as well as new initiatives proposed to resolve the issues stemming from the SWFs investments as stated in the previous section. It can be risky for SWF in case the investment made in an asset which is actually under the control of investee country government. For example, CITGO - a US company is owned by Venezuela SWF; however US can impose restrictions or regulate transactions between Venezuela SWF and CITGO (Greene and Yeager, 2008).

Governance standards and transparency are two major factors which can influence the way SWFs function. With regard to governance, especially when the institutions are state-owned, there may be more acute problems than with comparable private institutions. These problems could be connected to a greater risk of corruption due to

lower salaries, problems suggested by agency theory such as trust, legitimacy, (Monk, 2009) excessive control of political elite (Pistor and Hatton, 2011) and lack of accountability (Truman, 2008). Therefore, addressing these issues with an appropriate set of policies would be advantageous to both investee and SWF sponsoring countries to meet their investment deal objectives. As suggested by Greene and Yeager (2008), these SWFs require specific guidelines to be followed in the matters of responsibilities allocation within the fund and with stakeholders; investment policy objectives; governance and disclosure compliance; risk management and their operational autonomy from political influence. Lack of transparency or any such attribute as mentioned above can significantly influence the way SWFs make their investment deals. In turn, these deals and SWFs both may attract scrutiny from financial regulators and central government administration of investee countries. The issue of transparency can be resolved by having mechanisms in place for organisational structure, governance, information disclosure and other institutional procedures (Greene and Yeager, 2008; Truman, 2008; Santiso, 2008; Anderson, 2009).

On the other hand, even if the best principles of transparency are implemented, is there any guarantee that it would solve the problem for investee and sponsoring countries? For example, Norway's SWF GPFG invests only if companies are socially responsible otherwise GPFG divests from them. It does not look for that Norwegian government can influence companies and social policies in other countries through their SWF for billions of dollar investments. At the same time in reply to Norway SWF investments, these investee companies and governments of other countries do not interfere Norwegian politics (Simms and Tomisawa, 2007 as cited in Anderson, 2009). Thus, it is difficult to differentiate between best practices in company management and politically aimed investment agenda. Hence, SWFs' transparency does not guarantee

promotion of non-political agenda (Anderson, 2009). Zhang and He (2009) provide an analysis of the internal weaknesses of China investment corporation (CIC) with the three major factors affecting the fund being vague orientation, mixed investment strategies and the bureaucratic management. It is unknown who the real shareholder of the fund is, as well as how much capital it owns, its debt is around US$ 200bn—this has led to certain disadvantages such restricting its ability to make free long term asset allocation and create low return – low risk steady income portfolio such as GPFG or SAMA. Here, the issues of decision making and organisational structures come to the fore. Mitchell et al (2008) and Bernstein et al (2009) suggest that involvement of political leaders in decision making tend to influence the two outcomes of the investments heavily: firstly where the investment would go – domestic or foreign; and secondly which industry or nation would get priority for the investments. Recent study by IMF found that most of the GCC funds lack a clear investment strategy and have large variation of governance, transparency and accountability (Ter-Minassian, 2007 *as cited in* Bahgat, 2008). Global markets not only may be affected by investment or divestment announcements of SWF but also can be affected by SWF decision making and how they address macro and micro economic indicators at domestic level. Hence, for the benefits of all involved stakeholders in the SWFs investment transactions, the improvement is suggested in governance and transparency along with investment strategy, fiscal measures and organisation structural developments for SWFs (Ilahi, 2007, *as cited in* Bahgat, 2008). Following such debates in the global financial markets, both sponsoring and investee countries governments have taken the new policy initiatives which are reviewed in the next section.

2.12 New policy initiatives for SWFs

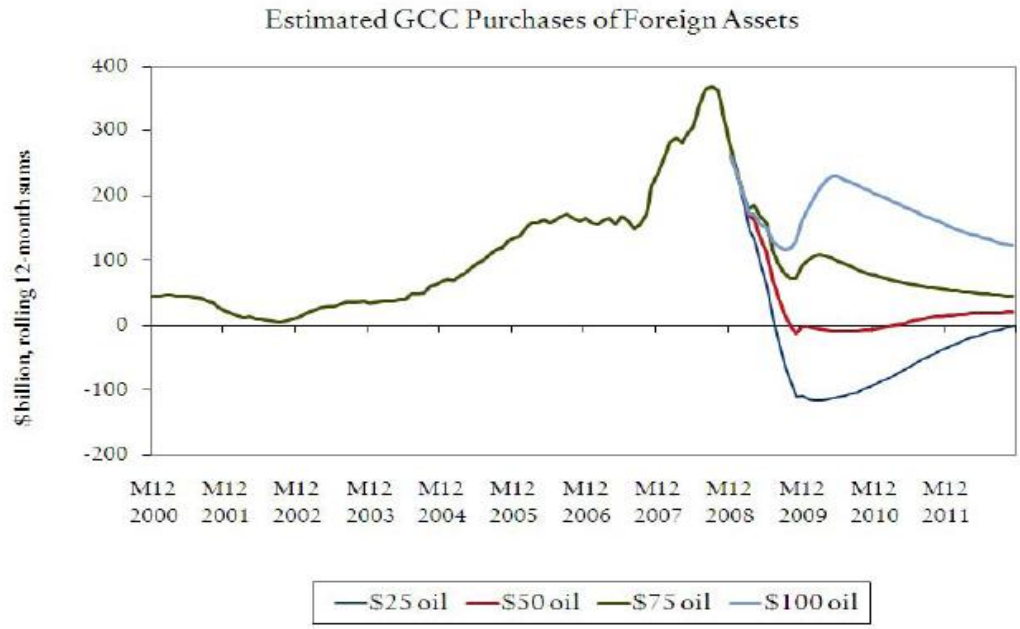
There have been many initiatives, responses, and policy proposals as a reaction to the growth and increasing number of SWFs. USA treasury, IMF and OECD are working together to develop framework for the SWFs to control and assess the influx of foreign investments by SWFs (Zhang and He, 2009). The objective of this model would be to enable SWFs to become transparent, predictable, responsible and accountable to their population and investee countries (Truman, 2008). The response to Santiago principle was hostile from many large SWFs and CIC of China has hinted absence from the negotiation for the above said model as well to maximize its own interests (Zhang and He, 2009).

Singh (2008) explains that voluntary codes for the SWFs by IMF, investee countries code by OECD, formation of International working group of sovereign wealth funds (IWG) have resulted into Generally Accepted Principles and Practices (GAPP) of SWFs known as 'Santiago principles'. This set of 24 Santiago Principles covers issues of laws, governance and investment policies to risk management of SWFs (Singh, 2008; Anderson, 2009). The voluntary nature of the Principles makes their implementation dependent upon member-countries. There is a proposition to create a permanent international body for SWFs. The major issues within the Santiago/ GAPP are transparency, public disclosure, stability and non-commercial objectives of SWFs. There have been proposals for World trade organisation (WTO) to manage and to regulate SWFs (Singh, 2008). OECD (2008) report calls for investee countries authority to be active in stating what is required for their national security, however report does not say about any instance in which the SWFs acted with objective of political goals. European Union has also come up with its own standards of transparency, accountability, asset allocations, investments, size and sources of funds,

governance structures, overall objective and risk management policies to be disclosed by all SWFs (Singh, 2008; Lyons, 2008; Truman, 2008). The USA has created its own mechanism of FINSA and CFIUS (Anderson, 2009; Hassan, 2009). After the detailed overview of SWFs in general and their global trends, the next section discusses importance of SWFs in the GCC region.

2.13 Importance of SWFs in the GCC region

All GCC region SWFs have accumulated assets and foreign exchange reserve from oil exports. This simply applies that when average oil price is declining in a year, their foreign investments capacity and liquidity to manage domestic demand reduces. In this case, their breakeven point of oil exports quantity and oil price increases, sending shock waves to GCC economies and large projects having vast debt leverage. Thus, it is not wise for these GCC SWFs to invest in riskier assets for higher return when their earning is correlated to global growth and oil prices (Setser and Ziemba, 2009). The big four GCC SWFs are ADIA, SAMA, KIA and QIA. For example, a gap of even few US dollars per barrel between paying imports and earning oil exports corresponds to billions of net trade balance increase in GCC region's foreign assets, roughly split evenly between SAMA and other five SWFs of GCC according to their oil exports. According to historical data, if oil averages US$ 50 per barrel, then GCC region requires interests and dividend income to support the imports. At US$ 75 oil price per barrel, they add US$ 140bn and at more than US$ 100 per barrel, GCC region gets flushing inflow of money. When production and prices fell, the revenues are reduced very much for GCC region. Thus, any capital spending would require sales of the assets hold by these SWFs. Following chart shows estimated GCC purchases of foreign assets at different projected oil prices (Setser and Ziemba, 2009).



Source: Setser and Ziemba, 2009

Thus, SWFs are an important source for each country in GCC region to save and to accumulate the wealth. Therefore, SWF created based on oil income will have their size of fund and capital availability to invest hinge critically on the price of oil. Due to lack of transparency, their actual wealth and asset projection is difficult (Seznec, 2008). Production costs, cut and decreased oil prices would create problem for GCC funds and protectionist measures or total oppose of GCC investments in western countries such as Europe and USA will take these investors to other countries such as emerging economies in Asia (Lyons, 2007; Karake-shalhoub, 2008; Monk, 2009). Hence, SWFs are not only important for GCC region but their importance is worldwide for every country aiming financial gains and a better economy.

2.14 Major inferences from literature review

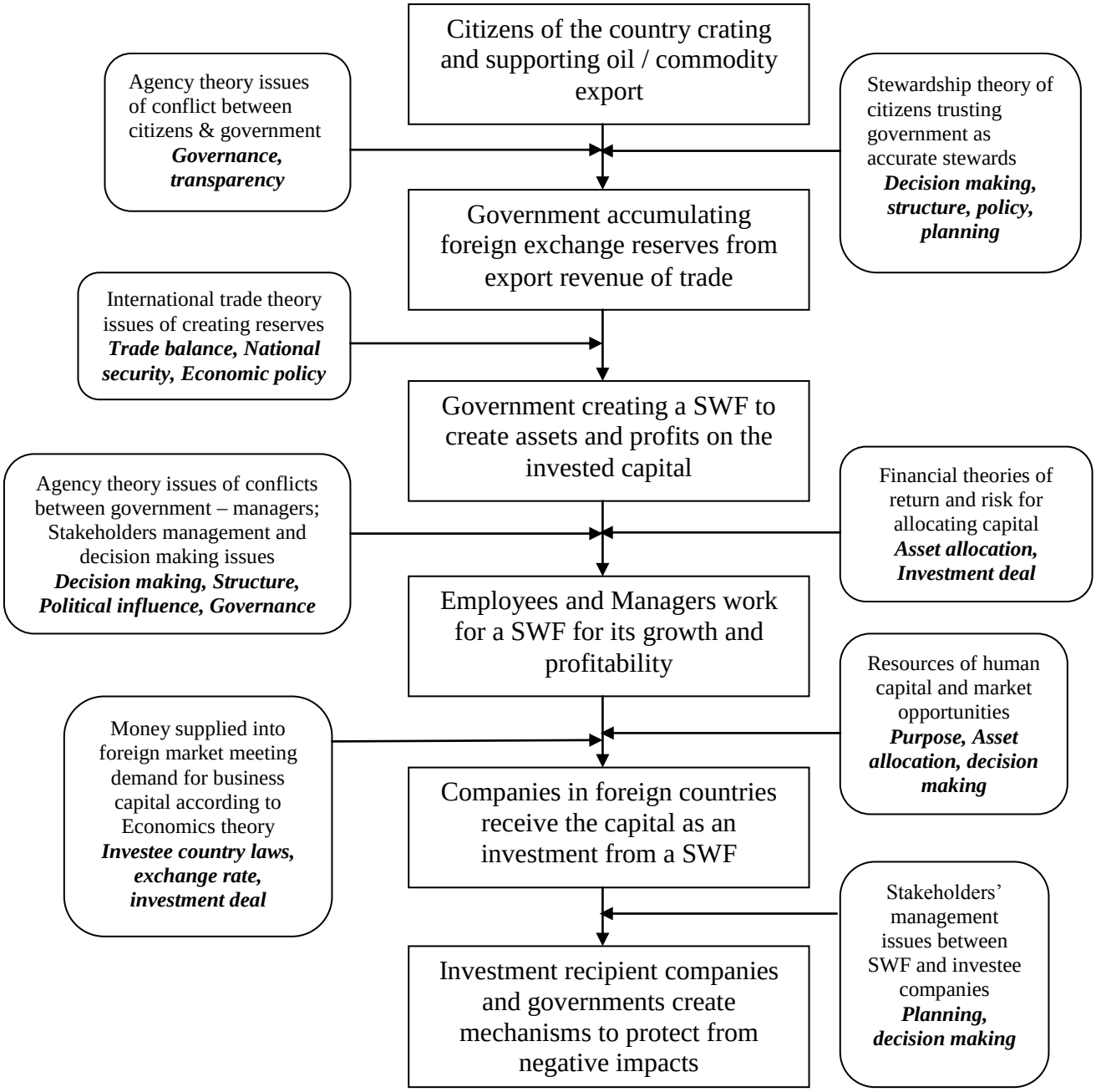
This section explains the major inferences in terms of theoretical links of SWF to finance, economics and management as well as lists the major studies enabling the development of theoretical proposition. The gaps found in the literature are explained in the next chapter of theoretical framework development.

2.14.1 Theoretical links to SWFs

According to the theoretical linkages of SWFs with existing theories reviewed in section 2.3 of this chapter, it can be inferred that these theories contain the roots of SWF development, investment strategy and decision making. To understand how these theories relates to the sovereign wealth fund, the following figure 2.3 shows a critical transaction showing all involved stakeholders, their decision making for a standard investment decision. The figure 2.3 also shows the path of decision making, theoretical links and factors generated from each link affecting SWF.

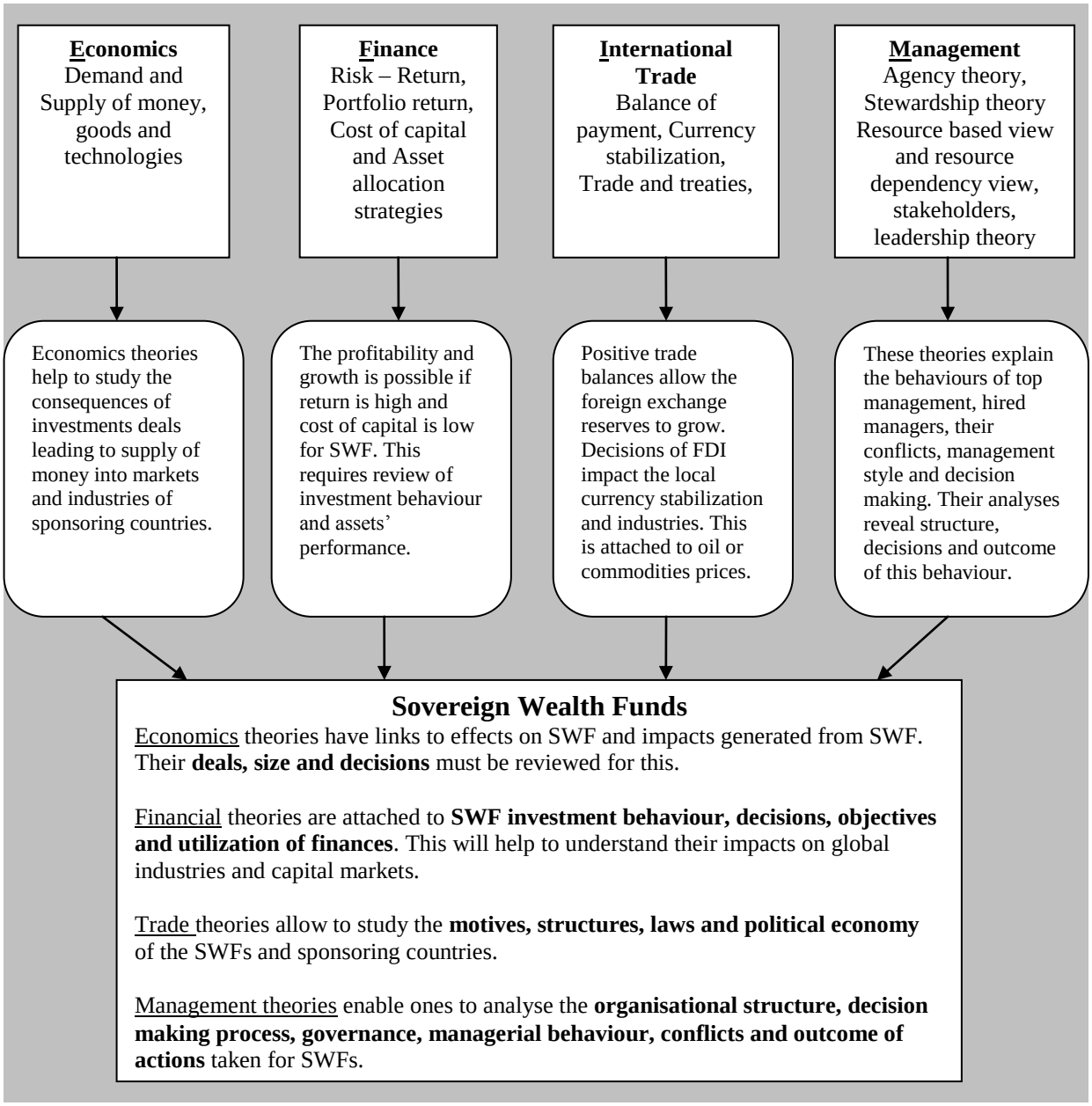
The figure 2.3 shows the path of SWF formation to investee companies receiving money in the centre connected by arrows downwards; whereas from sides this transaction is connected by arrows explaining where each existing theory can influence the decision path. The figure also shows in each theory box that which factors affect this component of the decision path.

Figure 2.3 Typical SWF transaction showing links to existing theories and factors affecting



The following figure 2.4 reveals that sovereign wealth funds have their roots in the existing economics, finance, international trade, and management theories. The figure 2.4 also shows that how each existing theory is contributing in the development and operations of sovereign wealth funds.

Figure 2.4 SWF roots in EFIM Theories



2.14.2 Inferences about operations of SWFs

Following table 2.4 shows key points relevant to the successful operations of sovereign wealth funds. These inferences are for all SWFs and not specific for any sponsoring country. This summarises the literature review about SWFs analyses of investment deals, strategies, buying behaviour or setting up objectives. These major inferences help in aspects: firstly, it enables identifying gaps in the literature and secondly, finalising the factors affecting SWF management.

Table 2.4 Summary from the literature

Authors and Year	Source	Main Inferences	Factor affecting SWF
Kotter and Lel, 2011	Journal of financial economics	SWFs can be defined as passive institutional investors in terms of their characteristics, effect on target company's performance. SWFs' transparency influences investment activities and their impact on investment recipient company's market value.	Policy, planning, sponsoring country laws, governance, transparency
Sornarajah, 2011	Asian Journal of International Law	Development and quick changes in the laws for SWFs	Sponsoring country laws, Objectives, Planning
Park and Estrada, 2011	Asian Journal of International Law	Valuable role of Santiago Principles for SWFs	Policy, Planning, Objectives, Laws
Pistor and Hatton, 2011	Nellco legal repository	Autonomy maximisation theory explaining political economy dynamics of established SWFs	Structure, Purpose, Governance, Decision making
Thomas and Chen, 2011	Journal of contemporary China	A case of China's Sovereign Wealth Funds: origins, development, and future roles	Sources, objectives,
Heaney et al, 2011	Australian Journal of Management	A case of Temasek holdings, Singapore SWF. Temasek has a predisposition to invest in firms that are relatively large and have few director block holders. The incentive to invest also increases in firms with lower systematic risk and with compensation schemes.	Investment strategy, Asset allocation, Risk management,
Clark and Monk, 2010	The Pacific Review	A case of GIC, Singapore. They make case for SWFs positive aspects during the financial crisis.	Governance, transparency, Less protectionism
Jory and Hemphill, 2010	Thunderbird International Business Review	The positive effects and role of SWFs in global financial intermediation	Planning, Asset allocation
Balin, 2010	Asian- Pacific Economic Literature	The impacts of global financial crisis on SWFs	Investment strategy, Decision making, Governance

Paulson, A., 2009	The Federal Reserve Bank of Chicago Monthly Research Letter	Long term advantage of both sponsors and investee countries, Increased transparency can boost higher returns and confidence to both parties involved	Governance, transparency, laws of investee and sponsoring countries
Bertstein et al, 2009; Lerner et al, 2009	National Bureau of Economic Research	SWFs are more likely to invest at home when domestic equity prices are higher and invest abroad when foreign prices are higher. Politicians invest more at home at higher P/E ratios where as external managers tend to invest abroad at lower P/E ratios which increases managerial performance better than politically motivated investment decisions.	Investment deals, investment strategy, sources, purpose, performance of SWF
Chhaochharia, V., and Laeven, L., 2009,	www.ssrn.com	Investment allocation tends to follow countries with similar culture. Cultural bias in the investment is pronounced in SWF strategies. This leads to favourable responses from market in the form of increase in share prices of investment recipient companies.	Investment strategy, profitability, growth of SWF
Megginson et al, 2009	www.ssrn.com	Conflicts between minority shareholders and SWFs are reported due to agency costs. SWFs have abnormal investment patterns and loss making portfolio.	Planning, decision making, asset allocation, performance of SWF
Baabood, A., 2006 and 2009	Gulf research centre www.grc.ae	Policy implications at regional levels in EU and GCC can affect the investments and trade and ultimately impacts the growth of SWFs.	Policy, Laws and treaties, Trade balances
Karake-Shalhub,Z., 2008	Thunderbird International Review	Local economies in middle east saved due to petro dollar reserves, sustainable growth, limited leverage and limited debt exposure.	Issues in the GCC region funds: governance, growth, profitability
Bahgat, G., 2008	International Affairs, Blackwell Publications	SWFs are a threat to national security is a mistaken perception. Voluntary disclosure by SWFs about their governance, investment objectives and asset allocations would bring transparency and resolves the issues to the advantages of both sponsoring and investee countries.	National security, governance, transparency, asset allocations, objectives
Drezner, D. W., 2008	Journal of International Affairs	SWF are at crossroad of high finance and high politics. SWFs were helpful during economic crisis. Global markets can be affected if GCC region become democratic political economies. Changes in policy, decision making sophistication and authority decentralization are key to SWFs growth.	Policy, planning, purpose, objective, sources of funds, governance and transparency
Lavelle, K C, 2008	Journal of International Affairs	Emergence of SWF enterprises may generate multiple informal market institutions since every market and enterprise has different relationship to the state.	Sponsoring country laws, objectives
Chesterman, S., 2008	American University International Law Review	Ethics, complicity and responsibility issues can set the direction for transparent behaviour and compliance to law in the context of SWF operations.	Transparency, accountability and laws

Hayward, P., 2008	Banking and Financial Services Policy Report	The development of SWF and emerging economic trends suggest no threat to financial and capital markets from these funds.	Investment strategy, operations, structure
Blundell-Wignall et al, 2008	Financial Market Trends, OECD	Major concerns related to SWFs are objectives, impacts on exchange rates and asset prices, governance and transparency.	Objectives, Governance and transparency
Portman, C, 2008	Oxford Economics, Economic Outlook.	SWFs are less than 2% of US$ 190 trillion global total traded securities but they contribute significantly. Lack of transparency and investment strategies by most SWFs are worries to the developed countries.	Transparency, investee country laws
Aizenman, J and Glick, R, 2008	National Bureau of Economic Research	SWF tries to maximise expected utility and opts for a risky foreign asset. Transparency may affect level of asset base and investment independence in decision making.	Transparency, decision making
Greene, E. F. and Yeager, B. A., 2008	Capital Markets Law Journal	Differences in policies, investment objectives and responses to these may prove detriment to cross-border investments and world economy.	Legal aspects, investee country and sponsoring laws and protective mechanisms
Fotak et al, 2008	www.ssrn.com	Rapid growth rates and lack of transparency are issues of great concern. Long term investment strategies are characterized by political pressures and size of holdings. Deteriorating firm performance is noted in 2 years of immediate equity investments.	Performance of SWF, investment strategy, effects of SWF on investee companies equity
Mitchell et al 2008	National Bureau of Economic Research working paper	Comparison between foreign exchange reserve funds, sovereign wealth funds and public pension funds suggests that SWFs have different corporate governance practices and country specific characteristics. SWFs are large publicly held pools of assets with increasing role in global investments.	Purpose, structure and decision making of funds; governance and political influence
Beck, R. and Fidora, M., 2008	European Central Bank, Euro System	No impact found on stock markets by SWF investments or their exits. Traditional CAPM type investment approach may take higher inflows to developing and emerging economies because of problems in return on assets and investments.	Investment strategy, asset allocation and performance of the fund
Santiso, J, 2008	EMNET working paper, OECD Development centre	10% portfolio allocation by SWFs to developing economies over next decade can generate inflows of US$ 1.4 trillion which is higher than total 30 OECD countries development aid. Investment strategies seek performance and solid returns. Sovereign wealth funds (SWFs) can become sovereign development funds (SDFs).	Investee and sponsoring country laws, profitability of the SWFs
Balding, C., 2008	www.ssrn.com	SWF calculate size by assets across countries – a misleading concept, till date followed a rational economic driven investment strategy while diversifying portfolios based on asset classes and geographical regions, do not have large impacts yet on international markets.	Investment deal, asset allocation, deal size, operations

Gieve, J., 2008	Dy. Governor of Financial Stability Speech for Bank of England	Growth of SWF is result of global trade imbalances. This growth has helped vulnerabilities of current economic downturns. SWFs' long term investment horizons and asset allocation efficiency can moderate future financial downturns. To reduce protectionism by recipient countries, SWF sponsors shall increase some transparency.	Trade balances, governance, transparency, protective mechanisms
Monk, A. H. B., 2008	www.ssrn.com	Several developed countries see SWFs as threat to their markets. Trust, legitimacy and governance play crucial role in recasting the image of SWFs.	Governance, accountability, purpose
Truman, E. M., 2007	Pearson institute of international economics	SWF needs greater transparency and accountability	Governance, Transparency, Accountability
Kern, S., 2007	Deutsche Bank Research	Advantages: liquidity and development of asset management and investment banking services Implications: market stability, corporate governance, national interests.	Governance, National security, Investment strategy, Objectives
Lyons, G., 2007	Journal of Management Research	Investment approach and level of transparency adopted by SWFs are the key issues deciding strategic behaviour and further implications to market and economy.	Governance, Transparency, Accountability, Investee country laws, National Security

2.15 Summary

This chapter reviewed the concept and development of sovereign wealth fund and their links to the existing theories in trade, finance, economics and management. Major inferences show that each segment of SWF management can be analysed with the help of existing theories. The literature about SWF management shows that their investments are beneficial to both sponsoring and investment recipient countries. Collectively all SWFs are big asset base at US$ 3.5 trillion compared to private equity and hedge funds industries. Developing SWFs as an industry would be advantageous to all counties and regulators. The chapter outlines factors affecting SWF and impacts of SWF on the markets; however their growth is restricted by many external and internal dimensions which are discussed as factors affecting SWF in detail in the next chapter.

Chapter 3 The conceptual framework

3.1 Introduction

In previous chapters, the research problem and aim of this thesis are defined. Then, relevant literature was reviewed and evaluated for finding crucial links between problem and aim of this study. The basis for the theoretical development in this chapter is the delineation of the research problem and the review of literature in the previous chapters. The theoretical background of investment strategies, portfolio management, economic policy formulation, organizational structure and environmental dimensions such as trade and legal aspects generated from literature are carefully reviewed and are applied in developing the concept. This chapter proposes the theoretical framework based on the inferences and gaps established from the literature review within the domain of sovereign wealth funds management and their links to existing theories. A set of research hypotheses is proposed for each factor affecting the SWF's sustainable growth as a basis of the initial theoretical research framework. The research framework mainly comprises factors affecting SWF as independent variables and performance and success rate of SWF as components of growth of SWF as a final dependent variable. These variables are then operationalized to measure them with data collection based on the questionnaires from SWF managers and stakeholders. Since this section deals with the development of specific framework and hypotheses development, this can be considered to be the focal theory explanation in the research process according to the process model concept given by Philips and Pugh (1994).

Following section outlines gaps found in the literature which enables one to propose the initial theoretical framework which comprises various factors impacting performance and success rate of any sovereign wealth fund.

3.2 Gaps found in the literature

The inferences from academic literature in the previous chapter provide confirmation to existing theoretical perspectives. This literature inferences support the theoretical proposition mentioned in the next section whereas this section details the gaps found in the literature related to management, operations and growth of SWFs. These gaps as a part of problem have enabled the process of developing the initial theoretical proposition consisting factors affecting SWF.

1. Measures applied by governments and regulatory organisations are many such as Santiago principles; however they do not collate with each other to bring the right factors to the identification for problems faced by investments from sovereign wealth funds (Epstein and Rose, 2009; Yi-Chong, 2009; Bean, 2010).
2. Although there are numerous studies that have examined oil prices, investment deals or case studies of sovereign wealth funds; there is no study carried out to test the impacts of various factors on the growth of SWF. Thus, all such factors found in literature are not validated through deductive study. This research study aims to investigate the impacts and relationship of various dimensions on the growth of SWF. This is a necessary step in taking forward the body of knowledge within the domain of SWFs which is acknowledged by many notable researchers and they have explained this task as a further scope in their research (Mitchell et al, 2008; Truman, 2008; Bernstein et al, 2009; Clark and Monk, 2010).
3. Previous research studies have not been empirical in their testing of various factors such as governance, transparency, accountability, size, structure. Previous research found in the literature is mainly the analysis of secondary data or literature about sovereign wealth funds such as historic investment deals or stock prices of the companies where in SWFs have invested. Therefore, this study aims to investigate them based on hypothetico- deductive method using both primary and secondary

data through interviews, questionnaire survey, reports and documents (Balding, 2008; Chhaochharia and Laeven, 2009; Balin, 2010).

4. There have been theoretical reflections about asset allocation, return on investment portfolio and growth of SWF (Gintschel and Scherer, 2008), but actual growth is rarely measures based on the constructs such as factors which can affect the growth of SWF. Every third article within existing literature focuses on the arguments about transparency and governance issues of GCC regions SWFs and their motives; however, the challenge is to carry out in-depth study of a few SWFs and find out the why and how of their investment strategies (Lam and Rossi, 2010). Thus, findings of this study can help potential and current SWF managers, governments and regulatory agencies to support the growth of SWF as an industry.
5. The SWF phenomenon is new and recently caught the attention of researchers mainly after 2005 when all SWFs' total assets grew beyond US$ 1trillion. Because of this surge of attention from financial analysts and industry, the available literature is more of a news analysis rather than scientific or theoretical studies. There has not been any framework developed in the existing literature to analyse the factors affecting on the management, growth and performance of SWF in more than 150 articles and reports reviewed between 2005 and 2011.
6. It is still unclear after decade of research about SWF what investee countries want and what sponsoring countries want. Which resources apart from capital are required for either side of the investment deal to create successful bilateral relation are not known.
7. None of the studies have linked the SWF operations and management to theories economics, finance, trade and management as done in this study. Hence, this research study attempts to clarify such inferences from the literature and come up

with evidence based recommendations about impacts of various factors on the growth of SWF.

Based on the above discussed gaps found in the literature, the conceptual framework as a theoretical proposition is developed for this research study as shown later in the next section. In the proposed theoretical framework, factors which are the independent variables has been categorised into two groups of qualitative and quantitative. If there is any inherent relationship or causality between these independent variables or factors affecting SWF, then it would emerge during the analyses of primary data.

3.3 Integrative framework of the study

The primary method of any scientific research and investigation is the hypothetico-deductive method. Theories based on the research processes of induction and deduction can help researchers to analyse, to explain and to understand the phenomena. Observations and preliminary information gathering like literature review has helped to formulate a conceptual proposition as mentioned in figure 3.1 (Saunders et al, 2009). The testing phase of this theoretical framework about factors affecting SWF is done by testing the hypotheses made in the proposed framework. Secondary data is also used to indentify how many of the proposed factors are addressed by Norway and Oman SWFs. The statistical analyses of results determine whether data supports the hypotheses made or not.

3.3.1 Legal aspects

Issues raised by OECD or western countries' governments for SWF having hidden political, social and strategic agenda in their recent investments can be assessed based on their management practices, a qualitative view. Such as standards proposed by

World Bank as governance, accountability and investment practices (GAI factors). Mitchell et al (2008) defined these three set of fundamental principles as: Governance – a process by which SWF manages an objective of maximising the welfare of and resolves any conflict among stakeholders; accountability - a process of reporting the results of governance and disclosing to stakeholders; and investment practices means having a system in place to develop investments to balance risk and return while giving attention to liabilities. These GAI factors constitute 'corporate governance' which can affect the performance and credibility of the sovereign wealth funds (Gompers et al, 2003). Analysts and researchers have commented about lack of transparency in SWF deals. The transparency for SWF in this context means the disclosure of information like purpose, results, deals, portfolio of holdings at regular duration. But, disappointing responses are received from major SWFs as their priority is to maintain commercial interest first and disclosure second (Rose, 2008). USA style company disclosure laws if followed for SWFs, then it would make these financial institutions much transparent in their investment deals (Truman, 2007). Better corporate governance can lead to increased performance and valuation of the company which can be applied to SWF in the form of a company perspective. Also, in the countries where ministers have more influence than managers, the legal aspects are proven to be weakened during decision making against the forces of bureaucracy (Klapper and Love, 2004). Call for strong corporate governance and SWF management practices based on structure, governance, transparency, accountability and behaviour is argued by Carmichael and Palacios (2003) and Truman (2008). Many such research studies examining policies of transparency and accountability have argued that any improvement in financial disclosure and reporting system can enhance the performance of the organization and protect the investor interests. As a main finding for this variable, 'legal aspects' of

SWF can be divided into three major dimensions of governance, transparency and accountability. Their hypotheses can be defined as follows.

H1a: *The better governance increases the growth of SWF.*

H1b: *More transparency provides more confidence from investment recipients leading to higher growth prospects.*

H1c: *More accountability towards investee and sponsoring countries creates better system of managing SWF thus creating favourable conditions for growth of SWF.*

3.3.2 Investee country laws

In addition to concerns raised over political view and transparency of the recent surge in SWF investment deals in US, EU and OECD countries, these recipient countries have formulated various laws for sovereign investments and foreign direct investment citing the reasons of maintaining their security of the economy and the national sovereignty. Control mechanisms such as voting rights, board involvement, deal size, investment period and announcement regulations are very popular among investee countries companies. Investment barriers and disclosures laws are formed as part of government initiatives such as: foreign investment and national security act (FINSA) by USA in 2007; committee on foreign investment in the USA (CFIUS) overseeing FINSA, foreign investment law in 1996 by France; foreign exchange and foreign trade control law by Japan allowing to block more than 10% investment by any SWF and Germany's foreign trade and payments act (Greene and Yeager, 2008).

Such barriers until accepted by SWF sponsoring countries can have negative effects on SWF investments. For example, in a mixed response to such rules and concerns, few SWFs have started to shift their investment to MENASA region preferring higher risk for higher returns as these regions have commodity based growth. Unless there is a

common consensus over these mechanisms, barriers and laws over concerns of national and economic securities, there may not be a sign of positive effects on investment growth but it can increase the distance between investee and sponsoring countries trade relations.

H2: *National security concerns tend to increase investment barriers and control mechanisms' negative influence over the growth of SWF.*

3.3.3 Environmental dimensions

Environmental forces such as competition between many SWFs, confidence of investee countries and trade balances may prove bigger than laws and investment barriers mechanisms. Flow of capital and currency adjustments from surpluses to deficits have always proved to have huge impacts on world financial system and the global economy. For example, countries with large deficits can have rapid reversal of capital flows. Same way, large foreign exchange flows into the country are not easy to sterilise. This can contribute to build up of foreign reserve in the large amounts but also the increase in the inflationary pressures (Gieve, 2008). This is just the effect of trade imbalance and increasing reserves. Other issues like competition between SWF can affect the deal terms, size, investment duration or any other terms of agreement on investments. Positive effects of such deals can lead to increased bilateral trade and even agreements. Geographical location of the country like Oman at the mouth of the gulf and achievement of higher global ranking in peace, stability and reduced corruption compared to other countries can increase confidence worldwide for the country and SWF as a responsible investment vehicle. Hence, major dimensions of environmental forces can play major role in investment practices and strategies of SWF management. Hypothesis regarding very important dimension of trade balance can be stated as:

H3: *Increase in trade imbalances can increase currency and inflationary pressures leading to effects on the investments and growth of SWF.*

3.3.4 Policy

Along with external forces like competition, law and trade, other factors within country such as policy, laws and population mindset for business, trade and economy with religious and cultural beliefs have greater emphasis on growth of the country. These factors can be categorised as internal to the country and qualitative in nature as difficult to measure in quantity. Governments around the world prepares fiscal budgets and announce improvement plans in the form of various schemes, visions and set of reforms which are usually implemented through planning and administration changes. Recent credit crisis and recession suggest that planning, evaluation and control for investment deals are necessary tools to control such crises further. In many countries in the Middle East and GCC region, governments are the largest employer and rely much on the foreign workforce as shortage of local talent. Also, there is lack of investments from private business houses to become mainstream employers. Thus, government policy and its direct influence on the management of SWF have severe impacts on growth of the SWF. This has led to the following hypothesis.

H4: *Lack of planning negatively affects the growth of SWF.*

3.3.5 Sponsoring country laws

Investors and ordinary population support to the government and investments is as crucial as legal and investment framework in GCC countries where sultanates are ruling and have final decision making powers such as Oman, Saudi Arabia, Qatar or UAE. The bureaucratic or autonomy maximisation trend of political economies in GCC region SWFs have created a situation where these governments completely lack

any governance, transparency, policy and laws for their respective SWFs. Therefore, when these countries responded to the demand of USA and other OECD countries for more transparency in SWF investments, these SWFs have provided mixed responses in terms of having own legal mechanisms or shifting their assets allocation to other higher return but high risk investment projects (Santiso, 2008). For example, China, Russia and UAE which are in top 10 SWFs, each of them have created its own framework which needs prior approval for every FDI transaction. For example, China revised its 'catalogue' in November 2007 for industry investment guidance and their 2006 act for merger and acquisition process; Russia has prepared 1999 federal law of foreign investment; and UAE has 40% limit of foreign company ownership in local companies (Greene and Yeager, 2008). These laws are response to developed countries' concerns over national and economic securities because of these SWFs' growth and political stability. Not only size and amount of deals worry the western governments but level of secrecy and accountability matter more. Analysing the top 22 SWFs, Lyons (2007) found that only US, Canada, Singapore, Malaysia and Norway have high level of transparency whereas GCC countries SWF have very low level of transparency. Oman's SWF has the lowest level of transparency with other funds such as Brunei, ADIA, Kuwait, Taiwan and Venezuela. Oman's SWF approach is also much conventional compared to UAE, Qatar, Singapore and China's strategic approach. This can have large impact on Oman's own resources allocation, protectionism and market dynamics within country and raises questions about the need of financial and political stability. The government of Oman in such a scenario shall take positive stance on reforms and reduce the bureaucracy and provide the right frame of investment and legal aspects leading to political, financial and national stability. This can directly affect SWF as it is much clear with presence of such mechanism that where should

money flow, how much and when. Thus, following hypotheses can be defined for the objectives of SWF sponsoring countries.

H5: *Political objectives can affect the transparency and;thus treatment of SWF by investee countries which can affect the growth of SWF.*

3.3.6 Structure

Apart from set of qualitative factors in and out of the country, SWF itself as an entity have complex issues, start from the purpose of setting up SWF to the final decision making expertise and usage of sophisticated tools. Since, these are the factors which can be easily categorised and measured in numbers, they are considered quantifiable.

As known from the detailed literature review about SWF, the structure of the SWF consists of its purpose of setting up, its ownership, command or hierarchy chain, sources of input funds and objective of utilization of funds. As Lyons (2007) said GCC region SWFs falls into the category of much conventional, very less strategic approach and very low transparency approach funds. This categorization allow one to think about who influences these SWFs, what is the purpose of setting up SWF. On one side, GCC region governments attempt to create non-oil dependent economies and on the other hand, the same government capitalizes maximum benefits from the oil and gas prices and demand as exporters. This revenue is again used to fund SWFs' multi-billion investment deals. Therefore as argued by Singh (2008) and Bernstein et al (2009), the key factors in the successful management practices of SWF is their purpose, objective and decision making ownership. Thus, basic structure of SWF sets the direction of remaining aspects of managing SWF.

H6: *A SWF should have a clear purpose which enables more efficient and transparent management, positively affecting the growth of the SWF.*

3.3.7 Investment deal

Deutsche bank research by Kern (2007) shows that US$ 3.1trillion assets are already managed by SWFs and which may grow to more than US$ 10 trillion as per IMF estimates. Key issues are open markets for SWF and political view of the investment strategies. Western governments argue about political motives (Lyons, 2007; Bahgat, 2008; Beck and Fidora, 2008; Gieve, 2008; Santiso, 2008) but SWF sponsoring countries governments argues about the loss making investments in 2007 and 2008 in the financial services and banking industries of USA and EU. They argue about being less expert in making investment deals and benefits of SWF. Researchers who studied investment deals in detail conclude that successful running of any SWF depends on deal terms, deal size, asset allocation and investment strategies and decision making using professional expertise (Balding, 2008; Bertstein et al, 2009, Chhaochharia and Laeven, 2009, Megginson et al, 2009). Hence, the following components of investment deals are very important to the management and strategies implementation in SWF.

H7a: *Fundamental and mechanism issues in investment strategy can directly impact the investments' performance and thus the success and growth of the SWF.*

H7b: *To lead to the growth of the SWF, deal size should be optimized by analysing the targeted investment opportunity for risk and return.*

H7c: *Assets allocation directly affects the growth of SWF.*

3.3.8 Operations

SWF have more diverse and riskier investment portfolios compared to other traditional holdings in allocating the government resources and their persistent investment strategies favouring a segment of industries can create specific investment trends (Bahgat, 2008; Balin, 2010). Governance and investment practices with best practices approach like managing other multinational finance company, SWF can save

themselves from growth decline and political interference (Mitchell et al, 2008). Lack of knowledge, skills and investment expertise can be developed between investee and SWF sponsoring countries with co-operation and common legal framework worldwide (Greene and Yeager, 2008; Santiso, 2008). Lack of system, tools and professional manager's utilization can be major barriers in the success of SWF (Zhang and He, 2009). Thus, any operational weakness can reduce the efficiency of investment strategy and the effectiveness of overall growth of SWF. Therefore, following hypothesis is formulated.

H8: *Use of expert knowledge systems and research in the decision making process prior to deal finalization will result in successful deals and increased investment opportunities resulting in the growth of SWF.*

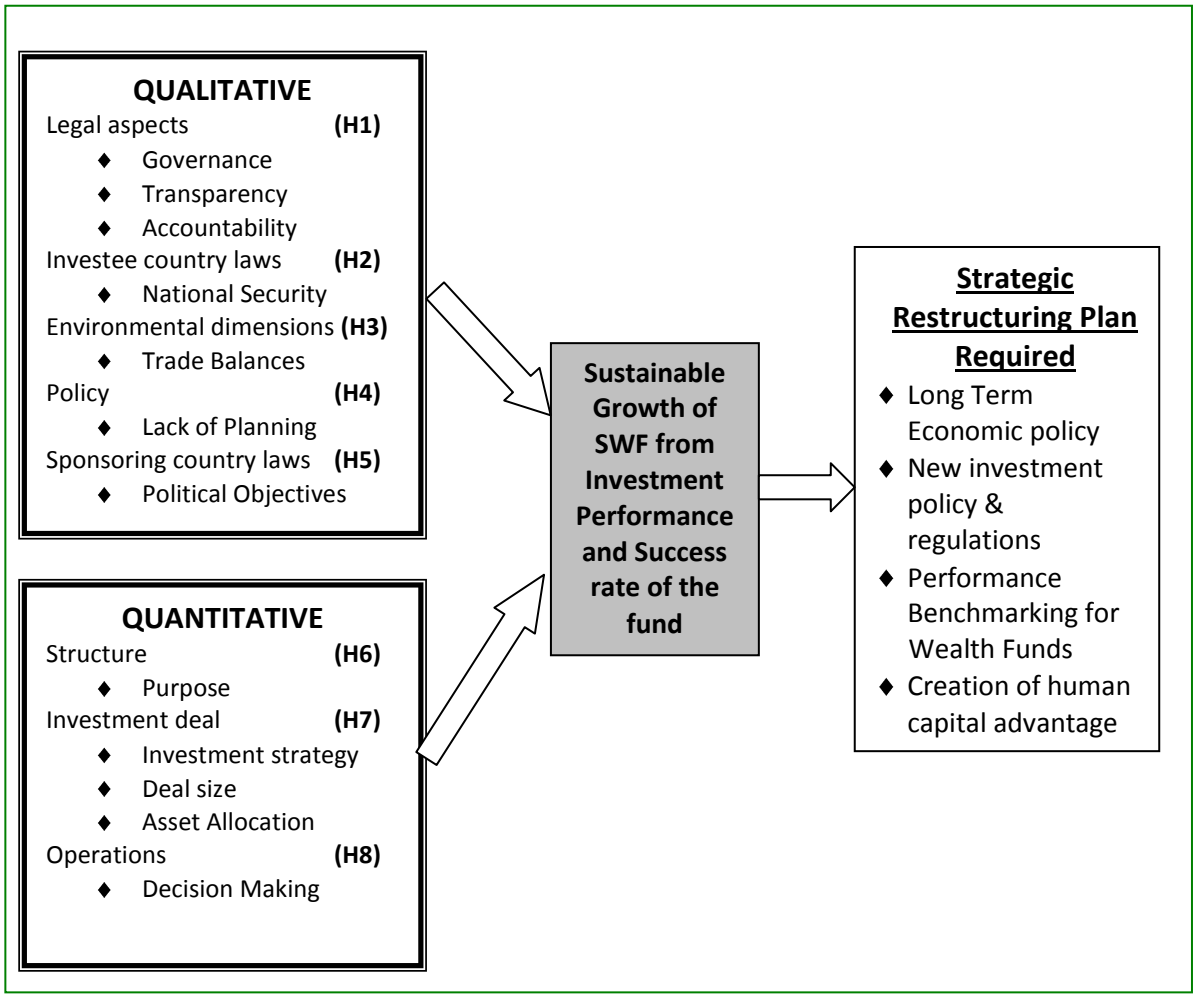
3.3.9 Growth of SWF

In the last decade many research studies have attempted to study the concept of sovereign wealth funds, however these studies have not analysed the sustainable growth of SWFs as a dependent variable. Two basic components for any SWF to grow are: first profitability or performance of portfolio or investments made and second, the worldwide acceptance and image of the particular SWF so that it can attract investment opportunities. Thus, investment performance and success rate of SWF are critical for an overall sustainable growth of SWF. In this research study, relationships between all independent variables - factors affecting and this dependent variable of growth of SWF are analysed. The growth of SWF is measured in two components: investment performance and success rate of SWF.

The measures obtained from literature for investment performance are policy, fund's benchmarking with other funds, development, divergence, economic contribution of

fiscal issues and overall rate of return achieved. The measures obtained from literature for success rate of fund are qualitative in nature or non-financial as they lead to the overall image, acceptance and development prospects of the SWF. These measures for success rate include talent, population's integration, trade decisions, consumer markets availability and any increase in governance and transparency, laws and regulations reforms. Both components' measures are backed up by research studies which analysed SWFs for different variables such as China SWF by Zhang and He (2009); all global SWFs by Lyons (2007), Truman (2008) and Anderson (2009); OECD study of SWFs by Santioso (2008); A case of Abu Dhabi SWF by Abdelal (2009); Norway SWF by Caner and Grennes (2010); A case of Singapore's SWF - Temasek Holdings by Clark and Monk (2010) and Heany et al (2011); Big four – Kuwait, Abu-Dhabi, Singapore and China SWFs by Pistor and Hatton (2011). The above mentioned eight factors (independent variables) affecting SWFs are divided in the following framework based on whether they are quantifiable or not, thus categorizing them into quantitative or qualitative group. The dependent variable is sustainable growth of SWF.

Figure 3.1 Initial theoretical proposition for Sovereign Wealth Funds



Source: Inferences from and Gaps in the Literature

Major factors are conceptualized as independent variables while defining hypotheses and proposing the initial theoretical framework. This hypothesized theoretical proposition is then operationally defined to measure these variables. Only upon defining their measures through indicators, one can measure the strength of relationship between independent and dependent variables and their statistical results lead one to test the developed hypotheses.

3.4 Hypothesized theoretical proposition

The hypothesised model for this research study is shown below according to the sequence of the hypotheses. The proposed framework is divided into three sements as explained below for the ease of understanding. The arrows depict inter-relationships between these constructs; and primary data responses in the form of questionnaires will be analysed to test these hypothesised relationships.

Figure 3.2 hypothesises direct influence of first set of qualitative factors such as governance, accountability, investee country laws and trade balances on the growth of SWF which are considered as independent variables. Research hypotheses $H_1 - H_3$ suggest that dimensions such as legal aspects, laws and environmental forces can influence the decision making within the SWF. Thus, these variables will have direct effects on the growth of the fund. This set of hypotheses $H_1 - H_3$ assumes that there is positive relationship between increase in governance, transparency, accountability and compliance to laws, ultimately resulting in higher growth of SWF.

Figure 3.2 Impacts of qualitative factors on SWFs

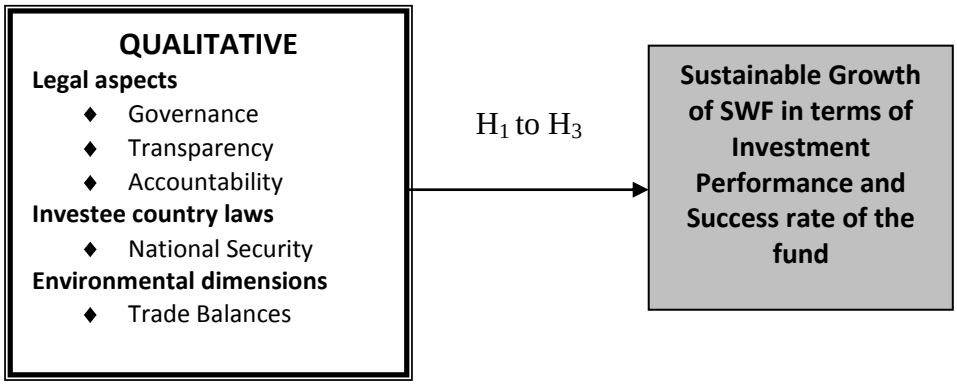


Figure 3.3 hypothesises an association between the 2nd set of qualitative factors of policy and laws of SWF sponsoring countries to country's SWF. Research hypotheses $H_4 - H_5$ suggest that dimensions such as planning, policies and objectives of setting up

SWF by government of sponsoring countries can affect the dimensions of the sustainable growth of SWF. This set of hypotheses H_4 to H_5 assumes that there is positive relationship between independent variables of better policies and appropriate planning and investments performance and success rate of the fund in terms of size and credibility.

Figure 3.3 Impacts of qualitative factors on SWF

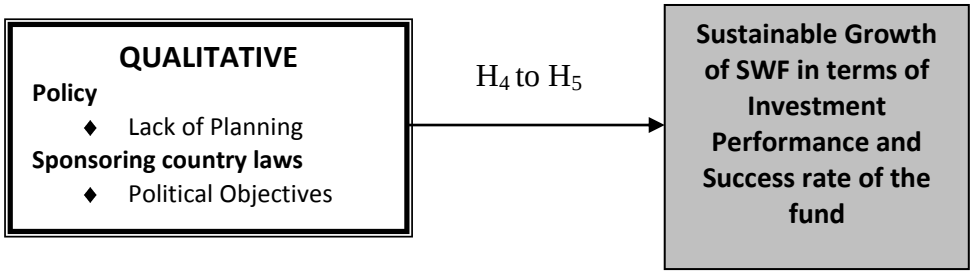
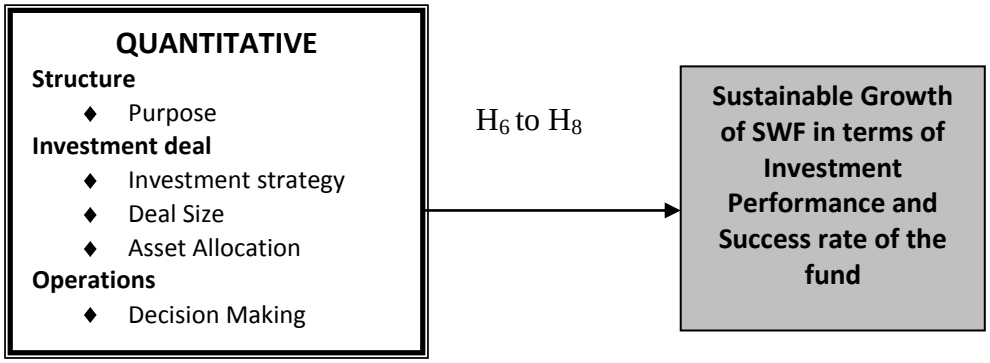


Figure 3.4 hypothesises an association between the quantitative factors of structure, decision making and investment deals of SWF to the growth of SWF. Research hypotheses $H_6 - H_8$ suggest that dimensions such as quantitative factors have positive impacts on performance and overall success of SWF and thus on the growth of SWF.

Figure 3.4 Impacts of quantitative factors on SWF



3.5 Operationalization of variables

The process of operationalizing variables refers to the concept where these variables can be directly or indirectly measured. Concepts are the building blocks of the theoretical framework and research is conducted around them. Once measured, concepts provide the relationship and meaningful information between variables. Measurement in the analytical study such as this one becomes necessary in quantitative techniques because to delineate fine differences between the different characteristics in question; to provide a consistent device for analysing the distinctions between patterns and to create the basis for precise estimation of the degree of relationship between variables and concepts used (Neuman, 2006; Bryman and Bell, 2007). Indicators are then employed through number of questions to measure the concept directly or indirectly depending largely on the qualitative (perceptual nature) or quantitative (numbered nature) type of the concept. To measure a concept one can utilize as many indicators as possible to extract the exact meaning or quantity of the strength of variable (Neuman, 2006; Bryman and Bell, 2007).

In this framework, factors are already grouped as qualitative or quantitative in nature which makes it easy to apply measures to them. Selection of these factors and their dimensional concepts are justified with supporting evidences from literature citing required references and hence, not replicated again here in the discussion. Table 3.2 provide the operationalization details about indicators and scales applied in case of each factor and related hypothesis based on the conceptual framework in figure 3.1 and the questionnaire (Appendix F).

Table 3.2 Operationalization details of framework

Factor affecting SWF	Hypothesis number	Dimension(s)	Type of Indicator(s)	Scale applied
Legal aspects	**H1**	Governance Transparency Accountability	Perceptual questions	Likert 1= strongly disagree TO 7 = strongly agree
Investee country laws	**H2**	National security	Perceptual questions	Likert 1= strongly disagree TO 7 = strongly agree
Environmental dimensions	**H3**	Trade balances	Perceptual questions	Likert 1= strongly disagree TO 7 = strongly agree
Policy	**H4**	Lack of planning	Perceptual questions	Likert 1= strongly disagree TO 7 = strongly agree
Sponsoring country laws	**H5**	Political stability	Perceptual questions	Likert 1= strongly disagree TO 7 = strongly agree
Structure	**H6**	Purpose of SWF	Direct questions and Perceptual inquiry	Likert 1= strongly disagree TO 7 = strongly agree
Investment deal	**H7**	Investment Strategy Deal Size Asset allocation	Direct questions and Perceptual inquiry	Likert 1= strongly disagree TO 7 = strongly agree
Operations	**H8**	Decision making	Direct questions and Perceptual inquiry	Yes / No measure And 1 to7 Likert scale

Source: Neuman, 2006; Bryman and Bell, 2007; Saunders et al, 2009

3.5 Socio-economic factors

Apart from the eight independent variables or factors affecting shown in the conceptual framework, there is one more category of factors that is social and economical factors within the sponsoring countries. Literature in social science, human resource management, economics and business culture has proven that such factors can affect the way business is carried out. Since these are proven concepts in the literature, they are not included as hypotheses in the framework. However, top management's

interviews may reveal the necessary information regarding these factors and their effects. Such factors may not seem affecting SWF directly but these factors allow SWF investments to be successful when made in the projects within the sponsoring country. Also, changes at such root level allow country to realise benefits in the long term and increases investee country confidence about national development and economic growth in attracting foreign investments. Hence, these socio-economic dimensions are critical to the success of in-country investment strategy of SWF and outlook of the development to foreign countries. For example, culture and religious beliefs can lead to social cohesion and harmony which can increase confidence in business. Business traditions like Islamic finance give more opportunities to local population to come forward with innovative investment opportunities thus opening avenues for SWF. Hence, considering this context of factors actually critical for SWF, only eight factors are accounted in the framework.

3.6 Conclusion

This chapter has detailed the conceptual theoretical proposition about which factors can affect the most critically to sustainable growth of any SWF. The developed hypotheses about each factor and its operationalization are explained in detail. The next chapter would describe the research methodology selected and applied in this research study.

Chapter 4 Research methodology

4.1 Introduction

This chapter describes the selection of research methods and the reasoning for adopting these methods. The chapter applies the focus of sovereign wealth fund, research questions, objectives defined in chapter one and developed hypotheses in the previous chapter as a basis to select the research methods. Main components of the research methodology selected are research philosophy, research approach, research strategy and research design comprising sampling, data collection and data analysis methods within the scope of this research study. Therefore, this section is data theory component of the research process model given by Philips and Pugh (1994). It has been has attempted to limit the effects of errors, biases and limitations and to maintain the research ethics protocol during the entire study. Next sections in the chapter explain these features in detail.

4.2 Research objectives

The previous chapter of the proposed conceptual framework mentioned the major factors affecting the SWF. The main aim of analysing these factors and strength of their relationship with dependent variables of performance and success rate of sovereign wealth fund is to find out the remedial measures in terms of which factors to be addressed first by the SWFs to improve their growth prospects. In doing so, the proposed initial framework has been conceptualized as variables of two categories, qualitative or quantitative. Thus, central theme of this research and research objectives enable one to choose an appropriate stance of how to carry out the research and applying which methods. The following sections describe details about the methodological approach adopted in this thesis.

4.3 Research philosophy and approach

This section provides the rationale for using 'interpretivism' and 'positivism' research philosophies and a mixed research approach combining: 'inductive' study through qualitative analysis of secondary data, interviews, and 'deductive' study using quantitative analysis of data obtained through questionnaires (Saunders et al, 2009).

Literature review has examined various factors affecting growth of sovereign wealth funds which revealed that little research has been carried out in terms of both qualitative and quantitative variables in a specific SWF context. Thus, indepth analyses of academic literature and industry data about SWFs led to the conceptual framework as proposed in the previous chapter three of this thesis. These qualitative analyses and formation of conceptual framework suggest that interpretation and meanings are applied to build the proposition. This process is closely matches the components and application of interpretivism philosophy and an inductive research approach (Neuman, 2006).

In addition to this, mainly research philosophy depends upon the way it is attempted to address the research problem such as development, refinement, extension or testing of theories (Easterby-Smith et al, 2009). This study is about the development and testing of the conceptual framework consisting growth of SWF and factors affecting it. The acceptable standards and views of every research make the methodology and research process distinct. The research philosophies in the management influence the research design and processes, the way research is carried out for example, it leads to a major question of which is first, theory or data (Neuman, 2006; Easterby-Smith et al, 2009).
Research philosophy relies on two aspects: how much world can perceive an idea of research issue and up to what extent one can analyse, understand and infer the

meanings from the data to develop the body of knowledge (Saunders et al, 2009). These can be further categorised into three different philosophical viewpoints called: positivism, interpretivism and realism. In this study, a combination of research philosophies interpretivism and positivism is applied. Interpretivism application is justified in analysing literature and developing the conceptual framework whereas positivism is justified in testing the proposed framework and hypotheses generated based on the causal relationships in the framework.

Interpretivism is defined as an alternative to the positivism orthodoxy. This philosophy applies the details of the situation to understand the reality or the reality working to create the situation as argued by Remenyi et al (1998 as cited in the Saunders et al, 2009). Interpretative theorist attempts to find the meaningful explanation of an event or a fact within a research context specific to the subject. This allows information to be interpreted to analyse the topic. Neuman (2006) defines the interpretivism as

> "*it is the systematic analysis of socially meaningful action through the direct detailed observation of people in natural settings in order to arrive at understandings and interpretations of how people create and maintain their social worlds".*

Use of a single type of philosophy may create over dependence on one type of data or unidirectional inferences; thus keeping in sight this reason of data and biases, it was decided to use both philosophies in this study (Bryman and Bell, 2007). Hence, reducing an over dependence on the single philosophy is one of the reason of adopting mixed methodologies and also, it is the requirement of subject such as SWF concept which requires exploration at first to develop the framework and then analysis and testing to refine the concept. Qualitative aspects and current status of management issues can be the best understood by discussion with managers and decision makers of

SWF. Thus, qualitative analyses of interviews and secondary data are adopted as compared to quantitative analyses in the form of statistical tests for questionnaire data.

Positivism stands for the application of the scientific methods to study social research. With this type of positivism, researchers prefer working with an observable reality and try to make law like generalization at the end of analyses of findings (Saunders et al, 2009). Contrary to the interpretivism, positivism usually demonstrates the causality which can be proved or can be tested by deduction of hypotheses. However, positivism requires that theoretical concepts are operationalized first before any measurement process takes place and; results may be generalized through statistical analyses which need the large number of units of analysis in the samples (Easterby-Smith et al, 2009). Positivism is a highly structured methodology which normally produces objective facts and establishes the truth like experimental research of observations, facts and numbers. On the other hand, interpretivism derives meanings and values without having direct relation between subjects and objects (Williams and May, 1996). The realism or positivism has an underlying assumption of considering the reality and the existence of what is already being known to use in the analyses with events, entities and structures included in the research field. It is considered to be independent of research beliefs and values that can be a bias to the quality of feedback from respondents (Easterby-Smith et al, 2009).

These research philosophies of interpretivism and positivism are closely aligned to main research approaches inductive and deductive respectively. More clear the adoption of a research approach, more clarity it would bring in developing or testing the concept (Sekaran, 2003; Neuman, 2006). Inductive approach is defined as a process which takes inferences from data analyses to formulate or to develop the theory

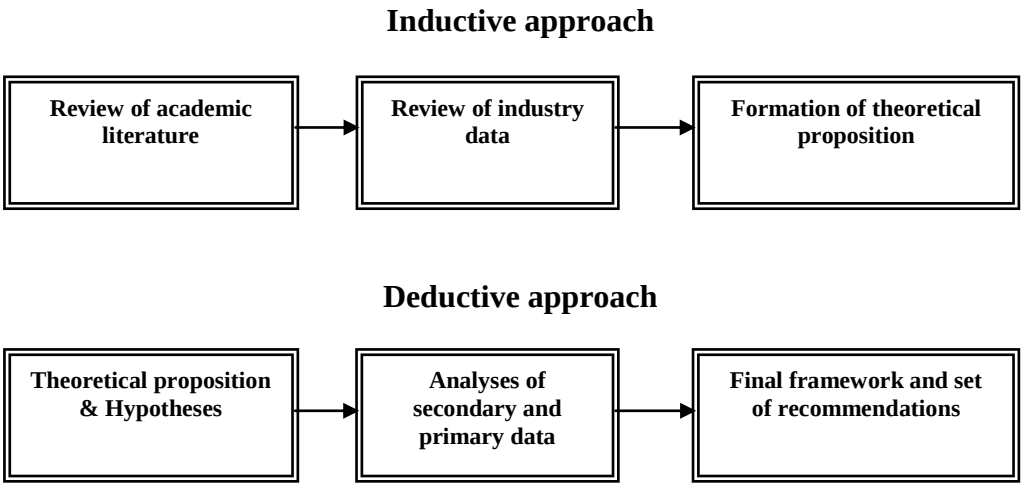
whereas deductive approach is about taking this developed or proposed concept or theory to data for testing the proposition for impacts, causal relationships or defining measurements using statistical analyses such as correlations or regression of structured data for example questionnaire data in this study (Neuman, 2006).

Both these approaches are selected in this study. Literature review and its qualitative analyses leading to development and proposition of the conceptual framework is the inductive approach of this research study. The deductive approach is applied in the form of testing the proposed framework from qualitative analyses of secondary and interviews data and statistical analyses of primary questionnaires data of Oman SWF.

In addition to formation and testing of theoretical proposition, these approaches enable to find more perspectives regarding investment strategies and management issues as part of developing the proposition which leads to the methodological triangulation and rich information exploration (Bryman and Bell, 2007; Easterby-Smith et al, 2009). Development of conceptual framework proposition based on the review of academic literature and industry data about SWFs is result of the application of inductive approach in this study as shown below.

The deduction approach allows one to test the proposed conceptual framework based on the analyses of secondary data and primary data through interviews and questionnaires from selected case studies of SWFs which is shown below.

Figure 4.1 Research approaches



Source: Adapted from Neuman (2006); Bryman and Bell (2007)

Combination of these two approaches provides sufficient evidence and results to work towards finalizing the theoretical proposition and generalizing the recommendations. The research philosophy and approaches lead to the selection of an appropriate research strategy. Given that the research focuses on the casual relationships of factors affecting SWF, SWF affecting economies and industries, the other constructs such as religion and culture are considered as constant themes. This study first explored theories relating to SWF then formulated a conceptual framework of relating hypotheses between factors affecting SWF as independent variables; and dependent variable of growth of SWF. This set of activities was part of inductive approach and qualitative analyses of literature and data as explained in the chapter one, two and three of this thesis.

The second deductive part of this study tests hypotheses based on the qualitative analyses of secondary data and interviews transcripts and quantitative analyses of questionnaire data. Thus, it can be said that this research study has selected mixed

methods approach. The next step in the research process after finalizing the research philosophy, approach and types of analyses is to decide which strategy can be implemented to carry out the research. This is explained in the next section.

4.4 Research strategy: The case study method

It has been said that empirical or analytical studies are carried out to answer the research questions. Hence, research design is conducted in a context where it becomes congruent with its theoretical underpinning (Ghauri and Gronhaug, 2002). This selection of research design is preceded by an appropriate research strategy for the topic under investigation. Knowing the course of research study such as philosophical stance or research approach applied such as mixed methods allows one to finalize the research strategy – a plan of how to carry out the research study keeping in view the aim and key research questions. This study has done literature review and industry data analysis to formulate the initial conceptual framework proposition and collects primary and secondary data to test this proposition according to the deduction approach application. The data used to test the theory is collected from respondents attached directly and indirectly to Oman SWF. The purpose is to seek solutions about which factors affect the growth, success rate and investment performance of SWFs and once these factors are known then how to utilize them for the sustainable growth of any SWF.

Primary and secondary data is sourced from Oman SWF by different data collection methods however it concentrates on a single unit of analysis Oman SWF. Apart from deduction approach using descriptive statistical tests to finalize the conceptual framework, Norway SWF is also analysed to compare with Oman SWF for the factors selected in the framework plus other organisational attributes such as size and

structure. The cross case comparison allows to ascertain what are the issues within Oman SWF and what can be done to achieve best performance for Oman SWF. This type of research design selection is the most suitable under the case study research strategy where in-depth exploration of each unit of analysis is necessary.

4.4.1 The case study method

Yin (2009, p.13) defines case studies *as "an empirical inquiry that investigates a contemporary phenomenon within its real life context especially when the boundaries between phenomenon and context are not clearly evident".*

Cutler (2004) classifies case studies according to their purpose and utility such as teaching cases for discussion and debates; historical cases for information storage and retrieving; diagnosis cases used in professional practice and finally, research cases for investigation activities. Yin (2009) categorises case studies based on the type of research they are deployed into such as exploratory case studies for structured or deductive approach research, descriptive case studies to describe the effects or impacts and the explanatory cases to explain for example a company's business process. Case studies provide a holistic view of the process such as investment or decision making in the company like sovereign wealth funds in this study. Case studies are detailed investigations into a complex entity that signifies the uniqueness of case study and are important tool to make theoretical contribution.

In this thesis, case studies are important because constructs and linkages are not developed as SWF is a new concept and its body of knowledge is not developed in terms of any particular SWF theory. However, in this case it is attempted to develop explicit hypotheses based on the conceptual framework formulated from literature and industry data. Thus, case studies can help to develop the research and knowledge further for the concept of SWF (Eisenhardt, 1989; Barr, 2004). Case study research

strategy enables large amount of data collection rich in description and analyses for specific perspectives for example performance of group of SWFs. Thus, conceptual and causal relationships between different constructs or variables can be understood such as factors affecting growth of SWFs in this study. Case studies can be utilized as a combination research strategies with experimental or survey research. Case study research can be defined as an experimental or an analytical investigation of phenomena in practical context where barriers between phenomenon and context are blurred and multiple sources are used to get data (Miles and Huberman, 1994; Neuman, 2006; Yin, 2009). Case studies are selected over other methods when comprehensiveness of understanding is required more than statistical analyses and current information regarding a phenomenon or a theory is inadequate. Hence, it is a powerful method to study contextual factors like what drives country and SWF to the growth and what business process or investment strategy must be followed (Miles and Huberman, 1994).

In this study, the selected case units are SWFs of Oman and Norway. Both these SWFs have investments made on a global scale and its profitability can impact to the balance sheets of their respective country's investment portfolio. Other data from Oman and Norway SWFs are analysed in the next chapter of secondary data analyses.

4.5 Triangulation

As defined by Robson (2002) triangulation, a concept taken from engineering is applied by management researchers in the measurement of constructs to reduce any chance of errors because lack of methodological rigour, data sources, observations or theories. This concept of triangulation in management was introduced by Webb et al in 1960s and Denzin in 1970s as mentioned in Bryman and Bell (2007). The application

of triangulation technique is about utilizing multiple observers, theoretical perspectives, data sources, methodologies, approaches and analyses to identify and to minimize the impact of errors in the complete research process. For example, if authenticity of a data source is low then better to apply data triangulation and collect data from multiple sources. In this way, triangulation helps researchers to increase the validity of the findings and thus becoming confident about the generalizations and recommendations made, thus increasing the contribution and usage of the research done (Miles and Huberman, 1994). Since, this is not laboratory experiments research, one can implement four types of triangulation in this study:

(1) Data triangulation – collecting from questionnaires, interviews and secondary data;

(2) Methodological triangulation – using both inductive and deductive approaches;

(3) Theoretical triangulation – proposed framework as consider maximum possible variables in both quantitative and qualitative categories derived from key inferences from the literature review, of possibly all recent perspectives on sovereign wealth funds research; and

(4) Data Analyses triangulation – using multiple analyses and evidences to test hypotheses such as regression, descriptive statistics, interviews, secondary data of SWFs and literature support (Neuman, 2006; Bryman and Bell, 2007).

4.6 Sampling

Sampling is a vital function of the research process in finalizing the data collection plan as a major activity of research design. Researcher should take sufficient number of units of analysis as a representative sample drawn from population domain which finally provides required data for the analysis purposes in the research inquiry (Sekaran, 2003). Sampling enables the selection of a representative sample of the population because it is rarely possible that whole population is utilized as a sample.

Thus, sampling techniques categorised as probability and non-probability are known for enabling data collection process to be practical in terms reducing cost, time and complexities. Samples can be further classified based on different criterion applying different stratums, filters, clusters, randomness and proportion. Probability sampling refers to the method of selecting units from population in such a manner that all units of population will have equal probability of getting selected in the sample (Saunders et al, 2009). Probability sampling is selected for this study because Oman SWF has smaller population of employees and other stakeholders. The population of respondents for this case study of Oman SWF is formed by employees and management stakeholders attached to it directly and indirectly, such as advisors, ministers and all levels of organizational hierarchy. Sample size can be calculated based on number of variables in the framework (Pallant, 2010) or based on the margin of error (Saunders et al, 2009).

Stevens (1996, p.72) recommends about 15 responses per independent variable whereas Tabachnick and Fidell (2007, p.123) suggest minimum 50 + 8m variables having m = number of independent variables. In this study, there are eight independent variables as mentioned in the conceptual framework in previous chapter. Thus, according to these variables based formulae, this study requires either 15x8 = 120 or 50+ 8 (8) = 114 responses as sufficient number to carry out statistical tests using SPSS software (Pallant, 2010).

The main problem in getting 114 or 120 responses is that there are not many executives working within Oman SWF in middle and top management. Therefore, it would be advantageous to get maximum possible responses from middle management through questionnaires and from top management through interviews.

The other method to determine the sample size is based on the level of accuracy expected. The larger sample enables reduction in errors and increases validity for making generalizations as they represent larger proportion of population (Sekaran, 2003). As mentioned in Saunders et al (2009, p.210) *"the larger the sample size lower the likely error in generalising the population; therefore probability sampling is a compromise between the accuracy of the findings and time and money invested in the collecting, checking and analysing data"*

Thus, sample size calculation is governed by level of certainty required, tolerable margin of error, type of analysis to be undertaken and available size of the population (Saunders et al, 2009)

In this study, total available stakeholders and employees attached directly or indirectly to Oman SWF are not more than 400. This is not a large population and also response rate can be low for questionnaire survey. Therefore, maximum possible respondents from this population would be contacted for questionnaire survey. According to 5% margin of error and 400 respondents' population, one requires a sample size of only 168 (Saunders et al, 2009; p.212). Hence, the minimum number of responses required is between 114 and 168 according to both methods of sample size calculation.

Apart from questionnaire survey, data will be collected through interview as well from top management executives, advisors and ministers because they can provide first hand information for factors and issues affecting the successful operations of SWF. Thus for interviews, ministers and top executives in relevant parliamentary level departments are approached, in the range of 30 to 40 persons. From 40 potential interviwees contacted, following sample of 20 interviewees agreed to take part in the interviews.

Table 4.1 Final Interview Sample

Interviewee number	Interviewee Designation	Relation or Responsibility to Oman SWF
1	Al-shura council speaker	Law and policy making for country in conjunction with parliament
2	General secretary state council	Law and policy drafting and implementation in conjunction with parliament
3	Dy. CEO	Employee in Oman SWF
4	General director of investment development	Inevstment activities with Oman SWF
5	General director – financial audit	Auditing of Financial agencies
6	General director – investment planning	Investment planning for Oman
7	Vice-chairman – Shura council	Law and policy making with parliament
8	Economic expert – Al-Shura council	Research expert who can advise SWF
9	Technical expert – Al-Shura council	Technology expert who can advise SWF
10	Economic researcher – State council	Research expert who can advise SWF
11	Economic researcher – State council	Research expert who can advise SWF
12	Dy. CEO IT authority	Planning and IT expert
13	Economic expert – State council	Research expert who can advise SWF
14	Economic researcher – MoF	Research expert who can advise SWF
15	Political researcher – Oman News Agency	Can help for bilateral relations and trade with other countries
16	Director – National Economy Ministry	Can advise for planning of governance and Revenue mechanisms of SWF
17	Member – Al-Shura council	Planning and policy making
18	Employee – Royal Office	Repoting to Sultan, can advise for planning
19	Employee – Royal Office	Reporting to Sultan, can advise for administration
20	Executive – Internal security	Can advise on national security issues

Desing and process of data collection done using questionnaire and interviews are explained in the next section.

4.7 Data collection and analysis techniques

Data collection is a vital component of research design as it enables the researcher to develop or to test the theories. The usual instruments of data collection are questionnaires, interviews, observations, experiments, discussions, archived documents and historical transactions. Data can be classified as primary or secondary. Primary data is collected by researchers themselves whereas secondary data is data sourced already published or existing information. Both categories of data have issues of reliability and validity embedded in them due to data collection instruments, scale applied, authenticity of data sources, biases from respondents or researchers. Therefore, multiple data collection in the form of use of different data collection instruments or many sources of data helps the researchers to reduce errors and increase the validity of the results. This is called data triangulation application (Saunders et al, 2009). It is proposed to collect both primary and secondary data from SWFs and also utilize two data collection instruments: questionnaires and interviews. The deduction process of testing the hypotheses of the conceptual framework will have evidence collected from three sources: secondary data from SWFs' websites and reports, primary data through interviews and questionnaires.

4.7.1 Interviews

The first issue to be resolved for data collection through interviews is how structured the interview should be. According to the classification based on a level of structure, in this study semi-structured interviews are utilized which is closely aligned with guided open interview style (Easterby-Smith et al, 2009). In this study, interviews are used in the data collection process to explore and to extract more in-depth information from top management and ministers about SWF.

The following interview protocol and set of interview questions were prepared as a guideline to conduct the interview process without any bias from interviewer. The confidentiality, academic purpose of the research and no recording of responses were conveyed to the interviewees in advance to minimize the interviewee bias (Sekaran, 2003; Bryman and Bell, 2007).

Semi-structured interviews with open ended questions would enable to extract maximum possible information about SWF and get rich description required for deduction of conceptual framework through multiple data sources, as compared to the structured interviews and close ended questions in the interviews (Bryman and Bell, 2007). The variation or pattern emerging out of data and willingness of respondents to reveal detailed information are more evident in semi-structured and flexible style of interviewing which keeps the interviewees at ease (Sekaran, 2003; Neuman, 2006).

Errors are attempted to be minimized in the interview data collection by applying various techniques such as open ended and less impactful questions, appropriate tone of the discussion, practicing the interviews in both languages English and Arabic, advance approvals and agreed meeting times, flexibility in the order of questions, conveyed confidentiality and academic purpose of the interviews in advance to interviewees. Analysis of interviews is done using categorising, coding and transcribing the data collected from interviews (Saunders et al, 2009). Conducting interview requires much ethical, morality and interviewer bias control since interpretation and recording of responses is done by interviewer alone and not by respondent as in the case of questionnaire where respondent selects the answer. Thus, interview process needs a protocol as mentioned below.

Interview Protocol

Type of Interviews	:	Personally administered, face to face and semi-Structured
Interview duration	:	45 minutes to 90 minutes
Level of interviewees	:	Decision making in Wealth Fund and Ministry of Finance (For example, under-secretary, member of parliament, chief executive officer, general manager)
No. of executives in sample	:	total 30 to 40 executives from all relevant departments
Purpose and style	:	Information exploring and extraction by medium level probing
Place of interview	:	Department office or conference room
Language	:	English and Arabic as suited to the respondents
Confidentiality	:	It is explicitly made clear to the respondents that purpose of the research is academic.
Morality and Ethics	:	Each respondent would be requested for interview in advance and data collection would proceed on the receipt of written consent from each participant.
Recording responses	:	Interviewer will explain to each interviewee that the interview needs to be recorded for the study. In addition to giving consent for conducitng the interview, each interviewee would be asked to give a written consent for recording the interview.
Information exchange	:	Few questions for selected topics are prepared in advance where as rest of the discussion may take its own course.
Type of questions	:	Open ended, describing and explaining situation or process
End of interview	:	Thanking the respondents for their time and contribution. Providing them interviewer's contact details in case they wish to receive brief summary of the research. Interview transcripts are given in Appendix E.

4.7.2 Questionnaires

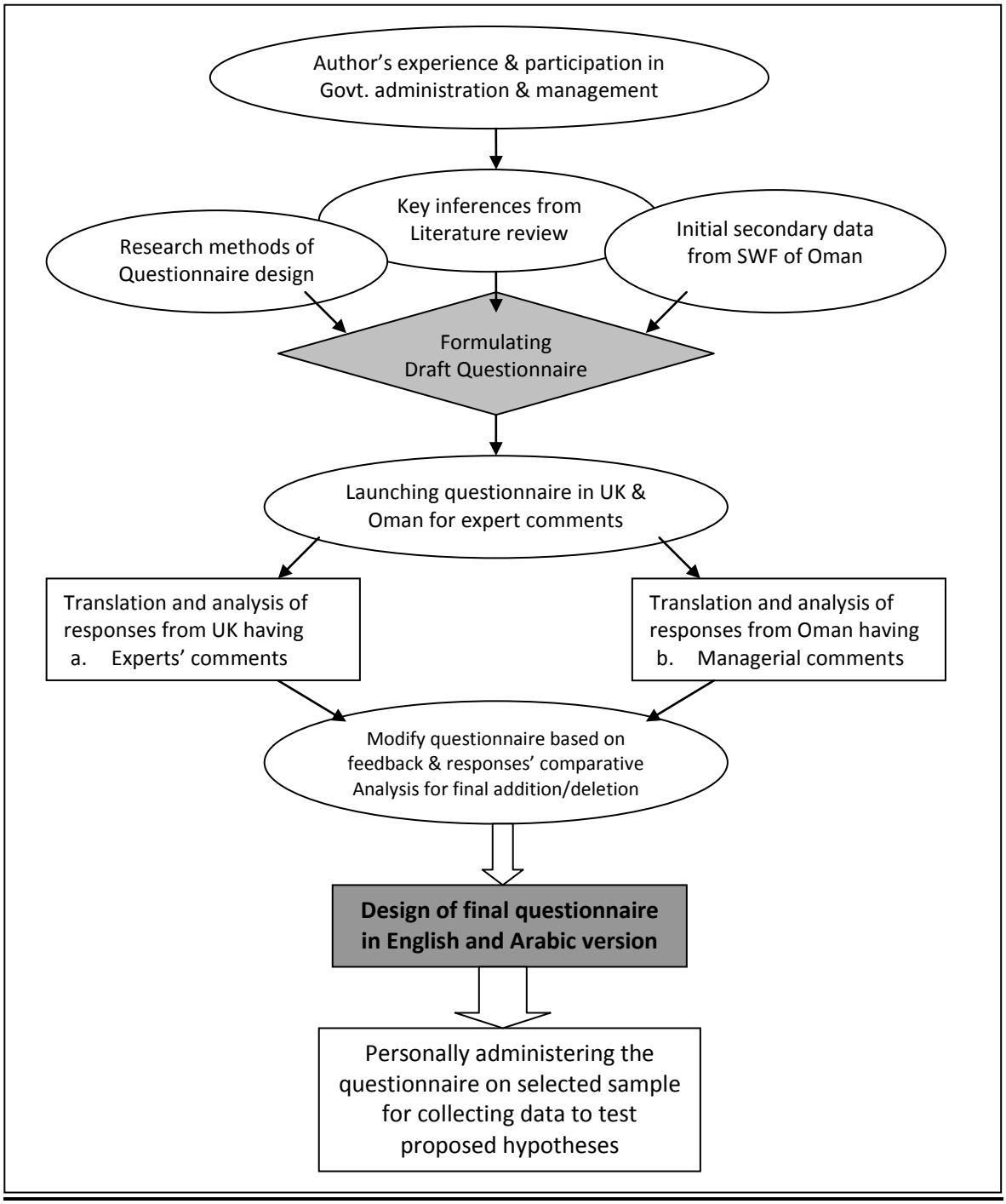
Management researchers usually make use of questionnaires in the survey research however questionnaires can be useful in the case study research strategy too. Questionnaires are mainly a structured form of pre-set questions with different scales to measure variables. For example, Likert scale of 1 to 7 designed and applied for this study (Neuman, 2006; Yin, 2009). Questionnaire is widely used and approved form of data collection when one wants to collect large data in short time from many respondents. Also, questionnaire's importance is increased over the time with more statistical tests and software are developed in the support of questionnaire for example SPSS. Recent developments include questionnaires sent by emails or filled online on the websites due to internet technology developments (Dillman, 2000; deVaus, 2002). Questionnaires are advantageous over interviews in terms of time, cost, location, analysis and overall ease of data collection process (Sekaran, 2003; Saunders et al, 2009). The design of questionnaire in terms language of questions, scale applied, order of the questions, respondents understanding of questions can impact the quality of data it generates for analysis. Also, the data analysis techniques such as statistical tests and the use of software shall be known in advance prior to collecting data through questionnaires (Bryman and Bell, 2007; Saunders et al, 2009).

Question types

The Likert scale of 1 to 7 is applied instead of 1 to 5 to provide more choice of answers and to get exact views of respondents about SWF. The same scale is applied to all questions for better comparison, analysis and ease of understanding for respondents. Set of 10 questionnaires were launched initially as a pilot study to check how the respondents feel while answering the questions. This was done in the form of sending questionnaires to experts and managers for their comments about design and content of

questionnaire. Considering these comments, final questionnaire is designed as explained in figure 4.2. Major points to remember while designing questions are: no negative words, no use of acronyms and multiple meaning phrases, no abbreviations used, no use of emotionally loaded questions, to the point direct measurements, clear explanation of ethics, confidentiality and academic purpose and simple language (Saunders et al, 2009; Pallant, 2010). Following diagram provides the necessary procedure adopted for designing the final questionnaire for primary data collection.

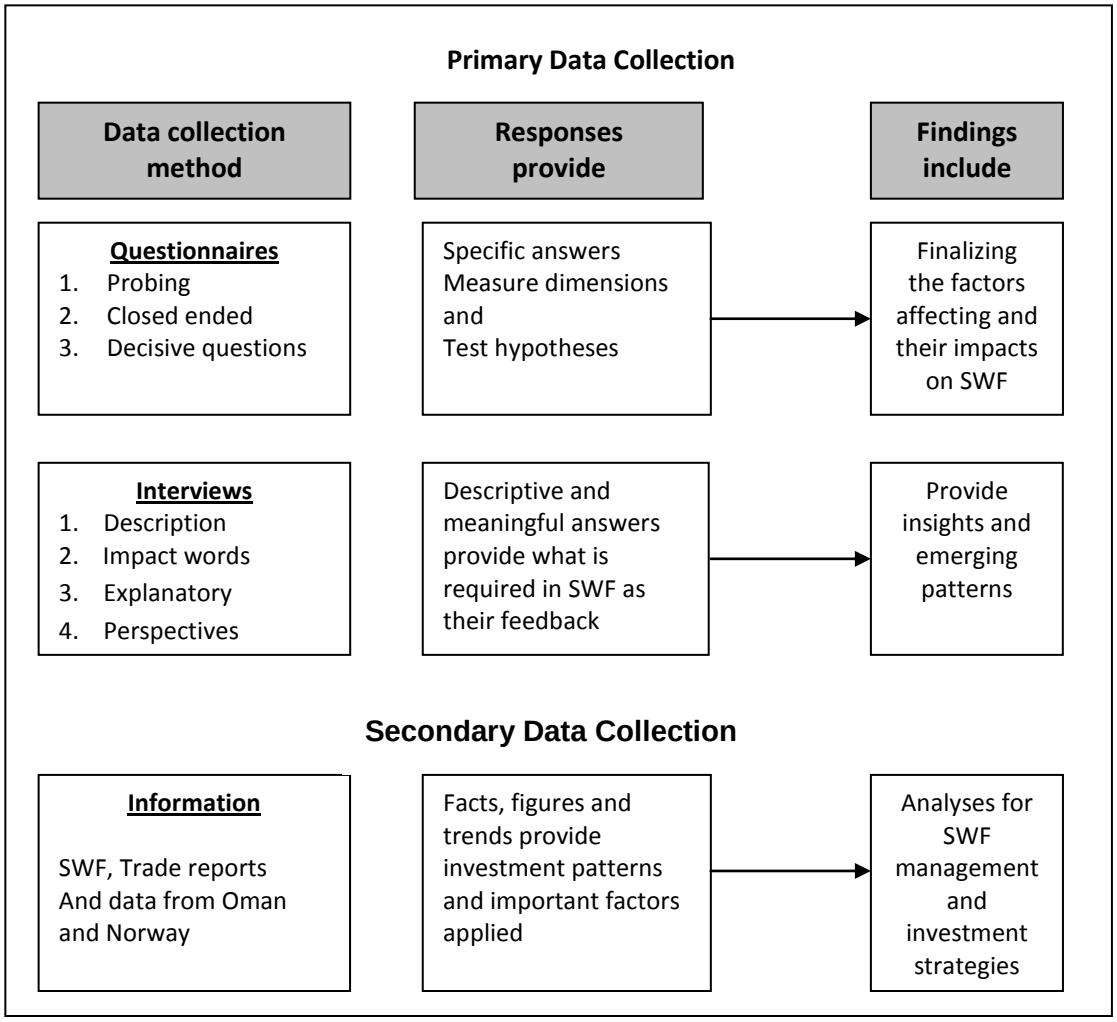
Figure 4.2 Questionnaire Design



Adapted from Neuman (2006); Bryman and Bell (2007); Saunders et al (2009)

Such a design procedure followed for questionnaire minimizes the occurrence of errors and reduces any influence of biases thus, increasing validity of the data and results. The following diagram summarises the data collection methods and its further use in the analyses.

Figure 4.3 Data collection methods



Adapted from Bryman and Bell (2007); Saunders et al (2009)

4.7.3 Data analyses

Analysis of Interview transcripts

Interview transcripts are analysed in three steps. First, major themes from each question and framework of factors are drawn to structure the flow of analysis. Secondly, notes made during each interview are converted into transcript or main message from the interviewee. Finally, this transcript is then explained and understood based on the content analysis using theme structure derived in step one (Saunders et al, 2009). This sequence with detailed interviews analysis is in the sixth chapter of this thesis.

Analysis of Questionnaire responses

The data analysis is carried out using descriptive statistics and other parametric and non-parametric statistical tests. However this requires prior coding, screening and cleaning of the data in a structured format using the software, in this case it is SPSS version 18. This is needed if any inconsistencies are left in the questionnaires by respondents or in creating data files from the filled questionnaires. The SPSS software manual by Pallant (2010) is followed for carrying out various required tests on questionnaire data. The sequence of test include feeling the data, checking reliability and validity, reducing the data using principal component analysis (factor analysis) and analysing the data based on the correlations and multiple regression test results. These are explained as follows.

Mean, mode, standard deviation, range and variance results are obtained for main independent and dependent variables. An inter-correlation matrix of all variables of the framework is obtained, irrespective of their relations to hypotheses developed. These descriptive statistics provide feel for the data which is a measure of central tendency to see their dispersion or cluster formation as a group of variables.

Choosing a correct statistical analysis of data for testing hypothesis and relationship between variables is one of the most important tasks in the data analysis (Neuman, 2006). Factor analysis allows one to condense a large set of variables such as eight major factors affecting the growth of SWF as mentioned in chapter three. These large set of variables can be scaled down to smaller and manageable number of dimensions and factors (Tabachnick and Fidell, 2007). This is done by expressing their correlation and analysing their clusters of related items. This is commonly used for developing scales and measures (Pallant, 2010). Discriminant function analysis can be applied in this case as one explores the predictive ability of a set of independent variables, on the

dependent measures such as success rate and performance of SWF. Canonical correlation may help in this case when one wants to analyse the relationship between two groups of factors as divided by qualitative and quantitative. Use of multiple regression analysis is made to measure overall predictive ability of all factors on the dependent variables of success rate and performance of Oman SWF. The group of analyses would facilitate the testing of strength, causal relationship, fitting in the framework and their impact on one another for all variables in the theoretical framework made (Tabachnick and Fidell, 2007).

4.7.4 Research ethics issues

This research involves human participants in the data collection by interview and questionnaire responses. Therefore, it must acknowledge the conformity to the basic principles and rules of ethics. Four basic principles are **autonomy, non-malfeasance, beneficence and justice**. Autonomy involves respect and safeguard to persons and their protection against abuse and harm. Non-malfeasance is an obligation not to inflict harm or risk as a result of the research. Beneficence is an obligation to maximise benefits and minimise harm. Justice is about treating people well and having right morale that is equal opportunity. Adhering and maintaining these principles form following ethical procedure for data collection (Korac-Kakabadse et al, 2002).

Ethical trade off can be generated from the code of conduct followed by organizations. For example, freedom of information may reduce the privacy or information sharing may hamper confidentiality. Hence, this project has followed a rational strategy of research ethics. Confidentiality is assured to respondents beyond the point of identity known. Secondly, anonymity is assured to all respondents in the main thesis document if they wish, which increases their confidence to provide best judged details of Oman

SWF and reduces any bias. The Brunel university ethics committee approval is also obtained prior to primary and secondary data collection.

4.8 Reliability and validity

The key issues for any research findings are acceptance by peer review based on its validity, reliability and generalizability. Validity refers to the measures applied for variables closely corresponding to reality; reliability refers to the same measures yielding the similar or same results if applied on other occasions and generalizability refers to what extent the findings of research completed confirm or contradict the existing body of knowledge. These definitions of three key issues pertain to the positivist stance of deductive approach adopted for testing the conceptual framework adopted in this study (Neuman, 2006; Easterby-Smith et al, 2009). Reliability of scale and measures applied can be known from results of consistency and stability tests such as Cronbach's Alpha coefficient. The value of Cronbach's Alpha reveals that how the measures applied are correlated which develops the scale. It ranges between 0 and 1; however 0.7 is considered minimum to confirm the reliability of the scale applied. Validity measures can be obtained by principal component analysis or factor analysis as these tests suggest how many measures really predict a variable and correspond to predict the particular variable (Pallant, 2010).The scale validity reveals the accuracy of variables' operationalization that dimensions applied to measure the variables are really measuring them. Different statistical tests are carried out to measure types of validity such as content validity, criterion validity and construct validity (Pallant, 2010).

In addition to the data and instruments, the appropriateness of the methodological selection in the research process plays a pivotal role in the reliability and validity of the findings. The selection of research methods relating to research philosophy, strategy

and data collection is supported by the evidence of those methods' applications for SWF research by previous research studies. The following table 4.2 shows the applications of case study research strategy, secondary data and questionnaires applied in the previous research studies in the field of SWF.

Table 4.2 Support for research methods' validity from literature

Research method applied	Previous researchers who applied same method	Source of the literature
Case study research strategy involving case of SWFs	China SWF analysed by Thomas and Chen, 2011	Journal of Cntemporary China
	Temasek holding case by Henry et al, 2011	Australian Journal of Management
	GIC, Singapore case by Clark and Monk, 2010	The Pacific Review
	Four cases of Kuwait, Abu Dhabi, Singapore, China SWFs by Pistor and Hatton, 2011	Nellco Legal Scholarship Repository, Columbia Law School
	Norway's ethical case by Chesterman, 2008	International Law Review
	Cases of GCC SWFs by Setser and Ziemba, 2009	Council on Foreign Relations
	A case of SAMA by Smith Diwan, 2009	Geopolitics
	22 SWFs analysed to study 7 factors by Lyons, 2007	Journal of Management Research
Use of only secondary data as main source of data for analyses	Problems in China SWF by Zhang and He, 2009	China World Economy
	Trust, legitimacy and governance discussion from secondary data cases by Monk, 2009	New Political Economy
	Analyses of Petro China and Temasek, Singapore SWFs in nationalism context by Lavelle, 2008	Journal of International Affairs
	Study of investment and governance practices of top SWFs by Ainina and Mohan, 2010	Journal of Asia-Pacific Business
	Study of 358 investments announcements made from 24 SWFs by Kotter and Lel,	Journal of Financial Economics

	2011 Asian SWFs analyses for self regulation and Santiago principles by Park and Estrada, 2011	Asian Journal of International Law
Use of questionnaires / Interviews as data collection instruments for primary data	Studying all funds with questionnaires to develop ranking by Truman, 2008 Statistical analyses to determine governance by Aizenman and Glick, 2009 Discussions about role of WTO in SWF by Mattoo and Subramanian, 2009	Peterson Institute for International Economics The International Finance The World Economy

4.9 Research design summary

Research design components include planning actual study in terms of location, representative sample from population, doing data collection and carrying out data analyses. Thus, research design is one very vital component of any research study as it separates the research understanding and research actions taken, that is research design is actual implementation of all selected components of research methodology. The complete research methods selection is mentioned in the figure 4.4 below (Saunders et al, 2009). A broad area of research interest is identified based on the industry and academic literature observations made.

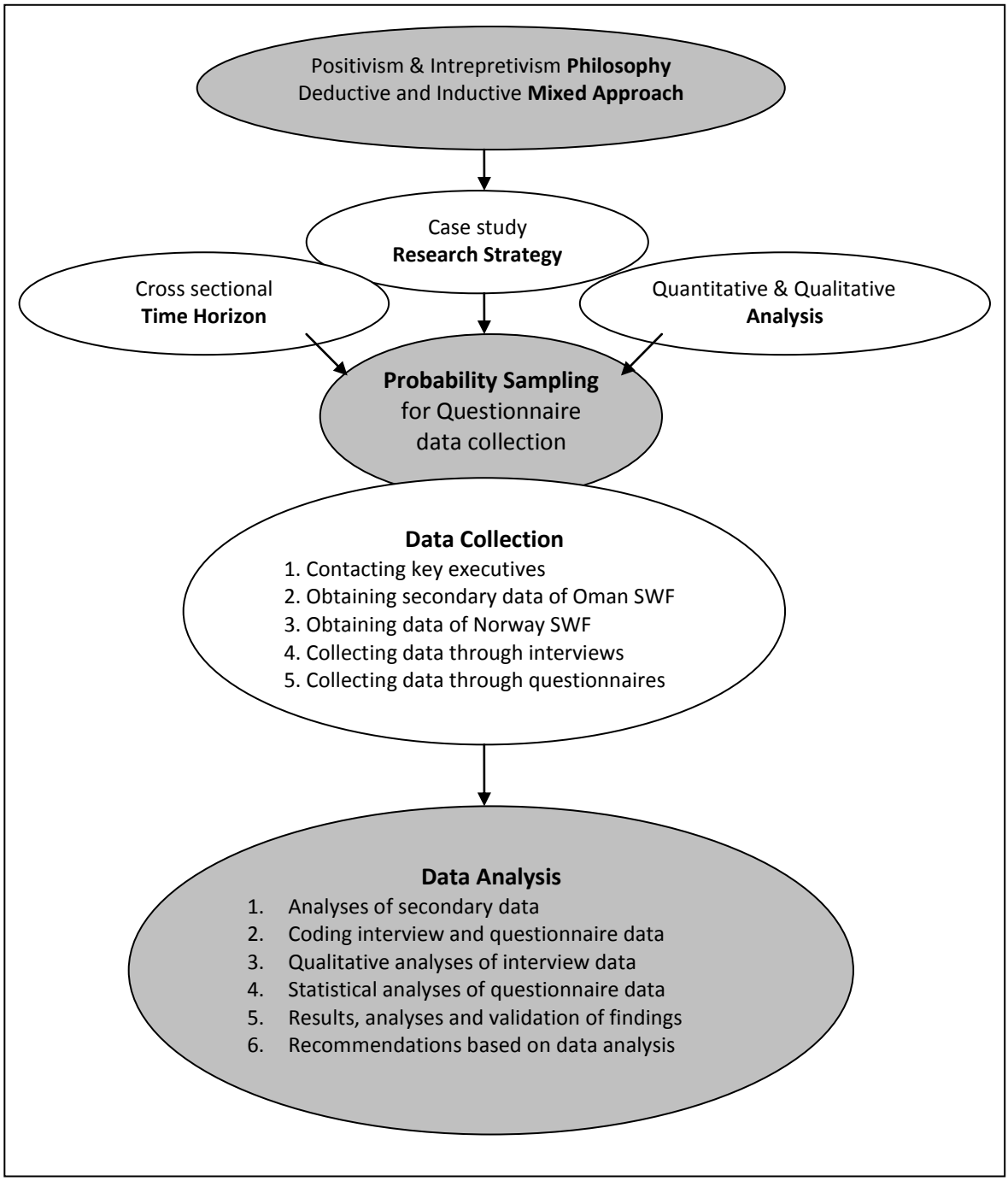
a. Research context, problem definition, main aim and research objectives of the study are clearly defined.
b. The first phase of secondary data is gathered in the form of literature review and industry information for sovereign wealth funds.
c. Factors affecting success and growth of sovereign wealth funds are clearly identified leading to formation of the proposed theoretical framework comprising independent and dependent variables.
d. Hypotheses are stated and variables are operationalized.

e. A scientific research design is planned in terms of data collection, analyses and their interpretation methods.
f. Deduction approach enables the acceptance and rejection of hypotheses, findings are discussed and solutions to research questions for sovereign wealth funds and specifically for Oman SWF are answered.
g. Research report is written in the form of doctoral level thesis.

Previous sections in this thesis have clearly stated research context, problem, literature review, theoretical proposition and philosophical position; thus next step is to carry out data collection and data analyses as per the research design planned (Saunders et al, 2009). The different research phases selected in this study are revealed in following figure 4.4

Results of descriptive statistical tests, regression analysis carried out for questionnaire data and transcripts of selected interviews are displayed in Appendices A to E. No personal information of respondents is collected in this study unless voluntarily disclosed by respondents. Following figure shows selected research elements adapted based on research design explained by Saunders et al (2009).

Figure 4.4 Research methodology elements selected



Adapted based on the research onion by Saunders et al (2009)

Chapter 5 Analyzing case study evidence: Secondary data

5.1 Introduction

Previous chapters explained the literature review, theoretical proposition, hypotheses formulation and research methodology applied in this study. This chapter presents the analyses of the secondary data obtained from two sovereign wealth funds: Oman and Norway. It has been attempted to find the answers for research problem; to achieve the research process objectives mentioned in the chapter one and to assess whether any substantiating evidence exists to support the hypotheses developed in the theoretical proposition. First, both cases are analysed separately and then the comparison between two cases is done. The case analyses offer detailed description and explanation about how these SWFs operate and invest. Their comparison offers insights into where these funds are positioned as compared to other funds, global regulations and industry benchmarks. The analysis of Norway SWF case also serves as part of triangulation applied in the data collection which ultimately increases the validity of the research findings.

This section also pertains to data theory process as the secondary data analyses in this section enable to meet the research objectives set out in this thesis (Philips and Pugh, 1994; Yin, 2009). The case of Norway SWF is utilized here as a benchmark based on their investment strategy, financial performance and worldwide acceptance of their governance and behaviour. The findings of this comparison are utilized to develop an action plan for restructuring Oman SWF and simultaneously the comparison provides evidence to further hypothesis testing. The secondary data for both funds were collected from their official websites, annual reports, presentations for investors and sustainable development reports, strategies and government records. Secondary and

primary data collected from both case funds are cross sectional and not longitudinal which further restricts the scope of generalization (Bryman and Bell, 2007).

5.2 Case analysis strategy

Selected SWFs are analyzed in a way that they can be compared for various attributes and each research issue. For example, organizational structure, decision making process, investment strategy, management control, governance, asset allocation and deals, investment rights and regulations, objectives and perspectives of setting up these funds. Both case funds will be analyzed for the factors mentioned in the theoretical proposition which will generate a comparison between the proposition based on the theory and the industry practices followed by these sovereign wealth funds. This will help in testing the hypotheses and developing an implementation procedure for recommended action plan within Oman SWF (Yin, 2009).

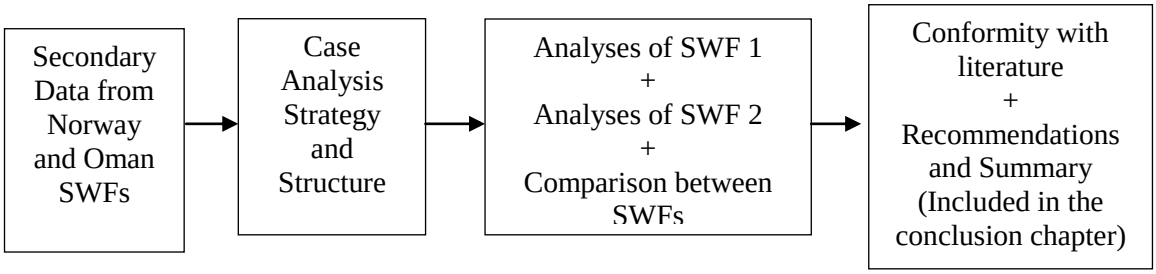
5.2.1 Objectives of the case analyses

The major objective of this chapter is to execute the research strategy as mentioned in the methodology chapter by conducting secondary data collection and interpreting the findings of data analyses obtained for both case funds. This part of the thesis becomes the integral section of the deduction process for testing the theoretical proposition as explained in the chapter four (Neuman, 2006). This facilitates to find answers to research problem and issues defined in the chapter one. These research issues are associated to constructs defining variables which formed the theoretical proposition. Hence, discussion and answers to these research issues underpin the sovereign wealth funds' overall functioning. Findings from secondary data in this chapter may generate different views about various components of SWF which can help review of the SWF as a phenomenon (Eisenhardt, 1989; Yin, 2009).

5.2.2 Structure of the case analyses

This chapter follows the sequence of the data collection, coding and display; interpretation of displayed data; analyses, findings, discussion and comparison. The next chapter also follows the same logic for analysing primary data. This chapter ends with summary of findings based on the comparison between Oman and Norway SWF. The flow of the chapter is shown in the figure below.

Figure 5.1 Structure of analysing case study evidence



Adapted from Yin (2009)

These case analyses would enable to support or reject hypotheses made in the proposed theoretical framework. However, these SWFs are analysed as a company analysis; thus the order of hypotheses or factors proposed in the framework is not exactly followed. The case are analysed in the following order and wherever necessary the hypotheses support or rejection is discussed and finally summarised as well.

SWF case analysis attributes	**Hypothesis tested**
Background	
Organisational structure	structure and purpose (H6)
Management control and Govt. support	policy (H4), decision making (H8)
Strategic vision	policy (H4), decision making (H8)
Responsibility & Sustainability strategy	transparency, accountability (H1)
Investment strategy	investment deal (H7)
Asset allocation fundamentals	investment deal (H7)
Governance standards	governance (H1)
Transparency	transparency (H1)
Performance indicators	where does it stand globally
Priorities for SWF	possible solutions

5.2.2.1 Reasons for doing Norway SWF analysis first

At the time of literature review and initial secondary data collection it was revealed that there was much less literature and official data available for Oman SWF. There was no data available regarding investment deals, management information or annual reports of Oman SWF. Thus, to compare the standard and globally accepted practices of SWF, it became necessary to review a data rich and SWF of Norway prior to analysing Oman SWF with its negligible data availability. Also, the case of Norway is utilized to increase the reliability and validity of the findings (Eisenhardt, 1989; Yin, 2009)

5.3 Norway SWF: Government pension fund global (GPFG)

The case of Norway's sovereign wealth fund is analysed in the order of its evolution, expansion, investment strategy, growth in the assets base and governance mechanism as follows. Current name of SWF set up by Norway is Government Pension Fund – Global (GPFG) which is managed by Ministry of Finance and Norges Bank Investment Management (NBIM). Thus, hereafter Norway SWF will be mentioned as GPFG in this chapter and further.

5.3.1 History and Background of the GPFG

It was just before Christmas in 1969 that news Norway had found oil in the North Sea. Over the years, Norway accumulated wealth from the oil proceeds and multiplication of investment returns in the last two decades.

Table 5.1 GPFG fact sheet

1969: Petroleum discovered in the North Sea (Ekofisk), production started in 1971
1990: Parliament passed the Government Petroleum Fund law
1996: First net transfer to the Fund, Invested like Central Bank currency reserves
1998: Investment in equities introduced in the benchmark (40% allocation)
2000: Five emerging market countries added to the equity benchmark
2002: Non-government bonds added to the fixed income benchmark
2004: New ethical guidelines
2006: Government Petroleum Fund renamed the Government Pension Fund Global
2007: Strategic equity allocation increased to 60%, small-cap stocks included in the benchmark
2008: Plan to invest up to 5% in real estate at the expense of bond allocation, All emerging countries included in equity benchmark
2009: Evaluation of the ethical guidelines
2010: Responsible investment strategy guidelines prepared in March
2010: Strategy council is formed and investment strategy review is prepared in November

Source: GPFG Factsheet, Asset Management Department, Norwegian Ministry of Finance, March 2010 available at www.nbim.no, 2010

The current Norway SWF has its roots in the petroleum fund set up by Govt. of Norway in 1990 as a government's fiscal policy tool to support future oil and gas revenues. In 2006, that original petroleum fund was renamed to Government Pension Fund Global (hereafter referred as 'GPFG'). The fund is not currently utilized for pension payouts. However, Norway GPFG acts as a financial vehicle for Norway Finance Ministry to support the budgetary process and to build on the existing agencies. The underlying operating principle of the fund is that, it only invests in the foreign assets which results into risk mitigation through risk diversification, risk reduction, increased return on investments made and creating protection for non-oil economic developments. With growth and expansion of assets base, GPFG has increased the degree of transparency, information disclosure and governance standards. This has helped in getting Norwegian government and public support along with worldwide acceptance of Norway's SWF as a good governance entity **(Norway GPFG Annual Report, 2009)**.

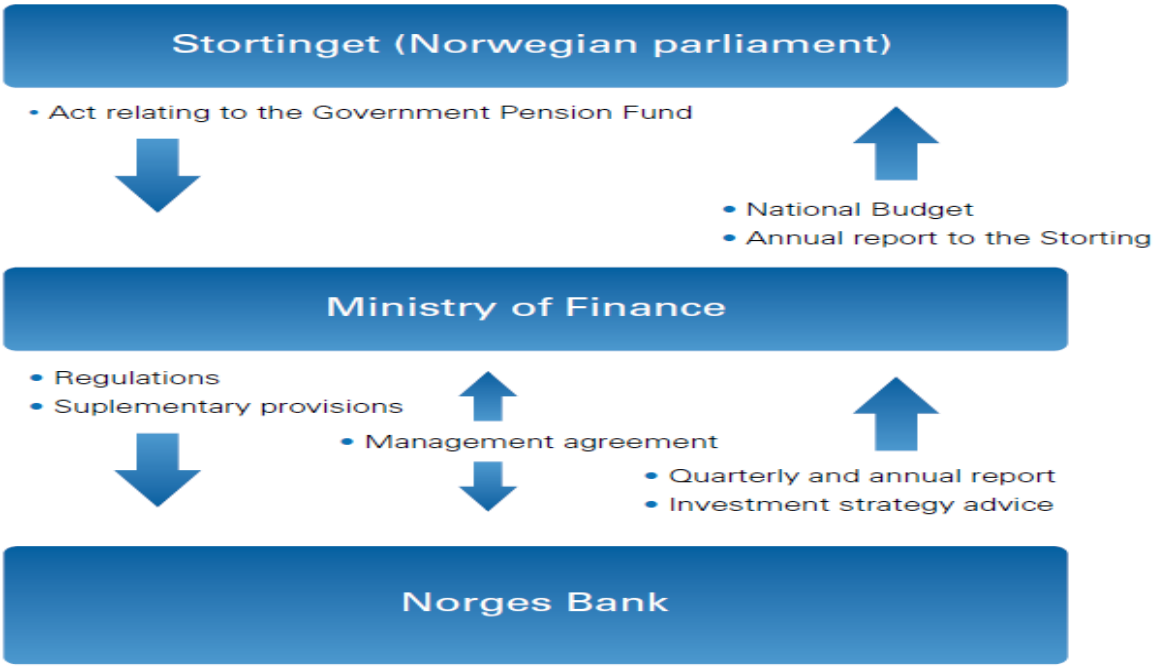
5.3.2 Current status of the GPFG

This GPFG established in 2006 is Norway's Sovereign Wealth Fund responsible for investments in the foreign assets and is governed and controlled by Ministry of Finance, Government of Norway. The GPFG is for investments in the foreign assets whereas, in 2006 the National insurance scheme fund was renamed as 'Government pension fund – Norway' (hereafter referred as 'GPFN') which would deal with local investments and national issues. The monetary sources to GPFG comprise of income from petroleum activities and return on the fund's investments. The operational management of GPFG is delegated to Norges Bank which manages this SWF as per regulatory and governing frameworks set out by Ministry of Finance. The following attributes explain the current status of GPFG, its strategy and operations **(Norway GPFG Annual Report, 2007)**.

5.3.2.1 Organisational structure

The government of Norway has prepared active management framework in the pension fund act. The formal responsibility of the fund management rests with Ministry of Finance (hereafter referred as MoF) wherein operations are managed by the Norwegian central bank (Norges Bank) through their investment arm Norges Bank Investment Management (NBIM). The MoF and NBIM have a written agreement for shared roles to manage GPFG. Investment strategy is governed by MoF issued guidelines for responsible investments, ethics and sustainability. The main aims of the fund are to ensure that oil wealth advantages reach to the future generations and wealth is multiplied, secured and utilized ethical ways acceptable to wider society (GPFG Annual Report, 2009; NBIM Annual Report, 2009). The relationship structure between the government of Norway, the ministerial department and Norges Bank is as shown below.

Figure 5.2 SWF Management structure between Parliament, MoF and NBIM



Source: GPFG Global Annual report, 2009, p.10/91

The NBIM as shown above is responsible for day to day functioning and investment operations of GPFG. This management again affected by the Norges bank operations and organisational hierarchy. At the NBIM, this management has been divided again into four major sections of executive board, committees, CEO, compliance and senior managers' leadership group. The executive board with seven members appointed by the King in council is a body responsible for Norges Bank's operations. The following figure reveals this NBIM hierarchy with their functions are mentioned for each respective department. All guidelines and strategies are laid down by executive board which may receive expert advisory from MoF, NBIM or external consultants (NBIM Global Annual Report, 2008).

The value addition by GPFG is done through an active management framework wherein owners' long term interests are protected through applying business strategy

whilst minimizing the resources spent. In addition to GPFG, NBIM has other portfolios to manage such as central bank to banks in Norway, foreign exchange reserves of Norway and Government Petroleum Insurance Fund (GPIF) from Ministry of Petroleum and Energy. NBIM has different governance model which differs as compared to other portfolios of Norges Bank. NBIM's executive director and CEO reporting to executive board are monitored by Governor of the board. This executive board and MoF together set guidelines for investment thresholds for GPFG about size and risk of the investment deals. Based on this policy, NBIM has implemented new risk management framework in 2009 about identifying, assessing and mitigating four different risks: credit, market, counterparty and operational risk. GPFG monitors each risk's limits on monthly, quarterly and annually basis (www.NBIM.no, 2011). NBIM follows performance based remuneration policy for all employees at NBIM managing GPFG. Norway parliament has supervisory council of 15 members to oversee Norges Bank operations and compliance with rules which includes GPFG management by Norges bank investment management (NBIM). This ensures that operations are carried out in accordance with applicable laws, agreements, decisions, guidelines and other rules. This supervisory council organises audit and approvals of Norges bank budget. For example, Deloitte AS and Norges Bank prepared separate audits and submit to this supervisory council. Then, the Office of the Auditor General audits and performs checks on GPFG to see their operations and management is in accordance with applicable legislation and instructions (NBIM global annual report, 2008).

Therefore, above discussion reveals that organisational structure has paved way for governance mechanisms and transparent disclosures to work. Thus in case of Norway SWF, the hypothesis H6 about structure and clear purpose is supported.

Figure 5.3 NBIM Management structure

Source: GPFG Global Annual Report, 2009, p.11/91

5.3.2.2 Management control and government support

As discussed in the previous section, management control of GPFG rests with the Government of Norway through a channel of parliamentary supervisory council to Ministry of Finance to Norges bank executive board to Norges bank investment management department. In the last decade, Norway government has taken measures and issued guidelines for the provisions on the management of GPFG. Following major amendments and additions were done based on responsible, sustainable and ethical investment strategy reviews and came into practice as of 1st March, 2010. These amendments were issued to main Government Pension Fund Act, 2005 (MoF GPFG Management Report, 2010).

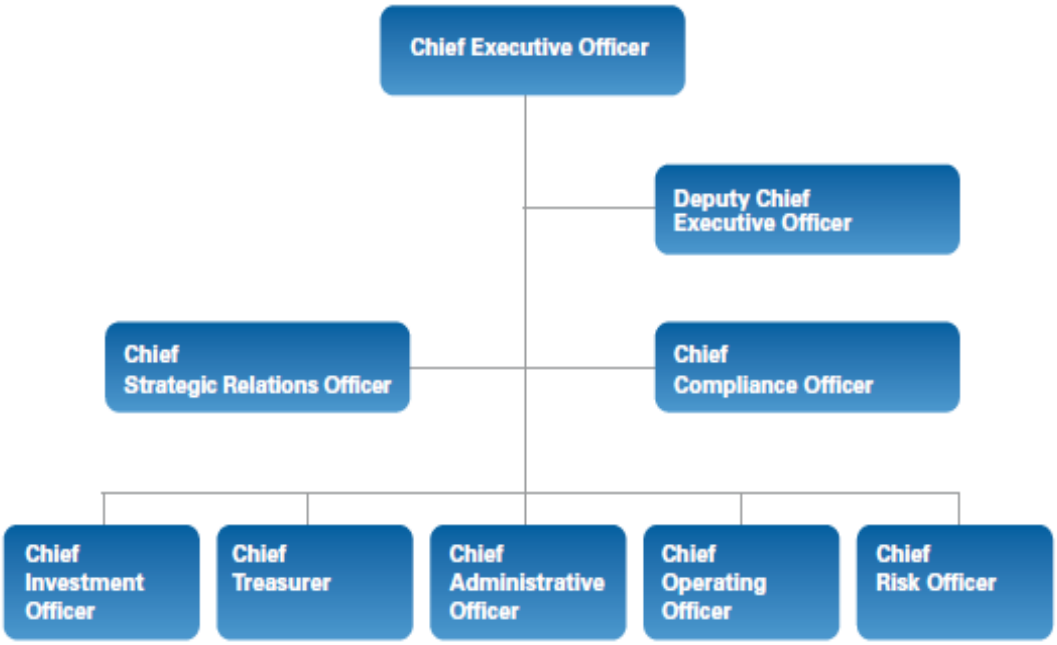
"Section 1 *The Government Pension Fund shall support government saving to finance the National Insurance Scheme's expenditure on pensions and support long-term considerations in the use of petroleum revenues" (GPF Act, 2010).*

"Section 2 *The Government Pension Fund is managed by the Ministry of Finance. The Fund comprises the Government Pension Fund Global and the Government Pension Fund Norway. The Government Pension Fund Global (GPFG) is deposited in an account at Norges Bank. The Government Pension Fund Norway (GPFN) is deposited with Folketrygdfondet. The counter value for both GPFG and GPFN is managed under rules laid down by the Ministry of Finance" (GPF Act, 2010).*

"Section 3 *Income to the Government Pension Fund Global consists of the net cash flow from petroleum activities, which is transferred from the central government budget, the net results of financial transactions associated with petroleum activities and the return on the Fund's capital" (GPF Act, 2010).*

As evident from the above discussion, Norway government has made it clear the decision making flow, firm management control and strict audit and supervision. The compliance of risk management adheres to the following organisational structure.

5.4 Organisational structure for risk management compliance



Source: GPFG Global Annual Report, 2009, p.59/91

One can see that Norway SWF management has passed act about how investments and other managerial decisions are made. Thus, Norway GPFG has both policy planning and decision making mechanisms present in their day to day operations. Therefore, hypotheses H4 and H8 respectively for policy and decision making factors in the proposed framework are supported in this case.

5.3.2.3 Strategic vision and approach

The main aim of GPFG is to provide funding for the National Insurance Scheme pension payments and to multiply sovereign wealth keeping in view the long-term investment considerations of petroleum revenues. The robust management and investment strategy by Norway government will ensure that Norway's oil wealth benefits reach to all current and future generations. The government of Norway has created decision making hierarchy to oversee the operations and management of

GPFG; however, it is not a separate legal entity, it does not have own management board or administrative staff. Thus, GPFG is still a department of Government of Norway. The government's approach is to be the best managed fund with the highest governance and ethical standards in the world. This leads to implement the global practice in all aspects of the Fund management and striving to achieve this. The size and available funds allow MoF to exercise the hybrid asset allocation portfolio to get the best risk – return ratio for the investments. The strategic approach of the fund is in the line with long term investment style with sustainable profits as a main aim and no influence of political objectives. This is evident from fund not investing in any weapon and ammunition manufacturing companies and divested funds from any such companies. More about this approach is discussed in the governance standards as a separate attribute (Strategy council report by Dimson et al, 2010). This discussion reveals that Norway GPFG top management has appropriate policies planning and decision making controls in place which again support hypotheses H4 and H8.

5.3.2.4 Responsible and sustainability strategy

GPFG's responsible and sustainable investment strategy is echoed by Minister of Finance; Sigbejern Johnsen in his 2010 foreword for the strategy when he confirmed that long term profitability of GPFG relies on how much sustainable development in economic, environmental and social terms GPFG can make (GPFG Strategy, 2010).

As a first step towards being the best managed fund, ethical guidelines were formulated in November 2004 for GPFG. These guidelines were prepared on basis of recommendations from the government appointed Graver committee report in 2003. The committee report was instrumental in providing two basic perspectives to GPFG management:

a. The fund should achieve high return on the investments made which would enable Norway's future citizens to benefit from the country's oil wealth.

b. The fund would attempt to protect the rights of the community affected by companies in which GPFG makes investments.

This investment ethics view prompted to create two investment requirements by GPFG to exercise as part of their deals with investee companies: exercise of ownership rights as an investor in the investee company and exclusion of companies or divestments from those deals wherein investee companies cannot follow ethical guidelines for example 'no child labour'.

To follow such strategy, GPFG have to utilize the instruments, they have as an investor to contribute to such ethical and responsible business practices. However, being a professional advisor, the fund may not be able to uphold all the ethics commitments like a nation in the bilateral trade or foreign policy. In doing so, the fund can lose the credibility as a good investor and can brand themselves as an over-active equity owner. Thus, fund has to balance between promoting ethical and sustainable standards and seeking profitable returns. Norway GPFG has ethical guidelines in place since 2004, however GPFG management state in their strategy report that work is still in the early stage requiring rapid responses and attention by Norway and other SWFs. After evaluation in 2009, the committee has introduced new measures in 2010.

The part of responsible investor strategy includes extending oil wealth benefits for a longer duration and sound return to future generations of Norway on the internal basis whilst being an effective and permanent investor in many major and global companies. GPFG has a responsibility for promoting corporate governance and safeguarding environmental and social concerns. If these investee companies cannot be sustainable

in their business profitably then GPFG may find it difficult to ensure financial returns for Norway. Thus, profitable and sizable financial returns over the time depends upon how much GPFG can influence the sustainable development economically, environmentally and socially in the investee companies and countries while maintaining the legitimacy and transparency in their deals and efficient functioning of other countries' economies, industries and capital markets (GPFG Responsible Investment Strategy, 2010).

In this manner, the fund policies may influence the business practices of the investee companies and factors related to corporate governance, employee rights, environmental protection which in turn will increase sustainability of the firms and returns for Norway GPFG. This responsible and ethical investment strategy comprises a range of tools such as international collaboration and research to develop the best practices, investment tools, active ownership and exclusion of companies due to guidelines issued by GPFG management. The capabilities that convert this responsibility strategy into the targeted outcome is through investment strategy for funds allocated to different asset classes and deals following this laid down responsibility, ethics guidelines and governance standards (NBIM Financial Stability Report, 2009). Next two sections discuss these aspects in detail about GPFG.

Norway being one of the most ethical investing SWF, they strictly follow human rights, social responsibility and pollution control standards. They make the investee companies accountable for following the same. In the past, Norway SWF has made many divestments because of these issues. Hence, one can say that in case of Norway SWF hypothesis H1 is supported for accountability and transparency.

5.3.2.5 Investment strategy and asset allocation

The income into GPFG from oil revenue is phased gradually into the Norwegian economy to derive the benefits of responsible investments and ethical guidelines; to see growth in the all parts of the economy while achieving economic stability in the short and long term. The capital of GPFG is placed in the foreign securities which ensures back up against reducing natural resources, tight national budgets, the exchange rate risks and inland political instability. The foreign investments assure hedging of the risk by asset classes spread and high financial return. It allows national government to protect the economy from the effects of variable national revenue. Also, money in GPFG accounts is neither earmarked against any particular expense accounts nor it has any claimant or owner of the asset except Norway as a sovereign country and its government. Proceeds are passed onto economy of Norway through money transferred to the national budget and amount is decided by following annual budget preparation based on the following fiscal rule (MoF on GPFG Management, 2009; Dimson et al, 2010).

"The fiscal rule is a plan for a smooth, gradual increase in the spending of oil revenues in line with the expected real returns on the capital in GPFG, estimated at 4 per cent of the Fund capital. The exact percentage may vary from year to year, depending on the economic situation or in the event of unexpectedly large changes in the value of the Fund. Separating spending from income accumulation is crucial in order to successfully transform temporarily high petroleum incomes into a permanent increase in welfare" (Norway Annual Budget Fiscal Policy, 2010).

The investment decisions taken by GPFG management are mainly according to a benchmark index determined by the finance ministry. This list shows how much of the fund should be initially invested in each individual security. Such a list is based on

commonly used indices. Norges Bank is allowed to deviate from this list but within the limits set by the Ministry of Finance. This deviation is termed by GPFG as an active management. The usual benchmark index consists of 60% equities and 40% fixed income allocation of assets. The target for real estate allocation for GPFG is to reach 5% in gradual increments (GPFG Annual Report, 2009).

The significant component of the investment strategy decision making is to have wide array of diversified investments which reduce risk and increase the profitability of the fund using different regions, industries, asset classes and companies. For GPFG, such a strategy has worked well since its inception to the end of 2007 in terms of average annual return. GPFG incurred losses in 2008 due to poor equities performance during global credit crisis however made strong recovery in 2009 with fund reaching to the highest return since its establishment. Such a large scale recovery in 2009 proved to GPFG management that no change in required in the estimated 4% real rate of return on the portfolio. Fund's assets are spread over thousands of equities and bonds in the international financial markets thus risk is hedged in the form of diversification and minimum return. Also, fund does not have any debt obligation which requires the sale of assets thus, investment strategy not only aims to control yearly fluctuations in return and it aims for higher yield on the portfolio. Some individual investments can make losses however the idea of investment strategy and asset allocation strengths is to ensure that total sum of investments results into higher financial gains with decreasing risk. Long term robustness of strategy helps passing through times of crisis such as global credit crisis in 2008 – 09. A short term view would have created sale of assets when prices were falling in 2008. The active management concept of allowing deviation from benchmark index is to achieve the return in excess of what could have been the return if investments were made exactly as per the benchmark index. This is

under review as active management is supposed to reduce the risk but experience of 2008 – 09 during the crisis shows different results (GPFG Annual Report, 2009; NBIM Global Annual Report, 2009).

The strategy council experts Dimson et al (2010) for GPFG has attempted to improve investment strategy after 2008 – 09 experience and four major characteristics or goals of new strategic direction are: firstly GPFG is responsible for wealth accumulation to Norway citizens; secondly MoF is responsible to manage GPFG; thirdly GPFG is long term investor with no liability and high capacity to bear risks and finally GPFG targets highest possible return. This strategy can be implemented having pre-requisites are fulfilled such as effective control and mitigating of operational risk, responsible investment, behave and seek advantage of being large and long term investor and implement best possible governance standards. This strategy and pre-requisite fundamentals have led GPFG management to:

"*accept higher risk for earning higher return, expand exposure to fixed assets, develop various forms of insurance selling"* (Dimson et al, 2010; p.7).

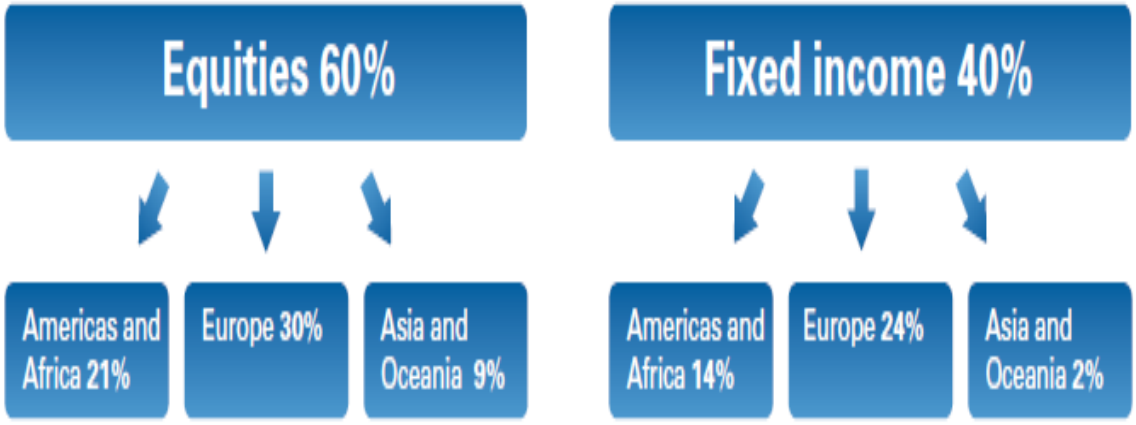
However, this strategic shift may lead GPFG to a riskier asset portfolio, more risk exposure and volatility as evident from the discussion of their new investment strategy and beliefs. This may change asset allocation fundamentals included in the current investment strategy as well which is discussed in the next section.

5.3.2.6 Asset allocation fundamentals

GPFG has inflow of funds from oil, gas and petroleum revenues whereas outflow is required to meet non-oil budget deficits. Thus, GPFG is integrated with government budget and any asset allocations to GPFG reflect the budget surpluses. Outflow from the fund is regulated through fiscal policy guidelines that non-oil budget deficit shall

correspond to real rate of return 4% for GPFG. Two major asset allocation categories of equities and fixed income for GPFG are shown in the following figure. The next stage of allocation is based on the regional and industry groups within the specified category of asset.

Figure 5.5 Asset allocation fundamentals of GPFG



Source: GPFG Global Annual Report, 2009, p.25/91

With stringent standards followed in the asset allocation and robust investment strategy as discussed above, one can say that results of Norway GPFG growth over the last two decades are affected by it. Thus, hypotheses H7a, b and c about the investment deal, size, and strategy and asset allocation are supported in this case.

5.3.2.7 Governance standards

Norway GPFG has strict governance standards for their operations of their fund. In addition to this GPFG demands equal treatment of shareholders and well being of financial markets from investee companies. In the past GPFG management has voted against the irrelevant remunerations without performance of the company. Also, GPFG does not believe in same person being CEO and Chairman of the board in the investee

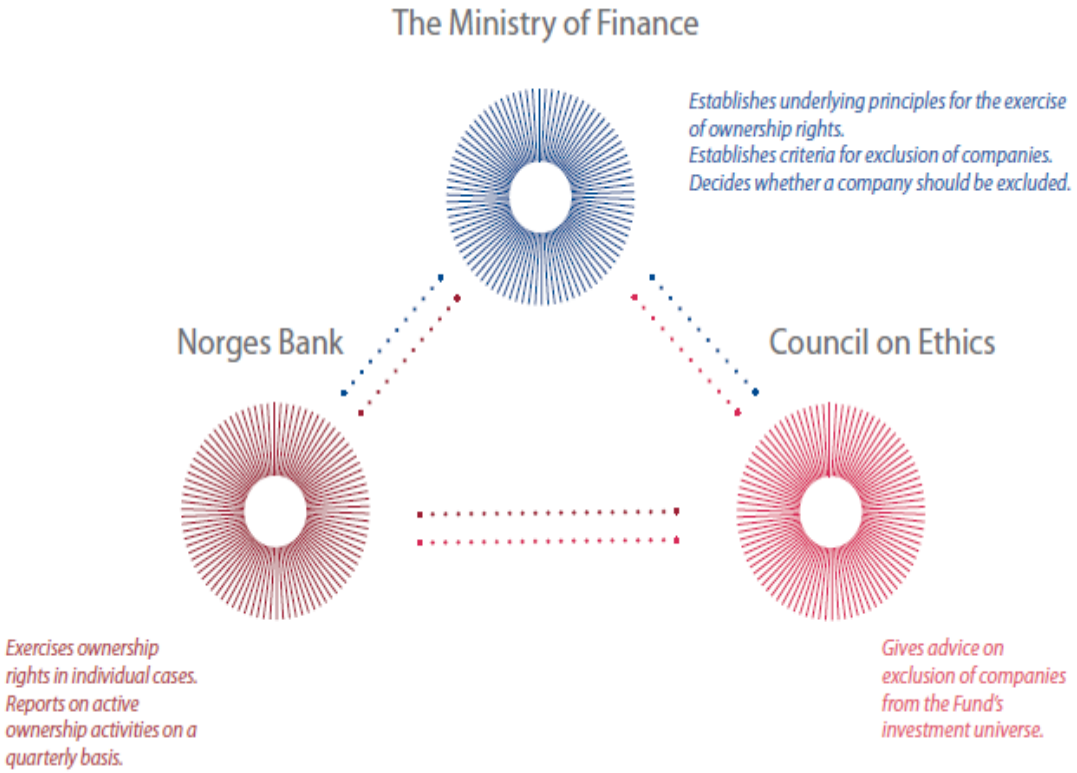
companies. GPFG management understand that better regulation may lead to better corporate governance which can increase stability in the financial markets. Thus, GPFG receives regular input from MoF and Norges Bank such as participation of GPFG in the preparation of the corporate governance standards through International Corporate Governance Network (ICGN), collaborations with Council of Institutional Investors (CII) and the Asian Corporate Governance Association (ACGA) (Sustainable strategy report, 2008; MoF GPFG Management Report, 2009).

The demand of GPFG to investee companies for following corporate governance standards and making companies managing boards accountable for their decision making bring the effectiveness in the company working and also help in protecting shareholders' rights which ultimately safeguards the assets of SWFs as an investor. GPFG as an investor expects that companies disclose the information and be transparent in their deals and operations such as carbon disclosure and forest footprint.

GPFG also prepares expectations documents for each company before taking investment decision and companies must disclose information about children's rights, climate change, water management and any other risk factors. If company cannot make major changes in their policies or production than as a last resort GPFG takes decision of excluding such companies and divest any investments already made. In the past, GPFG has excluded companies producing weapons or tobacco or seriously violating human rights since 2006. If new information about company is received than GPFG's ethics council may review the divestment decision taken on previous information. This is clearly shown in the following diagram of division of roles. GPFG uses number of instruments as a responsible investor promoting governance and transparency which integrate with environmental and social issues. These instruments are: collaborating

with global stakeholders to develop the best practices, investment programmes, climate research, active management framework and voting rights, collaboration between investors, or as a last resort exclusion of investee companies or divestment decisions (GPFP Responsible Investment Strategy Report, 2010).

Figure 5.6 Division of roles between MoF, NBIM and Independent Council on Ethics



Source: GPFG Responsible Investment Strategy Report, 2010, p.14/32

5.3.2.8 Transparency

These SWFs manage monies on behalf of their population in the respective countries. Thus, transparency and information disclosure is essential for people to have trust in the government officers and politicians taking decisions about the SWF management. The second source of transparency demand is investee companies and their countries' governments. In case of GPFG, the MoF reports to the storting on every aspect such as

revenue, investment deals, financial prospects, any changes in strategy, developments, risks, costs overall performance. MoF also publishes advice and reports received from Norges bank and any external consultants; quarterly and annual reports on GPFG and its management including list of meetings and all investment deals made. The Norges bank publishes the recommendations of the council on ethics. Hence, management board of GPFG and Norges bank have high degree of transparency in their dealings of investments made and disclosure of information as a SWF. The overall image of the fund is characterised by this level of transparency within the sponsoring and investee country stakeholders. This increases the confidence of investee companies and capital markets positive sentiment on receipt of market information associated to such SWF investment announcements (MoF on GPFG Management Report, 2008 and 2009).

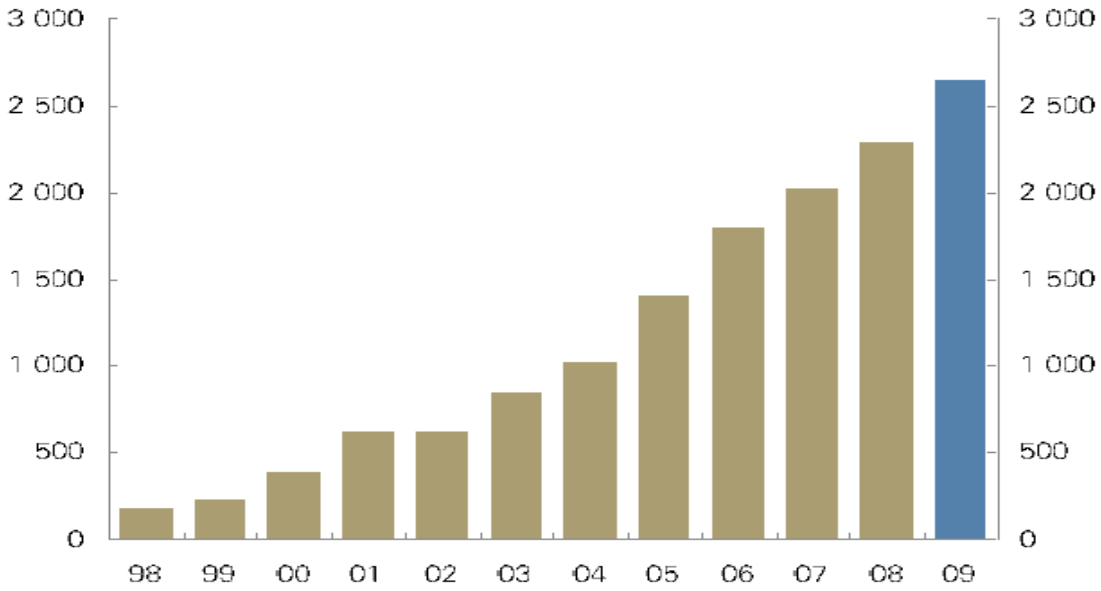
The above discussion about governance and transparency reveals that Norway SWF growth and performance is affected by these standards. The effects can be positive or negative both as Norway SWF many a times decided to divest following the standards after making demands to investee company boards. Thus, hypothesis H1 about governance, transparency and accountability is supported in this case.

5.3.3 Key performance indicators

The main purpose of setting up SWF is to utilize the earnings and FE reserves to have higher return on their investments. Hence, success of this fund can be measured in terms of its market value, net cash flow, annual inflows, annualised return and total return. These indicators are plotted in the following graphs. Their analyses suggest that GPFG made profit in the equity and fixed income markets which helped to increase market value of fund in 2009. The fund posted a return of 25.6% (NOK 613bn) which was down by -23.3% in 2008 when security markets collapsed worldwide due to

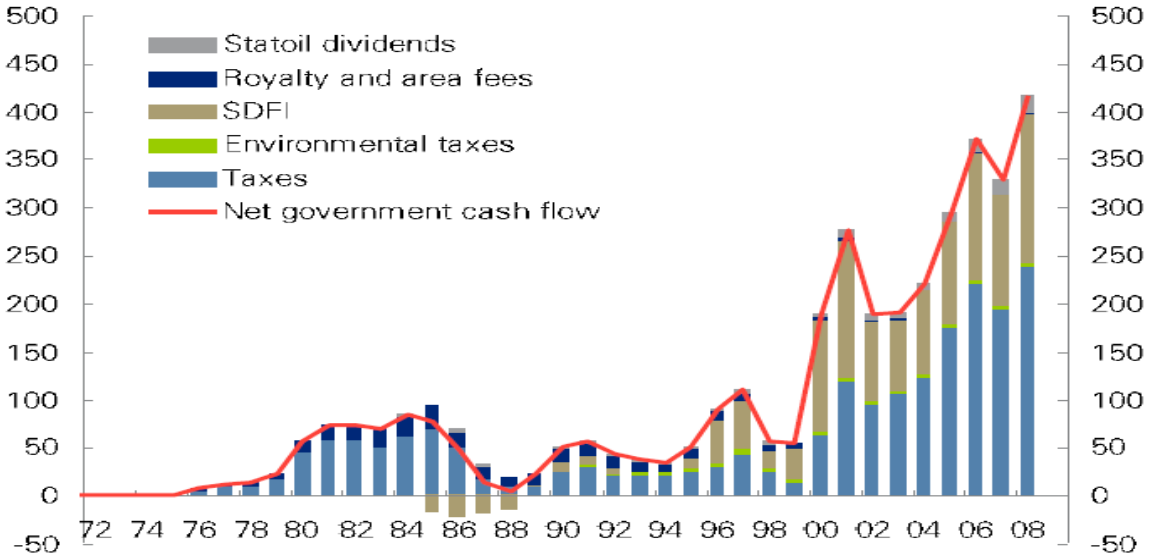
current credit crisis. GPFG had higher return of 4.1% as compared to 4% portfolio benchmark in 2009. As shown in the graph of market value, it has increased by 365bn kroner to 2640bn kroner. This success has been built on the return on the investments which is reflected in the lowest capital transfer at 169bn kroner since 2004.

Figure 5.7 Market value at year end 1998–2009 in bn of NOK



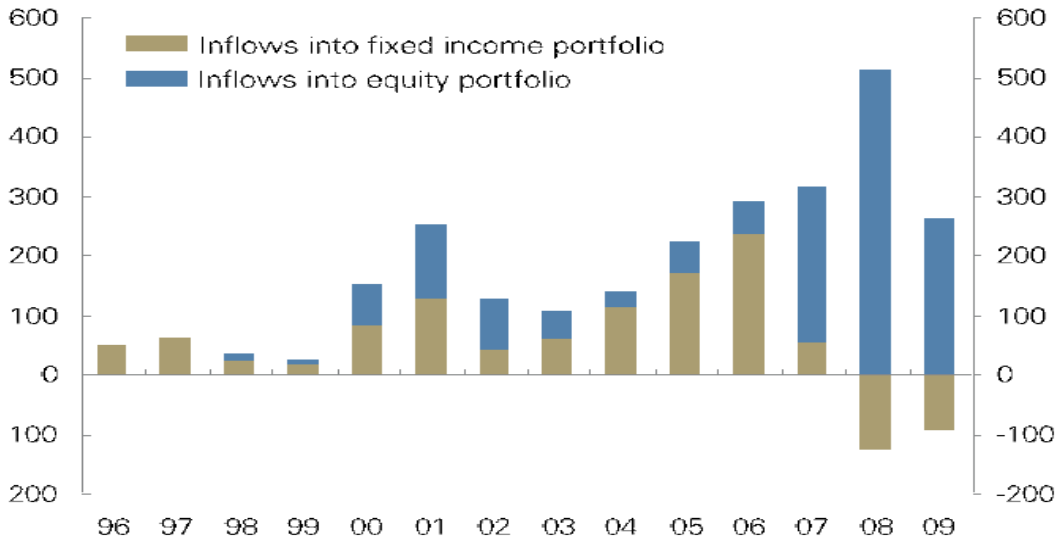
Source: GPFG Global Annual Report, 2009, p.18/91

Figure 5.8 Net government cash flow from petroleum activities by source 1971–2008 in bns of NOK at 2008 values



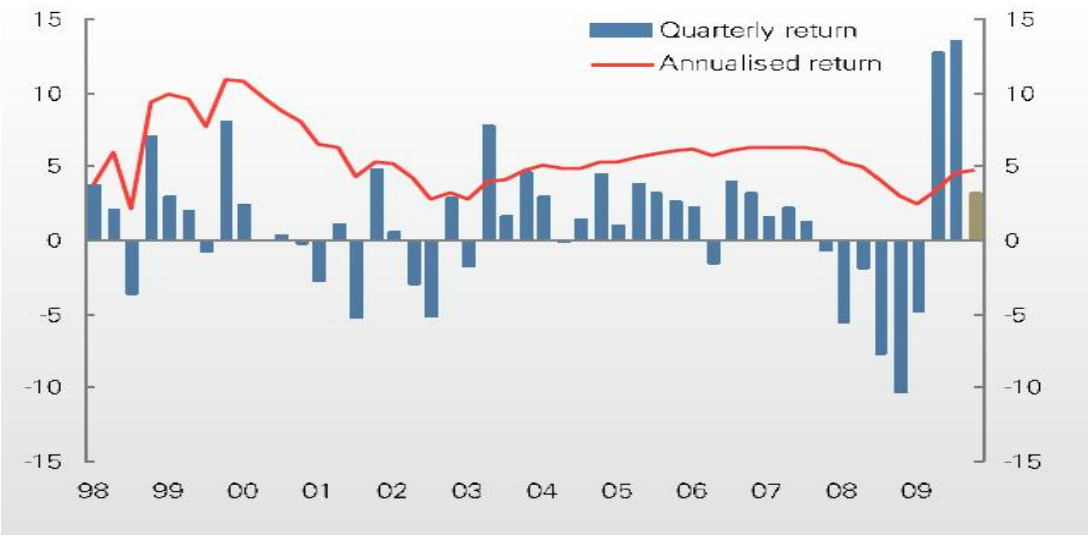
Source: Ministry of Petroleum and Energy, Norwegian Petroleum Directorate; GPFG Global Annual Report, 2009, p.66/91

Figure 5.9 Annual inflows into the fund by asset class
Bns of NOK, current price inflows into fixed income portfolio 1996–2009



Source: NBIM, GPFG Annual Report, 2009, p.67/91

Figure 5.10 Quarterly and annualised return since inception 1998–2009 in percent



Source: GPFG Global Annual Report, 2009, p.20 /91

Table 5.2 Key numbers for Norway SWF

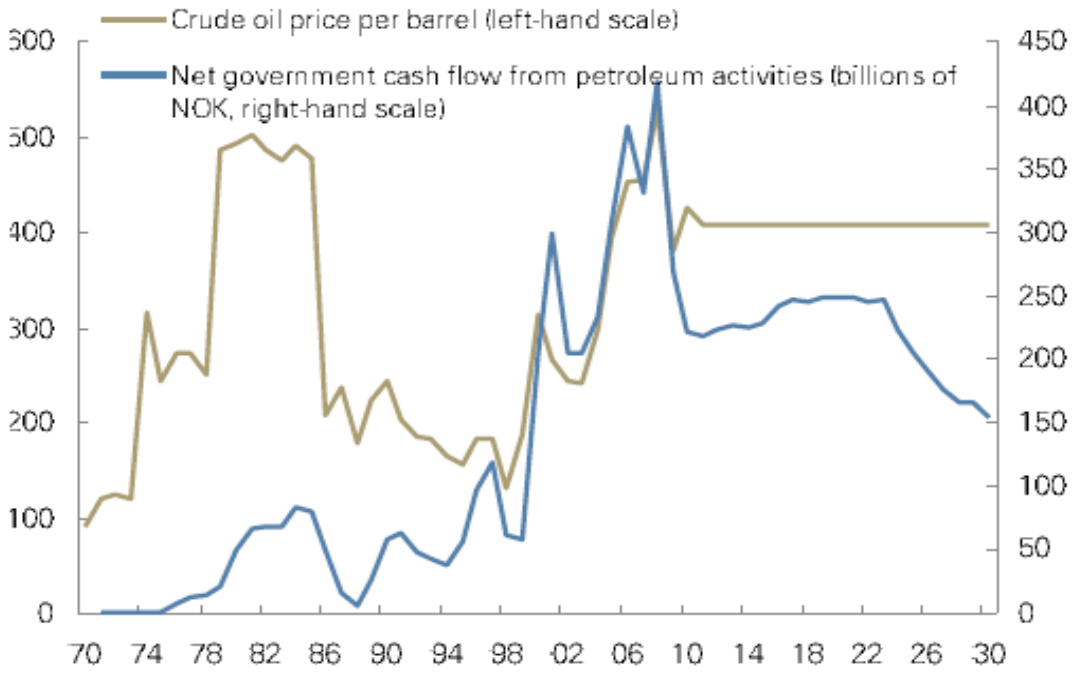
Size of GPFG in 2009 is NOK 2640bn that is equivalent to USD 457bn

	Since 1.1.98	10-year Average	5-year Average	3-year Average	2009
Total return in % (in FX basket)	4.66	3.47	3.79	0.15	25.62
…of which manager excess return	0.25	0.17	-0.03	-0.41	4.10
Net real return in %	2.70	1.38	1.54	-1.95	23.45

Source: MoF GPFG Management Report, 2010

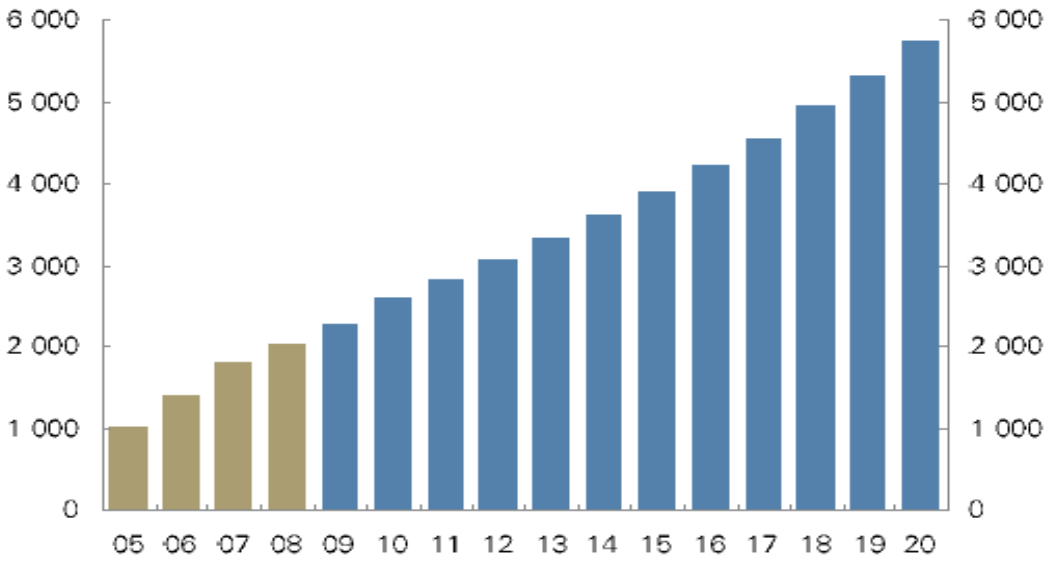
The key numbers above shows the overall long term returns are low as compare to the benchmark portfolio, however the market value of GPFG in 2009 was NOK 2757bn which was more than annual GDP of Norway or corresponds to approximately NOK 570,000 per capita. Globally GPFG has been recognised as major financial institutional investor and value of the fund is considered to have been 1% of the total value of the world's listed companies at the end of 2009 and 4.4% of the total value of Norwegian companies listed on Oslo Stock exchange. GPFG of Norway has strong competitors like ADIA (UAE), China, Saudi Arabia (SAMA) and Kuwait who are all above USD 250bn. In the last decade Norway GPFG has reported 14 times negative return on quarterly results which reveals that GPFG still needs improve from its current status of financial success and low growth.

Figure 5.11 Net government cash flow from petroleum activities from 1970 to projected value till 2030 NOK per barrel and billions of NOK at, 2010 values



Source: Ministry of Finance, Government of Norway National Budget, 2010

Figure 5.12 GPFG projected market value in billions of NOK at current prices



Source: Ministry of finance, Government of Norway National budget, 2010

5.4 Oman SWF: State General Reserve Fund (SGRF)

This section provides details about Oman's economy, the sovereign wealth fund of Oman (called here after SGRF) and analysis of Oman SWF.

5.4.1 Importance of SWF to Oman's economy

The country of Oman is located in the Gulf region having strategic importance in the international and regional trade from the long time and has acquired a dominant position in the Gulf Co-operation Council (GCC). Large natural resources of oil and gas, long standing cultural heritage and good political ties with countries around the globe have earned an important place in the global trade, finance and economy for Oman. Peaceful and stable governing of the country from 1970 onwards by Sultan Qaboos along with development efforts and careful liberalisation approach by Oman has created an admiring place for Oman in the GCC and global politics. Oman is clearly well positioned with current development, economic transformation process and major breakthroughs like Free Trade Agreement (FTA) with USA implemented from January 2009. Oman has one of highest recognition in the region by scoring as 25th on the global peace index, 41st in overall transparency index and 57th in business climate by World bank in 2008 (The Report OMAN, 2009).

The Government of Oman is in its seventh five year development plan, has created a long term strategic vision for 1995 to 2020. Implementation of a recent privatisation program has led to a surge of growth in local and foreign investments in industrial sectors such as power and water. The goals of the plan include increasing and accelerating economic transformation by enhanced focus on natural gas production, tourism industry development, non-oil exports, development of human capital,

expansion of information, communication and technology (ICT) sector while upgrading nation's overall infrastructure.

The country's major wealth creation or income source is still from petroleum and natural gas resources i.e. oil and gas account for more than 90% of Oman's total exports of goods and services. To provide a safeguard against low oil prices in the world market, Govt. of Oman was one of the first nations in the region to establish a state general reserve fund (SGRF) which is also known as Oman state general stabilisation fund (OGSF) in 1980. This was the starting point of Oman's Sovereign Wealth Fund (SWF) in 1980 which now comprises of four different funds: state reserve fund, petroleum fund, national infrastructure fund and another fund started in 2006 named as Oman Investment Fund (www.SWFinstitute.org, 2011). These four funds are under direct management of Ministry of Finance whereas other nine pension funds which have only within the country investment permission are managed by their respective functional ministry. For example, during high oil prices in 2008, approx. US$150 a barrel, Oman's SWF added US$2.2bn to oil reserve fund which has been estimated to have assets within the range of US$ 8.2bn to 13bn in September 2007. Since, the creation of state reserve fund, Govt. has created twelve more funds as explained above to protect the budget and to diversify investments for long term growth and to deal with any future financial implications in the country (The Report OMAN, 2009). Few recent moves of privatisation such as restructuring of power transmission, postal services and solid waste management sector are in the process. This shall increase competition for local companies to grow, to increase the availability of more cost-effective and efficient services, foreign direct investments and freeing up state finances for other essential and developmental projects. 5% to 6% GDP growth has been maintained in the last five years as reported by Central Bank of Oman. Oman has proven petroleum reserves of approximately 4bn barrels. This is a finite source and

therefore Oman government aims to transform the oil dependent economic position into the multi-channelled and non-oil dependent economy like other developing and industrialised countries around the globe. The government of Oman aims for the country to become a major exporter with a particular emphasis on the manufacturing industries.

Hence, the strategic aim of achieving economic balance and sustainable growth depends on human resources development, economic diversification and private sector development as laid out in the vision for Oman 2020. But, current polices have inherent impediments to growth which is proven by slow growth of last three decades of Oman SWF as compared to other GCC member countries whose SWFs have grown more than hundreds of billions. Therefore, the major challenges for Oman and its government are:

1. Increasing fiscal deficit in the general budget and declining financial reserves
2. Over dependence of the national economy on oil and oil price is largely influenced by external financial market trends, economic and political forces
3. Finite oil reserve for the next two decades
4. Prominence of government role in other industries reducing opportunities like private investors and innovation through increased competition
5. Lack of suitable monitoring and control mechanisms in financial and other sectors
6. Weak integration between oil and other supporting sectors leading to low quality output compared to international standards and industry benchmarks
7. Low efficiency and ineffective utilization of available resources
8. Labour market imbalances as increased foreign labours and low local participation

9. Less significance to human capital development and few professions
10. Incapacity of local labour force to match global demand by technological advances (Vision 2020 for Oman, 2007)

On one hand, the establishment and successful running of sovereign wealth fund seems to be a promising solution for Oman. On the other hand, this wealth fund draws its input from oil income. Hence, oil prices in global market and oil reserves with Oman plays a significant role in the achievement of Vision 2020 for Oman. The impact on SWF income from oil revenue can have magnified effects. For example, just one standard deviation shock in the oil prices can take revenue decrease to 6% of GDP when oil revenue is just 20% of GDP (Devlin and Titman 2004; Mitchell, et al 2008). From these statistics, one can infer the turbulence effect of oil prices to Oman and its SWF wherein oil revenue is more than 90% of their GDP. Countries like Chile and Venezuela have designed their funds to offset such price fluctuations. Sometime, during low oil prices, these governments may have to shut down the SWF investments made during high oil prices if businesses are not performing well. This is costlier than making wrong investments. This again becomes a major issue for decision makers in the government and businesses. To reduce such effects, SWF shall have appropriate investment strategy, profitable investments and steady inflow of the funds (Devlin and Titman, 2004).

For country such as Oman, the profitable returns, growth and currency stabilization are crucial to the direct impacts on the economy and lives of their population (Swensen, 2009). For example, if SWF is small compared to other countries and still a single largest source to balance the financial system then it has two major problems: managing the stability of the fund and maintaining the low profile without disclosing strategic information unless big funds follow the lead. This is exactly the case of

Oman's SWF. This makes one to think about operating mechanism of decision making and overall management within SWF. Hence, these practical challenges reveal the importance of SWF for Oman's economy. One such attempt is made in this thesis by analysing Oman's SWF in comparison with other well developed and profitable SWF. The next section explains case analysis of Oman SWF.

5.4.2 The history and development of the SGRF

The Sultanate of Oman launched this State General Reserve Fund (SGRF) in 1980 by Royal decree to manage the country's wealth from oil income, return from investments and foreign exchange reserves of the Sultanate of Oman. SGRF is owned by Sultanate of Oman and is managed by the Ministry of Finance (MoF). The monetary sources of SGRF are foreign exchange reserves from oil and gas exports revenue and current assets holding is worth approximate US$ 8.2bn to 13bn. The operational management of SGRF is managed by Ministry of Finance (MoF). There are no regulatory mechanisms applied by MoF and no such information is known to any other government department.

The main problem in collecting secondary data was that SGRF has very low transparency and degree of disclosure. This has resulted in no information about Oman SWF in the public domain such as 'no published reports' of any kind. Oman SWF (SGRF) is not monitored by any government department except the Ministry of Finance. This is known from initial discussion with Oman SWF employees. The effort was made to get as much as possible information related to SGRF from reports of other government departments such as Central Bank of Oman (CBO). The following attributes explain the current status of SGRF, its strategy and operations.

5.4.3 Current status of the SGRF

The SGRF is analysed below for the same attributes of structure, management style, governance, transparency, investment strategy, asset allocation and performance same as in the case of Norway SWF to compare them.

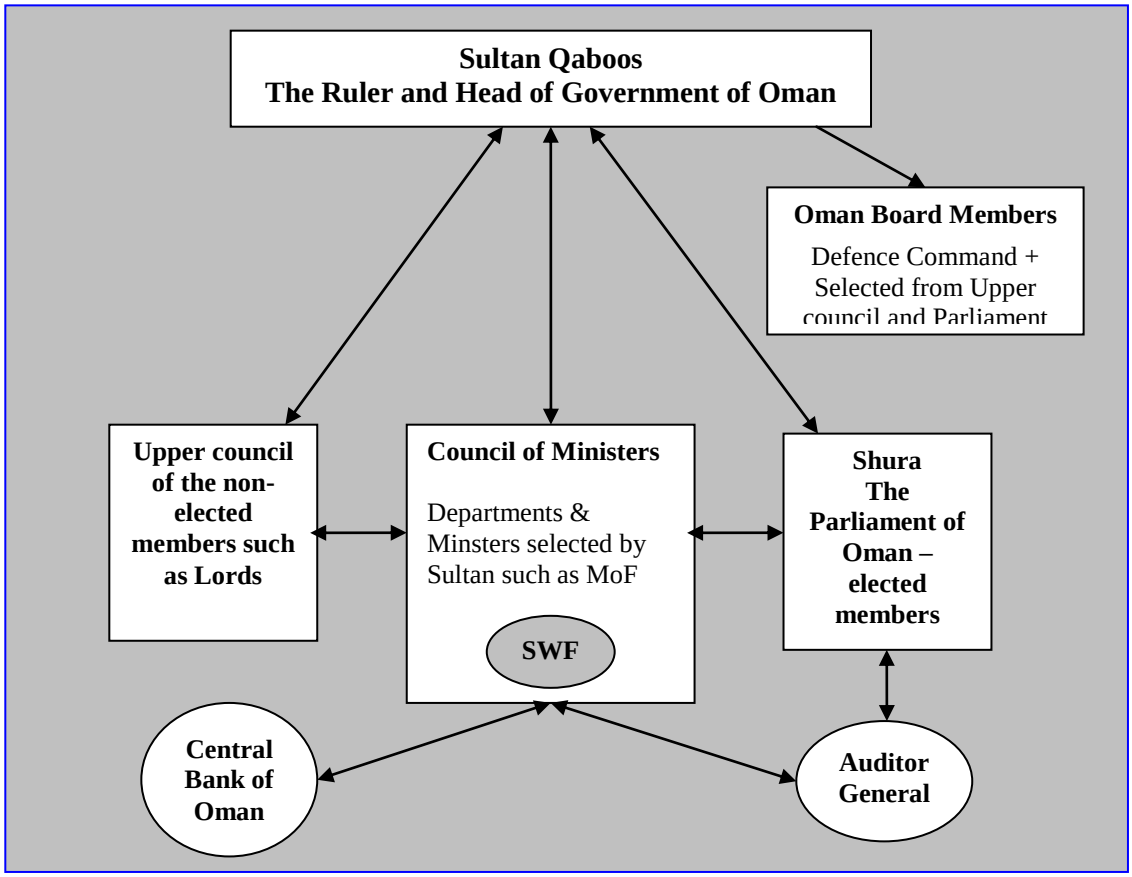
5.4.3.1 Organisational structure

The Government of Oman has not applied any management or regulatory framework in their wealth fund act. The formal responsibility of SGRF management rests with Ministry of Finance (hereafter referred as MoF) where decisions are taken by the discretionary powers of Minister of Finance. The funds inflow and outflow is administered by Central Bank of Oman (CBO). However, SGRF is not treated as a separate entity as in the case of Norway. SGRF has less than total 100 employees. These employees are working for Ministry of Finance and they are not trained for managing SWF, its investment deals or operations. There is no written agreement over the shared roles of MoF and CBO however they are jointly responsible for managing the SWF.

The main objectives and strategy of SGRF are not clear but the aim is to utilize the income from the proceeds of oil, gas and petroleum products' revenue. Thus, it is the responsibility of MoF and CBO to ensure the increase and profitable returns on the investments made. The income from SGRF should reach to the population of Oman.

The following diagram show as on date relationship structure between Government of Oman, Ministerial departments and Central Bank of Oman.

Figure 5.13 Present organisational existence of SWF under MoF



Adapted from Central Bank of Oman (CBO) Annual Report, 2010; Interview transcripts

As evident from the organisational structure, the current form of SGRF is one ministerial portfolio in the Govt. of Oman. According to the law, MoF is supposed to report details of SGRF to the Auditor General, Central bank of Oman, upper council and Shura – the parliament as shown above in the diagram; however the MoF does not report the details of SGRF to any of these stakeholders. Therefore in case of Oman SWF, organisational structure affects SWF negatively as opposite to Norway SWF. Thus, hypothesis H6 is supported in this context.

5.4.3.2 Management control and investment strategy

The SGRF has full support of the Government of Oman and Sultan however there is no management control mechanism in the place. The only investment strategy component implemented by SGRF is the limit on the inflow of the fund from oil income which is currently 15%. The limit can be increased when oil prices are high which would enable the asset base expansion, portfolio creation and the increased return. The other fundamentals such as investment appraisal, asset allocation, measurement and benchmarking of the performance of SGRF are missing from the current policies of the MoF. Thus, current management and investment strategy requires the $transformational and strategic changes in Oman SWF (Observations made in Oman SWF, 2011).

5.4.3.3 Governance, Transparency and accountability

As evident from the above discussion of management style and very weak – unplanned investment strategy it is easy to infer that employee skills are not utilized to grow the fund. In addition, the MoF does not allow any other department or council to have input in managing SGRF. Other government departments and top management of SWF do not have up to date and accurate details about what is happening in Oman SWF. There are no reports published in the public domain as well. Thus, governance and transparency almost do not exist within the management of Oman SWF. No employees or decision makers are held accountable if Oman SWF makes a loss in the investment deal. Thus, profitability is a serious issue for SGRF.

As evident from no availability of data and absence of investment strategy and governance, one can confirm that Oman SWF is largely affected by such attributes. Thus, in this context hypotheses regarding governance (H1), policy (H4), structure (H6), investment strategy (H7) and decision making (H8) are supported. Norway SWF

also supported these hypotheses however those were with the positive effects of these attributes as maintained by Norway SWF.

5.5 Comparison between Oman and Norway SWF

The following table shows the comparison between Oman and Norway. Norway SWF has scored high on each attribute and it is an ideal example from the competing Norway SWF for Oman SWF. The priorities in the form of recommendation for these SWFs based on their analyses and comparison are followed in the next sections. The main priority difference between these SWFs is what Norway needs is reduction of overdone mechanisms to grow further whereas what Oman SWF needs is to create basic investment strategy and governance framework to accomplish the fund's objectives further.

Table5.3 Comparison between Oman and Norway SWFs

Item	Oman SWF	Norway SWF
Year started	1980	1990
Current worth In US$ billions	8.2 to 13	375 to 500
Major source of funds	Oil and gas	Oil and gas
Managed by	Ministry of finance	Ministry of finance and Norges Bank
Truman scorecard ranking for structure, governance, accountability, transparency and management behaviour	20 / 100	92 /100
Organizational structure	Present	Present
Management control	Absent	Present
Government support	Yes	Yes
Strategic vision – approach	Absent	Present
Responsibility – Sustainability strategy	Absent	Implemented
Investment strategy	Absent	Implemented
Asset allocation fundamentals	Random	Mechanism based
Decision making	Random	As per policy
Governance standards	Low	High
Transparency level	Low	High
Overall performance achievement	Not achieved	Partly achieved

Sources: Secondary data from GPFG, Norway and SGRF, Oman; Truman (2008); Anderson (2009)

5.6 Summary

The recommendations based on Oman and Norway SWFs analyses individually carried out in this chapter are mentioned in the final conclusion chapter of the thesis.

It can be summarised that both of these SWFs support hypotheses from initial theoretical framework proposed in chapter three; however, Norway SWF supports these hypotheses as these attributes are managed and they adding value to Norway SWF whereas Oman SWF do not have any of these mechanisms in place and same set of attributes is negatively affecting the growth of Oman SWF.

Results of hypotheses support and evidence from these analyses are utilized in the finalizing the framework in the next chapter of the thesis.

Chapter 6 Primary data analyses

6.1 Introduction

Chapter five described the detailed analyses of secondary data of Oman and Norway SWFs. This chapter presents the analyses of the primary data obtained from Oman SWF by conducting interviews and questionnaires. This chapter is divided into two parts. Part A is describes interviews analyses and Part B does same for the questionnaires.

Interview template is prepared based on the pre-set interview question set which was used to conduct interviews. Based on this template, interview transcripts as listed in the appendix E are analysed. This section is also part of the data theory as it utilises primary data from interviews to find solution for research problem defined earlier in the thesis (Philips and Pugh, 1994). Data collection using interviews was done before collecting data through questionnaire so as to know in detail about Oman SWF and maintaining the same order interview data is analysed first. Twenty interviews were conducted and no recording was done during interviews. The transcripts are prepared from the notes taken during interviews. These transcripts are produced in the appendix E.

As mentioned in the secondary data of Oman SWF, it is known that there is no separate recruitment section for Oman SWF and SWF does not have large number of employees. Oman SWF is managed as a part of Ministry of finance and has very low transparency. Thus to study Oman SWF in detail, it is very much necessary that if direct employees are not available then information is sourced from relevant stakeholders of the SWF such as members and employees of other government

departments, Shura council, state council, parliament, auditor general's office and central bank of Oman. In this manner, twenty different stakeholders were interviewed from various departments of Government of Oman.

The part B of this chapter represents quantitative and qualitative analyses of questionnaires responses. This discussion leads one to build findings, validation, recommendations and understand implications for theory and practice. Findings are described, evaluated and compared with the previous research in the field of sovereign wealth funds in general and growth of Oman sovereign wealth fund. Thus, this section can be said to be part of data theory in this thesis according to Philips and Pugh (1994) model of research process.

Questionnaire responses analyses are is divided further into three steps: first step explains which statistical tests are carried out and their results; second step details the finalization of the proposed framework based on the analyses of findings from statistical tests results, descriptive statistics of questionnaire responses, interview data and secondary data and academic literature. Finally, third step is to derive the framework and check the validity of the findings.

The hypotheses made in the framework are tested based on the analyses of questionnaires and interviews data analyses. The relationship between each factor affecting and dependent variable growth of SWF is analysed using regression analysis. The growth of SWF is defined as combination of two components in the proposed framework: investment performance and success rate of the fund. Therefore, regression analyses are performed for each component as detailed in the next sections of this chapter.

6.2 Links between interviews and questionnaire analyses

Interview findings are obtained from the top management executives whose departments are related in one or the other form to sovereign wealth fund of Oman. Their views represent top priorities of policy changes required for restructuring Oman SWF overall whereas questionnaire respondents are from middle and operational management of these government departments. Hence, questionnaire responses represent the operational, implementation and output related issues of managing sovereign wealth fund of Oman. Thus, interview and questionnaire findings together support the assessment of variables mentioned in the proposed framework. In addition to this, table 6.2 shows that interview template themes are related to variables in the proposed framework which is tested by analysing questionnaire data. Therefore, any acceptance or rejection of hypotheses would be based on the questionnaire data analyses and interview findings as well.

Part A: Analyses of interviews

6.3 Interview analysis method

Generally, interviews consists data of meaningful information expressed through words, pattern and impacts (Saunders et al, 2009). Such data requires analysis conducted through conceptualisation as it contains a collection of information in non-standardised category. This would require one to categorise and unitise the data from interview transcripts (Miles and Huberman, 1994). This is a challenging process when one analyses a case study based on the interview evidence (Yin, 2009). Less structured data from interviews needs an active interpretive approach as a major analysis dimension. Adopting this approach allows one to transfer the nature of the qualitative information, comprehend and understand them. To carry out a rigorous analysis of interview transcripts, one shall identify key themes and patterns emerging from the

data to verify the conclusions. The general process followed for this is in the order of categorising, unitising, recognising and developing the conclusions (Miles and Huberman, 1994; Saunders et al, 2009). The same procedure is attempted here by creating a template from the following set of the interview questions.

Table 6.1 Set of Interview Questions

1. Would you tell something about the **current situation** of sovereign wealth funds position worldwide?
2. Where do you think, we at Oman SWF stand in **comparison to others in terms of credibility**?
3. As mentioned in media from last two or three years, does Oman SWF have **low governance or transparency** in its operations and investments process?
4. Is there any need for tit-for-tat approach between **investee countries (recipient of funds) and SWF sponsoring countries** in **creating barriers and new legal systems** to prevent each other?
5. As a separate entity from government administration, what are the **improvement points** in Oman SWF?
6. One thing is always said in financial industry that Oman and other GCC funds started together but our fund has **not grown more than 10bnUS$, why so**?
7. Does Oman SWF have any particular **issues with investment strategy and policies** as reasons for underperformance?
8. How does the **decision making process** work in our SWF?
9. Where do we need to improve or to **implement changes? Is it policy, resources, people development, investment appraisal**?
10. What do you consider are key **criteria for sustainable growth** of Oman SWF?
11. Where do you see Oman SWF in the **medium or long term future**?

From the highlighted features of interview questions following discussion themes are extracted to get information related to them from interview transcripts and literature to compare them.

Table 6.2 Themes of interview analyses

1. Current situation	**(Idea about SWF, H3)**
2. Credibility through governance or transparency	**(H-1, H3)**
3. Laws and treaties	**(H-2, H-4, H-5)**
4. Investment strategy and growth concerns	**(H7, H8)**
5. Decision making process	**(H8, H6, H7)**
6. Changes to implement: policy, resources, people development, investment appraisal	**(Restructuring, H4)**
7. Key growth criteria	**(Dependent variable)**
8. Future of the fund and points to improve	**(Recommendations)**

As one can see these interview discussion themes are basically help to determine the acceptance or rejection of hypotheses H1 to H8 along with discussion of restructuring solution from the interview findings and potential of key growth criteria such as profitability, investment portfolio performance and success rate of SWF decision making. In the next section, above mentioned eight themes are analysed from the twenty interview transcripts mentioned in Appendix E.

6.4 Analysis of Interview transcripts

This section analyses Oman SWF on the following points which are pertinent to its future growth and success.

6.4.1 Current situation within Oman SWF

As evident from the voice of all twenty interviewees Oman SWF has a central decision making authority which rests with government department: Ministry of Finance (MoF); however, all major decisions are taken single handed by Minister of Finance. Other councils such as Shura, Audit committee, Ministries or Parliament do not have any control over it right now. Hence, one can say that the appropriate decision making structure does not exist within Oman SWF and it completely lacks professional

management system in their decision making process. Previous research regarding this suggests that having no professional management system in place or decisions made by political leaders have significant impacts on the returns of the investment decisions made by them (Bernstein et al, 2009). This approach of Oman SWF can be described as a political perspective. This perspective argues that politicians have personal interest to pursue their own goals and investment decisions taken by them on behalf of state owned institutes or banks and these decisions are inclined towards the inefficient but politically desired projects, such as maximizing employment to stay in power or financing favoured enterprises (Shleifer and Vishny, 1994; Mitchell et al, 2008). Political leaders or powerful elites holding control over SWFs portray their biased decision as country level benefits maximisation; however the main aim is to retain the control over the investment vehicle and money thus maximising their autonomy (Pistor and Hatton, 2011). This is one of the main reasons that GCC SWFs and Oman SWF score low on reputation and popularity scales such as Truman (2008) scorecard.

A political perspective in all decisions during all three decades can have significant impacts on the return of portfolio. That may be the very reason why Oman SWF is at US$ 8 to 13billion, which is lagging behind other countries in the region by 50 to 100 times. ADIA (United Arab Emirates) approximately 800bn, SAMA (Saudi Arabia) approximately 500bn and KIA (Kuwait) approximately 300bn have in assets and wealth creation. They all started SWF together almost three decades ago. Interviewee (18) suggested that around the globe many SWFs are managed by finance ministries (MoF) and central banks, hence, it is not a major issue that Oman SWF is managed by MoF. The problem is that how we are operating and not being serious about profitability of the fund. One must remember that there is no single owner of this money; this belongs to all citizens of Oman. The agency or stewardship of the monetary reserves then becomes crucial for the whole country. Hence, it is policy

makers role to decide how much reserves are adequate and what can be done with them if a balance of payment crisis comes on. The answers to such questions would help the Government of Oman to set up basic policies and operational framework for SWF (Das et al, 2009 IMF working paper). In this scenario, single handed management by Oman MoF raises more questions about its SWF credibility which is measured in terms of governance, transparency and accountability in the wealth fund industry as discussed in the next section.

6.4.2 Credibility of the fund: Governance and transparency (H-1)

Interviewee (11) mentioned that credibility is a momentary issue for Oman SWF because there is no organizational structure and transparency right now. Once restructuring is done, the fund will not have any problem of governance and credibility because the business and national culture of Oman has good values and high morale. That is how Oman has scored high in the world competitiveness, corruption and business confidence indices compared to other GCC region countries. However, Keynes (1933) stated long ago that international cash flows have political elements and Cohen (1986) made a similar argument that high finances and high politics are inseparable. In a time of exponential growth of SWFs worldwide, the claim rests with SWFs to prove a point that their investment decisions do not carry any politically biased agenda (Clark and Monk, 2010). USA Senator Schumer (2008) said that the bottom line of SWF investments is that investee country governments have no knowledge whether SWFs are investing purely on economic motives. These researchers and practitioners suggest that SWFs have issues of credibility of their actions inherent in their investment decisions. And, these SWFs target assets strategically through large pool of foreign exchange reserves from oil or commodity income. The US Govt. Accountability Office (GAO, 2008), Truman (2008) and

Anderson (2009) suggest that credibility or reputation of SWFs can be measured in terms of transparency, governance and accountability. These three components make up the overall reputation or credibility of these SWFs. Also, the institutional structure and setting up objectives adopted by the sponsoring country can reveal more about the credibility and purpose. Because, SWFs are likely to differentiate and evolve according to their national cultures and their respective places in a world of contested power and influence (Clark and Monk, 2010). Current unplanned operations and single handed management is reflected in the following comparison between two case studies SWFs Oman and Norway shows that Oman has a very low score on the credibility.

Comparison between Oman and Norway SWFs

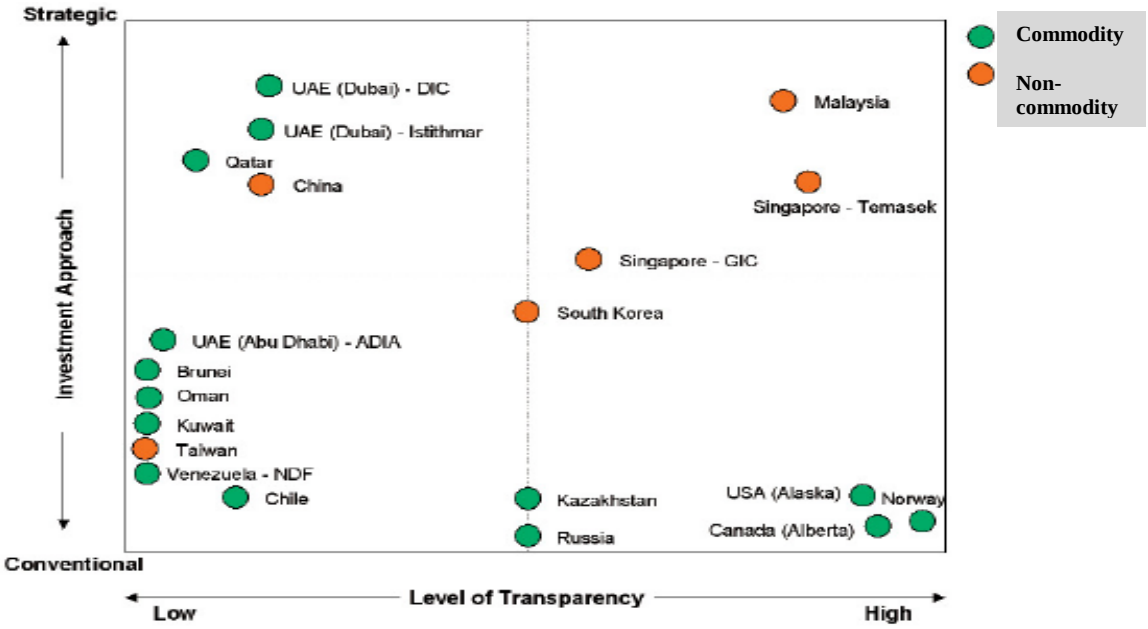
Compared for	Oman SWF	Norway SWF
♦ **Established in**	1980	1990
♦ **Operating as**	State general reserve fund	Govt. pension fund – global
♦ **Main Income source**	Oil and gas	Oil and gas
♦ **Current size in US$**	8 to 13bn	375bn
Best practice score achieved in Truman's score card		
♦ **Structure**	**50**	**94**
♦ **Governance**	**0**	**100**
♦ **Accountability & Transparency**	**18**	**100**
♦ **Behaviour**	**0**	**67**
Overall score =	**20/100**	**92/100**

Source: Truman, 2008

As confirmed from the interviewee responses, the causes for such a low credibility score as shown above in the comparison for Oman SWF arise from complete lack of

organisational structure; no reporting on investment and return; no reporting on reserve inflow and outflow of SWF; no planning for budget – investments or portfolio return; no professional assets or profit protection management. These problems come from two basic elements within SWFs. One is disclosure and other is new mercantilism (Gilson and Milhaupt, 2008). Disclosure issue is about being transparent in releasing a true account and information to the public domain. Many developed countries funds do this and they score high on Truman's score card; for example – Norway and Singapore. This is completely absent in Oman SWF as stated by Interviewee 1 that *"Parliamentary committee for economy and finances in Oman should have received separate reports, plans and budgetary details from SWF management but there is none".* In addition to these, issues of no control over decision making and no knowledge of how fund is operating were voiced by other interviewees 7, 15 and 19. Oman SWF has never published annual report regarding their investment transactions. This is evident from the following figure 6.1 where Oman SWF compares too much low on a transparency scale with other GCC funds whereas Norway and Singapore are on the positive side of the transparency scale.

Figure 6.1 Transparency and investment approach of Top 20 SWFs



Source: Standard and Chartered Bank Research Report, 2007

This is like a chain reaction in the investment industry. 'No disclosure' leads to 'zero transparency' which again leads to speculation about governance and reduces trust in the markets about the SWF. Interviewees stated that low credibility score of Oman SWF emerges from less transparency and no information availability to Omani citizens or foreign governments or companies. When company adopts such policy it reflects in the employee behaviour and organisational culture while no one is accountable. The more of this chain reaction works more it harms investors, fund and reputation of the sponsoring country (Monk, 2009; Clark, 2009; Anderson 2009).

Interviewee 16 suggested that *"main function of the state council is to take part and to support better governance through its operating mechanism and fundamental principles"* such as overseeing the governance and transparency of Oman SWF but there is no control over it in the present system. Thus, governance and transparency are at the lowest possible level for Oman SWF and employees are not accountable or

responsible as they are not allowed to make any decisions as managers or custodians of the SWF. This takes overall credibility of Oman SWF to a very low level in the investment markets. Such a low credibility leads to an issue of new mercantilism which again reduces the credibility of Oman SWF. In the developed and democratic political economies, individual companies' profit maximisation is encouraged. Governments are prohibited to shift the profit maximisation from companies to state. Various rules and mechanisms are designed in WTO and EU for this. Contrary to this in some major developing (China) or monarchist countries (GCC Region) adopt the state capitalism that is new mercantilism (Yi-Chong, 2009). In this system, state takes the role of an organization whose benefits are to be maximized wherein government acts as a direct participant, coordinator or controlling stakeholder (Gilson and Milhaupt, 2008). Developed economies believe that free trade and competition amongst companies within industries increases their respective GDP levels. In the case of developing and emerging economies having SWFs, states act through SWFs holding the equity of operating companies and attempt to be in the industry competition. Then, these SWFs ensure that investments results in the maximization of economic, social and political benefits of the country (Gilson and Milhaupt, 2008). Hence, these SWFs compete with advanced companies or banks or investment banks in the investments field. In this way, Oman SWF has become a part of new mercantilism; however they are not able to maximize any benefits of state capitalism characteristic since there is no accounting within Oman SWF (Gilson and Milhaupt, 2008, Pistor and Hatton, 2011). Thus, it can be inferred from the discussion that governance and transparency are major attributes right now affecting the growth of Oman SWF. This supports the hypothesis H-1 in the framework and related factors impacting SWF. Therefore, Oman SWF has to restructure and to create a governing mechanism based on laws within the

administration and support of other countries in trade through bi-lateral treaties as discussed next.

6.4.3 Laws and treaties (H-2, H-4, and H-5)

At present there are no law or regulation within SWF or treaty with any other country. That means Oman SWF is not benefiting from any credit crisis investments and asset creation when most of the assets are undervalued which may provide huge return in the next decade or so. Also, the absence of legal structure allows many lapses on the part of SWF management with MoF and for employees within the SWF as they become unaccountable for their actions. As suggested by Interviewee 10, both MoF and Oman SWF do not have any strategic objectives laid out except Vision 2020 prepared by Govt. of Oman but that is in the perspective of the whole country. Interviewee 6 adds that *there are no ethical guidelines, no evaluations or audit of actions – decisions taken, no risk management tools. Government of Oman still runs finances based on old systems of central command chain and thumbs rules for decision making".* Interviewee 17 who works in parliament knows the IMF response to SWF growth and he expressed concern over increasing protectionism from either side: SWF sponsoring governments and investee countries governments mainly Europe and America. Thus, interviewee 17 agreed with an idea of setting up an overarching global SWF regulatory body which can facilitate resolving any issues between both sides and also help in research and development. This will directly reduce the task of creating favourable mechanisms through laws and treaties by many governments around the world (Greene and Yeager, 2008; Kotter and Lel, 2011). Other funds such as Norway, Singapore and Kuwait operate on the basis of planned investment strategies, regulations, and disclosure principles (Greene and Yeager, 2008; Chhaochharia and Laeven, 2009), whilst regularly reporting to their respective central banks or government committees and have trade treaties with other countries to attract investments (Rose, 2008). These legal

and trade mechanisms enable them to increase their reputation which results into increasing return and asset base. As confirmed by Interviewees, Oman SWF does not have any of these initiatives. Unless these basic and required initiatives are in place, any advanced steps of asset allocation principles and investment strategies preparation would not help Oman SWF. The first need of Oman SWF is legal and organisational structure to be built.

The above discussion reveals that every investee and sponsoring country is creating mechanisms which ultimately work as barriers rather than growth enablers. This was found in the literature as well. This supports the hypotheses H-2, H-4, and H-5 which states that investee country laws, sponsoring country laws and policy making heavily impact the growth, performance and success rate of any SWF.

6.4.4 Investment strategy and growth concerns (H-7)

As stated by Interviewee 1 *"Oman SWF has is no fixed limit on how money will come to SWF from oil income or how the return of SWF investments will be reinvested. There is no audit, annual budget planning and investment return reconciliation process in managing Oman SWF".* In addition to this, the Ministry of Finance which manages Oman SWF right now, neither wants to consult any other government departments, nor wants to utilise the services of consultants, asset managers or investment banks for investment strategy and growth (Interviewee 3). This is part of the major irregularities found in the operations of Oman SWF. The investment decisions are not analysed for any risk or return; however the MoF randomly decides the allocation of funds in the transactions purely based on either the political agenda or trade relations in the investee country. This affects the profitability and growth of the funds (Interviewee 1). As known from the literature, the basic objective of setting up the sovereign wealth fund is to multiply the surplus income of accumulated foreign

reserves. Hence, their investment strategy should be handled in such a way that would enable the growth in assets and return on investments made (Gintschel and Scherer, 2008). This would be possible when a fund has designed a governing mechanism, for example Norway SWF has fixed rules for inflow and outflow of money to and from SWF. Contrary to this, Oman SWF does not have any investment strategy. Since, SWFs do not disclose much their objectives whether political, strategic or financial; they remain unknown to the public (Summers, 2007; Gieve, 2008**).** This tendency of political influence or non-financial basis for decision making may lead to the investor biases for the investments being made. Chhaochharia and Laeven (2009) suggest from their study of 40,000 foreign equity investments by SWFs during 1997 – 2007 that SWFs tend to invest outside their countries where in areas with which they share religion and culture, but which offer different industries than those in the sponsoring country. Thus, SWFs seek industry diversification but have bias for the familiarity of the culture. This may help in gaining information advantages or give a psychological advantage of feeling cultural affinity. They also observed similar bias by mutual funds and other global institutional investors in their asset allocation; however SWFs have pronounced bias for the culture. The other finding in their study revealed that when SWFs announces such investments then share prices of the investee companies respond favourably in the stock markets. This rise in the share price may be the reason that investee market expects the SWFs to bring expertise and governance leading to the growth for that company. And, when SWFs do not necessarily have a reputation for governance such as many GCC funds, the announcements of SWFs taking a stake can act negatively on the stock market's performance. This effect has been voiced by many academics and analysts (Gieve, 2008; Balin, 2010). Since Oman SWF does not have any organisational structure or investment strategy in place, it requires an overhaul in these aspects along with organisation design and development issues. These issues are

basically arising from Oman SWF not having decision making structure comprising board of directors and middle and operational level employees. For example, another GCC fund ADIA (UAE) has low governance score as transparency is very low due very limited disclosure; however, ADIA employs expert employees from more than 40 countries and 1200 staff manages ADIA which has only 30% staff which are local UAE citizens (www.adia.ae, 2011). SWF investment objectives reveal their overarching investment strategy and primary goals; however fundamental differences in asset allocations can have underlying existence even among SWFs of similar professionalism or political economies **(**Dewenter et al, 2010; Hong, 2010). For example, this can lead to competition between similarly structured SWFs such as China and Singapore; or Kuwait and Abu Dhabi (Pistor and Hatton, 2011). The recent global crisis and protectionist behaviour of Western governments might have changed SWF's asset allocations in ways but they may not be ideal or justified by financial management theories in all cases. Thus, it is imperative for SWFs to regularly monitor macro-economic risk assessments for countries whose SWFs is important for economic growth as a stabilizer in the capital markets (Kunzel et al, 2010; www.IMF.org, 2011). The shift of investments to Asian developing markets and MENASA region may increase if western government continue their attitude towards governance and transparency demands (Interviewee 16). What interviewees conveyed is that investment strategy fundamentals are missing from Oman SWF's strategy, if any. This really matters in the time when other funds within and outside GCC regions are competing for valuable assets to make investments. Thus, responses from interviewees support the hypothesis H-7 about investment strategy, deal and asset allocation. Such a detailed response and investment planning requires a robust decision making structure and process as discussed next.

6.4.5 Decision making process (H - 8)

The Oman SWF is managed by the Ministry of finance and mostly all the SWFs around the world are overseen by either their central banks or finance ministries. Hence, there is nothing wrong with Oman SWF getting managed by the finance ministry. The problem is in the content and implementation approach which stems from the rest of the organisational structure. Thus, the problem for the Oman SWF decision making is that only one person, the Minister of Finance, is making the decisions. In this manner, Oman SWF is not operating and administered as an investment agency but as an individual decision maker's portfolio. The authority is totally centralised and there is no employee participation (Interviewee 10). Also, MoF does not seek any employee participation or does not invite any other government department to collaborate (Interviewee 20). Also, it is evident from almost all responses of interviewees that finance minister keeps decision making to himself and no one else has any control (Interviewees 1, 2, 5, 9, 18 and 20). Therefore in management terms, Oman SWF has a top-down traditional organisational hierarchy and communication structure. Other SWFs which are reviewed in the literature have an organisational structure and professional employees or hired consulting wealth managers working for SWFs; for example, ADIA, Norway, Temasek or SAMA. Therefore, this area of Oman SWF also requires serious restructuring. On the other hand, the reason why decision making structures are so complex in these SWFs might be the control their ruling elite wants to exert over the fund and thus control the community. This can be well explained by the autonomy – maximization concept in which authorities taking decisions for SWF want to maximize their autonomy by having control over SWF through reporting structure suited to them and at the same time exploiting financial strength of the foreign reserves around the globe. This has

been examined and found in the four case studies of Abu Dhabi, Kuwait, China and Singapore SWFs (Pistor and Hatton, 2011).

The above discussion reveals that organisational structure and decision making appropriateness are crucial to the success and performance of SWF. Therefore, analysis supports the hypothesis H-8. Particularly, in case of Oman such a decision making structure serves the purpose for the finance minister. From this discussion of current situation in Oman SWF, it is evident that Oman SWF needs an overhaul restructuring in terms of each aspect of organisation design in addition to special requirements of creating a profitable and growing investment vehicle.

6.4.6 Changes to implement: policy, resources, people development and investment appraisal (Links to restructuring solution)

This section of the discussion does not deal with any hypothesis; however it reveals that Oman SWF requires overall restructuring; hence it supports the proposed solution of the restructuring plan as mentioned in the final conclusion chapter in this thesis.

The first change required is to create a reporting structure for Oman SWF (Interviewee 2, 17). This is in terms of making SWF overseen by Oman central bank/ ministry with reports audited by main audit council and guidelines prepared by the Shura and Council of ministers. In this way, the decisions made by Ministry of Finance would be reviewed by other departments and council thus bringing accountability in the operations of Oman SWF (Interviewees 10, 14).

Once this basic framework is prepared then, next step would be to decide which information and when Oman SWF would like that information to go to public domain through online reports, official filing of annual reports and financial statements to the audit and revenue authorities of Government of Oman (Interviewees 4, 18). This would

increase the governance and transparency creating a good image of SWF among all stakeholders: employees, citizens and foreign governments who are more concerned about these issues (Interviewees 7, 12, 20).

Third step would be to recruit the best talent who can move Oman SWF forward with profitability and growth while increasing the asset base (Interviewee 1, 3). This has been done by other GCC funds such as ADIA, SAMA and KIA who have more employees from around the world as an expert working for them. This will help in creating the competitive and international level work culture (Interviewee 18).

This group of expert employees may help in crafting a robust investment strategy and optimal asset allocation for Oman SWF (Interviewee 5). Thus, a complete organisational restructuring of Oman SWF in terms of reporting structure, policies, information communication, recruitment and investment strategy would help to improve the intangible attributes such as governance, transparency and accountability while brining the tangible growth and profits.

6.4.7 Key growth criteria

The above discussion about Oman SWF and previous sections analyses about Norway and Oman from its secondary data reveals that Oman SWF needs to set up policies and investment mechanisms which would then make SWF capable of profitable growth. Hence, Oman SWF has key criteria which can lead to sustainable growth profits in years to come can be based on their achievement of organisation restructuring, governance and transparency mechanisms, human capital development and appropriate asset allocation based on the robust investment strategy.

Part B: Analyses of Questionnaires

6.5 The field work reporting

The data collection through questionnaires was personally administered to collect responses from SWF and other government department employees. More than 350 respondents were contacted to respond and 153 questionnaires were finally received. The questionnaires were personally administered which enabled the accuracy and completeness of responses. The first phase of primary data collection was conducted through 20 face to face semi-structured interviews of senior management employees in Oman SWF and Govt. of Oman. Semi-structured interviews were conducted for in-depth analyses of issues pertaining to governance, decision making and to know mainly what is happening in Oman SWF. The objective of questionnaire data was measurement and correlations assessments between variables whereas objective of interviews data was to explore and to explain.

6.6 Results of Principal Components Analysis (PCA)

A total of 153 questionnaire responses were received from 350 questionnaires launched. All 153 questionnaires were coded into an excel worksheet. Each questionnaire has four parts section A, B, C and D. Regression analysis is deployed for sections A, B and C whereas pie charts are produced to analyse responses of section D which contains multiple choice questions about decision making process of Oman SWF.

The coding has been done in the following style for each question in the questionnaire. For example, the first question in the questionnaire is about main objectives of the SWF then their entries read as follows: The first five characters consists from the what is the measure about and then last three characters belong to the main variable they are measuring, in this case it is objectives so rounded off as OBJ.

Question in the main questionnaire

1 Main objectives								
EXPENOBJ	REVENOBJ	DVLEPOBJ	CHANGOBJ	RETRNOBJ	STABLOBJ	BILTLOBJ	PLTCLOBJ	DEMNDOBJ

All above dimensions coded as above were entered for their responses value from each questionnaire responses in the excel file and then transferred to statistical software SPSS. The total questions in each questionnaire are 155 which has in total 140 dimensions measuring independent variables which is quite large for use in the multiple regression. Therefore, principal component analysis is applied as a tool for reducing the data if any measures are found not required to be included in the regression analysis. The results of principal component analysis are given in Appendix B (Pallant 2010).

PCA generates several diagnostic plots, such as the bi-plot, loading plot, score plot and scree plot. The useful measure from PCA results is Kaiser-Meyer-Olkin test of sampling adequacy whether factor analysis or PCA is needed to be carry out or not. The required limit is 0.6; however, the researcher has used 0.4 as most of the results have been reported for this test range between 0.4 and 0.6 (Pallant, 2010). The PCA results in Appendix B include KMO test, total variance explained, scree plot, un-rotated component matrix, communalities and component score coefficient matrix. The Eigen values of more than 1, scree plot elbow shape change (change in the gradient of the graph showing the appropriate Eigen value), components extracted and their coefficient values have enabled to decide which measures to be considered in further analysis or to be dropped from calculation of variables values for regression.

The PCA was run separately for each individual construct in the questionnaire (the questionnaire grouped the indirect measures in the form questions on scale of 1 to 7 Likert scale, each with a defined theme. In order to preserve the integrity of each

construct the PCA was carried out individually for each construct with the aim of reducing the number of questions in each construct. A number of extracted principal components revealed several combinations of measures and explain how much variance is explained by each measure and principal component. The decision to retain or to drop the measures for a construct was based on variance explained value of correlation coefficient of measures and component structure. The threshold of coefficient was considered at 0.4 in this case. Two dependent variables in the framework are performance and growth (success rate) of Oman SWF.

The following measures were discarded from the questionnaire responses before proceeding to the regression analysis based on their results from principal component analysis. These measures were either not reflected

Table 6.3 Measures dropped from Regression analysis

Question	Construct	Measured dropped from regression analysis
1	Main objectives	REVEN OBJ
1	Main objectives	RETRN OBJ
2	Structure	DECIS STR
6	Global Laws	FAIRG LAW
6	Global Laws	WEAPN LAW
14	Asset allocation	CAPTL ALO
17	Investment Strategy	MKTRS GLC
17	Investment Strategy	STAFC GLC
17	Investment Strategy	LACPL GLC

Since only 9 measures are reduced, it can be seen that data is not reduced considerably. The single component structure is not used to retain or to drop the measures but has analysed all extracted factors, plots generated and their coefficient values pattern from the results of principal component analysis keeping in view not only statistical significance of the measures but the substantive importance as well (Neuman, 2006).

Once the measures for regression analysis were finalized, the average value of each construct was calculated. The 25 questions in the questionnaire represent indirect measures of 12 independent variables, 2 dependent variables and 3 possible intervening variables. Thus, many overlapping constructs according to their relevance were grouped together to measure single independent variable. Finally, 17 variables in the framework were analysed for relationship between them applying multiple regression test.

Multiple regression is the most appropriate test as the research question testing the framework is: how much of the variance in the set of dependent variable – susntainable growth of SWF can be explained by the set of independent variables such as laws, planning, objectives. Also, the regression results in this study show that which of the independent variables has greater impacts on the growth of SWF as a better predictor of these dependent variable. Following results were obtained in each case. Multiple linear regression tests require conditions of **normality, linearity, homoscedasticity and independence of residuals,** which are satisfied as shown in the following plots and Appendix D. The results for dependent variable 1 and dependent variable 2 from each graph of versus order, distribution, fit and normality suggest that these regression conditions are met in each run of the linear regression (Pallant, 2010).

6.7 Regression analysis for dependent variable 1: performance of SWF

As shown in the appendices C and D, the normal probability plot is almost strainght line and scatter plot is rectangularly distributed with most of the scores around zero point which collectievly suggest that assumptions of outliers, normality, linearity, homoscedasticity and indepedence of residuals are satisfied from the regression results (Tabachnik and Fidell, 2007; Pallant, 2010). Multi-collinearity can be explained from

correlations table in appendix D. Coefficient table shows two important columns tolerance and VIF. None of the tolerance values are below 0.10 and VIF values above 10. Hence, independent variables are not highly correlated between them. "*Tolerance value explains how much of the variability of the specified independent is not explained by other independent variables. VIF is the variance inflation factor which is the inverse of tolerance value"* (Pallant, 2010, p.183).

No group of independent variables are highly correlated except governance and transparency 0.686, purpose and investee country laws have 0.699 correlations which indicate a strong relationship, implying that they impact each other. Therefore, the condition of multi-collinearity is met. On the other hand, none of the independent variables are significantly correlated to the dependent variable of performance of Oman SWF as the highest correlation is 0.143 between decision making and performance. However, governance, accountability, investee country laws, lack of planning, investment strategy issues and deal size shows negative correlations which state their inversely proportionate variation with performance of SWF.

In the coefficients table, two most important columns are standardized coefficients Beta values which indicate the contribution of each independent variable to make dependent variable. None of the values in the table is more than 0.4 – the usual limit specifying contribution strength. The significance column has 'no value less than 0.05' which explains that none of the variable is making any significant contribution towards the regression equation. This may be due to overlap between independent variables in the model (Tabachnik and Fidell, 2007; Pallant, 2010).

The regression model summary as shown below for performance as a dependent variable shows that R square value is 0.062 which means that model is able to explain only 6.2% variation in this case. This is not significant. Also, ANOVA table for dependent variable 1 shows the significance value .678 which again does not match the criteria of $p<0.0005$. Hence, these independent variables and their measures do not predict any change in the performance of the SWF as a dependent variable. Therefore, the results of Multiple Linear Regression for dependent variable performance of SWF is not predicted by set of independent variables significantly and thus, do not support any of the hypotheses in the framework.

Table 6.4 Regression analysis results for performance of SWF

Model	**R**	**R square**	**Adjusted R square**	**Std. Error of the Estimate**
1	.249	.062	- 0.018	0.659
ANOVA				
Model	Sum of squares	Df	Mean square	F
Regression	4.025	12	.335	23.773
Residual	60.780	140	.434	Significance
Total	64.805	152		0.678

Dependent Variable: Performance of SWF

6.8 Regression analysis for dependent variable 2: success rate of SWF

As revealed from the straight line normal probability plot, rectangularly distributed scatter plot, all tolerance values above 0.1, and VIF values below 10 that assumptions of outliers, normality, linearity, homoscedasticity and indepedence of residuals are satisfied from the regression results in Appendix D2 for independent variables and

success rate (or growth) as a dependent variable (Tabachnik and Fidell, 2007; Pallant, 2010).

As shown in table 6.5 of correlations results from multiple linear regression analysis, many of the independent variables are significantly correlated to the dependent variable of success rate of SWF as the highest correlation is -0.673 between lack of planning and success rate. However, accountability, sponsoring country laws, lack of planning, investment strategy issues show negative correlations which state their inversely proportionate variation with the success rate of SWF.

In the coefficients table, other two important columns are standardized coefficients Beta values which indicate the contribution of each independent variable to make dependent variable. The usual significance limit is 0.4 or more, however in this case variables such as governance (0.351), transparency (0.267), purpose (0.391) and decision making (0.125) contributes more than other independent variables to make the success rate of SWF. The significance column has no value less than 0.05; however governance (0.068), planning (0.093) and asset allocation (0.59) can be considered significant to an extent as compared to significance values of other independent variables. Other variables not contributing much to regression equation of success rate can be attributed to the overlap between independent variables in the model (Tabachnik and Fidell, 2007; Pallant, 2010). Following table 6.5 provides correlations results generated as an output of multiple linear regression analysis test in SPSS.

Table 6.5 Pearson correlation results for Success rate of SWF

Correlations													
Pearson Correlation	SUCCESSRATE	GOVERNANCE	TRANSPARENCY	ACCOUNTABILITY	INVESTEELAWS	TRADEBALANCE	PLANNING	SPONSORLAWS	PURPOSE	INVESTRATEGY	DEALSIZE	ASSETALLOCAT	DECISIONMAKE
Success Rate	1												
Governance	**0.508**	1											
Transparency	**0.086**	**0.686**	1										
Accountability	**-0.256**	-0.101	-0.084	1									
Investee Laws	**0.478**	-0.048	-0.01	0.06	1								
Trade Balance	**0.038**	-0.312	-0.29	0.098	0.093	1							
Planning	**-0.673**	0.194	-0.039	0.21	0.034	-0.464	1						
Sponsor Laws	**-0.108**	0.048	-0.013	-0.191	-0.048	-0.196	0.222	1					
Purpose	**0.389**	0.193	0.111	0.016	**0.699**	0.059	0.321	-0.133	1				
Invest Strategy	**-0.074**	0.009	-0.019	0.125	0.067	-0.067	0.055	-0.092	0.037	1			
Deal Size	**0.048**	0.211	0.149	0.005	-0.019	-0.109	0.054	-0.038	0.126	0.031	1		
Asset Allocation	**0.037**	-0.027	-0.075	0.089	-0.044	0.058	0.282	-0.233	-0.011	0.101	-0.132	1	
Decision Making	**0.074**	0	0.007	0.244	-0.041	0.063	0.378	0.239	-0.054	-0.109	-0.072	-0.034	1

The model summary for success rate as a dependent variable shows that R square value is 0.536 which means that model is able to explain 53.6% of variation in this case which is again significant. Also, the following ANOVA table for success rate as a dependent variable 2 shows the significance value 0.0056 which does not satisfy condition of $p<0.005$, however it is can be considered significant to an extent. Hence, asset of selected independent variables and its measures predict any change in the success rate of SWF as a dependent variable. Therefore, results of multiple linear regression reveals that dependent variable success rate of SWF can be predicted by independent variables significantly supporting selected hypotheses for independent variables which are considerably correlated to success rate.

Table 6.6 Regression analysis results for dependent variable success rate of SWF

Model	R	R square	Adjusted R square	Std. Error of the Estimate
1	.732	.536	0.507	0.498
ANOVA				
Model	Sum of squares	Df	Mean square	F
Regression	5.034	12	.237	112.78
Residual	31.745	140	.267	Significance
Total	36.779	152		0.0056

Dependent Variable: Success rate of SWF

6.9 Regression analysis results' for dependent variables and possible solutions, changes and impacts on progress

In the final questionnaire, a set of three questions explored any hidden dimensions or relationships amongst dependent variables with issues about change, progress and possible solutions. These stem from secondary data and the existing status of Norway and Oman SWFs. These three set of questions were divided into possible solutions, changes required and impacts on progress. The regression analysis was carried out twice with each dependent variable of performance and success rate for these three variables.

The following tables show that performance is not significantly impacted or cannot be predicted by three independent variables of solutions, changes and impacts. Table 6.8 model summary of success rate as a dependent variable shows that 42.7% variance in the success rate can be explained by these three variables however significance of their correlations is very low having a significance value of 0.077 which is much more than the limit of 0.005.

Table 6.7 Regression analysis results of dependent variable performance and three predictors: solutions, changes and impacts

Model	R	R square	Adjusted R square	Std. Error of the Estimate
1	.220	.049	0.029	0.6433
ANOVA				
Model	Sum of squares	Df	Mean square	F
Regression	3.144	3	1.048	2.533
Residual	61.661	149	.414	Significance
Total	64.805	152		0.0059

Table 6.8 Regression analysis results of dependent variable success rate and three predictors: solutions, changes and impacts

Model	R	R square	Adjusted R square	Std. Error of the Estimate
1	.681	.427	0.413	2.29
ANOVA				
Model	Sum of squares	Df	Mean square	F
Regression	7.970	3	2.998	67.417
Residual	33.399	149	1.224	Significance
Total	41.369	152		0.077

Dependent variable: Success rate of SWF Predictors: Possible solutions, change and impacts on progress

Based on the above mentioned results of principal component analysis and multiple linear regression analysis, testing of proposed hypotheses is discussed in the next section.

6.10 Hypotheses testing

The previous two sections have helped to reduce the data and to analyse the relationship between independent variables and dependent variables. The regression models signify the statistical substance of the proposed framework; however it does not

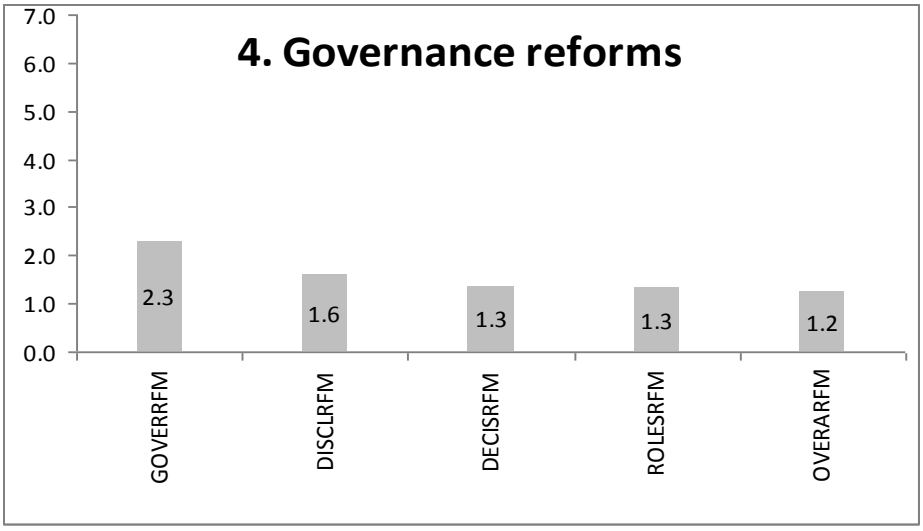
take into account the majority voice of respondents for each factor as data reduction does not take into account variables beyond certain Eigen value. This does not mean that rest of answers do not have any significance in this research study. Therefore, one would also utilize the descriptive statistics and interview findings for each important variable in the framework and plot the responses mean to understand its significance.

Thus, each hypothesis is tested and discussed with the help of five types of supporting evidence: regression analysis results, interview findings, descriptive statistics, secondary data and literature. This is the evidence of triangulation application in terms of data collection and methodology. This increases the validity and reliability of the findings and recommendations further as it reduces chances of errors and biases. For regression results' evidence, values for dependent variable 2: success rate is only considered as that of the significant model which can explain variance in the sustainable growth of SWF.

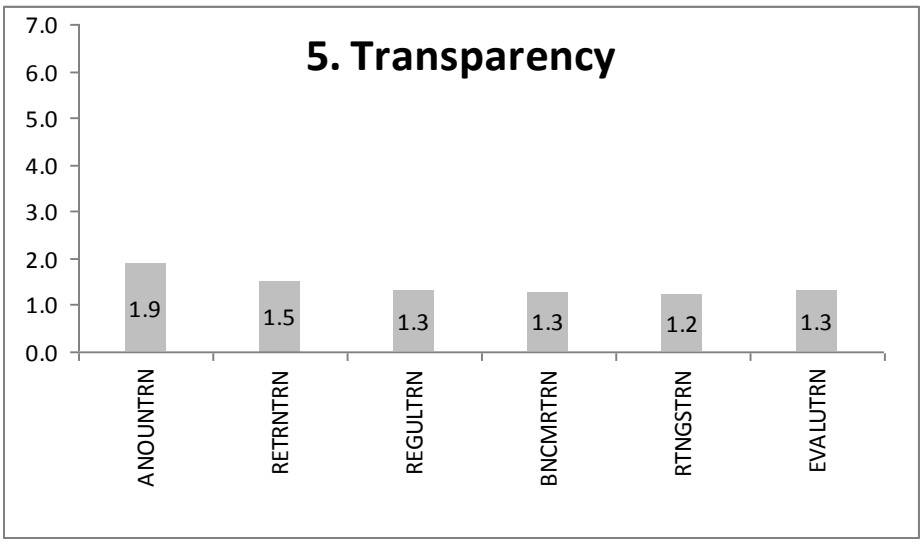
H1a: Better governance increases the growth of SWF.
H1b: More transparency provides more confidence from investment recipients leading to higher growth prospects.
H1c: More accountability towards investee and sponsoring countries creates better system of managing SWF thus creating favourable conditions for growth of SWF.

This first hypothesis is about the positive influence of governance reforms on developing and applying mechanisms to increase governance, transparency and accountability. It states that increased governance can lead to increased transparency in the transactions and accountability acceptance by managers of SWF, ultimately resulting in the better management of the SWF. An improved corporate image will lead to overall worldwide acceptance in the financial markets as an institution to trust its investment deals. In turn, this governance and transparency may increase the internal employees' morale and performance both as their accountability for the actions taken on behalf of the fund would increase.

The correlation value of 0.508 between governance and success rate of Oman SWF in the above table 6.5 suggests that governance mechanisms can help SWF to grow. The current status of Oman SWF from the following graphs reflects the same that employees (questionnaire respondents) agree on the requirement of Oman SWF need of reforms and increased governance and transparency. Thus, respondents have confirmed that there are no mechanisms or regulatory frameworks in place either within the SWF or in any other agency for SWF.



In addition to this, interviewees have agreed that there is no governance mechanism in place, there are no disclosures made; managerial roles are not defined; and there is no investment strategy in place. This reveals current status of Oman SWF having no monitoring from any government department as suggested in the interviews. There are no annual or performance reports published by Oman SWF. No deals data is disclosed except funding in flow and out flow maintained by Central Bank of Oman.



As a result of no data availability and less transparency, the financial analysts have classified Oman SWF with other well known GCC funds in the category of 'No disclosure fund' as shown in the table below.

Table 1: Classification of SWF According to Data Availability

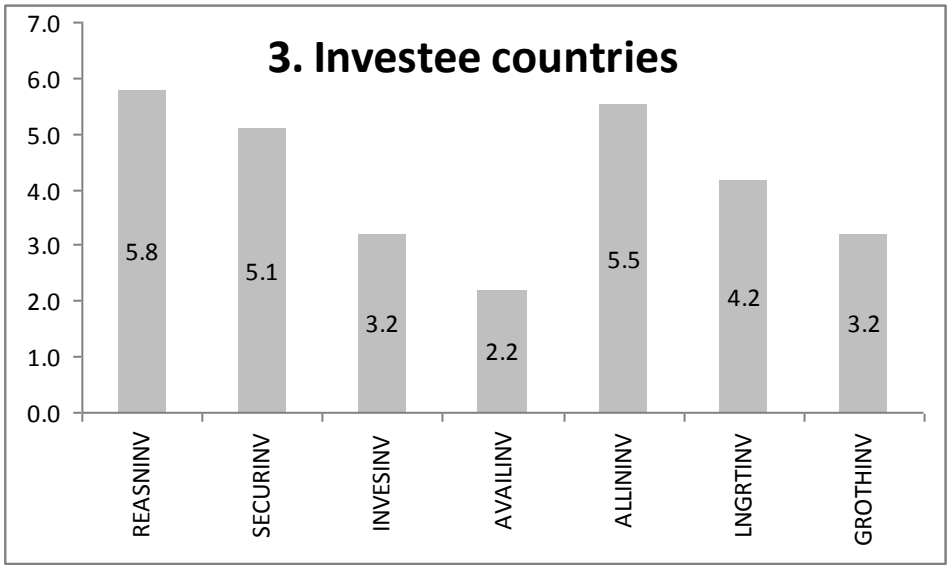
Standard SWF		SWF embedded in central bank
Disclosure	No disclosure	
Singapore	China	Russia
Venezuela	Kazahstan	Algeria
Norway	Korea	Hong-Kong
Chile	Kuwait	Saudi Arabia
	Malaysia	
	Oman	
	Qatar	
	UAE	

The correlations values of success rate with independent variables in table 6.5 reveal that governance (0.508) affects the success of Oman SWF more than transparency (0.086) and accountability (-0.256). Transparency and accountability are not strongly correlated with success rate as evident from these correlation values; however a strong governance mechanism in place can increase the transparency and accountability in the SWF as an outcome of governance implementation as seen in the case of Norway SWF (GPFG). Interviewees suggested that as of now in Oman SWF there are no governance

mechanisms, no information disclosure and no accountability hierarchy for the decisions made by either MoF or SWF which affect the growth and profitability of Oman SWF. In addition to this, literature also supports that governance, transparency and accountability as vital elements of SWF management for the acceptance of the fund worldwide by investee companies and their governments (Truman, 2008; Drezner, 2008; Monk et al, 2009). Thus, hypotheses H1: a, b and c are accepted.

H2: National security concerns tend to increase investment barriers and control mechanisms' negative influence over the growth of SWF.

The statistical regression analysis result of investee country laws having correlation value of 0.478 with success rate of Oman SWF shows strong influence of investee country responses to decision making of SWF and ultimately their growth and success rate (Table 6.5). Furthermore, following graph shows that employees have responded that current investment decisions by MoF is done based on the selection of the investee countries either due to political ties or strategic alliance with common interests between governments of both investee and SWF sponsoring countries.

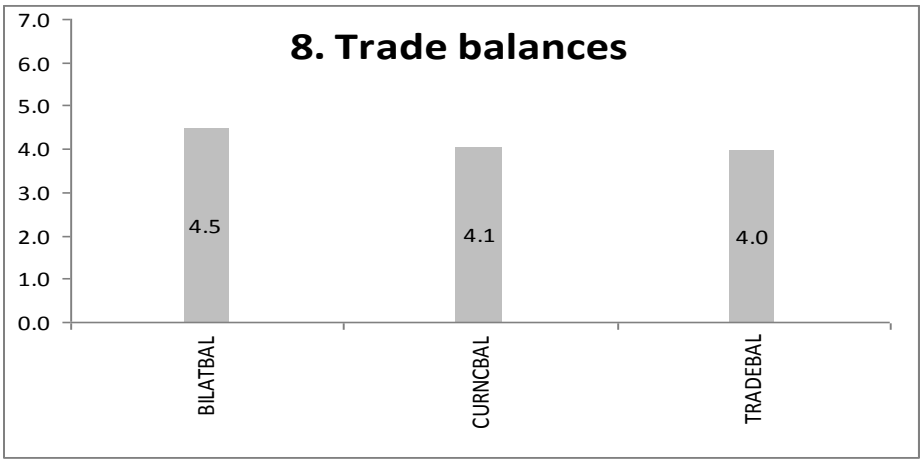


However, the above plot reveals employees' strong disagreement (mean of 3.2, 2.2, 3.2 in the plot) over 'no importance' given by decision makers to the attributes of

investment environment, meaningful long term investments, growth and development prospects while selecting the country for investments. The same was evident from the responses of interviewees that current decision making by MoF has no investment strategy to appraise the deals before finalizing the investments, for example investment made in 2007 by Oman SWF to buy 30% stake in a bank in the Bulgaria. In addition to these interviewees 11 and 12 clearly stated that developed countries should not worry about myths of national security for two reasons. First, in the business world, the trade needs of each country is so large that no one can afford to lose investments or markets Second, Oman requires large amounts of investments within the country to develop non-oil economy to benefit existing and future populations. Thus, for example there is no surplus capital to buy strategic island in Pacific. This hypothesis is about the formation of laws within the funds recipient (investee) countries. For example, in case UAE's investment vehicle buying more than 10% in a company which owned strategic ports of USA. The case had drawn much attention and US govt. intervention in the matter finally led to divestment citing the security concerns (Drezner, 2008). In a response to this, many funds have diverted their investments into riskier investments in Middle East, North Africa and South Asia (MENASA) region. Thus, such control mechanisms can influence the investment decisions and deal amounts ultimately affecting growth of SWF. For this very reason, investee countries shall analyse the issues in the form of S + W + F analogy given by Kirshner (2009) which explains investee country governments about what is their problem of power of politics, wealth or fund policies. Also, there should be asset allocation strategy such as Norway's SWF to restrict investments to particular region or in a specific currency to a limit. Thus, with support of primary and secondary data, the hypothesis H2 is accepted.

H3: Increase in trade imbalances can increase currency and inflationary pressures leading to effects on the investments and growth of SWF.

The regression result shows very low correlation between trade balances and success rate to a level of 0.038 which conveys the low level relationship of this predictor variable to growth of SWF. Thus, statistical analysis does not support this hypothesis. However as shown in the following plot, employees are not able to decide. The reason might be their personal profile characteristics or the question being related to the core knowledge of economics and trade theories. One of the objectives of asking the employees about the trade balances was to confirm their understanding of sovereign wealth fund roots and fundamentals for Oman SWF.



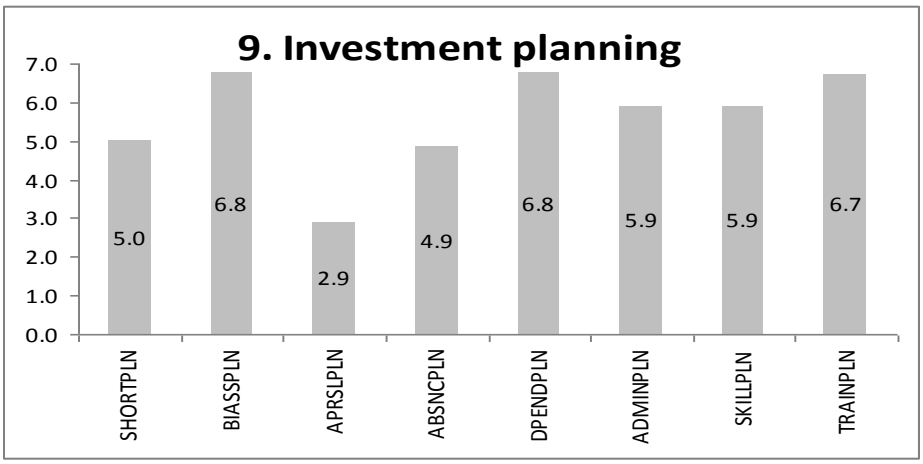
The responses of interviewees suggest their feedback about trade balances is positive as they were concerned with the lack of mechanisms for monitoring the foreign exchange reserve spent by Oman SWF. The interviewees were from top management who are involved in the policy making so they have concerns regarding the economy, currency rate and inflation situation in Oman. However, none of the interviewees was critical about the trade balance effects in SWF directly. On the other hand, trade balance is the difference in the earnings in capital and current accounts of the country through exports and imports. The increased trade balance allows the country to reserve the earned foreign exchange which in turn is available to utilize as funding to the sovereign wealth fund (Gieve, 2008). Hence, volume of the trade between two

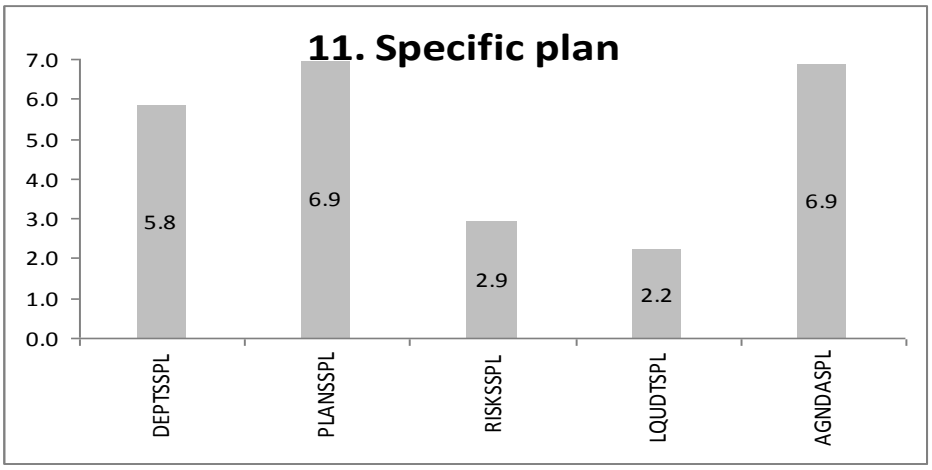
countries and their respective exchange rates of currencies can affect the trade balance (Alerbola and Serena, 2008). The increased trade balance through higher trade volume increases the production demands for export goods within the sponsoring country, thus increasing GDP in case of exporters attempting to meet the demand. As a known fact, literature of economics and trade theories supports this hypothesis as well. From the secondary data comparing Oman with Norway SWF reveals that Norway has fixed spending or funds inflow limits from foreign exchange reserves accumulated through trade balances at Norges Bank. Therefore, if any SWF wants to grow and become profitable then they shall control the income and investment of the funds professionally like Norway. Thus, interviewees' feedback, secondary data and literature allow accepting the hypothesis H3.

H4: Lack of planning negatively affects the growth of SWF.

The regression results for lack of planning and absence of a specific plan supports the hypothesis with -0.673 correlation value between lack of planning as a predictor variable of success rate of growth of Oman SWF. However, the negative sign of correlation clearly suggest the inversely proportionate variation between lack of planning and success rate as anticipated. Any increase in lack of planning would decrease the success rate not only for Oman SWF but for any other profit making organisation which is evident from existing management theories. However, the overall contribution of lack of planning towards success rate of SWF is low with standardized beta coefficient of – 0.092. In addition to regression results, the following plots of mean for each answer suggest the respondents' agreement about existing lack of strategic and investment planning situation in Oman SWF. The same has been echoed by interviewees that current decision making system is managed single handedly by Minister of Finance and appraisal of the decisions is not merit based. The administration of Oman SWF is totally un-organized to a level where Deputy Chief

executive of SWF does not have annual or performance reports of the investment portfolio (Interviewee 3).



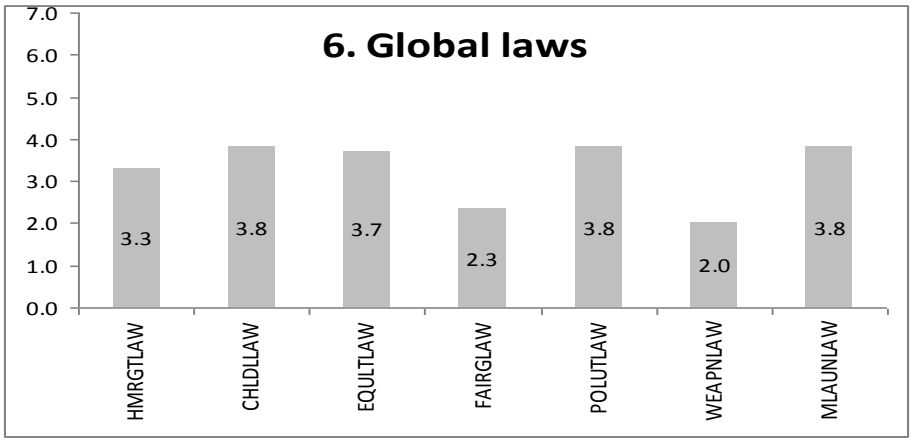


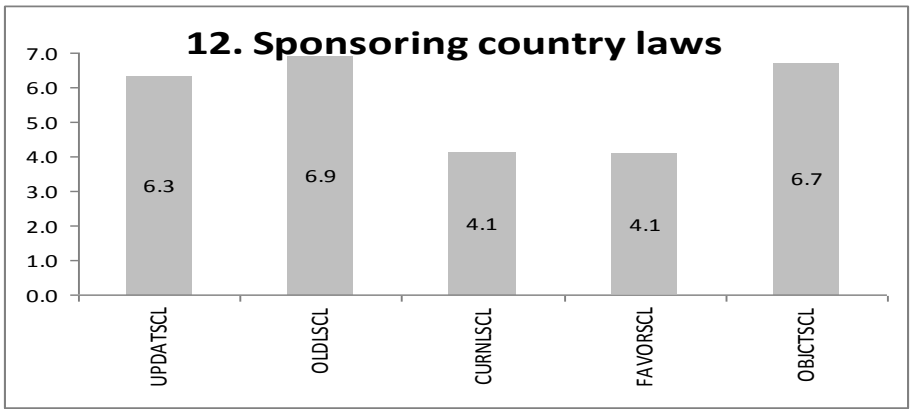
The support of this hypothesis from primary data is equally supported by secondary data of Norway SWF and literature of investment strategy and planning that with a set of appropriate appraisal tools for investments in financial assets can improve the returns on the investments (Chhaochharia and Laeven, 2009). Hence, one can accept hypothesis H4 in the current context.

H5: ***Political objectives can affect the transparency and thus the treatment of SWF by investee countries which can affect the growth of SWF.***

The regression result of 0.102 for sponsoring country laws do not support this hypothesis based in the correlations results mentioned for the dependent variables 1 and 2. However, following plot 6 of responses about global laws mean results show the

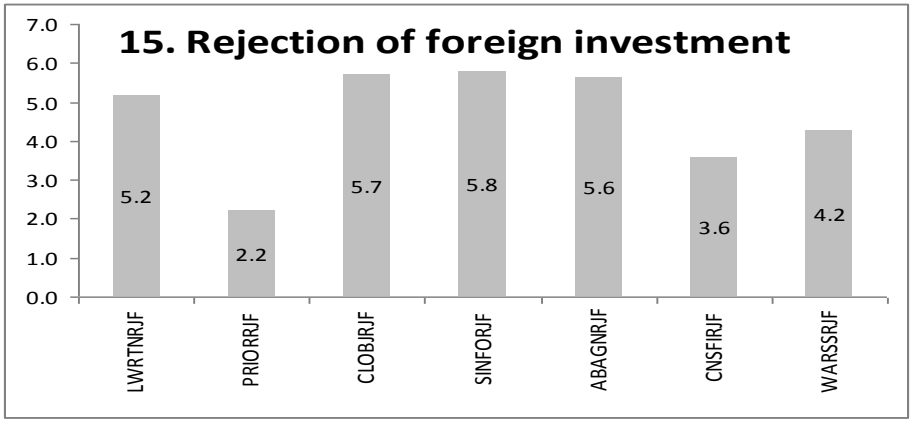
agreement of employees that right now Oman SWF does not determine whether these companies in which they are investing follow basic global laws in significant areas of concern. These areas include human rights, equal employment opportunities, and pollution control; as well, they do not check for such violations as the use of child labour and the use of money laundering. The plot 12 of sponsoring country shows that employees agree that laws in SWF sponsoring country for investments require updating; however there are no direct effects found.





On the other hand, many a times Oman SWF rejects the foreign investment because of lack of sufficient information on global markets, absence of external help such as investment banks or issues of bi-lateral trade with the particular investment recipient country. The rejections of foreign investments do not happen because of priorities to industries within the country, wars, unrest of political instability; since, Oman's

economy and politics both were unaffected by global financial crisis and strong visionary leadership of current Sultan Qaboos from 1970s. Thus, employees agree for reasons mentioned for this hypothesis.

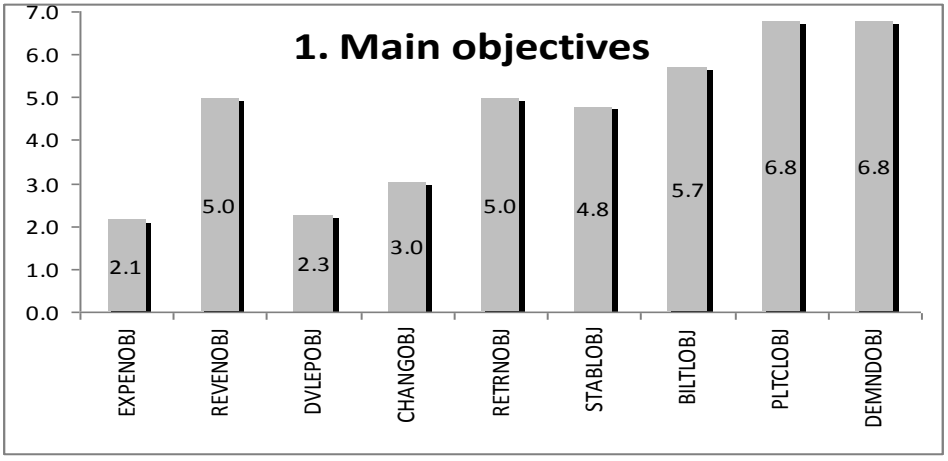


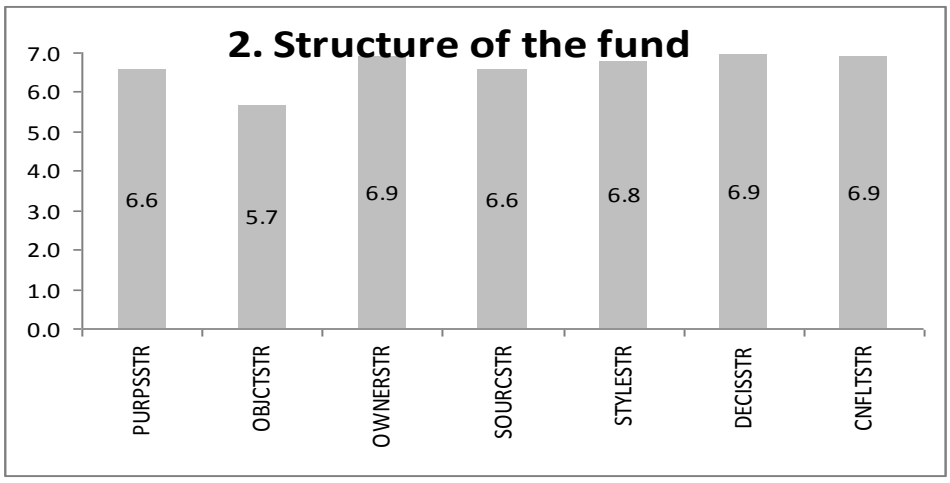
The interviewees agreed for lack of clear objectives and planning along with main reason of single handed management for Oman SWF not adhering to global laws of following strict ethical standards. For example, Norway SWF does not invest in the companies who supply or manufacture weapons of any kind or create biological pollution or global warming. Oman SWF does not have any governance or such social responsibility policies outlined. Thus, with support of primary and secondary data, one can accept hypothesis H5.

H6: A SWF should have a clear purpose which enables more efficient and transparent management, positively affecting the growth of the SWF.

The regression results are not very high but considerable positive correlation value of 0.389 is found for a relationship between the objectives and structure of funds as predictor variables of growth of the fund as a dependent variable (Table 6.5). The following plots of mean of answers to question 1 and 2 of the questionnaire suggest that employees strongly agree that objectives and management structure of the fund clearly impact the growth. Interviewees also supported the same perspective stating that currently objectives of the fund are not directed by investment or profitability goals, instead of that objectives are targeted by political motives from MoF or

ministries satisfying strategic demands of funds from governments of developed countries. Literature supports the same view such as Mitchell et al (2008), Berstein et al (2009) and Chhchhoria et al (2009) that management and further growth of the SWF in general are rooted to their objectives of setting up and organisational structure including decision making and investment strategy.



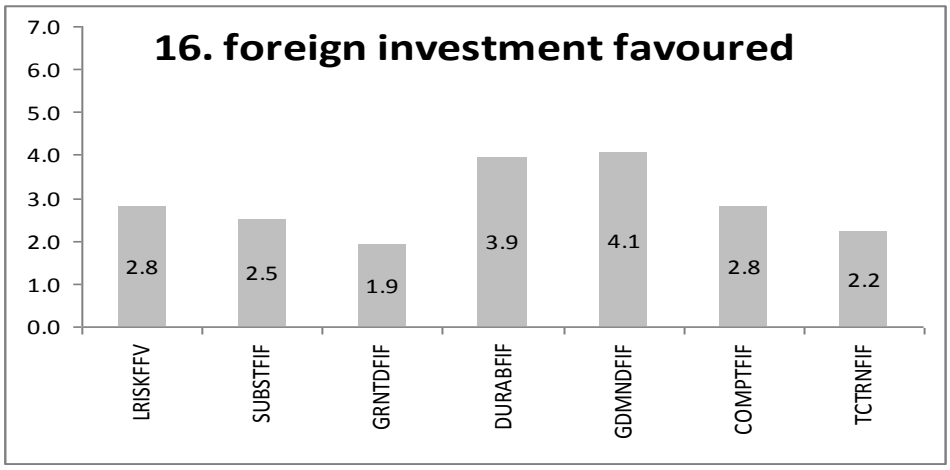


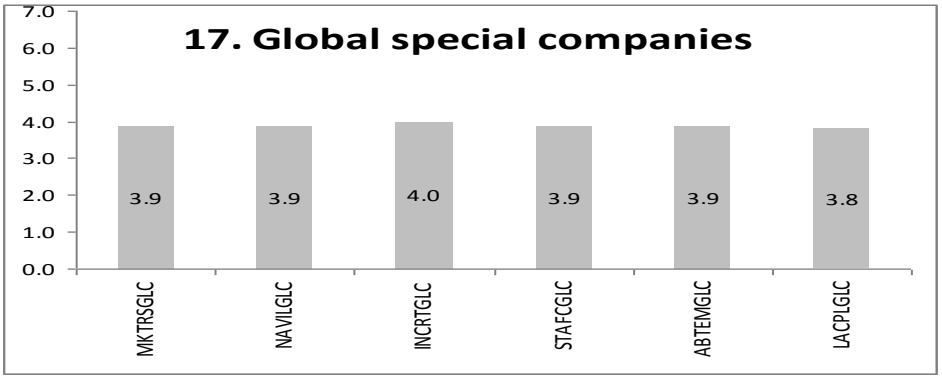
Thus, based on the overall support of all types of evidences from primary and secondary data one can accept the hypothesis H6.

H7a: Investment strategy fundamental and mechanism issues can directly impact the investments' performance and thus success and growth of SWF.

The hypothesis is not supported by regression results as stated in the previous sections of regression analysis as investment strategy has negative and negligible correlation of – 0.074 with dependent variable of success rate. However shown in the following plot, employees have strongly disagreed that current decisions are made in the favour of

growth and profitability of the fund such as considering risk, returns, guaranteed income, technology transfer or long term investment. By their strong disagreement, employees have confirmed that currently Oman SWF does not have any investment strategy, does not make use of capital project appraisal methods. The same has been echoed by interviewees that present management of Oman SWF requires overall restructuring. One can see from the cases of Norway, Singapore, China, ADIA, Kuwait that these funds have primarily concentrated on returns on their investments through robust investment strategy, asset allocation, help from global experts such as investment banks and wealth managers. Literature also supports the strong presence of investment strategy, international level human capital to maintain the sustainability and profitability of the SWF **(**Aizenman and Glick, 2009; Setser and Ziemba, 2009).

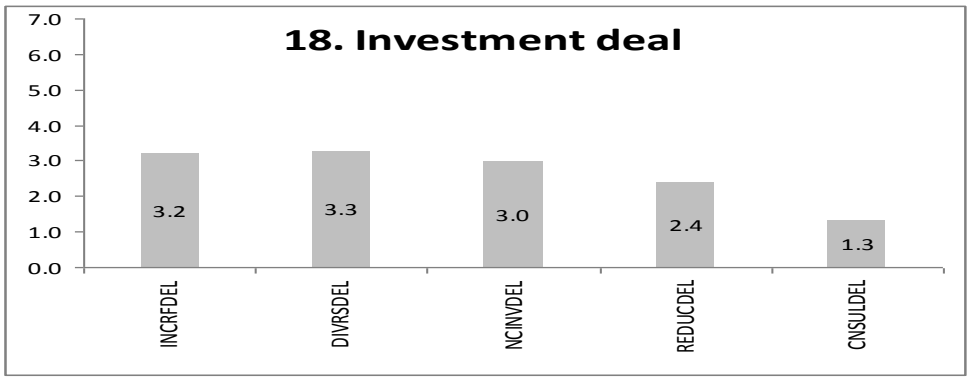




On the basis of overall evidences from questionnaires, interviews and secondary data the hypothesis H7a is accepted.

H7b: Deal size shall be optimized by analysing the targeted investment opportunity for risk and return leading to the growth of SWF.

The regression results do not support this hypothesis in terms of low correlation (0.048), contribution coefficient (0.067) and significance at level (0.147) that investment deal size and decision process can not contribute to predict success rate of Oman SWF. Size of the deal can affect the liquidity of the fund on investment and if returns are low then portfolio risk is increased (Madura, 2003). Thus, it can affect the risk and return balance of the investment and indirectly results into having impacts on growth of Oman SWF. The following graph of answers to question 18 on the investment deal shows that employees have disagreed again on the investment deal scenario that any appropriate procedures are followed to decide the deal size and decision on the deal. For example, respondents' disagreement means that Oman SWF does not follow any scenario analysis, does not take any help from specialized bank or financial methods involving deal size, risk and return to increase, to diversify or to divest the investments made.

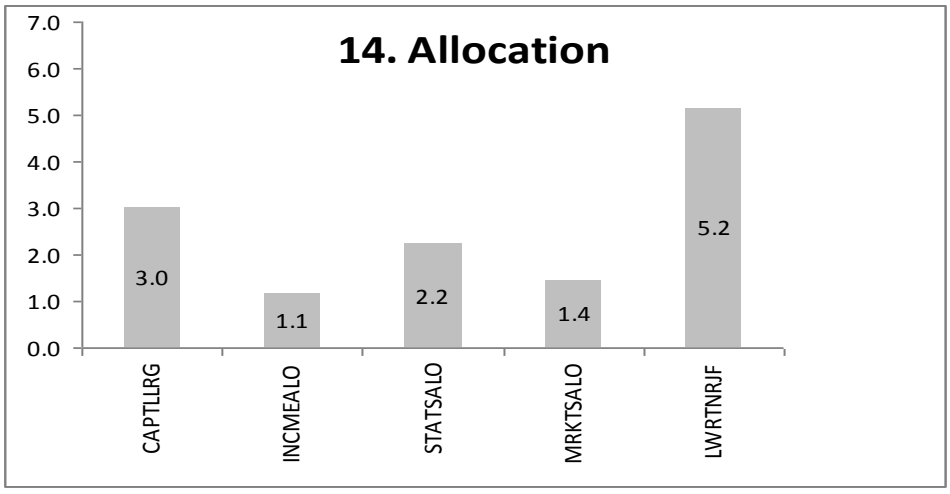


The SWF theory literature suggests that investment deal size and asset allocation are two important investment strategy fundamentals (Bernstein et al, 2009; Balin, 2010). Norway SWF does not restrict the amount of the deal but they have set 10% limit on how much ownership of the company they would go for. The deal size and its risk – return analysis becomes more important in case where equity ownership is limited by laws. For example, this can be restricted by the laws of investee country government

such as not more than 10% stake allowed by the foreign companies in strategic assets of the country such as in pharmaceutical, aviation or petroleum industry. Thus, on overall support and broad base of evidences, the hypothesis H7b is also accepted.

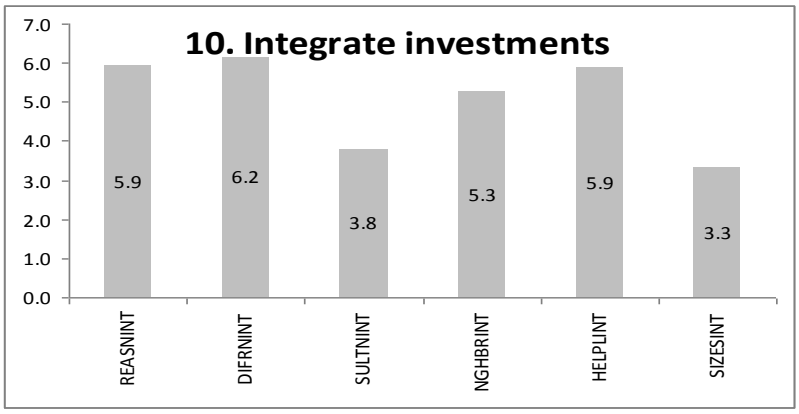
H7c: Assets allocation directly affects the growth of SWF.

This hypothesis is supported by regression results plus acceptance of previous two hypotheses H7a and H7b since investment strategy and deal size calculation take into consideration asset allocation as an integral component. The regression results show low correlation of 0.237 but higher contribution of 0.290 and significance of contribution of 0.059 (Table 6.5 and Appendix D).The following graph shows that employees disagree that Oman SWF applies or utilizes any of the asset allocation fundamentals such as capital utilization or integration with world markets. Therefore, they agree that asset allocation is necessary component for Oman SWF to increase its profits. How SWFs allocate their assets to maximise their profits is a well researched subject in the SWF literature. As discussed in chapter five, Norway SWF has robust asset allocation mechanism which fuels the return on their investments. Norway SWF management still wants to improve their investment strategy. These facts and evidences collectively support this hypothesis. Hence, one can accept the hypothesis H7c and with that all three components of H7 hypothesis are accepted.

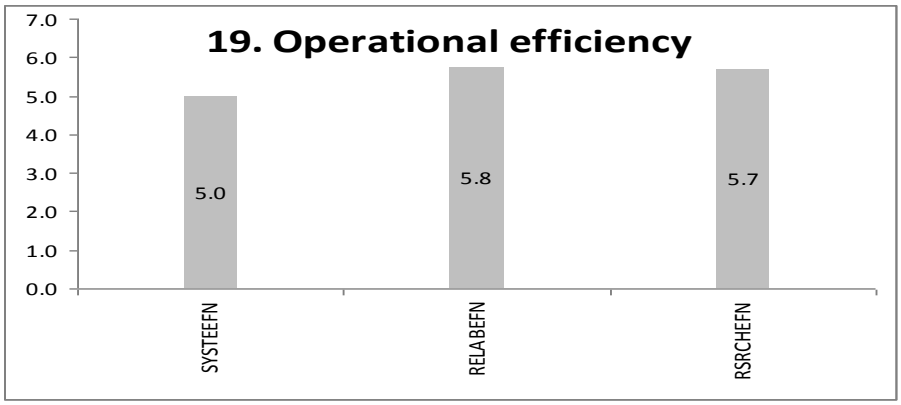


H8: Improve the decision making by use of expert knowledge systems and research prior to deal finalization, more will be the successful deals and increased investment opportunities resulting in the growth of SWF.

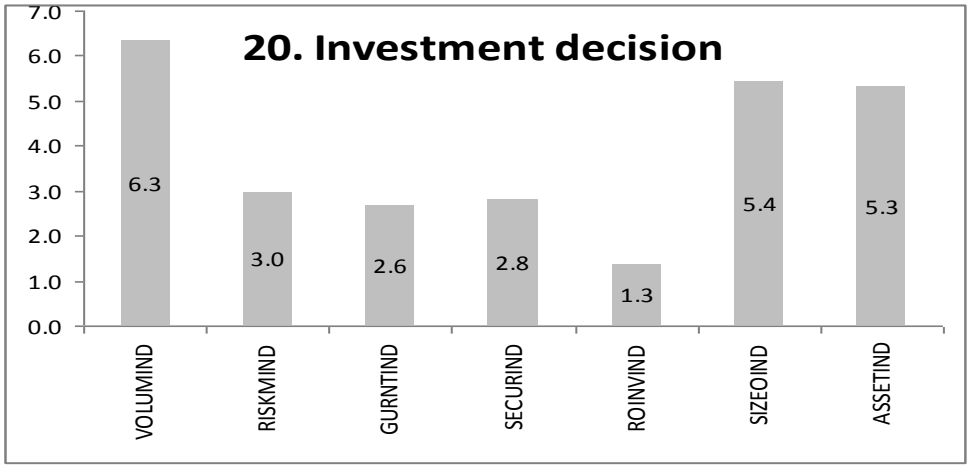
The regression results do not support this hypothesis with results of low correlation value at 0.074 and low contribution coefficient at 0.125 (this should be more than minimum 0.30) and low significance at 0.117 (this value should be less than 0.005) between decision making by SWF management and success rate of the fund. However, global practice of large and successful SWFs such as Norway, ADIA, SAMA, Kuwait suggest the vice –versa and advocate the better decision making can help increasing the opportunities. The graph for question 10 confirms employees' agreement that Oman SWF does not integrate their investment with other GCC funds because past experience is not good for investment co-operation and the rest of the reasons are attributed to political, cultural and administrative fundamentals. This was also confirmed by interviewee 3 (Dy. Chief executive of Oman SWF) that pervious co-operation with other GCC funds have not turned out well.



In the following plot of question 19, employees agree that operational efficiency of the SWF depends upon the reliable decision making based on the research and systematic process prior to an investment deal finalization.



The respondents' disagreement in the following graph signifies that currently Oman SWF does not make investments based on the risk management, financial returns guarantee, deal size, asset class or security of the funds invested in the country. This means currently Oman SWF do not make use of any fundamental of financial management and investment strategy in the investment decisions.

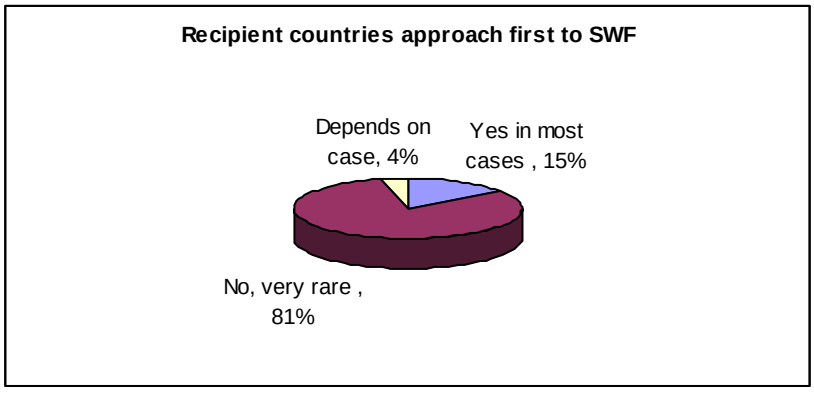


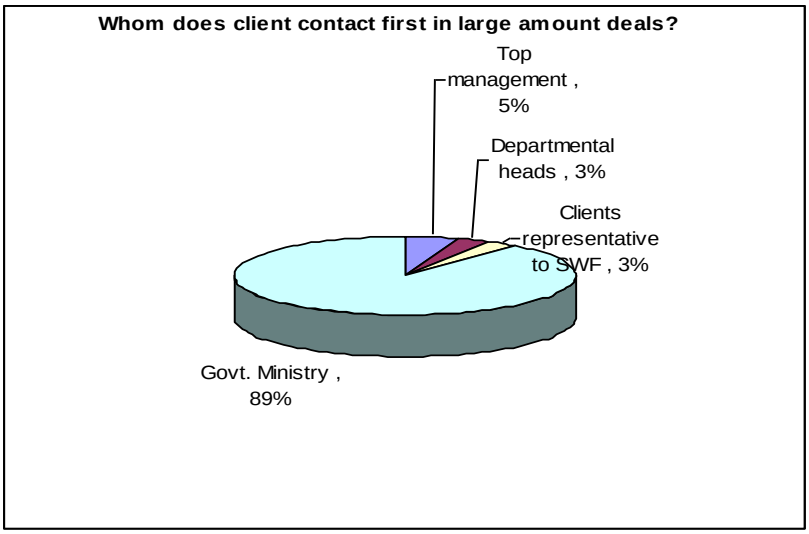
Based on the three components discussed above - integrating investments, operational efficiency and investment decisions, one can accept the hypothesis H8. However this decision making hypothesis was discussed in detail and there was separate section included in the questionnaire with another set of question as section D of the questionnaire. The major aim of this thesis is to find the factors affecting SWF growth;

however an additional objective is to improve the growth, investment performance and success rate of Oman SWF. As evident from the secondary data, interviews and questionnaire findings, it can be confirmed that Oman SWF requires complete restructuring. This restructuring would be transformational for Oman SWF which further requires detailed understanding of how decisions are made within Oman SWF currently. Thus, next section analyses the decision making process of Oman SWF based on the responses received in the section D of the main questionnaire which would supplement the detailed discussion of the hypothesis H-8.

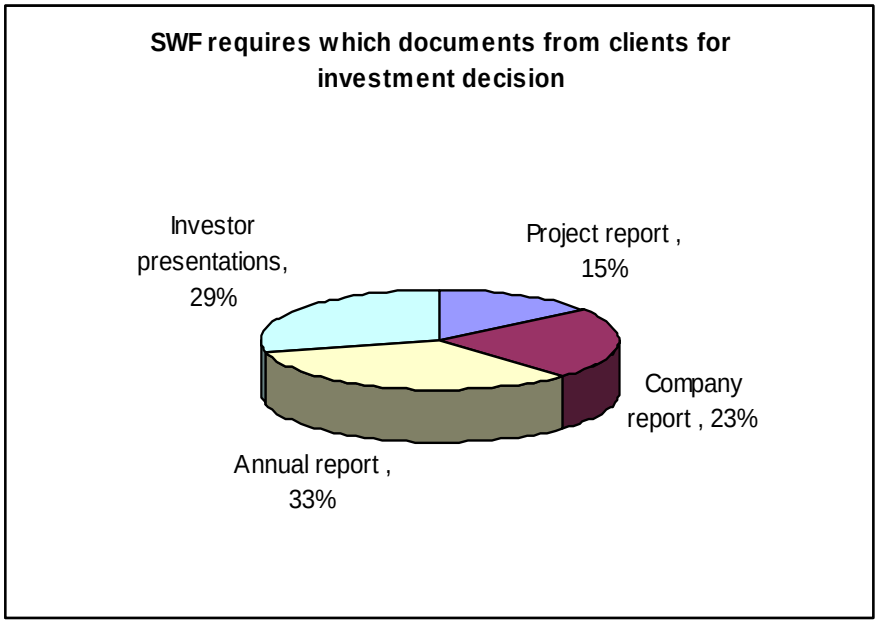
It analyses how decision making process works in Oman SWF. Each question is associated with various stages of decision making within the SWF. Responses to each question are presented in the form of pie charts to easily interpret feedback of the employees and stakeholders of SWF.

The following pie chart suggests that recipient countries (investee countries) do not approach first to the SWF but they contact first Government ministry which is supported by the second chart about large amount deal

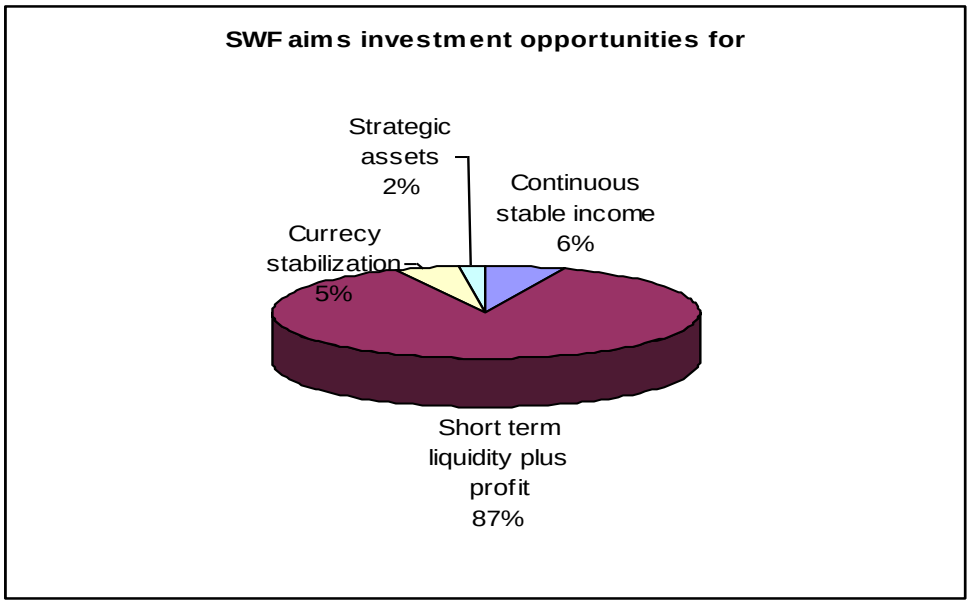




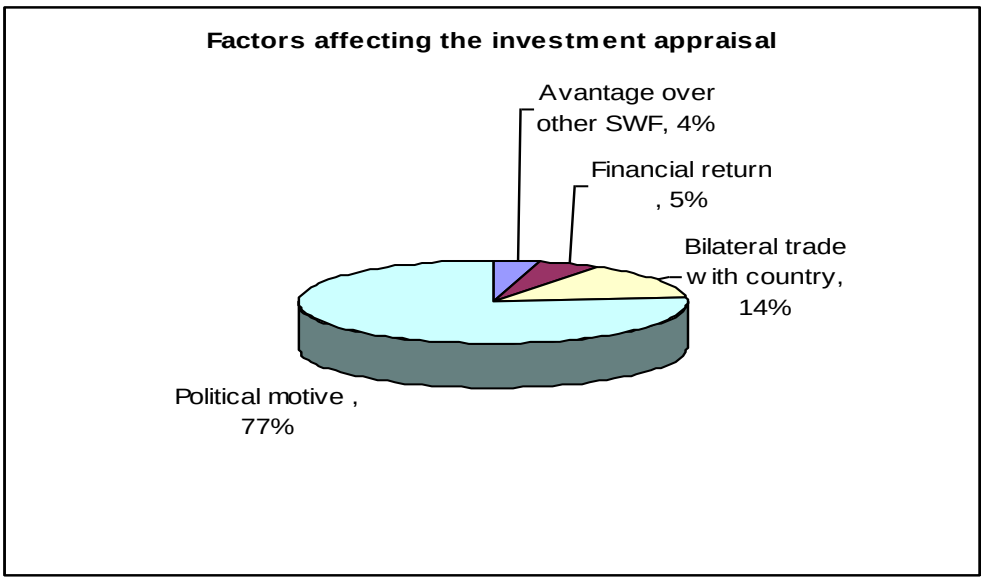
Once in contact with Ministry or SWF, clients are required to submit documents so that investment decision can be made before finalizing deal in a meeting with the recipient country government or company directly. The following chart shows mainly four documents however, Oman SWF should seek documents such as quality, manufacturing or organisational performance or policies report. These documents are more for internal stakeholders and thus not very much forward looking but provides true context of the company and how is it doing. Also, it is better to compare new company with the similar industry investment already in the existing portfolio, if available any in the same industry sector.



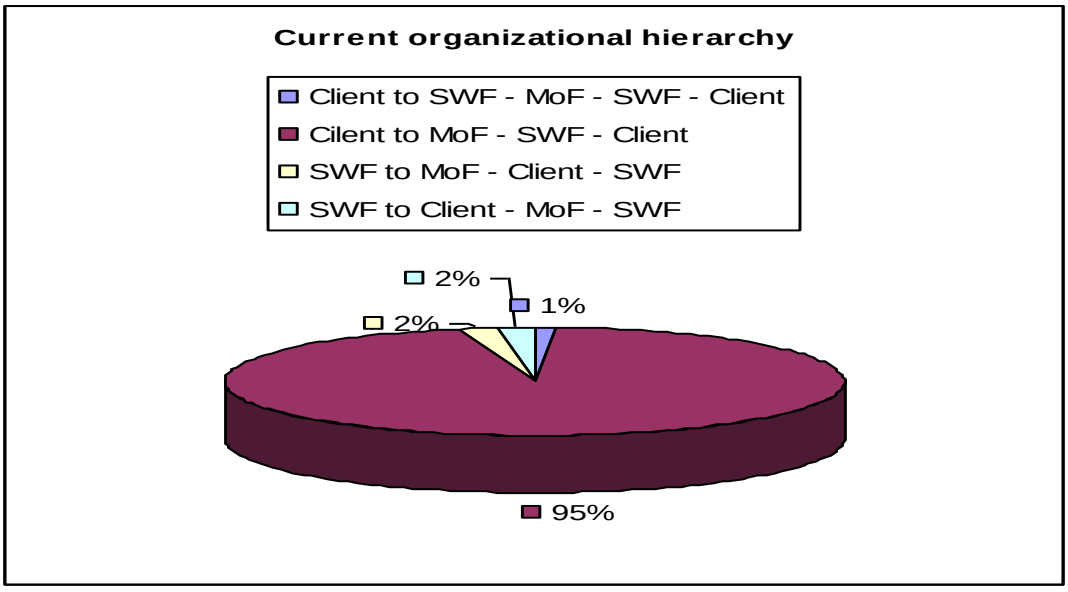
From the previous discussions, we know that there is no investment strategy followed by Oman SWF right now. This is reflected in the following charts showing randomly taken decisions by MoF for short term profit goals. Thus, there is no stable income or no strategic asset is created from the SWF investments made. This is an additional evidence which proves Oman SWF requires robust investment strategy.



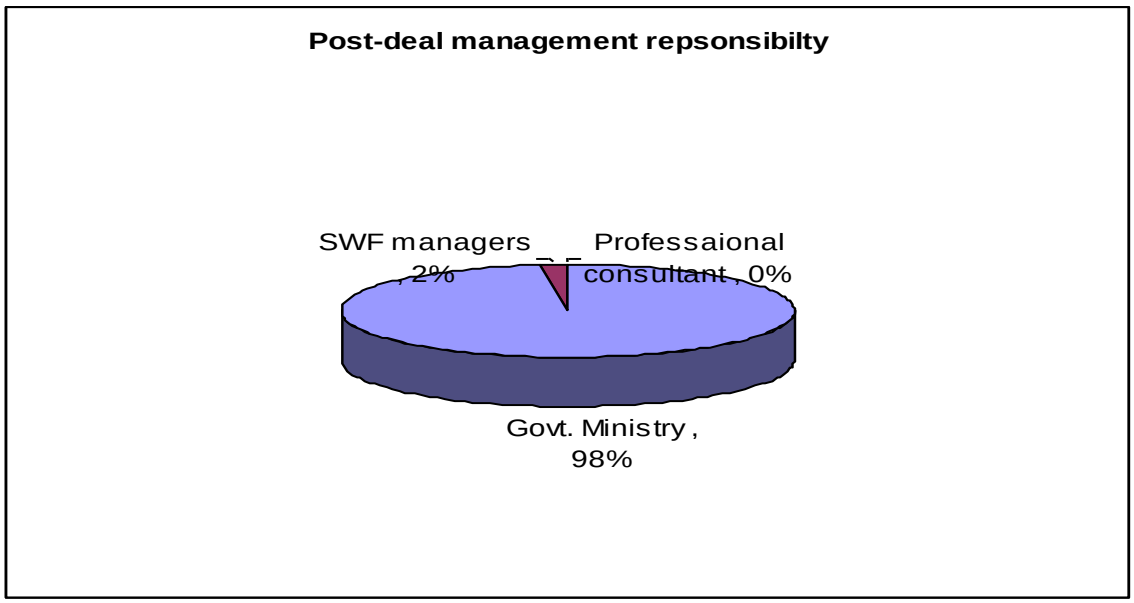
More evidence of random selection of investments can be found in the following chart as employees confirm the biggest factor affecting the investment decisions is political motive. As one can see financial return has the lowest priority in Oman SWF as confirmed by employees.



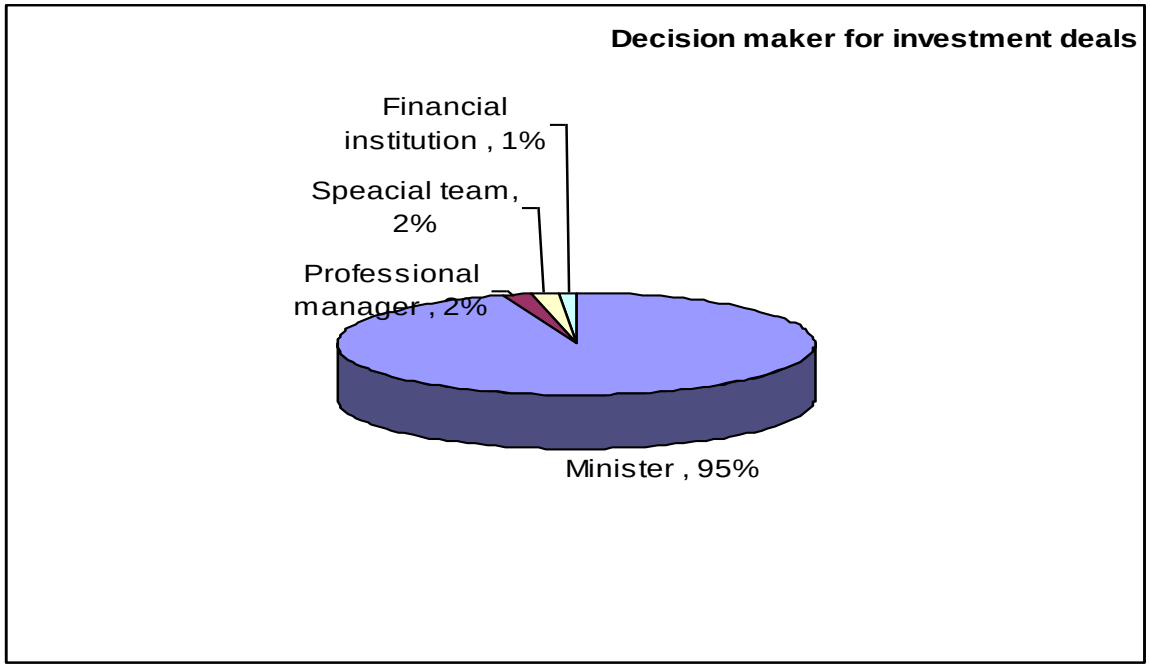
The present decision making structure is investee country client contacts MoF and then MoF passes on the instructions to SWF; and then SWF deals with client. In this scenario, SWF just acts as administrative agency and not as a professional investment vehicle. Thus, Oman SWF requires overall restructuring of the organizational, reporting and monitoring structure.



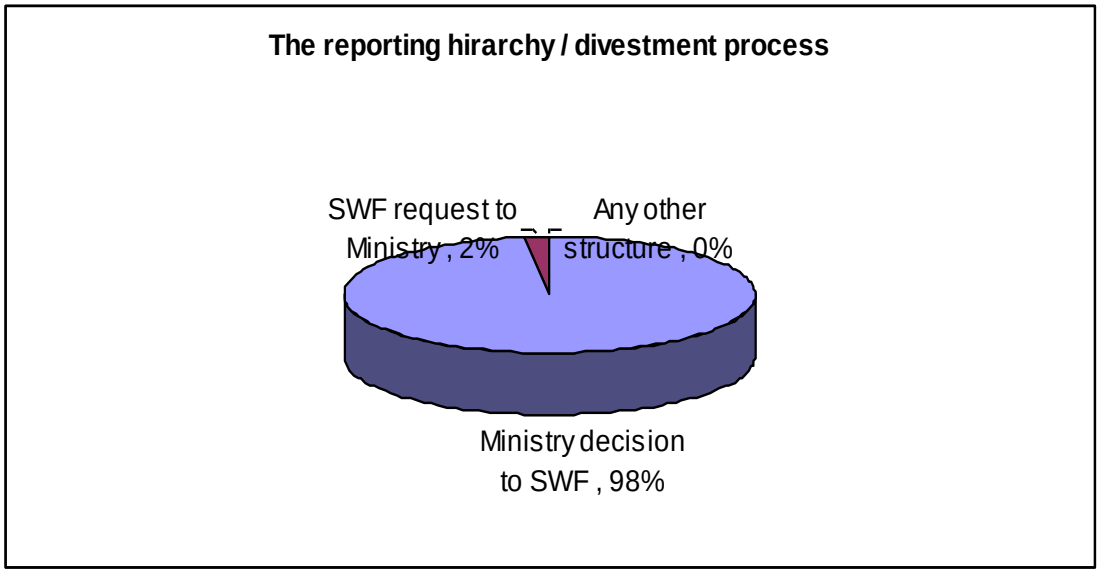
The post deal management responsibility of the clients and asset management and returns monitoring is with Government ministry and not with SWF. The chart also shows no professional services were used.



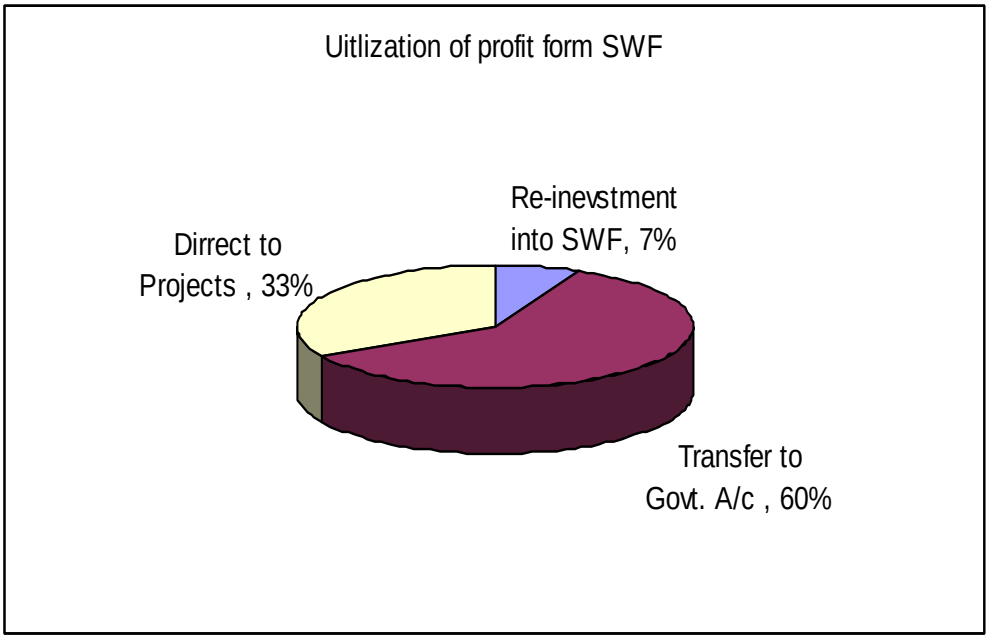
The decision making as known from the previous discussion and following chart is done single handedly by Minister of Finance. Managers and SWF team merely act as administrative agents in the whole decision making process. There is nothing biased in MoF having decision making, many countries SWFs are managed by either MoF or their central banks. The issue of concern is randomness and no robustness in the decision making without any specified investment strategy.



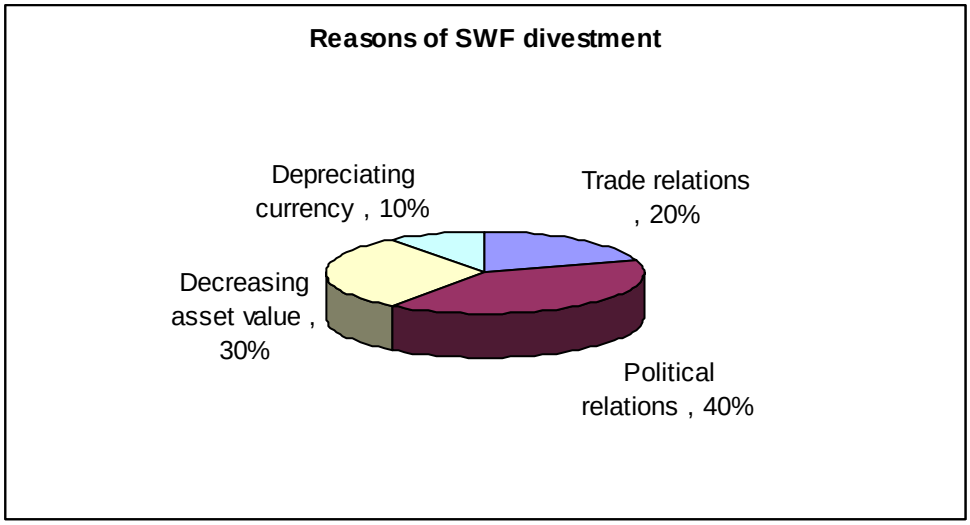
The reporting hierarchy conveys previously discussed organisational structure that MoF instructs the decisions to SWF.



The following chart again shows a drawback in the investment planning of Oman SWF as 60% earning goes back to the treasury instead of larger share going for re-investment. This might be the major reason why Oman SWF is lagging behind at US$ 8 to 13bn where as other GCC funds have gone to be of size more than US$ 200bn to US$ 850bn.



The reasons for Oman SWF divesting their investments are quite different from Norway or other larger SWFs. In case of Oman SWF, the main reason for divestments is political relations with the governments of other countries.



Thus, these decision making process charts as discussed above re-affirm the discussion of previous sections about restructuring requirements of Oman SWF in addition to decision making being crucial for any SWF. Thus, hypothesis H-8 can also be accepted with this form of evidence from section D of the questionnaire.

The separate supporting literature is not included as a chart or table however it is embedded in the hypotheses testing as one category of evidence. Also, very few studies are empirical and mostly they are literature analyses or secondary data analyses. This is the reason why statistical results of this study have not been easily compared with other research studies in the field of SWFs.

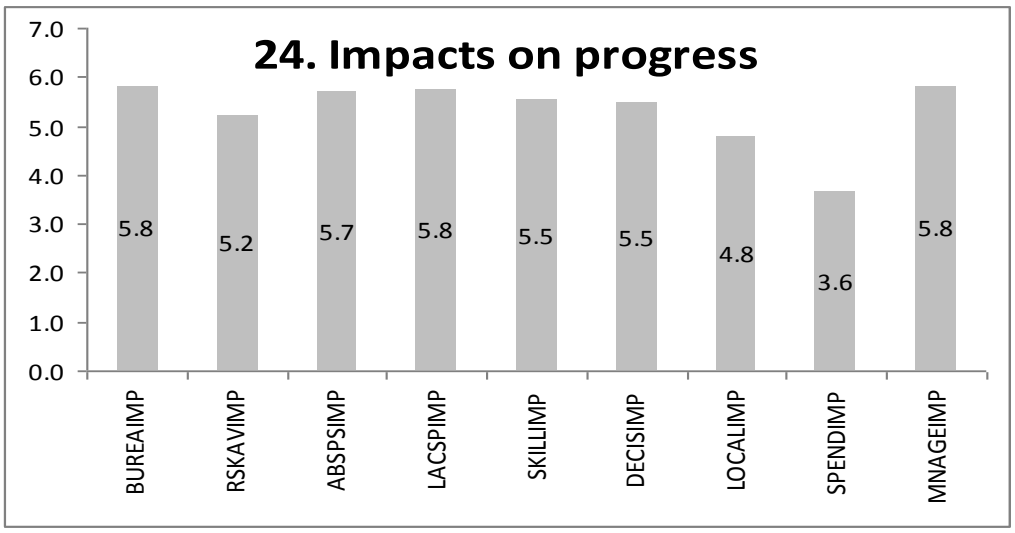
6.11 Progress, possible solutions and changes in Oman SWF

In the questionnaire with independent and dependent variables for the framework, a different set of three independent variables was embedded which measured the future scope of the growth of Oman SWF based on what employees think that can be impacts, possible solutions, changes required and tools to improve the growth of Oman SWF.

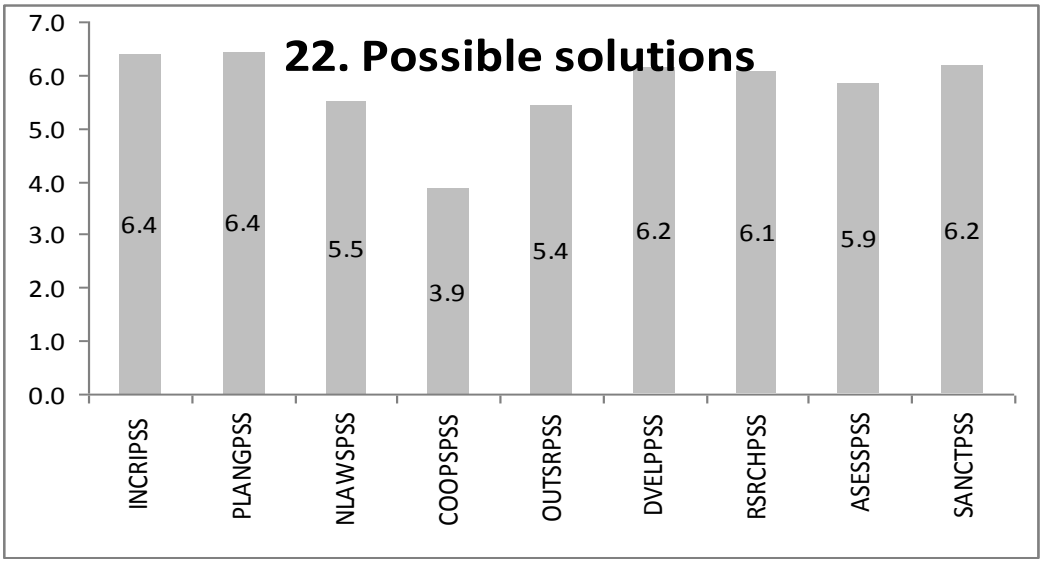
The regression analysis for these three independent variables was done separately for two dependent variables of performance and success rate and their results are tabulated previosuly in section 6.9, appendices D3 and D4.

The regression results of these variables are positive with dependent variable 2: success rate with correlations of 0.464 for possible solutions, 0.364 for changes and 0.264 for impacts on the progress. Their standardized beta coefficients explain strong contribution from these factors with values of 0.41 (solutions), 0.31 (changes) and 0.25 (impacts) with low significance for solutions and changes but high significance of the contribution for impacts at level of 0.003 < 0.005 (Tables in Appendix D4).

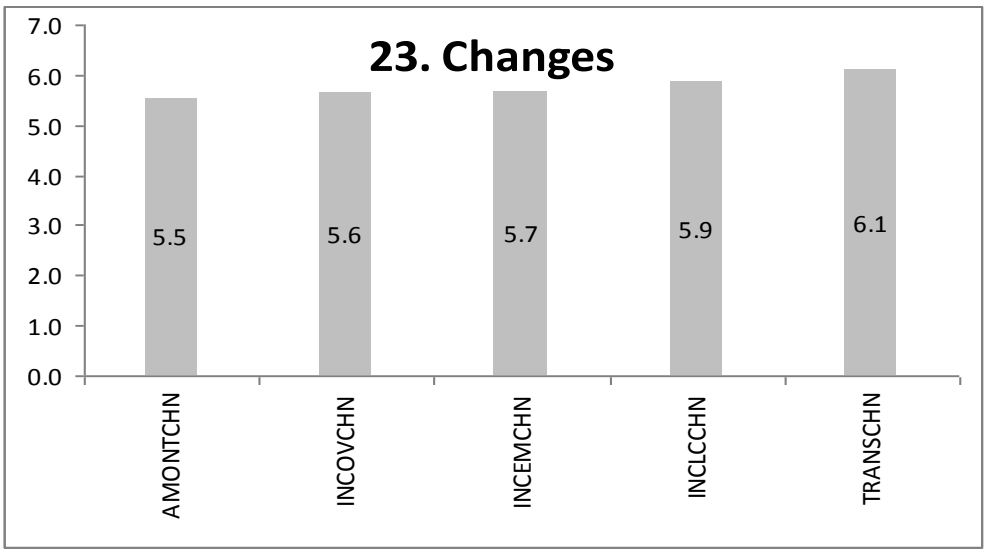
The first graph in this section is about the factors impacting progress of Oman SWF. From the following graph 24, it is evident that employees agree about bureaucratic decision making hierarchy such as SWF management by MoF, absence of regulatory frameworks, lack of strategic planning and non-utilization of any research skills negatively impact the growth of Oman SWF. This is why Oman SWF has not achieved the progress same as other SWFs of Norway, ADIA or Singapore.



The possible solution to this problem can be seen from strong agreement of 153 respondents in the following graph 22. The possible solutions according to the voice of employees can be: finalizing investment objectives, specifying growth and return targets, developing legal and governance mechanism, developing the international level human capital, increased use of research and world markets information and heavy punishment for frauds and transgressions. This will allow SWF and employees to grow together and increase the governance, transparency and accountability.



The following changes are also strongly agreed upon by employees for fund's financial management such as increase the fund inflow available for overseas investments, increase local and emerging markets investments. This might be because of many SWFs in GCC region lost billions due to credit crisis in the developed countries during 2007 - 2009.



A number of possible solutions and changes would lead to improvement for the Oman SWF. The necessity of making these changes was strongly acknowledged by the employees, as illustrated in graph 25 of dependent variables. Included among the changes are: development of Oman's work force, stronger cultural and religious integration of the population, enlargement of consumer markets based on various demographic characteristics, enhancement of transparency, and greater professionalism in work ethics.

These possible solutions and changes are also strongly supported by top management which is evident from interviews data. For example, Interviewee 1 suggested the changes across the board in Oman SWF and implementation of professional management and investment practices. Interviewees 2, 6, 9, 10 and 15 stressed the need of appropriate reporting, appraisal and information disclosure systems. Dy. CEO of Oman SWF (Interviewee 3) recommends overall changes in terms of policy, strategy, decision making and reporting structure. Interviewees 5, 9 and 10 strongly supported that Oman SWF should make use of professional talent and take actions to develop the local talent to the global level of expertise. Changes in leadership, investment strategy, asset allocation and reduction in portfolio risk by increasing

geographical spread of investments are recommended by interviewees 8, 11, 12 and 13. Changes in the fund inflow, asset allocation, budgeting, approvals, governance structures, policy and planning are voiced by interviewees 6, 8, 15, 16 and 17. Therefore, it is proved from the regression of results of impacts, changes and possible solutions with success rate of SWF and interviewees data that proposed restructuring plan for Oman SWF in terms of long term economic policy, new investment strategy, performance benchmarking and development of human capital advantage is agreed and accepted by top management (from interviewees), employees and other stakeholders (from questionnaires) of Oman SWF. The restructuring plan for Oman SWF is explained in the next chapter of conclusion.

6.12 Final theoretical framework

The following table shows the overall presentation of hypotheses results and confirms that all hypotheses are accepted on the basis of regression results, descriptive statistics and the collective support and multiple evidences from interview results, secondary data, literature and current SWF managerial practices. The table includes only primary data results about hypotheses in addition to the column of final acceptance or rejection of the hypothesis. All hypotheses are accepted based on the support from either of the previously mentioned bases. An exception to this is hypothesis 3 about environmental dimension of trade balances. This hypothesis is accepted based on the secondary data and literature considering the substantive significance of positive current account trade balances in increasing the foreign reserves which would enable any country to launch SWF.

Table 6.9 Summary of the hypothesis testing

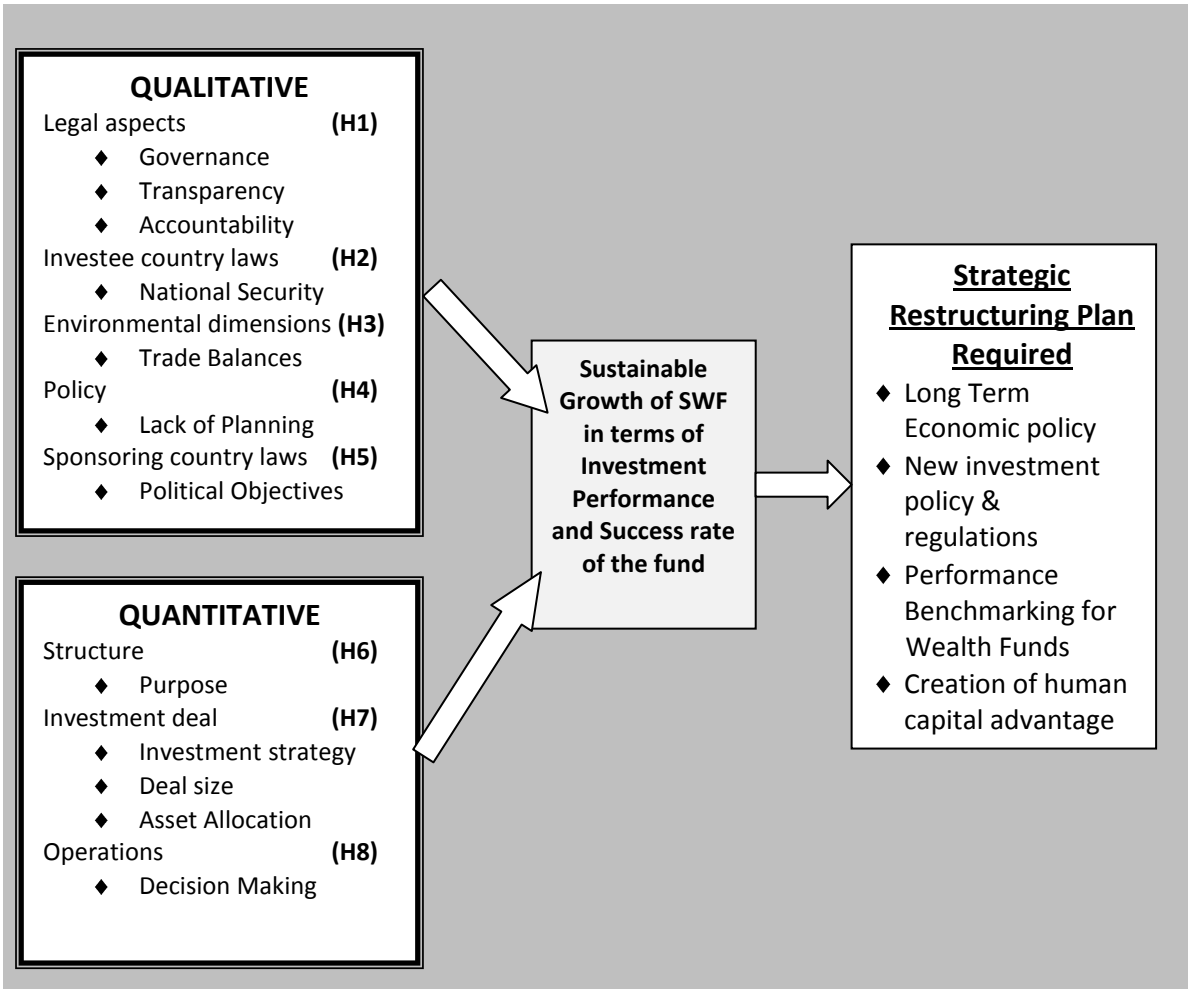
Hypothesis	Regression Results	Descriptive Statistics	Interview Results	Final Acceptance or Rejection
H1: Legal aspects Governance Transparency Accountability	Supported for Governance only	Supported	Supported	**Accepted**
H2: Investee country laws National security	Supported	Supported	Supported	**Accepted**
H3: Environmental dimensions Trade balances	Not supported	Neutral	Neutral	**Accepted**
H4: Policy Lack of planning	Supported	Supported	Supported	**Accepted**
H5: Sponsoring country laws Political stability	Not supported	Supported	Supported	**Accepted**
H6: Structure Purpose / Objective	Supported	Supported	Supported	**Accepted**
H7: Investment deal Investment Strategy Deal Size Asset allocation	Supported for Asset allocation only	Supported	Supported	**Accepted**
H8: Operations Decision making	Not supported	Supported	Supported	**Accepted**

As one can see from the hypotheses testing that regression analysis are carried out for each dimension of growth of SWF: investment performance and success rate of SWF. The regression model of performance is rejected based on the low degree of correlation and variance; however there is enough substantive significance of investment performance dimension revealing its necessary contribution for growth of SWF from other evidences of interviews and secondary data (Seth et al, 2009). Hence, all hypotheses are accepted based on the regression analysis results of success rate as dependent variable and investment performance is still included in the final framework as shown in the next section.

Since all the hypotheses are accepted, there is no change between an initially proposed theoretical framework and the finally derived framework. Therefore, the following

framework is the final theoretical framework derived based on the hypothetico-deductive method. The utilization of this finalized framework brings implications, contributions and further avenues for the research which is discussed in the concluding chapter.

Figure 6.2 Final Derived Theoretical Framework



The above mentioned framework has been derived based on the analyses of multiple regression results and descriptive statistics first and then weighing them with the other forms of compelling evidences such as interview findings, industry data and literature. The validity of the acceptance of all hypotheses is increased by comparing the research findings with the previous studies as done in the coming section of this chapter.

The statistical techniques such as principal component analysis and multiple regression analysis have enabled to evaluate various components of relationship between factors affecting growth, success rate and performance of SWF. Not all results of regression analyses have supported each hypotheses; however this type of hypotheses are found to be supported by other forms of evidences as stated in their analyses and table 6.9 as above. Table 6.9 presents the finalization of framework mentioned in the above figure 6.3. The method of analysing each hypothesis with multiple forms of evidence has given valuable insights about relationships among these variables and how they influence management and operations of any SWF. This is detailed in the findings of this research study in the following section.

6.13 Findings of this research study

This section summarises the findings of this research study. These findings refer to the final framework and align the research aim and objectives with the findings.

The qualitative factors such as governance, transparency, accountability, sponsoring and investee country laws, planning and policies and trade environment affect the sovereign wealth fund decision making to make foreign investments which can directly impact overall growth of SWF.

Governance was found to be a high impact factor which can ultimately enable the transparency and accountability in the SWF. Thus, it is necessary to have governance mechanisms in place such as Norway SWF which has scored high in all such attributes and same is demanded by Oman SWF stakeholders.

Policy making and planning affect range of issues within SWF wherein national security concerns may be a myth created by political leaders or a debate in media since SWF investments can have positive impacts on the industry which needs long term funds in the investee countries. Also, there is no such evidence found in the literature or primary data that SWFs have negative impacts on the capital markets of investee countries however their persistent inclination for specific industrial segments can imbalance the money supply. For example, considering profitability as only investment criteria would lead SWFs to riskier investments which would create liquidity shortage for safe but low yield businesses.

On the other hand, when **asset allocation** is not appropriate, there are examples of SWFs losing the value of the investments for example GCC SWFs losing approax. US $ 40bn in the banking industry during 2007 – 09 credit crisis. SWFs are vital to the economies of sponsoring countries and investee countries depending on their contribution to the trade balance of the country. Therefore, utilization of SWFs for increasing trade and economic benefits is possible if both sponsoring and investee countries create common mechanisms in terms of **laws and treaties** instead of creating barriers and protectionism to the bi-lateral trade. This shifts one from qualitative factors to quantitative factors of investment strategy and decision making components.

The quantitative factors such as purpose, structure, deal size, asset allocation, trade balances and decision making are equally important as qualitative factors to the SWF growth. Both of these findings about qualitative and quantitative factors affecting growth of SWF are supported by multiple forms of evidences.

Decision making by political leaders or decisions based on political objectives rather than financial motives can impact the profitability of the SWFs. This is evident from interviews data, questionnaire data and equally supported by the literature. This decision making should allow other attributes to be workable or advantageous for SWF such as **investment strategy and organisational structure** as these two are vital for setting up objectives and appraisal of the investments which can ultimately reflected in the assets yield and growth of the SWF. **Deal size** is one of the main components to be utilized by the SWFs for analysing investment opportunities as governance mechanisms of sponsoring countries may restrict deal size or equity shareholding and same can be protected by investee countries' governments and companies. For example, Norway SWF has 10% limit to buy equity of the any company, or UK competition commission asked Kuwait SWF to divest anything over 10% holding in British Petroleum. Thus, deal size in terms of percentage and amount is critical component affecting growth of SWF.

A detailed literature review revealed that **existing finance and management theories** can help in resolving conflicting issues within the SWFs, between SWFs or with their stakeholders as discussed in detail in the next section.

From Oman SWF data, it is found that there is lot of resentment within SWF employees and other government departments because of heavy influence and single handed decision making by Ministry of Finance. Top executives and employees of SWF and other government departments have clearly suggested that Oman SWF requires complete restructuring or transformation in terms of policy, planning, governance mechanisms, decision making and investment strategy. The restructuring plan for Oman SWF is explained in the final conclusion chapter of the thesis.

According to the primary data analyses and current situation of Oman SWF, the **future of sovereign wealth fund of Oman** relies heavily on how restructuring plan will be managed by the Government of Oman. The current set of issues of concern mainly arises from lack or complete absence of many vital attributes such as planning, policies, structure, audit and budgetary control, professional investment strategy and research based decision making. The current investment decisions by Minister of Finance are random, without any risk – return appraisal and preferably containing political biases. On the other hand, because of this non-professional management style adopted by Oman SWF, the fund is losing out to competitors and quite large SWFs namely, UAE, Saudi Arabia, China, Norway, Singapore and Kuwait funds in the recession period when assets are undervalued and cheaply available to buy. Missing this investment period would create again a larger gap between Oman SWF and these global SWFs. Therefore, for a future of successful assets growth and consistent profitable returns on the investment portfolio, Oman SWF has to act now to bring in professional management and develop the organisation.

6.14 Support of existing theories in resolving issues of concern in SWF

In the literarure review section, the exsiting theories of trade, finance, management and economics are discussed as being the basis of SWF and to understand the concept of SWF in detail. These theories can support and help resolving issues within SWF management. To understsnd the utilization of theories for SWF, the example of Oman SWF is analysed based on the primary data from interviews and questionnaires.

It can be observed from responses of executives from SWF, councils, central bank of Oman, government committees and ministries for questionnaires and interviews that

there is strong resentment about how Oman SWF is getting managed. These respondents are government employees and at the end of the day they are citizens of Oman as well. Also, the conflict is evident from recent protests against the government reported in the media and the government's immediate response in terms of re-allocation of ministerial portfolios. Thus, there are two types of conflicts within sponsoring country: between actual owners' population and MoF; and between MoF and employees of SWF. The fundamental reasons can be issues of trust, integrity, legitimacy or intent which basically stems from lack of governance. These issues match with Agency theory explained in the literature review. Agency theory deals with principal – agent conflicts which can help to analyse and to resolve such issues based on analyses.

The second issue is that Oman SWF is one of the least transparent SWFs worldwide and having 'no governance mechanism'. The issue of governance can be tackled by applying tools of stakeholders management and decision making decentralization theories which empower employees to take on more responsibilities and be accountable for their actions. Hence, application of stakeholder management and decision making theories for top management would help to resolve the governance issue.

The third issue is complete lack of investment strategy, asset allocation planning and use of investment appraisal tools and risk management methods. Therefore, Oman SWF must implement financial management theories to prepare a robust investment strategy which can ultimately help to increase the return on the investment deals made.

The fourth issue is the credibility of the Oman SWF which is very low as compared to Norway and Singapore SWFs. The internal issues for credibility can be governance and transparency; however investee country trade relations and legal mechanisms of protecting domestic economy and industry can also affect the bilateral relations with other countries. Oman has no issue of bilateral trade relations; however improvement in governance and transparency may increase the credibility of Oman SWF.

Therefore, one can see that issues such as of Oman SWF can be resolved for any global SWF utilizing the agency theory, stakeholder management theory, decision making theory and financial management theories and help to improve its structure, governance, transparency, credibility or profitability ultimately leading to growth of SWF.

6.15 Reliability and validity of the findings

The reliability of the findings is a measure of consistency in the longitudinal time horizon, accuracy of measurement, replicability of findings for same constructs under different research setting. Thus, stability and similarity of the findings on a consistent scale can be defined as the reliability for the research carried out (Neuman, 2006; Pallant, 2010). The statistical measure of the reliability of the sample is usually calculated by Cronbach's alpha which is 0.638 (normal value) and 0.692 (based on standardized items). The scale and sample is reliable when Cronbach's alpha is between 0.7 and 0.9. Hence in this case it can be said that reliability is achieved.

The validity of the findings refer to the dimensions applied fitting, predicting and correlating and contributing to the construct or dependent variable they are measuring collectively. In terms of statistics, this can be explained from factors or principal

component analysis and regression results. Some of the independent variables are not correlating or contributing to measure performance or success rate of SWF. However, their further verification is done by data analyses from other sources such as interview transcripts and already published literature.

The important feature of the validity checks are: Does a novel argument in the findings or proposition have any evidence, does refuting the existing argument of the literature by the researcher have any evidence or how much is the similarity or differentiation between existing and new findings. The following table of findings of this case study and their support from the literature by similar findings confirm the validity of this research study's recommendations and conclusion.

Table 6.10 Validity of the findings of this study

Variable	Findings in this study	Existing research supporting this study
Governance Transparency Accountability	Governance is the dominating predictor of the growth of SWF. Transparency and accountability is affected by governance mechanism and do not affect directly the growth of SWF.	Lyons,2007; Drezner, 2008; Fotak et al, 2008;; Portman, 2008; Truman, 2008; Dixon and Monk, 2009; Monk, 2010;; Clark and Knight, 2010; De Bellis, 2010; Kotter and Lel, 2011
Investee country laws	National security concerns tend to increase investment barriers and control mechanisms' negative influence over the growth of SWF. SWFs are not a threat to developed economies.	Bahgat, 2008; Greene and Yeager, 2008; Hayward, 2008; Kirshner, 2009
Trade balances	Trade balances do not directly impact the performance and growth of SWF; however accumulation of FE reserves over the time shifts balance of power to developing and emerging economies SWFs.	Gieve, 2008; Alerbola and Serena, 2008
Lack of planning and policies	This varies inversely with success rate and growth of SWF	Chhaochharia and Laeven, 2009; Ang, 2010; Sonarajah, 2011

Sponsoring country laws and political objectives	Political objectives hamper the governance. Increase in sponsoring country laws in response to protectionism by developed investee countries would again reduce growth of SWF. Sponsoring countries needs simple governance mechanism and legal framework which increase the ease of business and robustness of performance, success and growth of SWF.	Drezner, 2008; Fotak et al, 2008; Portman, 2008; Park and Estrada, 2011; Pistor and Hatton 2011;
Structure and purpose	Governance and investment strategy mechanisms would infuse the organisation of activities in the SWFs. However, politically motivated investments or objective to launch SWFs are barriers to long term growth of SWFs.	Mitchell et al, 2008; Bernstein et al, 2009; Chhaochharia et al, 2009; Pistor and Hatton, 2011
Investment strategy: deal and asset allocation	Asset allocation, deal size and announcements can affect the profitability of SWF and investee company both. Oman SWF requires complete restructuring of investment strategy and asset allocation fundamental which strongly influence the growth of SWF.	Kern, 2007; Balding, 2008; Santiso, 2008; Aizeman and Glick, 2009; Balin, 2010; Paulson, 2009;Setser and Ziemba, 2009; Dewenter et al, 2010
Decision making	Current decision making is influenced by MoF or political elites want to maintain the control over wealth and power. Better the decision making by use of expert knowledge systems and research prior to deal finalization, more will be the successful deals and increased investment opportunities.	Drezner, 2008; Mitchell et al, 2008; Anderson, 2009; Pistor and Hatton, 2011

6.16 Summary

This chapter provided insights into what mangers and top executives related to SWF think that is necessary to improve any global SWF in addition to Oman SWF for its growth, credibility, strategy and decision making. The evidence to this was obtained in the form of analyses of secondary and primary data. These multiple evidences also enabled the testing of initially proposed theoretical framework.

This chapter has documented the results and data analyses of interview and questionnaire data. Thus, analyses carried out based on the five different types of evidences have enabled to finalize the proposed framework. The final framework can be utilized by any SWF in the context such as objective to increase growth, or having issues of concern for any factor mentioned in the framework. The results of this study

are compared to a possible extent with recent literature during finalizing the proposed framework as there is no such empirical study carried out for analyzing the factors affecting growth sovereign wealth funds. The use of statistical tests such as principal component analyses and multiple regression analyses have increased the reliability and validity of the conclusions and recommendations made.

The next and final chapter of this thesis provides concluding remarks and recommendations in the form of research summary, limitations, implications for academia and industry managers of SWF with further scope of extending this type of research for sovereign wealth funds.

Chapter 7 Conclusion

7.1 Research summary

This chapter summarises the research and explain the contribution, implication and further research scope arising from this thesis whilst considering its limitations. Based on the findings of this study, recommendations are made for global SWFs and in particular a restructuring plan for Oman SWF. According to Philips and Pugh (1994), this chapter contains the utilization of theory which is strongly correlated to the background, focal and data theories.

The research design combined data collection and analyses units, such as multiple data sources, multiple analysis techniques deployed and multiple evidences utilized enabling to test hypotheses. Secondary data was obtained from two SWFs Norway and Oman whereas primary data was obtained only from Oman SWF in the form of 20 semi-structured interviews of top management and 153 questionnaire responses of middle and operational level employees.

A surge in SWF investments has prompted the interests of various stakeholders in the concept, deals and debate surrounding SWFs around the globe. Since, natural resources are finite, becoming depleted overtime. In particular, GCC region economies are interested in developing non-oil income based industries and markets in which SWF would be a main catalyst. With unprecedented growth from US$ 500billion to 3.5trillion has brought many managerial issues of concerns to the domain of SWFs. The major constituents to these problems are growth, governance, transparency, laws and protectionism, polices and planning, trade balance, investment strategy and

decision making. This research study focussed on such factors affecting the performance and success rate as two components of sustainable growth of SWFs.

The major challenges for SWFs and governments of sponsoring and investee countries are: how to make these SWFs sustainable, how to utilize their financial leverage appropriately to have lasting benefits for economies and how to manage them as an industry while minimizing the conflicts between stakeholders on the either side of investment deals. Thus, the research findings of this thesis about crucial factors for growth would help SWF managers and governments to address such challenges.

A specific solution such as a restructuring plan for Oman SWF is an additional output this research study. The analysis of findings about factors affecting growth of SWFs and case analyses of Oman and Norway have enabled to prepare such a roadmap for restructuring Oman SWF. This restructuring plan would bring a permanent solution to Oman SWF because in the current scenario, no executive knows what is going in the Oman SWF as there are no governance mechanisms or regulations in place, and no one is accountable for loss of foreign exchange reserves in the investments.

7.2 Implications for theory and practice

The research findings arising from this study have many theoretical and practical implications for academia and SWF business practitioners' communities respectively.

The study provides a set of important implications for global SWF managers and government of Oman. It is important to know the wider implications of making SWF investments – divestment decisions, making laws and barriers decisions, creating governance and increasing transparency and utilizing the findings of this study. These implications can either be positive or negative for SWFs, investee companies,

governments of sponsoring and investee countries, economies and markets of these countries, SWF managers, researchers and theoretical body of knowledge of SWFs.

SWF investments announcements can bring positive outlook for stock prices of the investee companies but depending on the deal size and reputation of SWF attached to it, the market can have negative effects. Secondly, if the investments of high risk – high return is followed by SWFs then money supply can be imbalanced between low return stable firms and high return riskier businesses. Large numbers of SWF divestment decisions can also negatively impact the markets and industries in the investee countries. Continuous large overseas investments can also hamper the growth of sponsoring country economies as cash available for local projects is reduced. Hence, investments and divestments both can have positive or negative implications.

To reduce such negative impacts, investee and sponsoring countries create laws and barriers which result in protectionism, reducing the trust and trade between investee and sponsoring countries. This reduction in trust and trade has negative impacts on the growth of a SWF. To create growing and profitable SWF, one may argue to create governance mechanisms which would bring transparency and accountability within SWF decision making and operation; however overdoing this may hamper the actual tasks of creating profits and valuable asset base such as the case of Norway. Norway SWF's conventional and overdone mechanisms along with divestment policies have resulted in loss making deals in many quarters during the last decade. On the other end, increased transparency and accountability would increase investors' confidence about the governance in Oman business which may attract more foreign direct investmemts (FDI) to Oman. This would again help SWF growth as government will have two options: either invest profitably in FDI supported projects or invest in foreign equities

as liquidity demand would decrease domestically as FDI inflow increases. Therefore, increased transparency and goevrnace has macro-economic benefit suhc as FDI increse as well which ultimately can support SWF growth.

The findings of this study are based on the multiple data, analyses and evidences found; and hence, it would have positive implications if one makes use of these factors and findings in SWF management practice. For academic researchers, positive implications are further research streams, development of SWF as a theory and availability of validated framework which can be applied or utilized in different research contexts. Also, the existing theories can be correlated as foundations of SWF concept which again widens the scope of research.

The another implication arises from the possible generalizations of the findings of this study for all SWFs worldwide which would enable the governments and regulators to reach in creating an overarching institute for managing and monitoring all SWFs together as a separate industry.

7.3 Contributions of the research

This thesis makes theoretical contribution to the body of knowledge in terms of literature analyses, conceptual framework, research findings, methodologies applied and further scope of the research.

The literature analysis suggests a strong relationship between streams of economics, finance, trade and legal foundations and a concept of sovereign wealth fund. In addition to this, a systematic review of literature of the last decade of SWF conceptual development and their management also forwards the body of knowledge.

The conceptual framework is developed based on the extensive literature review and industry data whose findings are validated based on the multiple sources of evidence; hence the conceptual framework derived from hypotheses testing is one of the major contribution and novelty from this thesis.

The major findings about governance mechanism, laws and protectionism, trade balances, investment strategy, deal size and asset allocation backed up by evidences from literature, industry data and primary data are contributing to the theoretical refinement of SWF as a phenomenon (Partington, 2002).

There are not many empirical studies found in the literature which have applied combined philosophies and mixed method approaches within the analytical frame of study. Hence, application of such a methodology with support of triangulation in itself become is another contribution to research domain of SWF concept.

The conceptual framework, applied methodology and research findings create a set of opportunities for the future researchers and thus set a direction of research streams entailing SWF as a theory. Since SWF is a complex subject requiring in-depth understanding of existing theories, the outcome of this research study would be utilized over the long term. This is because nature and context of any research are two major attributes affecting the level of complexity of the research studies (Neuman, 2006).

The practical contribution is made in terms of findings about the factors affecting SWF and the recommendations to global SWFs and Oman SWFs. Furthermore, Oman SWF is presented with a restructuring plan as it was one of the objectives in this research.

The recommendations for global and Oman SWFs are made as a foundation to long term incremental changes which make them feasible and easy to implement. Recommendations for global SWFs are sourced from findings of this research study and conceptual framework developed for growth of SWF. Thus, implementing these recommendations would bring the improvement in the success rate and investment performance of the SWF which would make a huge contribution towards uplifting the SWFs in the global financial markets.

Oman SWF analyses for its secondary and primary data have enabled to prepare the recommendations and its further restructuring plan. The implementation of these recommendations and restructuring plan would bring the required changes in Oman SWF in terms of organizational structure, investment strategy, planning, governance, transparency and development of human capital. This would definitely be welcomed by the interviewees and employees who voiced their resentment in their responses for what is the current situation of Oman SWF. Thus, it would be one of biggest practical contribution of this thesis.

This thesis makes an additional practical contribution by proposing SWF to be considered as a separate industry such as having an overarching body to monitor and regulate the SWF issues. The current portfolio and long term growth forecast for SWFs is in the range of US$ 7 to 10 trillion in next 5 years from its existing asset

accumulation of approximately US$ 3.5 trillion which supports its industry status proposition.

7.4 Limitations

The research limitations of this study can be categorised as research design and theoretical limitations. The design limitations include low availability of secondary data about Oman SWF; low response rate of questionnaires and limited number of SWF cases. However these design limitations are taken care of by applying data and methodological triangulations which make the impacts of these limitations negligible on the research findings and their reliability and validity. The issue of limited number of cases was nullified by a systematic review of literature which has many articles reviewed containing various cases of large and global SWFs such as SAMA, ADIA, CIC, Temasek, Norway and KIA. Hence, there was no need to increase number of cases in the secondary data analyses.

Low significance of statistical results is removed by support of multiple evidences in testing hypotheses. The methodological rigour and precision such as an application of triangulation in the research work reduces such limitations and limitations fade away over the time with the increasing use of findings of this study. Therefore, generalization of findings is possible and these findings can be applied to any SWF who has similar contextual issues.

7.5 Recommendations for global SWFs

A number of possible solutions and changes would bring Oman SWF having good management style, investment strategy and governance in place. However, it would need following decisions to be made for the long term success rate of Oman SWF.

- First, the existing theories of economics, finance, international trade and business management can be applied to understand the concept of SWF and to resolve any conflicts arising in the SWF operations. Thus, it is recommended to utilize the closely established link between theories and practical SWF activities for strengthening the SWF.
- Second, it is a myth that SWFs can affect global capital markets, since their total asset base is only US$ 3.5 to 4 trillion which is almost negligible when compared to hedge funds, insurance funds or pension funds. Therefore, second recommendation is not to be afraid of SWFs, as they were much helpful during the global credit crisis.

The empirical testing of the proposed framework found that qualitative and quantitative factors are equally important and complementary to each other for the growth of SWF. Therefore, SWF managers should concentrate on developing and maintaining the culture of high level of professionalism, transparency and accountability along with primary focus on the profitability and return on the investments (ROI).

The example of Norway's negative quarterly returns on multiple occasions in the last decade and the changes made in asset allocation policies raises questions over SWF's traditional investment style, overdone governance mechanisms and strict divestments policies which ultimately reduced the resilience of Norway SWF to market turbulence and potential basic risks. Thus, global SWFs managers shall be able to identify, manage and communicate different risks which affect the rate of return.

The losses made by GCC region funds, Norway and Temasek during financial crisis revealed that the risks factors within the fund management of the fixed income portfolio

had not been appropriately identified and communicated. Few of these funds have strong management control and governance mechanisms having a solid foundation. These losses lay the foundations for improvement in such mechanisms or restructuring of the funds. Hence, new mechanisms should direct the investment strategy based on weighing expected returns against expected risk and usefulness of active management in exploiting the characteristics of SWF.

We have seen the huge amount of rules, regulations and frameworks in the case of Norway. If all SWFs and their sponsoring countries start developing these many rules and in response to that there would be more of the same action by investee countries, then the growth, performance and ease of operations are affected for all SWFs. Therefore, it is proposed to develop a new global regulatory agency which can resolve such conflicts between SWFs and investee companies or between the two governments.

Further testing of this research study may be done using more data and different research designs. Positive confirmations to such further research studies regarding the same set of variables may increase the validity of this research. Hence, it is recommended to researchers that findings and factors of this study are to be tested and to compare the results.

7.6 Recommendations for Oman SWF

This section details the specific recommendations for Oman SWFs from based on their secondary and primary data analyses. The restructuring plan for Oman SWF is given separately in the next sections of this chapter.

The comparison between Norway and Oman SWFs suggests that first priority for Oman SWF (SGRF) is to improve its organisational structure, by putting a robust investment strategy and governance mechanism in place as part of reporting system, monitoring and management control. This would further require sourcing and utilizing the local and international talent in the process. This is the first step of restructuring the organisation.

The next important step for SGRF is to start investing in the profitable deals. This is possible by infusing culture of quality and developing the wealth management skills of global level expertise. The large and successful funds in and outside the GCC have made use of wealth managers such as investment banks, banks, advisors or research analysts. This would help in returning to the profitability and accumulation of required human capital over the years. Thus, SGRF requires actions to be taken for these priorities first.

The two recommendations above are possible to implement by turning the Oman SWF into a separate organisational entity rather than keeping it in its current form as a department within the finance ministry. Also, it would start to have its own organisational capabilities and resources developments when given the autonomy to function professionally rather than under strict political influence. Many SWFs around the world have become successful in this manner for example, Temasek and ADIA.

One can conclude that Oman SWF needs huge amount of hard work to grow, get earning and expand. This is possible by collective efforts of government and employees of SWF. The restructuring and investment strategy are keys to the further

success; however it is the governance, transparency and accountability as the major traits of the organisational culture would add the sustainability to Oman SWF.

On implementation of recommendations appropriately, governance and transparency standards may improve which would also increase investors' confidence worldwide. This can ultimately results into increase in the foreign direct investments (FDI) inflow to Oman. Increased FDI would eventually support the goals of Oman SWF about bringing economical improvements.

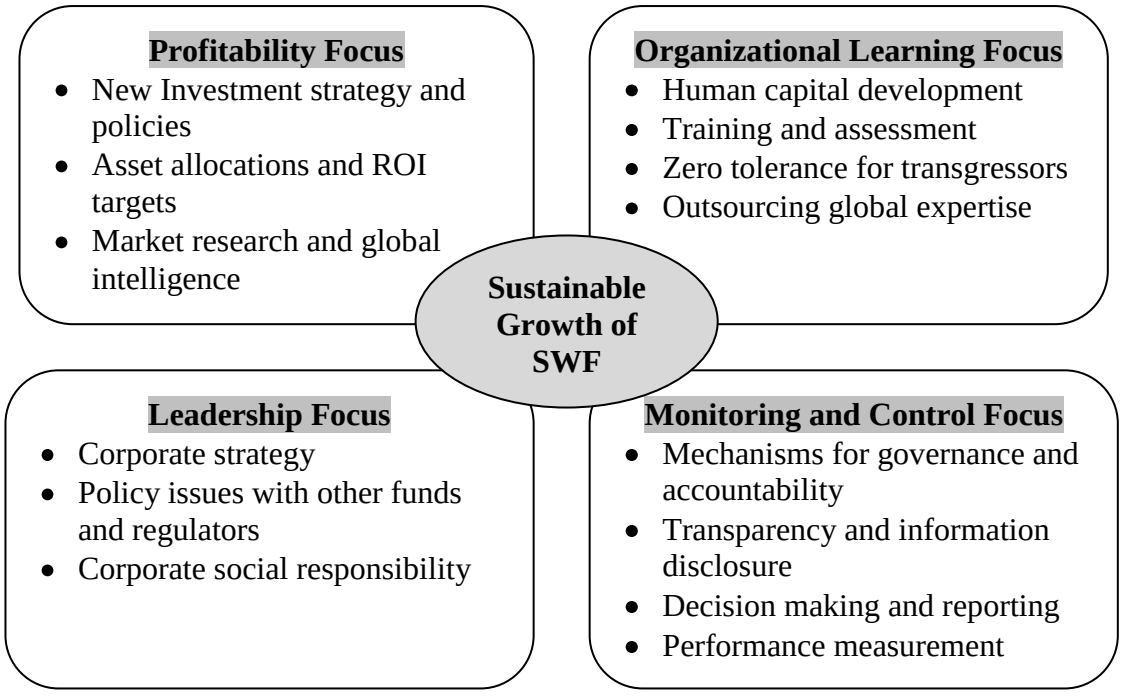
7.7 The restructuring plan for Oman SWF

The findings from the analyses of primary and secondary data suggest that Oman SWF requires overall restructuring of the organisation design mainly: planning, staffing, controlling and monitoring. The planning function would bring changes in the investment planning, strategic planning and internal business processes. The staffing function would bring changes in the human capital attraction, training, development and retaining the right talent. The monitoring function would enable the induction of regulatory, reporting and control mechanisms in place which are currently absent now. This would ultimately bring governance, transparency and accountability to the organisation and make the decision making focussed and un-biased. The major aim of this restructuring plan is to make the organisation's image more transparent, introduce professionalism in the working culture of the SWF and increase the profitability of the SWF. Therefore, one would suggest three levels of changes need to be introduced: strategic, transformational and incremental. Transformational level changes would bring the changes at the top level including leadership. The strategic changes would include the policies and strategies of the SWF and incremental changes would be brought to the core operations. The incremental changes would be implemented in a phased manner and not a big bang introduction because phased manner of

implementing changes would reduce the organisational inertia in the form of employee's resistance against the change.

The following self-explanatory diagram 8.1 reveals the complete restructuring plan. The restructuring plan includes focus on profitability, organizational development, leadership and monitoring and control. The profitability and leadership focus are part of planning function as mentioned above which would provide new strategies and policies to Oman SWF for example, development of new investment strategy, asset allocation mechanism or deploying sustainability standards. The organizational learning focus is part of the staffing function improvement which would see development and accumulation of global level expertise through in-house development and outsourcing. The monitoring and control would be done through developing standards, code of conducts, effective decision making structure and benchmarking the performance of Oman SWF with leading international SWFs.

Figure 7.1 Restructuring plan for Oman SWF



Adapted based on the analyses of findings

The implementation of this restructuring plan would be done by Government of Oman which is not in the scope of this research study.

7.8 Future scope of research

Based on the findings of this research study, new research avenues emerging from the debates of the proposed concept and research design context can be detailed as a scope of further research streams in subject domain of sovereign wealth funds.

Future research can examine whether other SWFs and different demographic profiles of respondents can influence the structure and composition of the dimensions measuring growth, success and performance of the SWF.

This newly established research stream can focus on the sampling of the survey and interviews which can be higher, or arranging other methods of data collection such as focus groups comprising managers from each different SWF and wealth management experts from central banks and investment banks. This will be beneficial for academic researchers and SWF managers to know the differences between various investment strategies under which their decision making is affected and why.

SWF management was found to be affecting the growth based on the decision making strategies and employees' skills availability. Future researchers may increase their attention to these aspects to identify any changes in the other factors affecting the growth of their funds.

The another research avenue can arise from the time line of the data as this study collected cross-sectional data where as next step can be to adopt a grounded theory

research strategy and study in depth causal relationships based on the longitudinal research design.

Further research applying qualitative and longitudinal methods or more case studies would be useful to test the findings of this study. Also, one can involve samples from other countries which will see the comparison between SWFs based on the differences across cultures, business dynamics and national settings.

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APPNEDIX A - Scale Reliability Test Results

Case Processing Summary

		N	%
Cases	Valid	151	98.7
	Excluded[a]	2	1.3
	Total	153	100.0

a. Listwise deletion based on all variables in

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.638	.692	158

Summary Item Statistics

	Mean	Minimum	Maximum	Range	Maximum / Minimum	Variance	N of Items
Item Means	4.437	-.004	6.947	6.951	-1622.258	3.216	158
Item Variances	.789	.007	2.852	2.845	430.600	.350	158
Inter-Item Covariances	.009	-.670	1.532	2.202	-2.285	.010	158
Inter-Item Correlations	.014	-.902	1.000	1.902	-1.108	.016	158

Scale Statistics

Mean	Variance	Std. Deviation	N of Items
701.0798321	340.994	18.46601266	158

APPENDIX – B PRINCIPAL COMPONENT ANALYSIS RESULTS

QUESTION 1 MAIN OBJECTIVES H6

KMO and Bartlett's Test

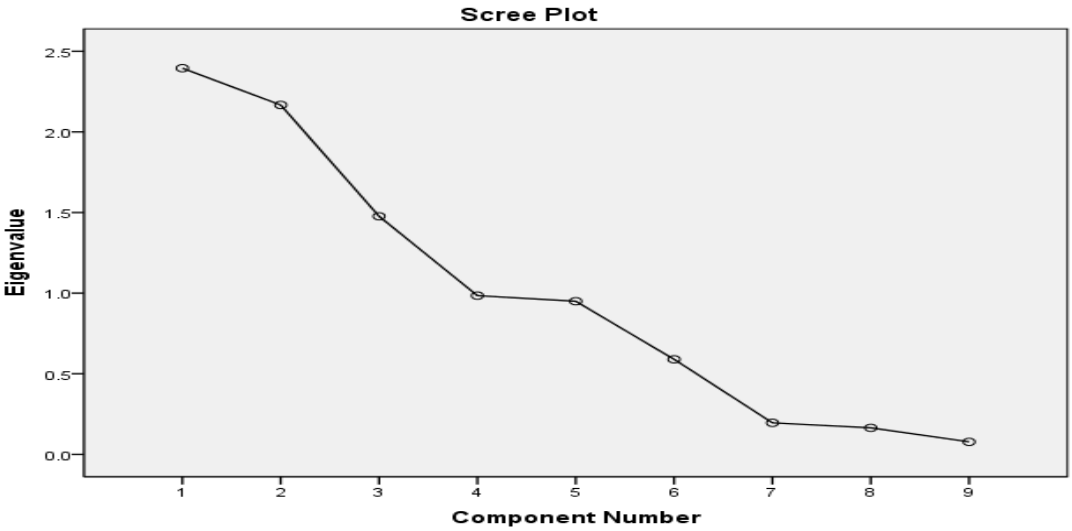
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.526
Bartlett's Test of Sphericity	Approx. Chi-Square	674.231
	Df	36
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	**2.395**	**26.611**	**26.611**	2.395	26.611	26.611	2.277
2	**2.167**	**24.074**	**50.685**	2.167	24.074	50.685	2.025
3	**1.477**	**16.409**	**67.094**	1.477	16.409	67.094	1.770
4	.984	10.938	78.032				
5	.950	10.552	88.584				
6	.590	6.551	95.134				
7	.196	2.174	97.309				
8	.165	1.828	99.137				
9	.078	.863	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.



Un rotated Component Matrix[a]

	Component		
	1	2	3
DVLEPOBJ	.708	-.563	
EXPENOBJ	.675	-.541	
STABLOBJ	.653	.602	.332
BILTLOBJ	.641	.506	.512
DEMNDOBJ	-.551	.436	
RETRNOBJ			
CHANGOBJ	.451	.718	-.478
PLTCLOBJ		-.407	.882
REVENOBJ			

Extraction Method: Principal Component Analysis.

a. 3 components extracted.

Communalities

	Initial	Extraction
EXPENOBJ	1.000	.773
REVENOBJ	1.000	.048
DVLEPOBJ	1.000	.839
CHANGOBJ	1.000	.947
RETRNOBJ	1.000	.149
STABLOBJ	1.000	.899
BILTLOBJ	1.000	.929
PLTCLOBJ	1.000	.949
DEMNDOBJ	1.000	.505

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component		
	1	2	3
EXPENOBJ	.389	-.014	-.013
REVENOBJ	-.008	.114	.070
DVLEPOBJ	.404	-.005	-.002
CHANGOBJ	-.005	.102	-.491
RETRNOBJ	-.172	.019	.007
STABLOBJ	-.005	.446	-.058
BILTLOBJ	-.003	.490	.063
PLTCLOBJ	-.011	.231	.578
DEMNDOBJ	-.313	.000	-.001

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

Component Scores.

QUESTION 2 STRUCTURE OF THE FUND H6

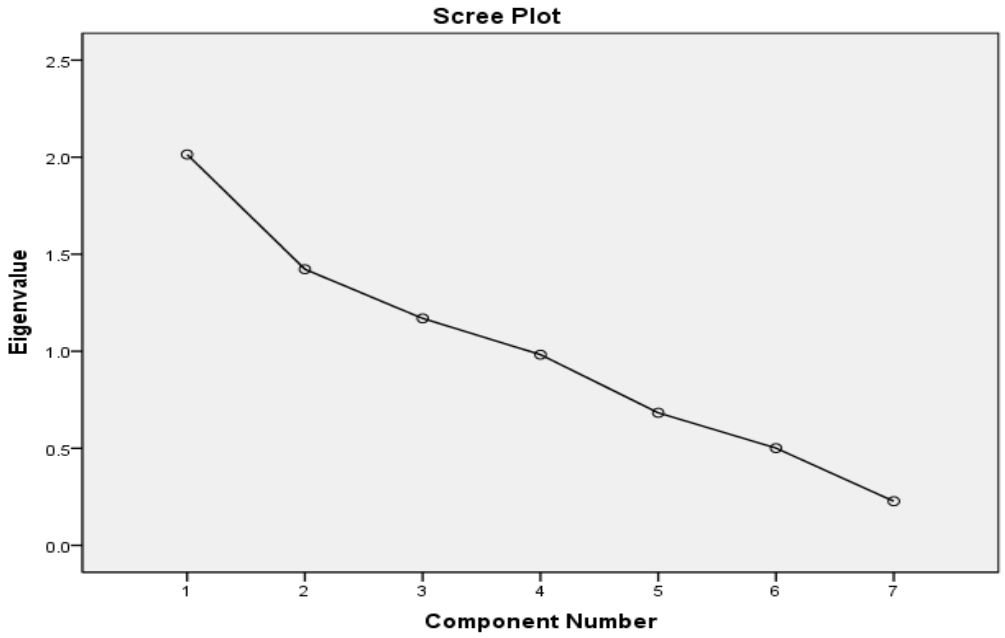
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.465
Bartlett's Test of Sphericity	Approx. Chi-Square	202.744
	Df	21
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.014	28.771	28.771	2.014	28.771	28.771	1.770	25.288	25.288
2	1.423	20.323	49.094	1.423	20.323	49.094	1.508	21.546	46.834
3	1.169	16.707	65.800	1.169	16.707	65.800	1.328	18.967	65.800
4	.983	14.037	79.838						
5	.683	9.758	89.595						
6	.501	7.158	96.753						
7	.227	3.247	100.000						

Extraction Method: Principal Component Analysis.



Un-rotated Component Matrix[a]

	Component		
	1	2	3
OBJCTSTR	.811		.334
STYLESTR	.796	.357	
CNFLTSTR	.559		-.453
SOURCSTR	-.400	.753	
PURPSSTR	-.401	.746	
DECISSTR			
OWNERSTR			.861

Extraction Method: Principal Component Analysis.

a. 3 components extracted.

Communalities

	Initial	Extraction
PURPSSTR	1.000	.731
OBJCTSTR	1.000	.825
OWNERSTR	1.000	.837
SOURCSTR	1.000	.742
STYLESTR	1.000	.814
DECISSTR	1.000	.073
CNFLTSTR	1.000	.584

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component		
	1	2	3
PURPSSTR	.013	.569	.029
OBJCTSTR	.278	.032	.439
OWNERSTR	-.217	-.025	.721
SOURCSTR	.013	.574	.036
STYLESTR	.506	.047	.005
DECISSTR	-.022	-.134	-.155
CNFLTSTR	.460	.002	-.220

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

QUESTION 3 INVESTEE COUNTRIES SELECTION H2

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.672
Bartlett's Test of Sphericity	Approx. Chi-Square	722.955
	Df	21
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	3.277	46.809	46.809	3.277	46.809	46.809	2.703
2	1.593	22.757	69.566	1.593	22.757	69.566	2.408
3	.874	12.480	82.046				
4	.719	10.273	92.319				
5	.379	5.418	97.737				
6	.084	1.204	98.941				
7	.074	1.059	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

Component Matrix[a]

	Component	
	1	2
REASNINV	.831	-.344
ALLNINV	.821	-.413
INVESINV	.781	.502
GROTHINV	.754	.522
LNGRTINV	.725	-.402
AVAILINV	.380	.642
SECURINV		.455

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Communalities

	Initial	Extraction
REASNINV	1.000	.809
SECURINV	1.000	.269
INVESINV	1.000	.863
AVAILINV	1.000	.556
ALLNINV	1.000	.845
LNGRTINV	1.000	.687
GROTHINV	1.000	.841

Extraction Method: Principal Component Analysis.

QUESTION 4 GOVERNANCE REFORM H1

KMO and Bartlett's Test

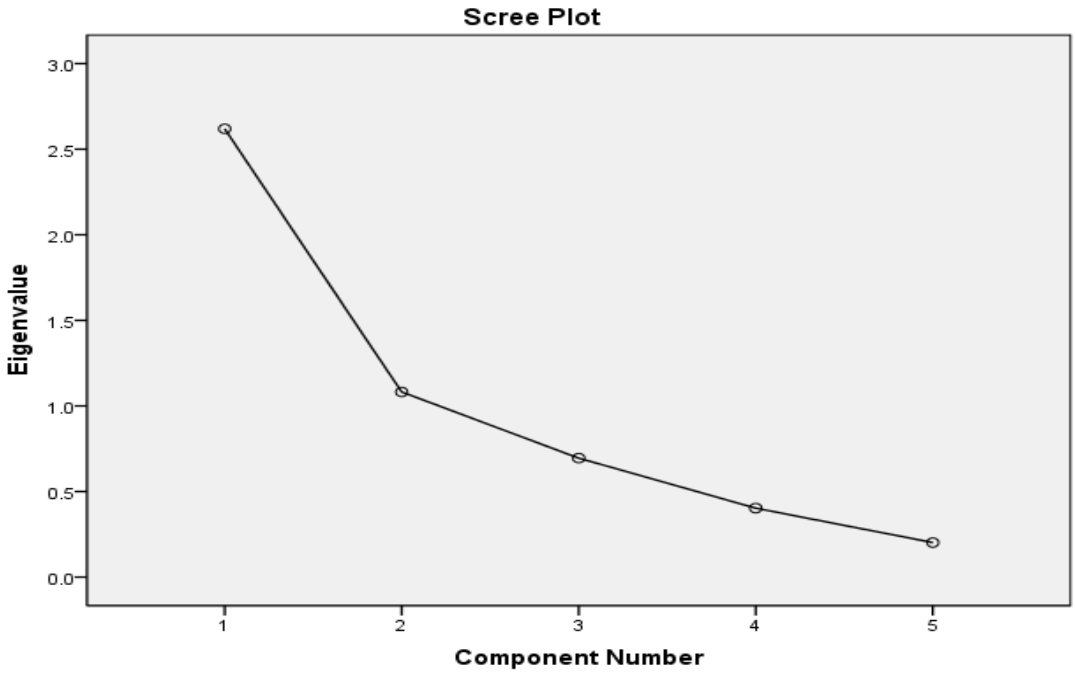
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.654
Bartlett's Test of Sphericity	Approx. Chi-Square	273.999
	Df	10
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	2.619	52.377	52.377	2.619	52.377	52.377	2.611
2	1.081	21.630	74.007	1.081	21.630	74.007	1.099
3	.695	13.902	87.909				
4	.403	8.056	95.966				
5	.202	4.034	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.



Un – rotated Component Matrix[a]

	Component	
	1	2
OVERARFM	.852	
ROLESRFM	.844	
DISCLRFM	.802	
DECISRFM	.722	-.395
GOVERRFM		.925

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Communalities

	Initial	Extraction
GOVERRFM	1.000	.874
DISCLRFM	1.000	.654
DECISRFM	1.000	.677
ROLESRFM	1.000	.768
OVERARFM	1.000	.728

Component Score Coefficient Matrix

	Component	
	1	2
GOVERRFM	-.009	.856
DISCLRFM	.312	-.065
DECISRFM	.301	-.334
ROLESRFM	.306	.253
OVERARFM	.321	.083

Extraction Method: Principal Component Analysis.

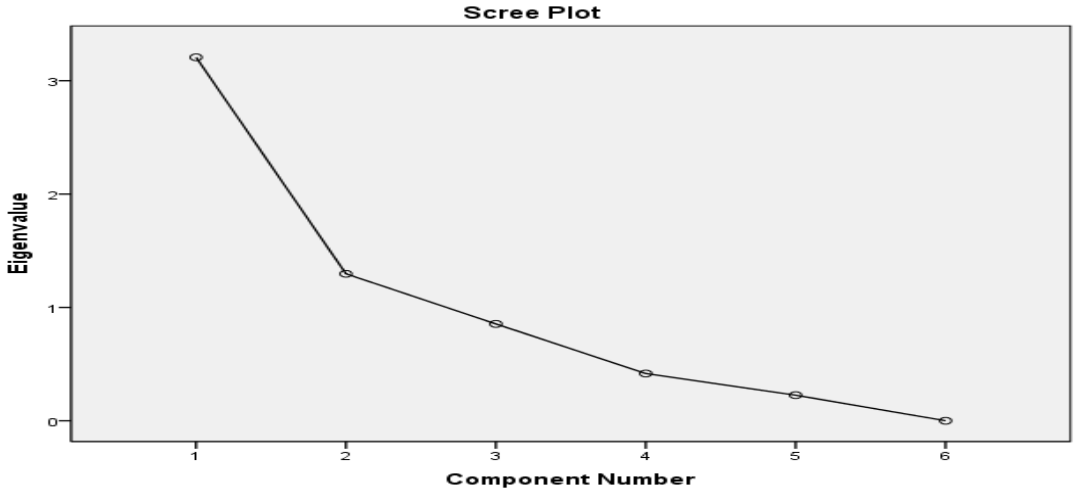
Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 5 TRANSPARENCY H1

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.206	53.440	53.440	3.206	53.440	53.440
2	1.296	21.607	75.047	1.296	21.607	75.047
3	.855	14.242	89.289			
4	.417	6.946	96.235			
5	.226	3.765	100.000			
6	.000	.000	100.000			

Extraction Method: Principal Component Analysis.



Component Matrix[a]

	Component	
	1	2
REGULTRN	.844	.463
EVALUTRN	.844	.463
RETRNTRN	.835	
RTNGSTRN	.759	-.335
BNCMRTRN	.710	-.541
ANOUNTRN		.668

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Rotation could not be converged within 25 rotations for Q5 of transparency.

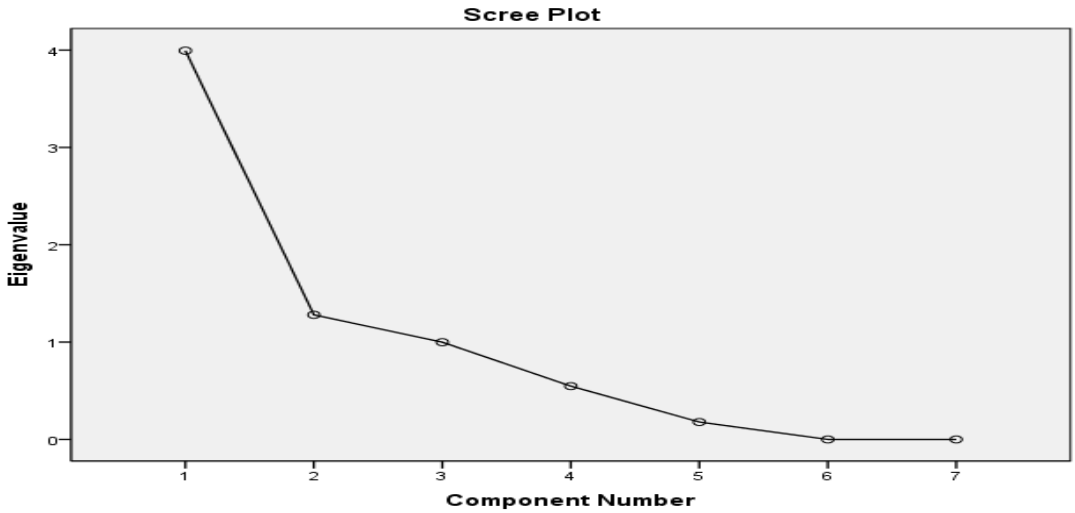
QUESTION 6 GLOBALLY ACCEPTED LAWS H1 & H5

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	3.994	57.060	57.060	3.994	57.060	57.060	3.930
2	1.280	18.290	75.351	1.280	18.290	75.351	1.555
3	.999	14.269	89.620				
4	.548	7.824	97.444				
5	.179	2.556	100.000				
6	.000	.000	100.000				
7	.000	.000	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.



Component Matrix[a]

	Component	
	1	2
POLUTLAW	.984	
CHLDLLAW	.984	
MLAUNLAW	.984	
EQULTLAW	.864	
FAIRGLAW		.649
HMRGTLAW	.529	.636
WEAPNLAW		-.592

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Communalities

	Initial	Extraction
HMRGTLAW	1.000	.684
CHLDLLAW	1.000	.978
EQULTLAW	1.000	.822
FAIRGLAW	1.000	.481
POLUTLAW	1.000	.978
WEAPNLAW	1.000	.354
MLAUNLAW	1.000	.978

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component	
	1	2
HMRGTLAW	.054	.513
CHLDLLAW	.255	.006
EQULTLAW	.247	-.134
FAIRGLAW	-.018	.500
POLUTLAW	.255	.006
WEAPNLAW	.058	-.443
MLAUNLAW	.255	.006

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 7 INVESTMENT RIGHTS H4 & H2

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.499
Bartlett's Test of Sphericity	Approx. Chi-Square	5.633
	Df	6
	Sig.	.466

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	1.191	29.777	29.777	1.191	29.777	29.777	1.191
2	1.019	25.475	55.252	1.019	25.475	55.252	1.019
3	.981	24.529	79.781				
4	.809	20.219	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

Component Matrix[a]

	Component	
	1	2
VINVERGT	.772	
NOMINRGT	.767	
INFRMRGT		.715
TRADERGT		-.711

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Communalities

	Initial	Extraction
VINVERGT	1.000	.596
NOMINRGT	1.000	.590
TRADERGT	1.000	.512
INFRMRGT	1.000	.511

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component	
	1	2
VINVERGT	.648	-.023
NOMINRGT	.645	.024
TRADERGT	.045	-.700
INFRMRGT	.045	.700

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 8 TRADE BALANCES H3

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.539
Bartlett's Test of Sphericity	Approx. Chi-Square	8.543
	Df	3
	Sig.	.036

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.269	42.287	42.287	1.269	42.287	42.287
2	.935	31.156	73.443			
3	.797	26.557	100.000			

Extraction Method: Principal Component Analysis.

Component Matrix[a]

	Component
	1
BILATBAL	.729
CURNCBAL	.690
TRADEBAL	-.511

a. Only one component was extracted. The solution cannot be rotated.

a. 1 components extracted.

Component Score Coefficient Matrix

	Component
	1
BILATBAL	.574
CURNCBAL	.544
TRADEBAL	-.403

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 9 INVESTMENT PLANNING H4, H7, H8

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	3.102	38.779	38.779	3.102	38.779	38.779	2.793
2	1.713	21.407	60.186	1.713	21.407	60.186	1.704
3	1.390	17.378	77.564	1.390	17.378	77.564	2.220
4	.668	8.354	85.918				
5	.584	7.303	93.220				
6	.323	4.040	97.260				
7	.219	2.740	100.000				
8	.000	.000	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

Component Matrix[a]

	Component		
	1	2	3
APRSLPLN	.871		
ADMINPLN	.858		-.474
SKILLPLN	.858		-.474
TRAINPLN	.582		.559
BIASSPLN	.541		.499
ABSNCPLN		.915	
SHORTPLN		.901	
DPENDPLN	.489		.563

Extraction Method: Principal Component Analysis.

a. 3 components extracted.

Communalities

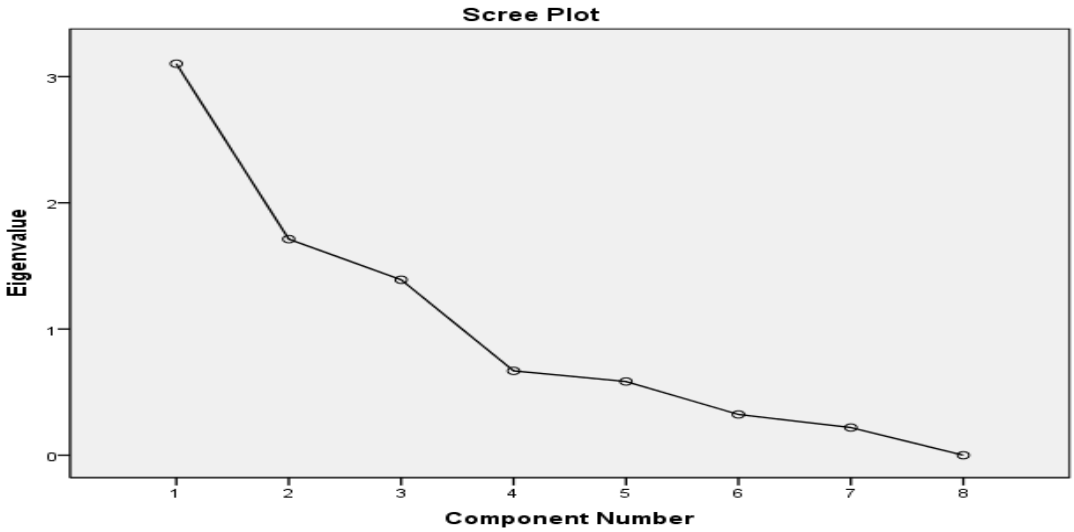
	Initial	Extraction
SHORTPLN	1.000	.858
BIASSPLN	1.000	.565
APRSLPLN	1.000	.764
ABSNCPLN	1.000	.848
DPENDPLN	1.000	.573
ADMINPLN	1.000	.969
SKILLPLN	1.000	.969
TRAINPLN	1.000	.659

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component		
	1	2	3
SHORTPLN	.018	.545	-.029
BIASSPLN	.001	.021	.388
APRSLPLN	.277	-.001	.156
ABSNCPLN	-.017	.539	.031
DPENDPLN	-.033	.002	.406
ADMINPLN	.397	.000	-.056
SKILLPLN	.397	.000	-.056
TRAINPLN	-.003	-.022	.421

Extraction Method: Principal Component Analysis.
Rotation Method: Oblimin with Kaiser Normalization.



QUESTION 10 INTEGRATE INVESTMENTS H5, H8

KMO and Bartlett's Test

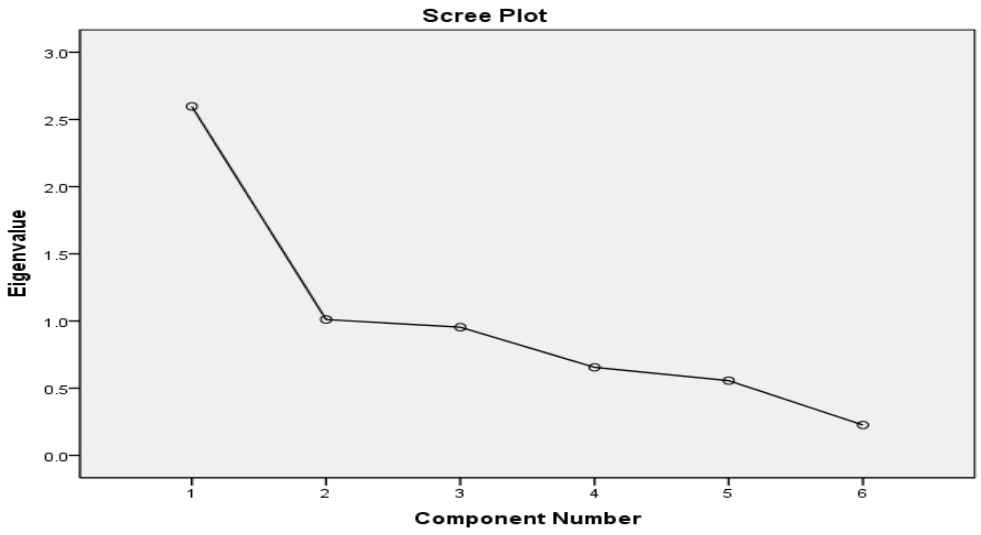
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.649
Bartlett's Test of Sphericity	Approx. Chi-Square	235.201
	Df	15
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	2.597	43.285	43.285	2.597	43.285	43.285	2.090
2	1.011	16.853	60.138	1.011	16.853	60.138	1.934
3	.954	15.899	76.037				
4	.655	10.921	86.958				
5	.556	9.270	96.228				
6	.226	3.772	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.



Component Matrix[a]

	Component	
	1	2
HELPLINT	.815	.402
REASNINT	.756	
SULTNINT	.689	
DIFRNINT	.676	-.389
SIZESINT	.551	-.575
NGHBRINT	.354	.546

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Communalities

	Initial	Extraction
REASNINT	1.000	.619
DIFRNINT	1.000	.609
SULTNINT	1.000	.498
NGHBRINT	1.000	.423
HELPLINT	1.000	.825
SIZESINT	1.000	.634

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component	
	1	2
REASNINT	.119	.361
DIFRNINT	.432	-.050
SULTNINT	.303	.106
NGHBRINT	-.193	.453
HELPLINT	.034	.496
SIZESINT	.497	-.206

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 11 SPECIFIC PLAN ABSENCE H4

KMO and Bartlett's Test

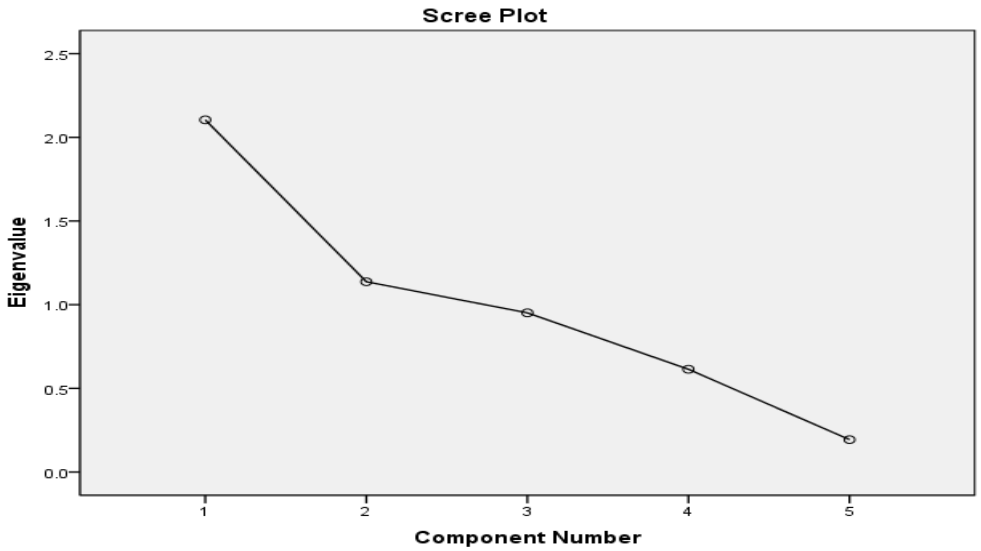
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.570
Bartlett's Test of Sphericity	Approx. Chi-Square	195.576
	Df	10
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	2.104	42.088	42.088	2.104	42.088	42.088	1.942
2	1.137	22.740	64.828	1.137	22.740	64.828	1.373
3	.951	19.022	83.850				
4	.614	12.281	96.131				
5	.193	3.869	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.



Component Matrix[a]

	Component	
	1	2
PLANSSPL	.883	
AGNDASPL	.843	.381
DEPTSSPL	.606	-.459
RISKSSPL	.497	-.623
LQUDTSPL		.551

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Communalities

	Initial	Extraction
DEPTSSPL	1.000	.577
PLANSSPL	1.000	.869
RISKSSPL	1.000	.635
LQUDTSPL	1.000	.303
AGNDASPL	1.000	.857

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component	
	1	2
DEPTSSPL	.098	-.493
PLANSSPL	.490	.022
RISKSSPL	-.009	-.593
LQUDTSPL	.199	.420
AGNDASPL	.503	.094

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 12 SPONSORING COUNTRY LAWS H5

KMO and Bartlett's Test

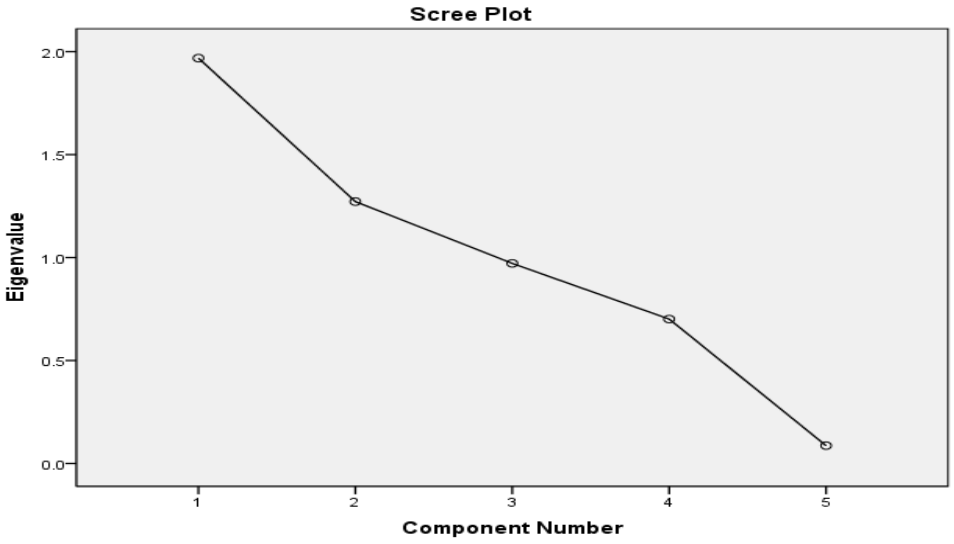
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.509
Bartlett's Test of Sphericity	Approx. Chi-Square	285.836
	Df	10
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	1.968	39.368	39.368	1.968	39.368	39.368	1.958
2	1.272	25.437	64.806	1.272	25.437	64.806	1.289
3	.972	19.436	84.242				
4	.701	14.026	98.268				
5	.087	1.732	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.



Component Matrix[a]

	Component	
	1	2
CURNLSCL	.968	
FAVORSCL	.961	
UPDATSCL		.743
OBJCTSCL		-.660
OLDLSCL		.510

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Communalities

	Initial	Extraction
UPDATSCL	1.000	.632
OLDLSCL	1.000	.278
CURNLSCL	1.000	.946
FAVORSCL	1.000	.937
OBJCTSCL	1.000	.448

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component	
	1	2
UPDATSCL	.070	.600
OLDLSCL	.018	.407
CURNLSCL	.497	.001
FAVORSCL	.496	-.013
OBJCTSCL	.118	-.504

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 13 LAWS AND REGULATIONS

KMO and Bartlett's Test

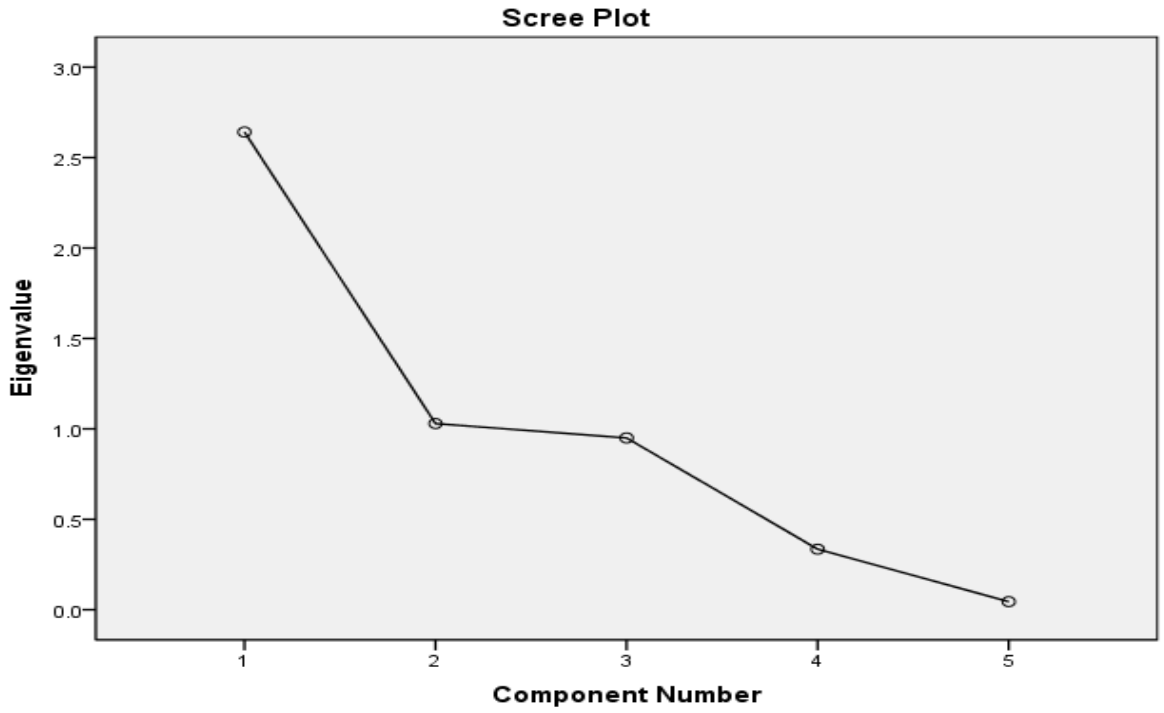
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.632
Bartlett's Test of Sphericity	Approx. Chi-Square	486.498
	Df	10
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	2.641	52.826	52.826	2.641	52.826	52.826	2.639
2	1.029	20.587	73.412	1.029	20.587	73.412	1.058
3	.950	18.996	92.408				
4	.335	6.699	99.107				
5	.045	.893	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.



Component Matrix[a]

	Component	
	1	2
DIVRSLRG	.936	
COMMNLRG	.967	
MEANSLRG	.873	
PENLTLRG		.802
CONDCLRG		.611

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Communalities

	Initial	Extraction
DIVRSLRG	1.000	.888
COMMNLRG	1.000	.935
MEANSLRG	1.000	.763
PENLTLRG	1.000	.647
CONDCLRG	1.000	.437

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component	
	1	2
DIVRSLRG	.358	-.059
COMMNLRG	.366	.036
MEANSLRG	.330	.054
PENLTLRG	-.055	.769
CONDCLRG	.071	.601

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 14 ALLOCATION H7

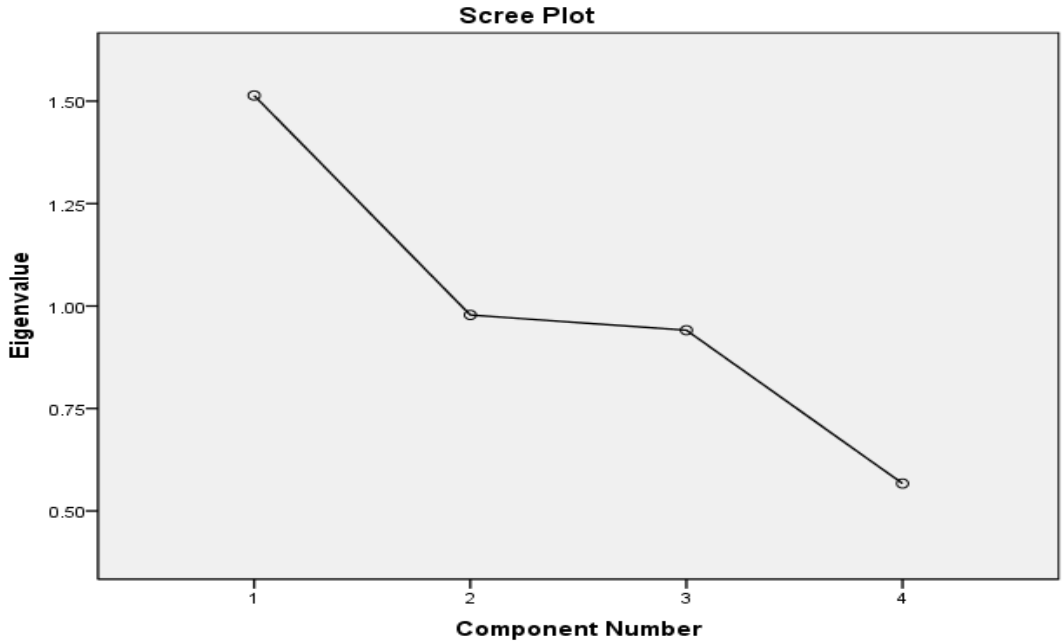
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.531
Bartlett's Test of Sphericity	Approx. Chi-Square	35.315
	Df	6
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.514	37.846	37.846	1.514	37.846	37.846
2	.978	24.456	62.302			
3	.941	23.525	85.827			
4	.567	14.173	100.000			

Extraction Method: Principal Component Analysis.



Component Matrix[a]

	Component
	1
CAPTLALO	
INCMEALO	.773
STATSALO	.434
MRKTSALO	.813

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

Communalities

	Initial	Extraction
CAPTLALO	1.000	.067
INCMEALO	1.000	.598
STATSALO	1.000	.188
MRKTSALO	1.000	.661

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component
	1
CAPTLALO	-.171
INCMEALO	.511
STATSALO	.287
MRKTSALO	.537

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 15 FOREIGN INVESTMENTS REJECTION H5

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.721
Bartlett's Test of Sphericity	Approx. Chi-Square	276.867
	Df	28
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	2.691	33.635	33.635	2.691	33.635	33.635	2.657
2	1.080	13.499	47.135	1.080	13.499	47.135	1.164
3	1.070	13.375	60.510	1.070	13.375	60.510	1.144
4	1.021	12.768	73.278	1.021	12.768	73.278	1.047
5	.815	10.188	83.465				
6	.721	9.007	92.473				
7	.388	4.851	97.323				
8	.214	2.677	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

Component Matrix[a]

	Component			
	1	2	3	4
LWTRNRJF		.321	-.731	.406
PRIORRJF			.606	.724
CLOBJRJF	.887			
SINFORJF	.762			
ABAGNRJF	.891			
CNSFIRJF	.548			-.352
WARSSRJF	-.452		.356	-.321
BILATRJF		.859		

Extraction Method: Principal Component Analysis.

a. 4 components extracted.

Communalities

	Initial	Extraction
LWTRNRJF	1.000	.821
PRIORRJF	1.000	.921
CLOBJRJF	1.000	.797
SINFORJF	1.000	.681
ABAGNRJF	1.000	.821
CNSFIRJF	1.000	.503
WARSSRJF	1.000	.497
BILATRJF	1.000	.821

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component			
	1	2	3	4
LWTRNRJF	-.044	.076	-.829	.010
PRIORRJF	.005	-.017	.016	.913
CLOBJRJF	.321	-.048	-.133	.054
SINFORJF	.315	.202	.033	-.009
ABAGNRJF	.344	-.039	.034	.069
CNSFIRJF	.225	-.181	.218	-.344
WARSSRJF	-.093	.379	.398	.008
BILATRJF	.038	.820	-.056	.003

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 16 FOREIGN INVESTMENTS FAVOURED H7

KMO and Bartlett's Test

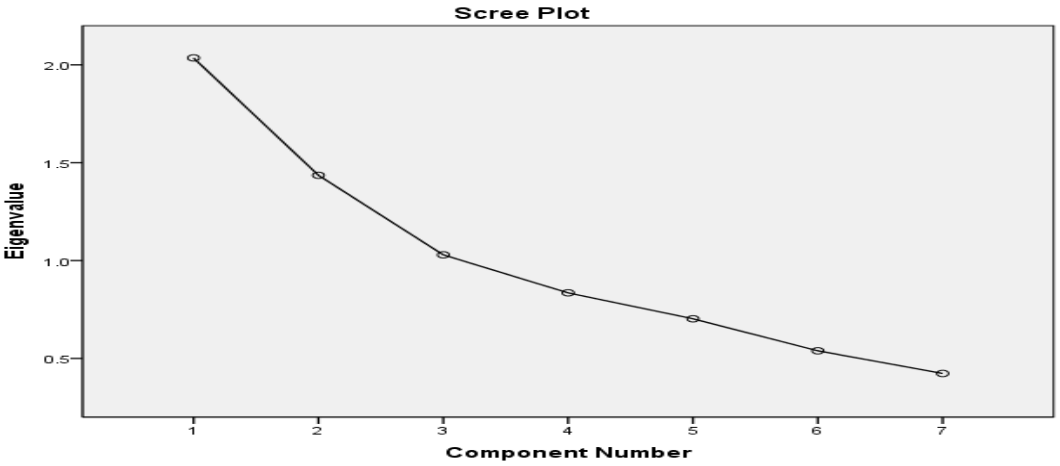
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.567
Bartlett's Test of Sphericity	Approx. Chi-Square	135.485
	Df	21
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings [a]
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	2.035	29.077	29.077	2.035	29.077	29.077	1.907
2	1.436	20.510	49.587	1.436	20.510	49.587	1.420
3	1.029	14.703	64.291	1.029	14.703	64.291	1.292
4	.835	11.929	76.219				
5	.702	10.036	86.255				
6	.539	7.700	93.955				
7	.423	6.045	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.



Component Matrix[a]

	Component		
	1	2	3
LRISKFIF	-.582		-.485
SUBSTFIF		.777	
GRNTDFIF		.809	
DURABFIF	.605		
GDMNDFIF	.754		
COMPTFIF	.757		
TCTRNFIF	-.396		.808

Extraction Method: Principal Component Analysis.

a. 3 components extracted.

Component Score Coefficient Matrix

	Component		
	1	2	3
LRISKFIF	-.422	.189	-.242
SUBSTFIF	.104	.533	.046
GRNTDFIF	-.075	.595	-.051
DURABFIF	.359	.110	.040
GDMNDFIF	.258	-.083	-.388
COMPTFIF	.388	.117	-.095
TCTRNFIF	.106	-.018	.787

Component Analysis.

QUESTION 17 GLOBALLY SPECIALIZED Cos. APPROACHED

KMO and Bartlett's Test

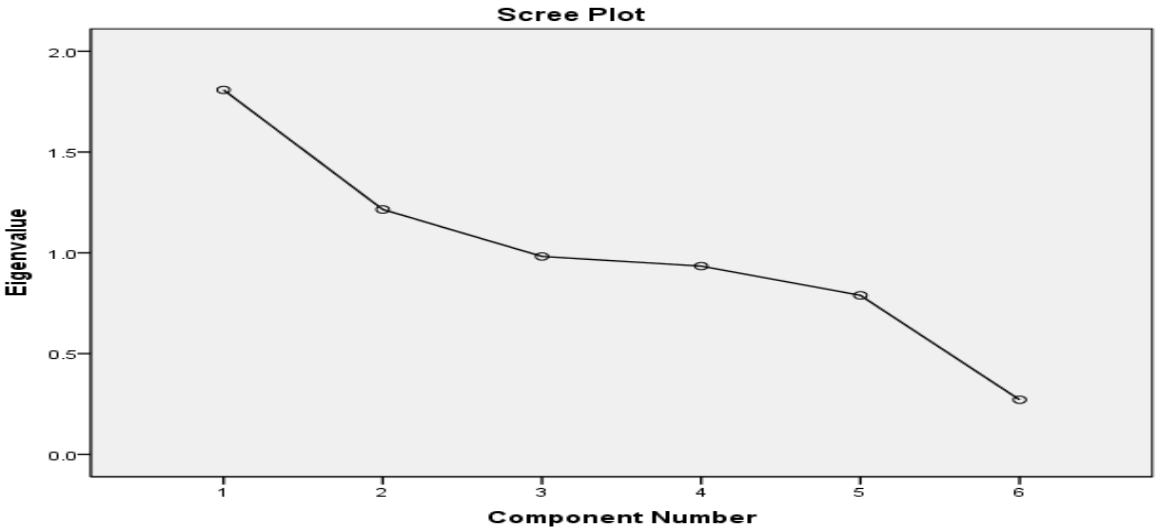
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.405
Bartlett's Test of Sphericity	Approx. Chi-Square	125.473
	Df	15
	Sig.	.000

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	1.808	30.140	30.140	1.808	30.140	30.140	1.675
2	1.215	20.253	50.393	1.215	20.253	50.393	1.362
3	.982	16.368	66.761				
4	.934	15.571	82.332				
5	.789	13.150	95.482				
6	.271	4.518	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.



Communalities

	Initial	Extraction
MKTRSGLC	1.000	.220
NAVILGLC	1.000	.852
INCRTGLC	1.000	.263
STAFCGLC	1.000	.692
ABTEMGLC	1.000	.700
LACPLGLC	1.000	.297

Extraction Method: Principal Component Analysis

Component Matrix[a]

	Component	
	1	2
MKTRSGLC	-.394	
NAVILGLC	.803	.455
INCRTGLC		.471
STAFCGLC	.831	
ABTEMGLC		-.800
LACPLGLC	-.466	

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Component Score Coefficient Matrix

	Component	
	1	2
MKTRSGLC	-.291	.074
NAVILGLC	.213	.546
INCRTGLC	-.085	.392
STAFCGLC	.420	.201
ABTEMGLC	.432	-.503
LACPLGLC	-.337	.074

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 18 INVESTMENT DEAL PROCESS H7

KMO and Bartlett's Test

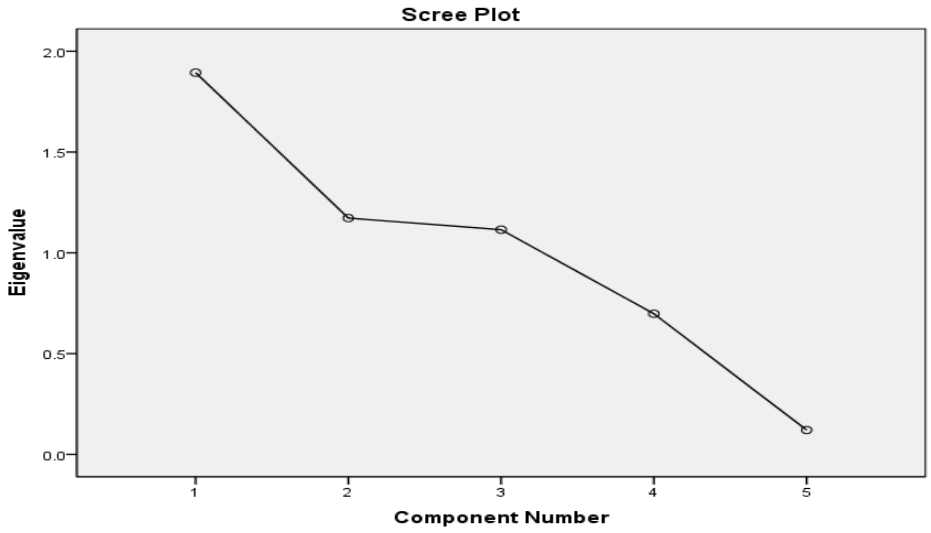
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.477
Bartlett's Test of Sphericity	Approx. Chi-Square	234.140
	Df	10
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	1.894	37.881	37.881	1.894	37.881	37.881	1.885
2	1.172	23.448	61.329	1.172	23.448	61.329	1.178
3	1.115	22.295	83.624	1.115	22.295	83.624	1.135
4	.698	13.959	97.582				
5	.121	2.418	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.



Component Matrix[a]

	Component		
	1	2	3
INCRFDEL	.962		
DIVRSDEL	.959		
ICINVDEL		.586	.652
REDUCDEL		.821	
CNSULDEL		-.355	.823

Extraction Method: Principal Component Analysis.

a. 3 components extracted.

Communalities

	Initial	Extraction
INCRFDEL	1.000	.936
DIVRSDEL	1.000	.940
ICINVDEL	1.000	.776
REDUCDEL	1.000	.726
CNSULDEL	1.000	.804

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component		
	1	2	3
INCRFDEL	.514	-.004	-.024
DIVRSDEL	.516	-.010	.032
ICINVDEL	-.015	.720	.250
REDUCDEL	.029	.572	-.444
CNSULDEL	.006	.094	.789

Extraction Method: Principal Component Analysis.
Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 19 OPERATIONAL EFFICIENCY H8

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.607
Bartlett's Test of Sphericity	Approx. Chi-Square	350.600
	Df	3
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.306	76.861	76.861	2.306	76.861	76.861
2	.627	20.907	97.768			
3	.067	2.232	100.000			

Extraction Method: Principal Component Analysis.

Component Matrix[a]

	Component
	1
SYSTEEFN	.716
RELABEFN	.953
RSRCHEFN	.941

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

Communalities

	Initial	Extraction
SYSTEEFN	1.000	.513
RELABEFN	1.000	.908
RSRCHEFN	1.000	.885

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component
	1
SYSTEEFN	.311
RELABEFN	.413
RSRCHEFN	.408

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

Rotated Component Matrix[a]

a. Only one component was extracted. The solution cannot be rotated.

QUESTION 20 INVESTMENT DECISION H8

KMO and Bartlett's Test

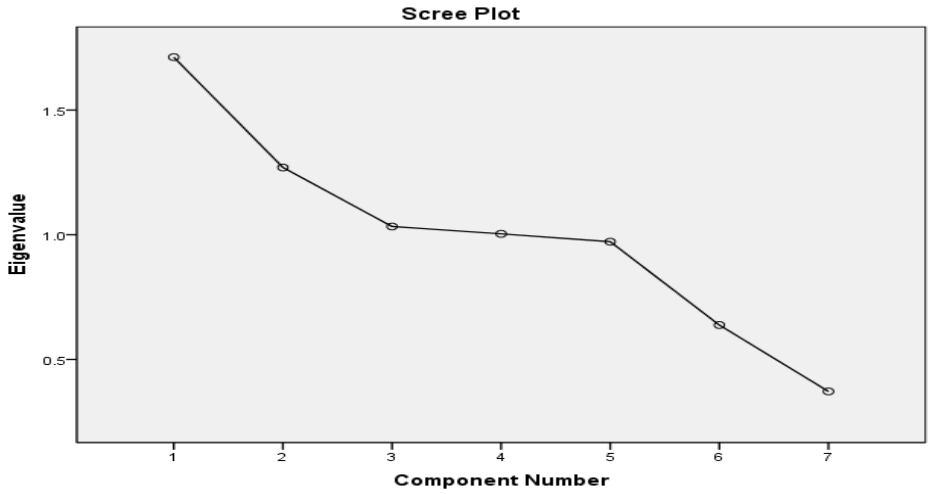
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.480
Bartlett's Test of Sphericity	Approx. Chi-Square	97.530
	Df	21
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	1.712	24.459	24.459	1.712	24.459	24.459	1.635
2	1.270	18.139	42.598	1.270	18.139	42.598	1.322
3	1.033	14.758	57.357	1.033	14.758	57.357	1.040
4	1.004	14.336	71.693	1.004	14.336	71.693	1.068
5	.972	13.887	85.580				
6	.638	9.111	94.691				
7	.372	5.309	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.



Component Matrix[a]

	Component			
	1	2	3	4
VOLUMIND				-.731
RISKMIND		.328	-.355	.539
GURNTIND	.343	.669		
SECURIND	.325	.720	-.322	
ROINVIND			.861	.316
SIZEOIND	.837			
ASSETIND	.827			

Extraction Method: Principal Component Analysis.

a. 4 components extracted.

Communalities

	Initial	Extraction
VOLUMIND	1.000	.620
RISKMIND	1.000	.587
GURNTIND	1.000	.601
SECURIND	1.000	.731
ROINVIND	1.000	.896
SIZEOIND	1.000	.809
ASSETIND	1.000	.775

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component			
	1	2	3	4
VOLUMIND	-.098	.180	-.077	-.715
RISKMIND	-.109	.209	-.094	.660
GURNTIND	.034	.528	.271	-.073
SECURIND	-.022	.639	-.203	.048
ROINVIND	.001	.002	.908	.011
SIZEOIND	.552	-.034	-.064	-.018
ASSETIND	.544	.027	.079	.039

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 21 SWF PERFORMANCE DEPENDENT 1

KMO and Bartlett's Test

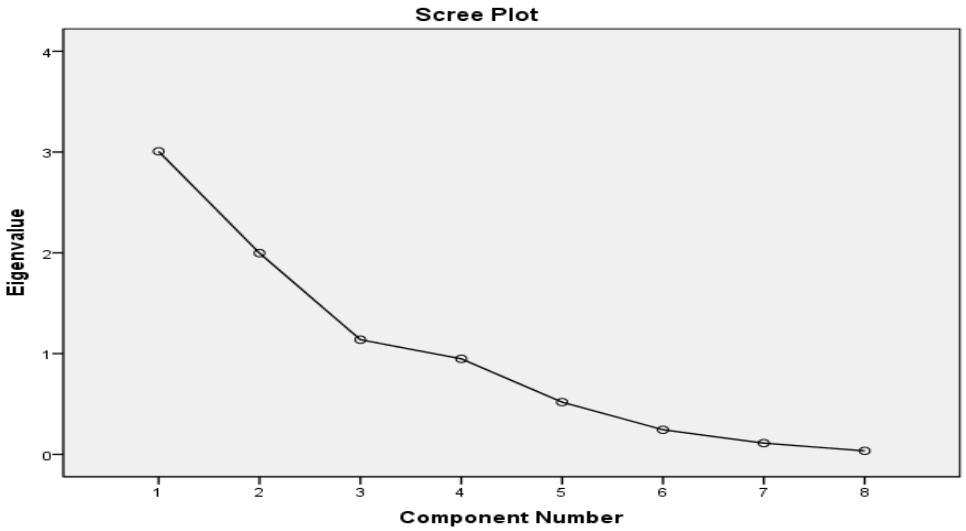
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.667
Bartlett's Test of Sphericity	Approx. Chi-Square	853.009
	Df	28
	Sig.	.000

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	3.007	37.586	37.586	3.007	37.586	37.586	2.710
2	1.997	24.964	62.550	1.997	24.964	62.550	2.428
3	1.138	14.228	76.779	1.138	14.228	76.779	1.147
4	.948	11.855	88.634				
5	.518	6.479	95.113				
6	.244	3.052	98.165				
7	.112	1.399	99.564				
8	.035	.436	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.



Component Matrix[a]

	Component		
	1	2	3
POLICCNF	.846	-.454	
GCSWFCNF			.688
RETRNCNF	.705	.642	
CMPARCNF	.714	.624	
DEVLPCNF			.722
DVRGECNF	.769	-.519	
CNTRBCNF	.351	.677	
RATERCNF	.751	-.485	

Extraction Method: Principal Component Analysis.

a. 3 components extracted.

Communalities

	Initial	Extraction
POLICCNF	1.000	.922
GCSWFCNF	1.000	.502
RETRNCNF	1.000	.930
CMPARCNF	1.000	.918
DEVLPCNF	1.000	.525
DVRGECNF	1.000	.864
CNTRBCNF	1.000	.645
RATERCNF	1.000	.836

Component Score Coefficient Matrix

	Component		
	1	2	3
POLICCNF	.360	.012	-.028
GCSWFCNF	-.010	.064	.609
RETRNCNF	.020	.398	-.097
CMPARCNF	.028	.393	-.092
DEVLPCNF	.013	-.036	.629
DVRGECNF	.355	-.029	-.080
CNTRBCNF	-.081	.330	.253
RATERCNF	.345	-.023	.139

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 22 POSSIBLE SOLUTIONS

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.426
Bartlett's Test of Sphericity	Approx. Chi-Square	322.868
	Df	36
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	2.023	22.473	22.473	2.023	22.473	22.473	1.953
2	1.910	21.224	43.697	1.910	21.224	43.697	1.889
3	1.193	13.260	56.956	1.193	13.260	56.956	1.238
4	1.077	11.969	68.926	1.077	11.969	68.926	1.170
5	.887	9.851	78.777				
6	.769	8.540	87.317				
7	.624	6.938	94.255				
8	.374	4.154	98.409				
9	.143	1.591	100.000				

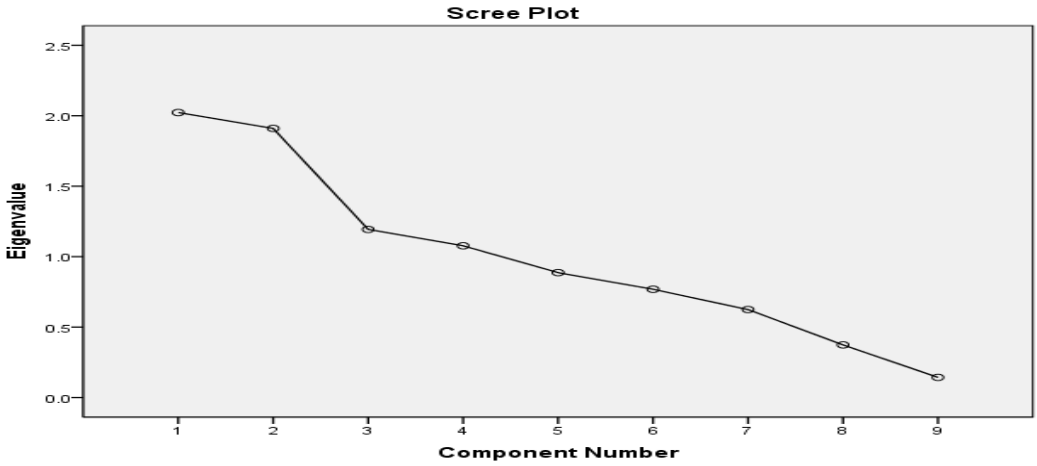
Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

Component Matrix[a]

	Component			
	1	2	3	4
INCRIPSS		.682		-.459
PLANGPSS		.569		
NLAWPSS	.414		-.357	.383
COOPPSS	.699	.365	-.311	
OUTSRPSS	.911			
DVLEPPSS	.573		.676	
RSRCHPSS		.767		
ASESSPSS	-.324	.531	.427	.451
SANCTPSS			-.449	.651

Extraction Method: Principal Component Analysis. 4 components extracted.



Communalities

	Initial	Extraction
INCRIPSS	1.000	.735
PLANGPSS	1.000	.351
NLAWPSS	1.000	.450
COOPPSS	1.000	.731
OUTSRPSS	1.000	.880
DVLEPPSS	1.000	.832
RSRCHPSS	1.000	.740
ASESSPSS	1.000	.773
SANCTPSS	1.000	.711

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component			
	1	2	3	4
INCRIPSS	.176	.413	-.311	-.148
PLANGPSS	.002	.285	.016	.166
NLAWPSS	.214	-.099	-.024	.449
COOPPSS	.438	.096	-.148	.094
OUTSRPSS	.422	-.030	.203	-.054
DVLEPPSS	.116	-.069	.635	-.125
RSRCHPSS	-.062	.450	.110	-.117
ASESSPSS	-.241	.235	.502	.241
SANCTPSS	-.027	.026	-.016	.724

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 23 CHANGES

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.455
Bartlett's Test of Sphericity	Approx. Chi-Square	22.134
	Df	10
	Sig.	.014

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	1.331	26.623	26.623	1.331	26.623	26.623	1.195
2	1.139	22.771	49.394	1.139	22.771	49.394	1.206
3	1.017	20.345	69.738	1.017	20.345	69.738	1.097
4	.875	17.505	87.244				
5	.638	12.756	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

Component Matrix[a]

	Component		
	1	2	3
AMONTCHN	.595	.436	.491
INCOVCHN	-.766		
INCEMCHN	.470	-.574	-.324
INCLCCHN		.711	
TRANSCHN	-.351		.736

Extraction Method: Principal Component Analysis.

3 components extracted.

Communalities

	Initial	Extraction
AMONTCHN	1.000	.786
INCOVCHN	1.000	.716
INCEMCHN	1.000	.656
INCLCCHN	1.000	.627
TRANSCHN	1.000	.703

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component		
	1	2	3
AMONTCHN	.750	.129	-.027
INCOVCHN	-.447	.476	-.111
INCEMCHN	-.132	-.676	-.057
INCLCCHN	.204	.282	-.621
TRANSCHN	.168	.237	.719

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 24 IMPACTS ON PROGRESS

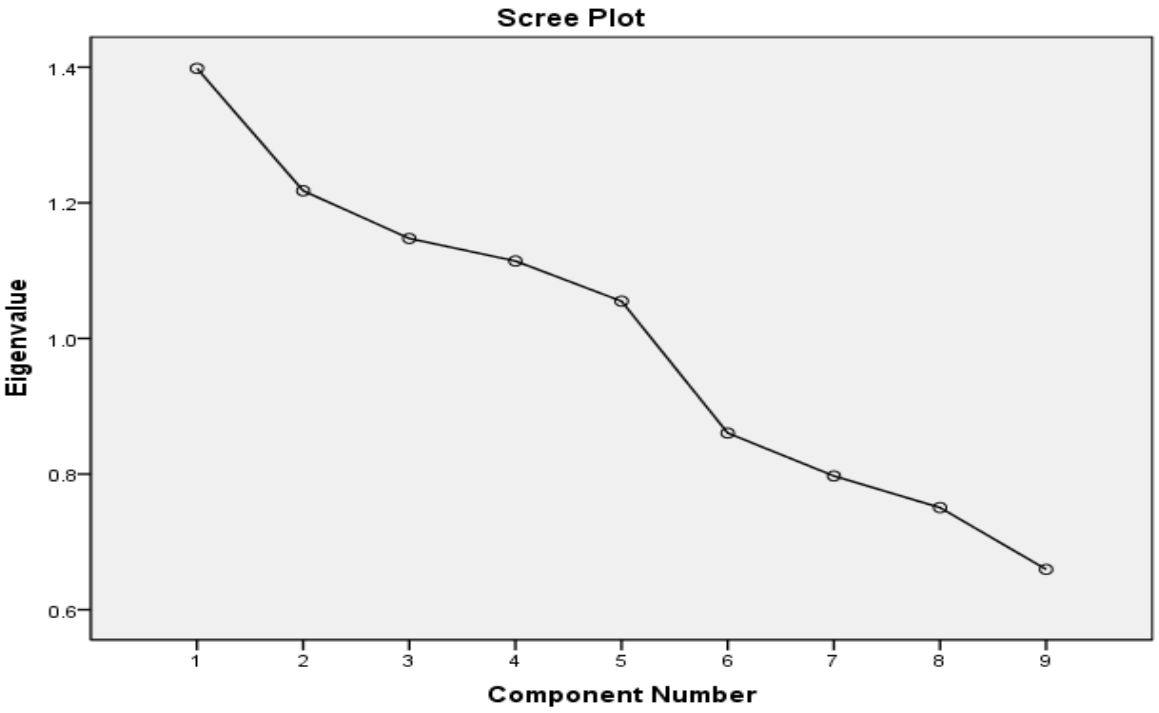
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.485
Bartlett's Test of Sphericity	Approx. Chi-Square	36.898
	Df	36
	Sig.	.427

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.398	15.535	15.535	1.398	15.535	15.535
2	1.218	13.530	29.065	1.218	13.530	29.065
3	1.147	12.749	41.814	1.147	12.749	41.814
4	1.114	12.379	54.193	1.114	12.379	54.193
5	1.055	11.721	65.914	1.055	11.721	65.914
6	.860	9.561	75.475			
7	.797	8.858	84.333			
8	.751	8.340	92.673			
9	.659	7.327	100.000			

Extraction Method: Principal Component Analysis.



Component Matrix[a]

	Component				
	1	2	3	4	5
BUREAIMP	.460	.388	-.492		
RSKAVIMP	.590				.435
ABSPSIMP				.811	
LACSPIMP	.329		.688	-.300	
SKILLIMP		.444		-.356	-.590
DECISIMP	.436	-.485			
LOCALIMP	.364	-.545		-.401	
SPENDIMP	-.450				.535
MNAGEIMP	.349	.535	.527		

Extraction Method: Principal Component Analysis.

a. 5 components extracted.

Communalities

	Initial	Extraction
BUREAIMP	1.000	.670
RSKAVIMP	1.000	.600
ABSPSIMP	1.000	.723
LACSPIMP	1.000	.746
SKILLIMP	1.000	.729
DECISIMP	1.000	.591
LOCALIMP	1.000	.631
SPENDIMP	1.000	.535
MNAGEIMP	1.000	.707

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component				
	1	2	3	4	5
BUREAIMP	.619	.115	-.079	.000	-.189
RSKAVIMP	.595	-.041	.083	.021	.175
ABSPSIMP	.115	-.189	-.056	.685	.162
LACSPIMP	.006	-.045	.653	-.280	.204
SKILLIMP	.005	-.038	-.004	-.059	-.754
DECISIMP	-.074	-.594	.064	.099	.123
LOCALIMP	.218	-.352	-.127	-.503	.175
SPENDIMP	.003	.519	.046	-.008	.310
MNAGEIMP	.011	.035	.615	.275	-.217

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

QUESTION 25 SUCCESS RATE DEPENDENT 2

KMO and Bartlett's Test

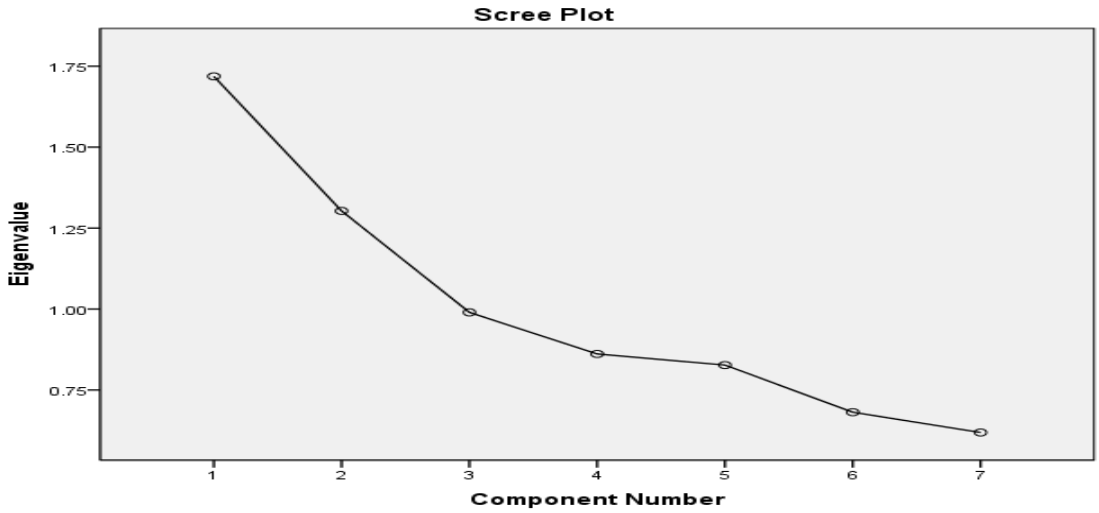
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.606
Bartlett's Test of Sphericity	Approx. Chi-Square	60.539
	Df	21
	Sig.	.000

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings[a]
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	1.719	24.552	24.552	1.719	24.552	24.552	1.708
2	1.303	18.614	43.166	1.303	18.614	43.166	1.313
3	.990	14.139	57.305				
4	.861	12.304	69.609				
5	.827	11.815	81.424				
6	.682	9.736	91.160				
7	.619	8.840	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.



Component Matrix[a]

	Component	
	1	2
DEVTLISR	.474	-.405
CRINTISR	.709	
GCCRISR	-.316	-.531
NLAWSISR	.714	
SORCEISR		.661
INCCMISR		.578
INGVTISR	.592	

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Communalities

	Initial	Extraction
DEVTLISR	1.000	.389
CRINTISR	1.000	.525
GCCRISR	1.000	.382
NLAWSISR	1.000	.568
SORCEISR	1.000	.451
INCCMISR	1.000	.350
INGVTISR	1.000	.357

Extraction Method: Principal Component Analysis.

Component Score Coefficient Matrix

	Component	
	1	2
DEVTLISR	.323	-.263
CRINTISR	.426	-.048
GCCRISR	-.114	-.432
NLAWSISR	.380	.249
SORCEISR	-.014	.512
INCCMISR	-.146	.426
INGVTISR	.350	-.005

Extraction Method: Principal Component Analysis.

Rotation Method: Oblimin with Kaiser Normalization.

APPENDIX C–DESCRIPTIVE STATISTICS for all variables

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
GOVERNANCE	153	1.00	3.60	1.5477	.41408	1.257	.196	2.924	.390
TRANSPARENCY	153	1.00	2.83	1.4129	.34310	1.079	.196	.828	.390
ACCOUNTABILITY	153	1.00	4.00	3.6797	.56909	-3.246	.196	10.583	.390
INVESTEELAWS	153	2.88	4.80	3.9637	.28462	-1.042	.196	5.206	.390
TRADEBALANCE	153	4.00	5.00	4.1753	.20903	.961	.196	.721	.390
PLANNING	153	4.23	5.73	5.2886	.24292	-1.658	.196	3.713	.390
SPONSORLAWS	153	3.89	5.95	5.1876	.35126	-.727	.196	.648	.390
PURPOSE	153	3.92	6.00	5.3405	.39783	-2.209	.196	4.691	.390
INVESTRATEGY	153	2.62	3.93	3.4006	.23521	-.205	.196	.994	.390
DEALSIZE	153	1.00	4.00	2.6301	.46383	.254	.196	.807	.390
ASSETALLOCAT	153	1.00	4.00	1.5987	.43744	2.343	.196	9.241	.390
DECISIONMAKE	153	4.11	5.60	5.1329	.22686	-1.170	.196	3.473	.390
PERFORMACE	153	3.25	6.63	5.4859	.65296	-.888	.196	.695	.390
SUCCESSRATE	153	4.43	6.71	5.7800	.48915	-.431	.196	-.442	.390
POSSIBLESOLU	153	4.00	6.67	5.7645	.51182	-.734	.196	.640	.390
CHANGES	153	4.20	6.80	5.7699	.47227	-.468	.196	.118	.390
IMPACTS	153	4.22	6.33	5.3073	.45258	-.184	.196	-.450	.390
Valid N (listwise)	153								

Data set Normality Tests Results

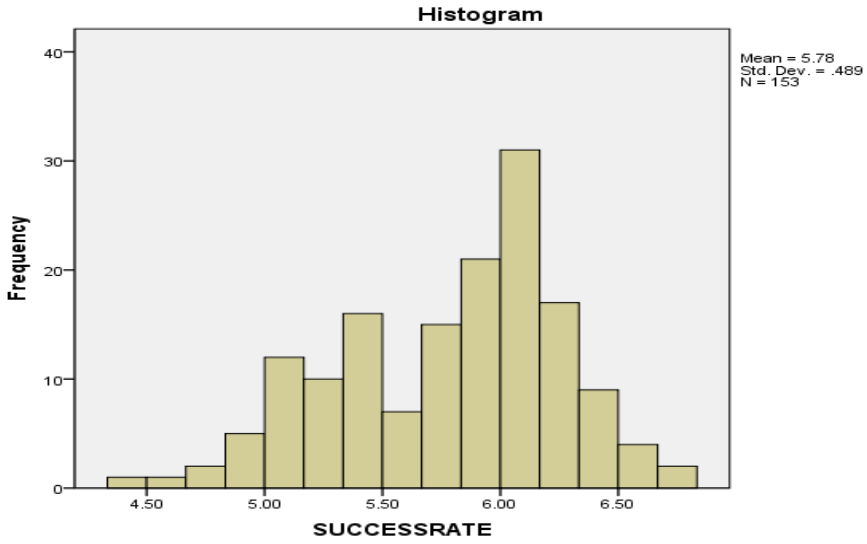
Case Processing Summary

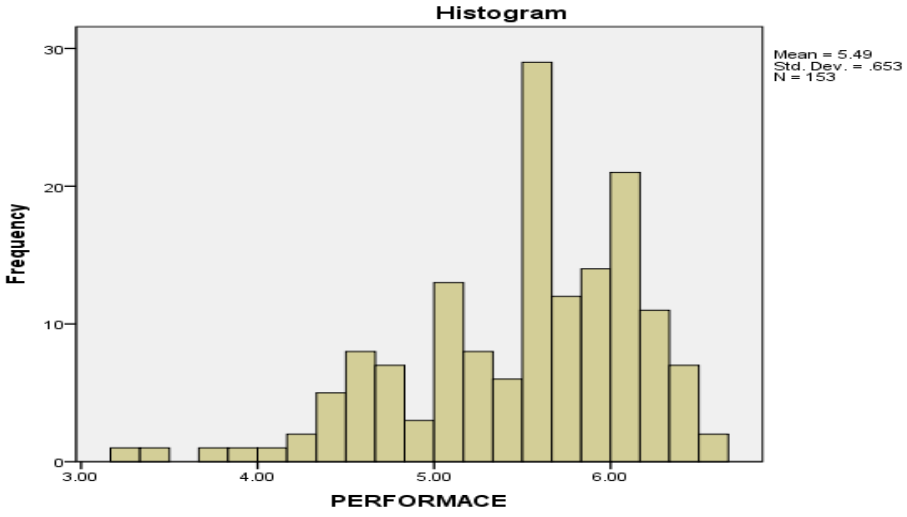
	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
PERFORMACE	153	100.0%	0	.0%	153	100.0%
SUCCESSRATE	153	100.0%	0	.0%	153	100.0%

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	Df	Sig.
PERFORMACE	.136	153	.000	.944	153	.000
SUCCESSRATE	.114	153	.000	.969	153	.002

a. Lilliefors Significance Correction





The data set is normal with no missing values, no extreme outliers and normally distributed data from histograms.

APPENDIX D MULTILE REGRESSION RESULTS

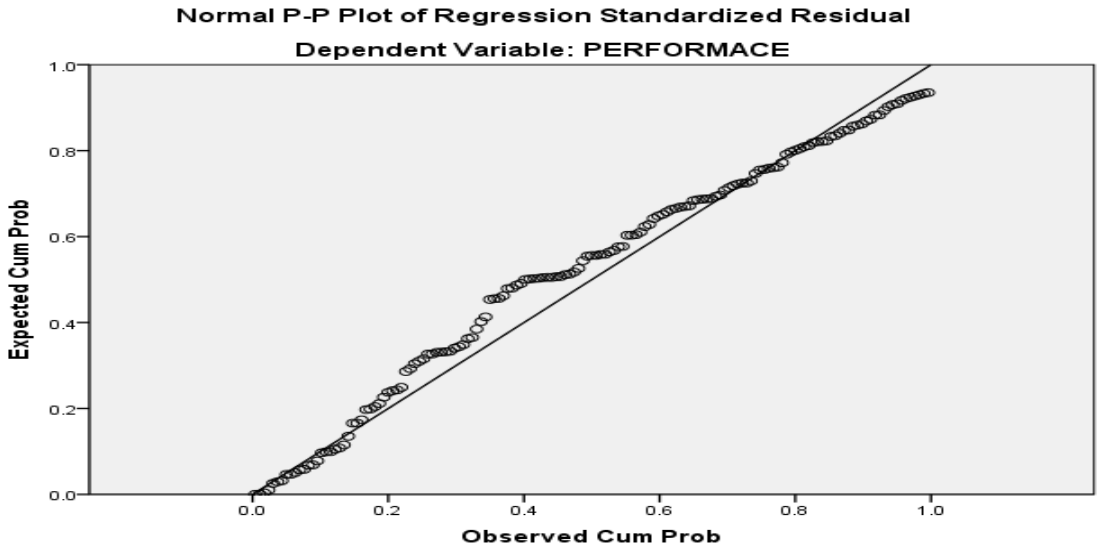
D 1: Between Independent variables and performance as a dependent variable

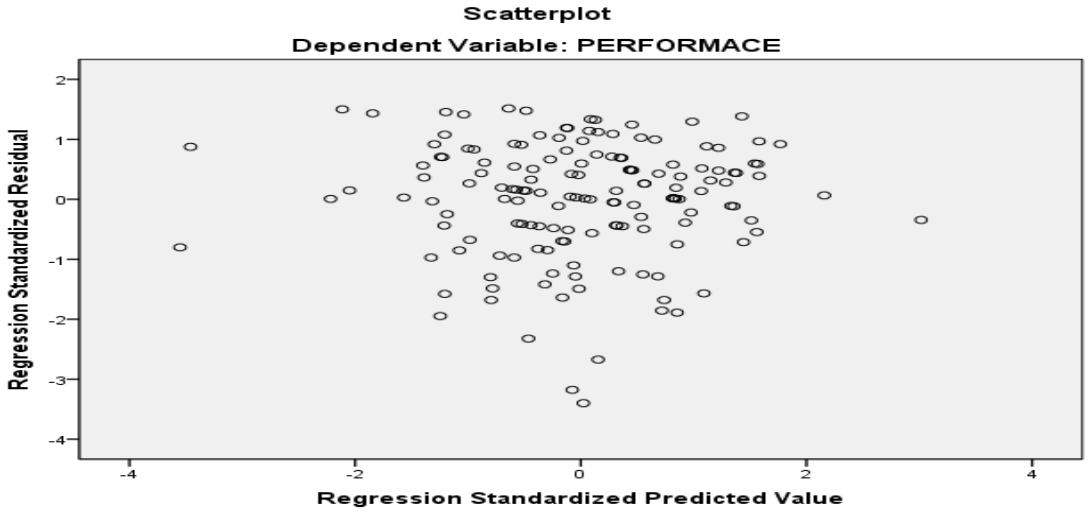
		PERFORMACE	GOVERNANCE	TRANSPARENCY	ACCOUNTABILITY	INVESTEELAWS	TRADEBALANCE	PLANNING	SPONSORLAWS	PURPOSE	INVESTRATEGY	DEALSIZE	ASSETALLOCAT	DECISIONMAKE
Pearson Correlation	PERFORMACE	**1.000**	-.053	.042	-.070	-.015	.101	-.007	.029	.017	-.040	-.087	.005	.143
	GOVERNANCE	**-.053**	1.000	.686	-.101	-.048	-.312	.094	.048	.002	.009	.211	-.027	.000
	TRANSPARENCY	**.042**	**.686**	1.000	-.084	-.010	-.290	-.039	-.013	.111	-.019	.149	-.075	.007
	ACCOUNTABILITY	**-.070**	-.101	-.084	1.000	.060	.098	.210	-.191	.016	.125	.005	.089	.244
	INVESTEELAWS	**-.015**	-.048	-.010	.060	1.000	.093	.034	-.048	.699	.067	-.019	-.044	-.041
	TRADEBALANCE	**.101**	-.312	-.290	.098	.093	1.000	-.464	-.196	.059	-.067	-.109	.058	.063
	PLANNING	**-.007**	.094	-.039	.210	.034	-.464	1.000	.222	.321	.055	.054	.282	.378
	SPONSORLAWS	**.029**	.048	-.013	-.191	-.048	-.196	.222	1.000	-.133	-.092	-.038	-.233	.239
	PURPOSE	**.017**	.002	.111	.016	.699	.059	.321	-.133	1.000	.037	.126	-.011	-.054
	INVESTRATEGY	**-.040**	.009	-.019	.125	.067	-.067	.055	-.092	.037	1.000	.031	.101	-.109
	DEALSIZE	**-.087**	.211	.149	.005	-.019	-.109	.054	-.038	.126	.031	1.000	-.132	-.072
	ASSETALLOCAT	**.005**	-.027	-.075	.089	-.044	.058	.282	-.233	-.011	.101	-.132	1.000	-.034
	DECISIONMAKE	**.143**	.000	.007	.244	-.041	.063	.378	.239	-.054	-.109	-.072	-.034	1.000
Sig. (1-tailed)	PERFORMACE	.	.259	.304	.193	.428	.107	.467	.363	.419	.314	.141	.477	.039
	GOVERNANCE	.259	.	.000	.108	.277	.000	.125	.278	.491	.456	.004	.371	.499
	TRANSPARENCY	.304	.000	.	.152	.453	.000	.315	.435	.085	.409	.033	.177	.466
	ACCOUNTABILITY	.193	.108	.152	.	.230	.115	.005	.009	.424	.062	.476	.138	.001
	INVESTEELAWS	.428	.277	.453	.230	.	.126	.338	.278	.000	.205	.405	.296	.309
	TRADEBALANCE	.107	.000	.000	.115	.126	.	.217	.008	.236	.207	.089	.238	.221
	PLANNING	.467	.125	.315	.005	.338	.217	.	.003	.400	.248	.253	.000	.000
	SPONSORLAWS	.363	.278	.435	.009	.278	.008	.003	.	.051	.129	.319	.002	.001
	PURPOSE	.419	.491	.085	.424	.000	.236	.400	.051	.	.324	.060	.448	.254
	INVESTRATEGY	.314	.456	.409	.062	.205	.207	.248	.129	.324	.	.351	.107	.090
	DEALSIZE	.141	.004	.033	.476	.405	.089	.253	.319	.060	.351	.	.052	.187
	ASSETALLOCAT	.477	.371	.177	.138	.296	.238	.000	.002	.448	.107	.052	.	.340
	DECISIONMAKE	.039	.499	.466	.001	.309	.221	.000	.001	.254	.090	.187	.340	.

Correlations as above

Coefficients as shown below

	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B			Correlations		Collinearity Statistics	
Model 1	B	Std. Error	**Beta**	T	**Sig.**	Lower Bound	Upper Bound	Zero-order	Partial	Part	**Tolerance**	**VIF**
(Constant)	2.501	2.371		1.055	**0.293**	-2.186	7.187					
GOVERNANCE	-0.189	0.186	**-0.12**	-1.016	**0.312**	-0.556	0.179	-0.053	-0.086	-0.08	**0.48**	**2.08**
TRANSPARENCY	0.279	0.223	**0.147**	1.25	**0.213**	-0.162	0.72	0.042	0.105	0.1	**0.49**	**2.05**
ACCOUNTABILITY	-0.132	0.104	**-0.115**	-1.265	**0.208**	-0.337	0.074	-0.07	-0.106	-0.1	**0.82**	**1.23**
INVESTEELAWS	-0.111	0.271	**-0.049**	-0.411	**0.682**	-0.647	0.424	-0.015	-0.035	-0.03	**0.48**	**2.08**
TRADEBALANCE	0.314	0.281	**0.101**	1.118	**0.265**	-0.242	0.87	0.101	0.094	0.09	**0.83**	**1.21**
PLANNING	-0.074	0.271	**-0.027**	-0.271	**0.786**	-0.609	0.462	-0.007	-0.023	-0.02	**0.66**	**1.52**
SPONSORLAWS	0.013	0.179	**0.007**	0.073	**0.942**	-0.341	0.367	0.029	0.006	0.01	**0.72**	**1.39**
PURPOSE	0.08	0.197	**0.049**	0.406	**0.685**	-0.31	0.47	0.017	0.034	0.03	**0.46**	**2.16**
INVESTRATEGY	0.02	0.234	**0.007**	0.085	**0.932**	-0.443	0.483	-0.04	0.007	0.01	**0.94**	**1.06**
DEALSIZE	-0.089	0.123	**-0.063**	-0.721	**0.472**	-0.332	0.155	-0.087	-0.061	-0.06	**0.88**	**1.14**
ASSETALLOCAT	0.032	0.139	**0.021**	0.229	**0.82**	-0.242	0.306	0.005	0.019	0.02	**0.78**	**1.29**
DECISIONMAKE	0.488	0.275	**0.169**	1.774	**0.078**	-0.056	1.031	0.143	0.148	0.15	**0.73**	**1.36**





The normal probability plot above is almost strainght line and scatter plot is rectangularly distributed with most of the scores around zero point which collectievly suggest that assumptions of outliers, normality, linearity, homoscedasticity and indepedence of residuals are satisfied from the regression results **(Tabachnik and Fidell, 2007; Pallant, 2010)**.

D 2: Between Independent variables and success rate or growth as a dependent variable

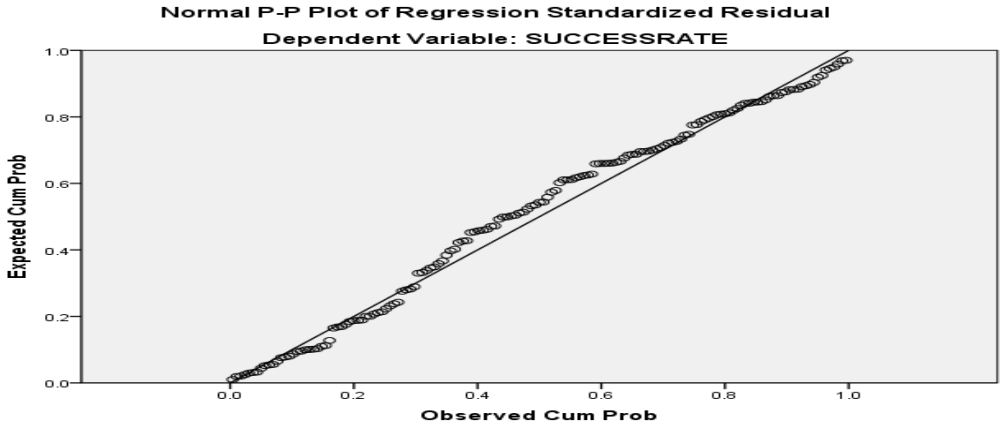
Correlations

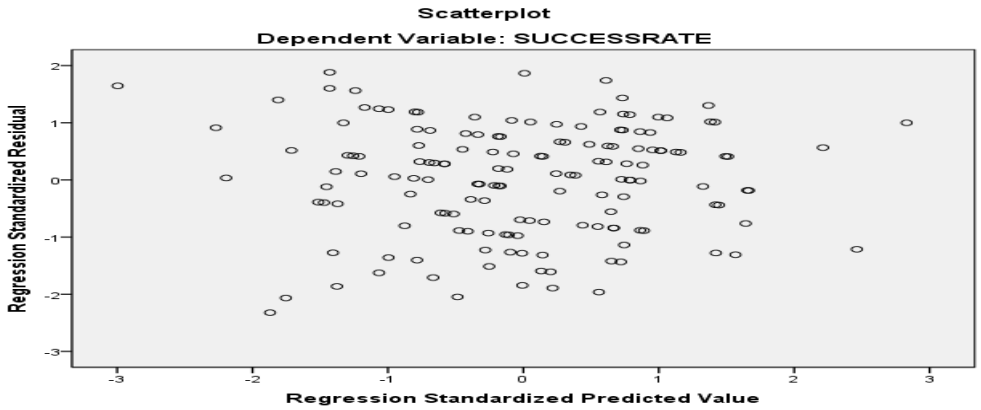
Pearson Correlation	SUCCESSRATE	GOVERNANCE	TRANSPARENCY	ACCOUNTABILITY	INVESTEELAWS	TRADEBALANCE	PLANNING	SPONSORLAWS	PURPOSE	INVESTRATEGY	DEALSIZE	ASSETALLOCAT	DECISIONMAKE
SUCCESSRATE	1	0.508	0.086	-0256	0.478	0.038	-0.673	-0.108	0.389	-0.074	0.048	0.237	0.074
GOVERNANCE	**0.508**	1	0.686	-0.101	-0.048	-0.312	0.194	0.048	0.193	0.009	0.211	-0.027	0
TRANSPARENCY	**0.086**	0.686	1	-0.084	-0.01	-0.29	-0.039	-0.13	0.111	-0.019	0.149	-0.075	0.007
ACCOUNTABILITY	**-0.256**	-0.101	-0.084	1	0.06	0.098	0.289	-0.191	0.016	0.125	0.005	0.089	0.244
INVESTEELAWS	**0.478**	-0.048	-0.01	0.06	1	0.093	0.034	-0.048	0.699	0.067	-0.019	-0.044	-0.041
TRADEBALANCE	**0.038**	-0.312	-0.29	0.098	0.093	1	-0.464	-0.196	0.059	-0.067	-0.109	0.058	0.063
PLANNING	**-0.673**	0.194	-0.039	0.289	0.034	-0.464	1	0.222	0.321	0.055	0.054	0.282	0.378
SPONSORLAWS	**-0.108**	0.048	-0.13	-0.191	-0.048	-0.196	0.222	1	-0.133	-0.092	-0.038	-0.233	0.239
PURPOSE	**0.389**	0.193	0.111	0.016	0.699	0.059	0.321	-0.133	1	0.037	0.126	-0.011	-0.054
INVESTRATEGY	**-0.074**	0.009	-0.019	0.125	0.067	-0.067	0.055	-0.092	0.037	1	0.031	0.101	-0.109
DEALSIZE	**0.048**	0.211	0.149	0.005	-0.019	-0.109	0.054	-0.038	0.126	0.031	1	-0.132	-0.072
ASSETALLOCAT	**0.237**	-0.027	-0.075	0.089	-0.044	0.058	0.282	-0.233	-0.011	0.101	-0.132	1	-0.034
DECISIONMAKE	**0.074**	0	0.007	0.244	-0.041	0.063	0.378	0.239	-0.054	-0.109	-0.072	-0.034	1
Sig. (1-tailed)													
SUCCESSRATE	.	0.092	0.145	0.246	0.412	0.329	0.56	0.459	0.48	0.181	0.276	0.325	0.381
GOVERNANCE	**0.092**	.	0	0.108	0.277	0	0.125	0.278	0.491	0.456	0.004	0.371	0.499
TRANSPARENCY	**0.145**	0	.	0.152	0.453	0	0.315	0.435	0.085	0.409	0.033	0.177	0.466
ACCOUNTABILITY	**0.246**	0.108	0.152	.	0.23	0.115	0.005	0.009	0.424	0.062	0.476	0.138	0.001
INVESTEELAWS	**0.412**	0.277	0.453	0.23	.	0.126	0.338	0.278	0	0.205	0.405	0.296	0.309
TRADEBALANCE	**0.329**	0	0	0.115	0.126	.	0.217	0.008	0.236	0.207	0.089	0.238	0.221
PLANNING	**0.56**	0.125	0.315	0.005	0.338	0.217	.	0.003	0.4	0.248	0.253	0	0
SPONSORLAWS	**0.459**	0.278	0.435	0.009	0.278	0.008	0.003	.	0.051	0.129	0.319	0.002	0.001
PURPOSE	**0.48**	0.491	0.085	0.424	0	0.236	0.4	0.051	.	0.324	0.06	0.448	0.254
INVESTRATEGY	**0.181**	0.456	0.409	0.062	0.205	0.207	0.248	0.129	0.324	.	0.351	0.107	0.09
DEALSIZE	**0.276**	0.004	0.033	0.476	0.405	0.089	0.253	0.319	0.06	0.351	.	0.052	0.187
ASSETALLOCAT	**0.325**	0.371	0.177	0.138	0.296	0.238	0	0.002	0.448	0.107	0.052	.	0.34
DECISIONMAKE	**0.381**	0.499	0.466	0.001	0.309	0.221	0	0.001	0.254	0.09	0.187	0.34	.

Coefficients(a)

Model	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
1	B	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
(Constant)	4.722	1.792		2.635	0.009	1.179	8.266					
GOVERNANCE	0.391	0.141	0.351	0.884	0.068	0.154	0.402	0.108	0.074	0.07	0.482	2.075
TRANSPARENCY	0.258	0.169	0.267	0.222	0.240	-0.296	0.371	0.086	0.019	0.02	0.487	2.054
ACCOUNTABILITY	-0.058	0.079	-0.067	-0.736	0.463	-0.213	0.098	-0.06	-0.062	-0.06	0.815	1.226
INVESTEELAWS	0.148	0.205	0.086	0.723	0.471	-0.257	0.553	0.018	0.061	0.06	0.481	2.081
TRADEBALANCE	0.149	0.213	0.064	0.701	0.185	-0.271	0.569	0.038	0.059	0.06	0.827	1.21
PLANNING	-0.186	0.205	-0.092	-0.909	0.093	-0.591	0.219	-0.03	-0.077	-0.08	0.659	1.516
SPONSORLAWS	-0.013	0.135	-0.009	-0.098	0.822	-0.281	0.254	-0.01	-0.008	-0.01	0.722	1.385
PURPOSE	0.378	0.149	0.391	-0.562	0.375	0.379	0.211	0	0.047	0.05	0.464	2.157
INVESTRATEGY	-0.122	0.177	-0.059	-0.687	0.493	-0.472	0.228	-0.07	-0.058	-0.06	0.941	1.062
DEALSIZE	0.071	0.093	0.067	0.762	0.147	-0.113	0.255	0.048	0.064	0.06	0.876	1.141
ASSETALLOCAT	0.31	0.105	0.29	0.96	0.059	-0.107	0.308	0.037	0.081	0.08	0.776	1.288
DECISIONMAKE	0.269	0.208	0.125	1.296	0.117	0.142	0.68	0.074	0.109	0.11	0.734	1.362

a. Dependent Variable: SUCCESSRATE





The above plots of normality and scatter ploy explain that regressions results have met conditions of normality, no outliers, linearity, homoscedasticity and indepedence of residuals are satisfied from the regression results **(Tabachnik and Fidell, 2007; Pallant, 2010)**.

D 3: Between three possible intervening variables and performance as a

Collinearity Diagnostics

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions			
				(Constant)	POSSIBLESOLU	CHANGES	IMPACTS
1	1	3.985	1.000	.00	.00	.00	.00
	2	.007	23.470	.00	.67	.04	.31
	3	.006	26.765	.00	.06	.70	.43
	4	.002	42.589	1.00	.27	.26	.26

a. Dependent Variable: PERFORMACE

Correlations

		PERFORMACE	POSSIBLESOLU	CHANGES	IMPACTS
Pearson Correlation	PERFORMACE	1.000	.214	.060	-.017
	POSSIBLESOLU	.214	1.000	.109	.048
	CHANGES	.060	.109	1.000	.178
	IMPACTS	-.017	.048	.178	1.000
Sig. (1-tailed)	PERFORMACE	.	.004	.229	.417
	POSSIBLESOLU	.004	.	.090	.279
	CHANGES	.229	.090	.	.014
	IMPACTS	.417	.279	.014	.
N	PERFORMACE	153	153	153	153
	POSSIBLESOLU	153	153	153	153
	CHANGES	153	153	153	153
	IMPACTS	153	153	153	153

Casewise Diagnostics

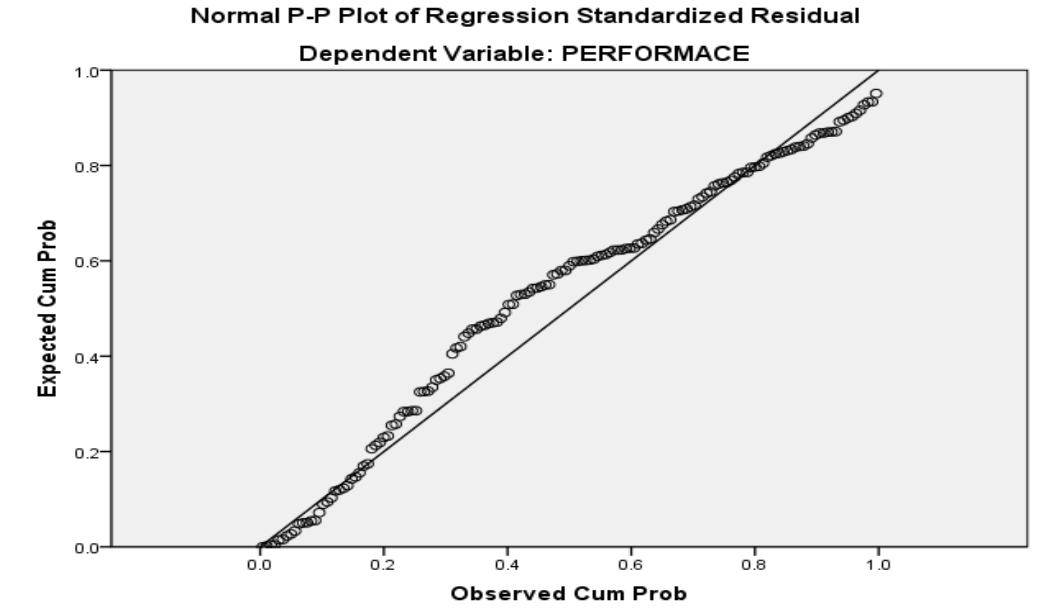
Case Number	Std. Residual	PERFORMACE	Predicted Value	Residual
72	-3.908	3.25	5.7639	-2.51393

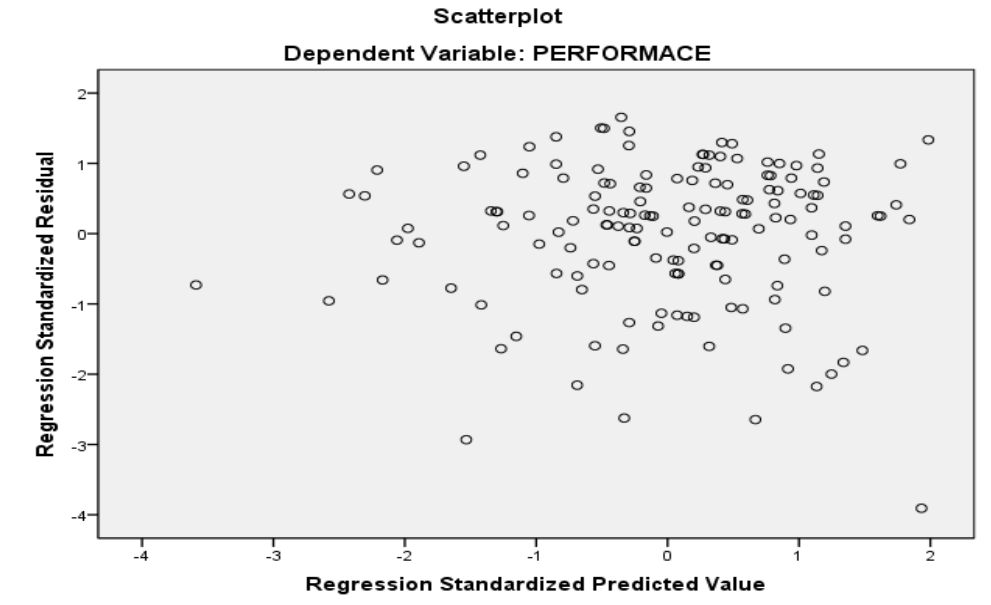
Dependent variable: performance

Coefficients(a)

Model	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B			Correlations		Collinearity Statistics	
	B	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
(Constant)	3.852	0.961		4.011	0	1.954	5.751					
POSSIBLESOLU	0.27	0.103	0.21	2.627	0.01	0.067	0.472	0.214	0.21	0.21	0.987	1.013
CHANGES	0.06	0.113	0.04	0.533	0.595	-0.163	0.283	0.06	0.044	0.043	0.958	1.044
IMPACTS	-0.05	0.117	-0.04	-0.43	0.668	-0.282	0.181	-0.02	-0.035	-0.034	0.968	1.033

a. Dependent Variable: PERFORMACE





D 4: Between three possible intervening variables and success rate or growth as a dependent variable

Correlations

		SUCCESSRATE	POSSIBLESOLU	CHANGES	IMPACTS
Pearson Correlation	SUCCESSRATE	1.000	.464	.346	.264
	POSSIBLESOLU	.464	1.000	.109	.048
	CHANGES	.346	.109	1.000	.178
	IMPACTS	.264	.048	.178	1.000
Sig. (1-tailed)	SUCCESSRATE	.	.215	.036	.000
	POSSIBLESOLU	.215	.	.090	.279
	CHANGES	.036	.090	.	.014
	IMPACTS	.000	.279	.014	.
N	SUCCESSRATE	153	153	153	153
	POSSIBLESOLU	153	153	153	153
	CHANGES	153	153	153	153
	IMPACTS	153	153	153	153

Collinearity Diagnostics

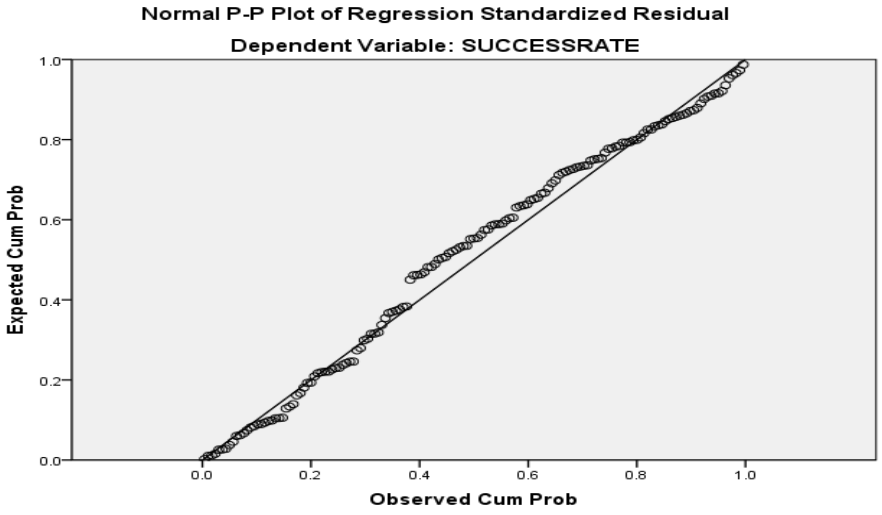
				Variance Proportions			
Model	Dimension	Eigenvalue	Condition Index	(Constant)	POSSIBLESOLU	CHANGES	IMPACTS
1	1	3.985	1.000	.00	.00	.00	.00
	2	.007	23.470	.00	.67	.04	.31
	3	.006	26.765	.00	.06	.70	.43
	4	.002	42.589	1.00	.27	.26	.26

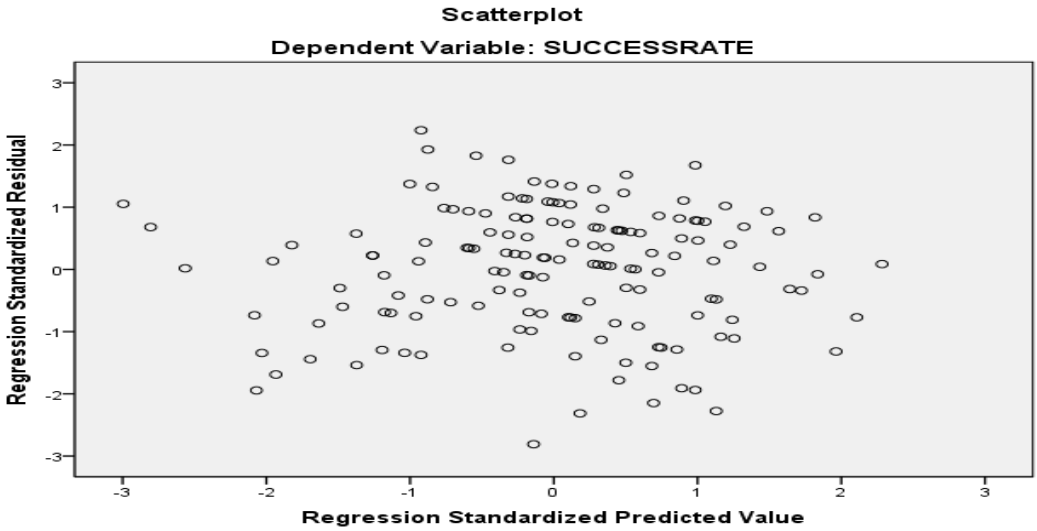
a. Dependent Variable:

Coefficients(a)

Model	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
	B	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
(Constant)	3.561	0.707		5.036	0	2.164	4.958					
POSSIBLE SOLU	0.46	0.076	0.41	0.531	0.096	-0.109	0.189	0.064	0.043	0.042	0.987	1.013
CHANGES	0.43	0.083	0.31	1.217	0.126	-0.063	0.265	0.146	0.099	0.096	0.958	1.044
IMPACTS	0.265	0.086	0.25	3.07	0.003	0.094	0.435	0.264	0.244	0.241	0.968	1.033

a. Dependent Variable: SUCCESSRATE




Scatterplot
Dependent Variable: SUCCESSRATE
Regression Standardized Residual
Regression Standardized Predicted Value
3
2
1
0
-1
-2
-3

Appendix E - Interview transcripts

Interview 1

Date: 20.12.2010
Time: 9:30 am to 10:45 am
Interviewee: Al - Shura Council Speaker (Parliament)

This interviewee is president of parliament of Government of Oman. It was more of a conversation regarding sovereign wealth fund of Oman and its current position rather than structured interview about fund. The interview was not recorded so below are the major points jotted down during this conversation.

The major tone of his answers was to say that Oman SWF completely lack proper decision making and management system. The improvement changes are needed across the board and there is a greater need right now to introduce professional management and investment practices in Oman SWF. This is because, if one looks at the other sovereign funds in the gulf co-operation council, Oman SWF has not progressed even 10% of what other funds have done to grow a level of US$ 300 to 800bns in the assets. This is because Oman SWF is has only one person for decision making. Oman SWF is also governed by Ministry of finance and not as a professional separate entity. There is no fixed limit on how money will come to SWF from oil income or how the return of SWF investments will be reinvested. There is no audit; annual budget planning and investment return reconciliation process in managing Oman SWF. Parliamentary committee for economy and finances in Oman should have received separate reports, plans and budgetary details from SWF management but there is none. There are so much irregularities in operations of Oman SWF as investment appraisals are not properly done but investment money are disbursed based on political agenda and trade relations decided by ministry of finance with other countries. So, entire objective of profitability disappears from decision making for SWF.

What the president of parliament wants for Oman SWF is to have new organisation design, and management reporting regularly to members of parliament where representative of public will be able to decide benefits for their country. Right now, all reporting is done to ministry of finance. There is nothing like a SWF as an organisation but it is managed like a department within ministerial portfolio. The biggest mistake has been done for Oman SWF is removal of economic ministry as it was able to exert

some regulatory pressure for SWF management being a separate committee from formed by parliaments and its members. President of the parliament stated that a detailed research study of this kind on sovereign wealth fund and its recommended action plan will be crucial for restructuring and developing Oman SWF as a separate investment agency of the Government of Oman.

Interview 2

Date: 1.11.2010
Time: 9:00 am to 10.40 am
Interviewee: General Secretary of the State Council

This interviewee is a general secretary of the state's council which one part of the overall government structure. The state's general council is a separate body of society's well known members like an upper house of parliament in democratic government. The main function of the state council is to take part and to support better governance through its operating mechanism and fundamental principles. Right now, this state council has no control over SWF management because there is no change in the decision by ministry of finance for improving SWF after this state council and other parliament members made repeated requests and suggestions to government. There is no answer from government or finance ministry with regard to any of these suggestions.

General Secretary stated that council members want the fund to become a separate government agency with complete autonomy and professional management without any political and ministerial influence except laid down code of ethics and governance conduct. On the other hand, they do not want fund to become the reserve bank of the country. However, they wish that restructured SWF will report to government of Oman parliament will be overseen by central bank and auditor general for investment strategy and governance issues respectively. As of now, audit department of Oman government does not receive any report from SWF. State council general secretary would like Oman SWF to develop professional management structure, to have the international level team of managers and compete with other GCC funds for growth in assets and profits.

Interview 3

Date: 15.12.2010
Time: 9:00 am to 10:30 am
Interviewee: Deputy Chief Executive, State General Reserve Fund

This interviewee is a professional in economics and holds an authoritative position of Dy. CEO in Oman SWF. However, in his own words, "does not have any authority or control over events, investments and decision making in the management of Oman SWF." He feels that organisation operates on totally centralized authority where there is no employee participation. Thus in his opinion, Oman SWF has top –down traditional approach in organisational hierarchy and communication. This is complementing to lack of professional management in Oman SWF. At the same time, ministry of finance does not want to avail any services from global consultants, asset managers or investment banks for investment strategy and growth. Being a deputy CEO of the state general reserve fund, the interviewee in general should have all data and reports at his disposal including down the line employees. As confirmed by him, Deputy CEO does not have any information regarding how much asset is owned by Oman SWF and any reasons for investment decisions taken by Ministry of Finance. This is the current status of Oman SWF as known to its deputy CEO that is the highest senior most employee of the SWF

According to him, the future of Oman SWF is not clear without an appropriate restructuring plan. The investment decisions are currently made randomly without any appraisal techniques and without considering any market opportunities. This is what makes a big difference between Oman SWF and other GCC funds which avail professional services from global banks and asset managers. Also, in other project Oman SWF have tried to be a partner or a strategic alliance in the investment bids in the past but due to bilateral relations between the countries and other management differences, it did not turn out well. Thus, Oman SWF cannot have that option of alliance with other GCC funds.

The interviewee ended the interview with a suggestion that Oman SWF needs an overhaul in the organisation in terms of its design, policy, organisational hierarchy, communication, reporting, decision making and investment strategy.

Interview 4

Date: 5.1.2011
Time: 9:30 am to 11:30 am
Interviewee: General Director of Investment Development

This interviewee manages the investment development department in the SWF. He is a professional to look after the investment development operations and complete end to end procedures at SWF. According to his opinion, the complete system of SWF needs an overhaul in terms of organisational structure and investment process. The most important aspect which needs immediate change are short and long term investment planning in addition to professional and international human capital development for Oman SWF.

In his opinion, if Oman SWF can manage to create the pool of trustworthy and knowledgeable employees who are competent enough to manage the current assets worth approx.US$ 8bns then Oman SWF can look forward to grow profitably in the future.

Another major change, he suggests is about reporting structure of Oman SWF. Currently, all decisions are taken by finance minister and no where any profit – loss, budget, assets are reported. No financial statements are prepared. This makes it difficult to report about SWF to parliament or to disclose it to common public.

A major challenge for Oman SWF is to restructure within short time frame so when assets are cheaper in the credit crisis time, it can make use of the opportunities worldwide to invest. Because, this is such a long cycle of recession that growth cycle after this might be quite long enough to earn profits from the assets purchased during this credit crisis time. Thus, Oman board and two councils of ministers together with auditor general should form a committee to take over the operations from overburdened Ministry of Finance.

This interviewee also ends the discussion with praising the efforts of such a detailed study on Oman SWF and says this is commendable project if results and recommendations can help Oman SWF to start growing and developing professionally.

Interview 5

Date: 2.11.2010
Time: 9:30 am to 11:00 am
Interviewee: General director of Superintendence of Companies – A financial audit

This interviewee works at a position where information has to be kept secure and confidential for all the companies unless it is necessary to bring to parliament or other government agencies' notice. He thinks that it is high time that Oman SWF is restructured to international competition level. This restructuring is necessary because as of now, there are no reports or information received by government audit department. On the other hand, Audit department is not allowed to take initiative for auditing Oman SWF. Unless parliament or Oman board takes a decision to re-organise the reporting and auditing of Oman SWF, audit department cannot change or ask for details.

Interviewee suggested that Oman SWF should avail the help of professional wealth and asset managers from banks, investment banks or expert consulting companies to draft an investment strategy and start using appraisal techniques for investment decisions. This will allow Oman SWF to grow the asset base and profitability of the fund at the same time. Interviewee does not have more details about Oman SWF so he can not suggest more intricate changes required in Oman SWF.

Interview 6

Date: 15.12.2010
Time: 11:30 am to 12:45 pm
Interviewee: General Director of Investment Planning

This interviewee does not work for Oman SWF but he is part of the Ministry of finance on senior position. He wants to know more in detail about Oman SWF as he has been getting all these news about governance and transparency of Oman SWF from press and working within ministry. He thinks how government can plan a budget without having the information about how much money flows into SWF or investments and how much is earned back from the SWF. There is no accounting for resource or financial reserve allocation even in the finance ministry. All decisions are based on minister's intuition. There is no planning or decision making process in the entire system for oil income except national budget and allocation of money to various public

projects. Contracts are awarded many times without consultation or any technical or commercial analysis and negotiations.

Both MoF and SWF do not have any strategic objectives laid out except vision 2020 planned by government. There are no ethical guidelines, no evaluations or audit of actions – decisions taken, no risk management tools. Government of Oman still runs finances based on old systems of central command chain and thumbs rules for decision making whereas other GCC funds have turned themselves into professional investment houses for example, Kuwait (approx.US$ 250bns assets) and UAE (approx.US$ 850bns assets). Other funds have investment strategy, laws, regulations, disclosure principles, annual reports and treaties with other countries to adhere to. These all make them perform and score high on governance, transparency and accountability measures. Oman SWF does not have any of these initiatives.

Finally, interviewee suggest that Oman SWF has a lot to change and to improve before competing with other funds as within the country needs of resource allocation are mounting every day. At the same time, oil reserves are not infinite to government must develop other industries which can bring revenue for development or can attract foreign investments to the country. This will create long term growth not only for Oman SWF but for Oman as a sovereign country.

Interviewee wishes to see the results or recommendations of the project on the completion and will be ready to extend any help required in future for this research study.

Interview 7

Date: 20.12.2010
Time: 12:15 pm to 13:30 pm
Interviewee: Vice-chairman of the Shura Council

This interviewee is a member of Shura council which is parliament of elected representatives of citizens of Oman. Being a public representative and having national interests in Oman SWF, his Excellency stressed that two major issues for Oman SWF to address immediately are information disclosure and decision making hierarchy.
Because of the low level of transparency and inadequate information disclosure, Oman SWF is losing confidence of its own population and also the reputation in international

financial world. This practice must be stopped and Oman SWF as an investment agency should start declaring information such as other global funds. Decision making is completely managed by Ministry of Finance which has created less use of talent available in the financial sector. This has led to the situation where Oman SWF decision making has become weaker and having no control over any of its internal functions. This is why we are 50 or 100 times behind other GCC region SWFs. Other government departments have no information regarding how our SWF is operated.

The official disclosure of actual investment position, profits and return on portfolio shall be known to other government departments such as auditor general, trade ministry, central bank of Oman. This can help in such a way that these departments can make suggestions to improve the growth of Oman SWF. The growth of Oman SWF can become the growth engine of the country as the income or profit of the SWF can be utilized to improve the economy of Oman state.

This interviewee has envisioned that researcher's recommendations would be really helpful step in this regard to improve the Oman SWF performance. The adoption of appropriate governance mechanisms and transparency by Oman's SWF will improve its image, resulting in improvements in not only the profitability of Oman SWF, but the whole country's economic status.

Interview 8

Date: 11.01.2011
Time: 11:30 am to 12:30 pm
Interviewee: Economic expert, Al Shura council

This interviewee is an active member of Shura council - the parliament of elected representatives of citizens of Oman. He is also one of the few economic experts in the council. He explained the advantages of SWF success rate and also explained the downside of losing the capital through investments when world markets are in jittery because of global recession and credit crunch.

He gave the examples that Abu Dhabi, Qatar and Kuwait had lost money in banking sectors of USA in 2007–09 so any suggestion to SWF for the foreign equities investment is a tricky issue. Also, he advised to adopt 'wait and watch' approach before recommending increase in the oil income allocation to SWF funds inflow for

making more investments. Such a decision making is crucial in two terms. The fund allocated to SWF for foreign investments can alternatively be utilized for domestic investments which can help for industrial and economic growth along with currency stabilization within the country. And, foreign investments can be less profitable during ongoing global recession which may prolong for another two or three years.

Therefore, the main message conveyed by this interviewee is about having appropriate funds inflow to SWF, robust investment strategy and control over asset allocation in decisions about foreign investments. Also, he voiced resentment about MoF being not engaged in the appraisal of projects before making investment decisions. The interviewee suggested that SWF can become major economic growth vehicle for Oman.

Interview 9

Date: 11.01.2011
Time: 2:00 pm to 3:15 pm
Interviewee: Technical expert, Al Shura council

This interviewee is also an elected member of parliament and a technical expert. Having been worked in the departments which are not directly related to sovereign wealth fund of Oman, the interviewee has less information about SWF. However, Dr.Al-Saidi was interested in conveying that how SWF can overcome the conflicting interests between Oman SWF, MoF and other government departments and agencies from his own experience as a departmental head.

Furthermore, Dr.Al–Saidi stressed for Oman SWF to make use of developing local talent whilst currently deploying international experts or wealth managers for creating robust investment strategy. In this manner, growth and creating human capital can be managed by Oman SWF simultaneously.

Apart from this, Dr.Al-Saidi knew that there are no published reports and MoF maintains total secrecy about transactions. Dr.Al-Saidi agrees that it is ok not to release all strategic and vital information but to an extent like other companies prepare their annual reports, Oman SWF must increase the transparency to that level where Omani citizens and foreign investors can maintain their trust for Oman SWF.

Interview 10

Date: 04.01.2011
Time: 9:30 am to 11:00 am
Interviewee: Economic researcher, State council

This interviewee is an economic researcher who in the upper house of the parliament in Oman. The upper house members are selected for a fixed term by His majesty Sultan Qaboos with a consideration given to the council members' recommendations.
This interviewee is engaged in the research and administration so he stressed that MoF and Oman SWF both do not have any specific planning and the policies of MoF actually lacks the strategic vision and objectives. However, government of Oman has prepared Vision 2020 for the whole country with contribution from other ministries, budget committee and central bank of Oman. MoF could not provide any data in the Vision 2020 for SWF.

This interviewee has found out by engaging herself previously with MoF that there are no initiatives taken by MoF to improve the governance or profitability of Oman SWF. Interviewee suggested that Oman SWF requires initiatives to develop mechanisms for governance, transparency and investment strategy just like other large SWFs of Norway, UAE or Singapore. The asset allocation and any strategic planning are completely ignored by MoF.

When Oman SWF is in a situation which requires complete restructuring in terms of laws, policies, decision making and governance frameworks and organisation re-design. This interviewee agreed with the idea of incremental re-design of Oman SWF as all aspects of SWF cannot be improved at the same time. The interviewee suggested that developing employability of local talent is not crucial for SWF but for the whole economy of Oman.

Interview 11

Date: 04.01.2011
Time: 11:40 am to 1:30 pm
Interviewee: Economic researcher, State council

This interviewee again is a member of state council which is upper house of the parliament. Interviewee told the researcher that everyone is worried about Oman SWF governance and transparency damaging the credibility of the SWF and country in the

financial world. However, the issue is not permanent as it is because right now there are no mechanisms to monitor governance and transparency standards; and there is no organisational structure or hierarchy except Minister of Finance to oversee decision making or investments. Also, the developed countries worrying about security threat due to strategic investments is not true because in the business world there are components where countries and markets can not afford to lose each other.

This interviewee is confident that Oman SWF can be re-designed to develop as a world class SWF with no issues of governance and credibility because the business and national culture of Oman have good business ethics and high moral standards. This can be seen from high score achieved by Oman as a state in the world competitiveness, corruption index, business and investment confidence index ahead of other GCC countries and developed nations. Thus, a problem is not within all department of government but the major issue of concern is how does MoF manages Oman SWF operations in an unplanned manner with single handed decision making. This allows Oman SWF employees to become complacent and reduce the accountability for their actions.

On the other hand, these employees are citizens of Oman so they have a duty towards their country to perform better in the interests of Oman SWF. The interviewee told that you may find surprising results of what employees feel about Oman SWF within the SWF and other departments in the questionnaire survey.

Interview 12

Date: 03.01.2011
Time: 11:00 am to 12:45 pm
Interviewee: Dy. Chief Executive, Information Technology Authority

This interviewee is in a top management of IT authority which confirmed that MoF has never sent any request to create a portal for Oman SWF as a separate entity. Also, MoF has never consulted them for any information on IT developments or appraisal of making investments in the technology companies for Oman SWF. Thus, for him MoF manages a very much closed loop transactions for SWF and rest of their work as well.

Interviewee told that the issue of low credibility of Oman SWF in the form of very low governance and transparency emerges from the main issues of ‘no information

availability about Oman SWF' to Omani people or any other government department. Therefore, if the transparency or governance is the issue then it should be affecting to Oman first; hence, deveveloped countries should not worry. The main objectives of Oman SWF should be wealth creation and transferring the benefits of that wealth to Omani people rather than any politically motivated investments in the foreign countries. However, the SWF looks to adopts a policy under MoF management where no one is ready to take any responsibility or accountability which ultimately reduce the advantages SWF can bring for its employees Omani citizens, Omani government and investors.

This interviewee suggested that main challenges for Oman SWF are self-image, self-policing, leadership, reporting and disclosure transparency and decision making autonomy from MoF. These challenges can be overcome by creating a distinction between local and foreign investment departments and having one separate board and two management teams. And, activities by these teams can be monitored and controlled by this investment board by way of governance, ethics and investment limits set out in the annual reviews of policy and strategic planning by this board. Board representation can be chosen from various government departments. This way autonomy in the professional decision making and management control both can be maintained for Oman SWF.

Interview 13

Date: 09.01.2011
Time: 9:30 am to 11:30 am
Interviewee: Economic expert, State council

This interviewee is an economic expert in the upper house of parliament. According to Dr.Al-Jabri, SWF can be a major stabilising force for the economy of Oman. SWF profit mainly comes from buying undervalued foreign assets cheaply and then generating yield on when the market prices go up or the same assets are valued high. Since, global markets are in the down turn, Dr. Jabri does not advise for increased foreign investments as Oman SWF may lose its investments. Also, Dr. Jabri advised to create a local development fund separate from SWF which will be funded by SWF profits so in the time of low oil prices, there are money available for development and currency stabilization.

The only risk SWF poses to local people is over dependence on the profit of SWF for doing everything in the country. If SWF make Omani people rich with comforts then there may be implications on GDP growth in the long run as Omanis may become complacent in their work culture.

Dr. Jabri discarded any national security threats posed by western governments saying that GCC region countries know how precious is the money received from Oil and Petrol export then it would not be wise to spend that money through SWF for political or security motives rather than financial goals by GCC central bankers.

As an economic advisor for state council, Dr. Jabri told that SWF can not only benefit from Western govt. bonds or stock markets but SWF should take advantage of alternate assets, emerging markets' financial and technology firms, agricultural businesses in Africa and Latin America; thus increasing the geographical spread of the investments to reduce the risk of the investments.

Interview 14

Date: 16.12.2010
Time: 1:00 pm to 2:45 pm
Interviewee: Economic Researcher, Ministry of Finance

Since this interviewee works within MOF, he has more information regarding SWFs. Mr. Badran said the problems cited by other departments such as governance, transparency and investment strategy are not the real problems to manage SWF. The major issue for MOF is to single handled manage the SWF attracts problems of allocating ministerial resources to SWF, creating international standards, having due diligence procedures, and delegating financial control to young employees.

This type of problem requires support from other government departments such as central bank of Oman and human resource ministry (HRM). There is no written agreement between other government departments regarding how much they can contribute or so-operate to manage SWFs. There is no asset allocation limits specified by MOF; thus all investments happened on random basis and first come first serve basis.

There is no annual cap on how much can be invested locally or in foreign assets. The reciprocity from the other government departments is necessary to leverage the resources to manage SWF.

Thus the interviewee confirmed that there are issues within the management of SWF by MOF, however, the resources for MOF are not adequate and there are no agreements between the departments therefore other departments should not be criticising MOF for managing SWF on its own. MOF has on its part, issues in not being transparent and taking decisions for large investments without any appraisal. Because of this, employees of the SWF have no accountability for their actions and they are left with no active role in deciding what is good or bad for Oman SWF. The pressure is on MOF for creating a management board composition, ethical guidelines, avoiding political oversights, and linking the SWF to government budgets. However, there are issues of constitutional or policy restraints which do not allow MOF to make independent disclosures and create further implications.

Interview 15

Date: 16.12.2010
Time: 9:30 am to 11:30 am
Interviewee: Political researcher of Oman News Agency

Dr. Aluraimi as a researcher and journalist confirmed that governance and transparency are not problems of only Oman SWF but to an extent every SWF around the world has been caught up in the same debate. From the perspective of information availability to investors, the problem of information not being available from SWF to investee companies or governments is a small issue. Companies around the world manipulate their accounts and publish forward looking statements to attract investments and maintain public confidence in their stocks. The transparency is 100% in that case but the legitimacy of the information is very low. No one is arguing about this legitimacy issue but everyone is criticising SWFs which are actually helping companies in the recession times to survive and stabilise. Therefore this interviewee suggested that governments of top multinational companies should not be lobbying for governance and transparency of SWFs.

As for Oman SWF the real issue is not the transparency or governance, but robust investment strategy and financial control. This can be achieved by deploying

international experts and developing local talent to international standards. There is a lot of competition between GCC region countries to create stable non oil dependent economies. As one can see, Kuwait, UAE, Qatar, Saudi Arabia and Bahrain are in a race to develop their countries and follow the debt economy principles to attract every single company in their cities. Dubai is one of the best examples of this, however, debt economy development has its own perils so Oman government should find a balance between the two and appropriately utilise the SWF solely for economic and financial objectives.

Interview 16

Date: 16.01.2011
Time: 10:00 am to 11:45 am
Interviewee: Director of Investment Planning, Ministry of National Economy

Mr. Albuloshi works as a CXO level executive for national economy and planning. He suggested that main function of the state council is to take part and to support better governance through its operating mechanism and fundamental principles such as to provide base for governance and transparency within the Oman SWF but there seems to be no one willing to do this job. Therefore, Oman SWF has governance and transparency is at the lowest possible level. In such situation, we can no pick up any employees and make them accountable or responsible for anything. Therefore, it is collective responsibility of MoF and other government agencies to make improvements in Oman SWF.

As for national economic and investment planning, they have never received any information from MoF or SWF regarding the holdings in foreign assets. As an economic and investment planning expert, Mr. Albuloshi suggested that any shift from Europe and US markets to Asian and MENASA markets may look promising for now but not in the long run as these developing countries may sooner or later would be in the recession cycle as a result of global recession and credit crunch.

The restructuring of Oman SWF requires detailed work and need two to five years of time to completely change the SWF.

Interview 17

Date: 13.11.2010
Time: 1:30 pm to 3:00 pm
Interviewee: Al Shura council member

This interviewee member in the parliament and debated the previous response of MoF of IMF call for GCC region SWFs to increase the governance and transparency. In his opinion, Oman SWF should not wait for the SWFs to take a lead either in the making foreign investments or creating world class standards.

He suggested that Omani culture and values are famous around the world so this time we can make SWF also famous by creating international standards. Interviewee suggested that there is no need to create protectionism barriers as we would like to reap rewards of globalization. Oman is already global in terms of having more than 60% of its workforce from countries around the world as far as Canada and Japan. The Oman SWF's response to IMF and Santiago principles should have been positive and welcoming. However, Oman SWF should have conveyed that it is better to reduce protectionism by both parties: investee countries and SWF sponsoring countries.
Oman SWF should take leadership of any international developments for SWF and set the standards even for the developed countries SWF. Interviewee agreed about setting up a common body to oversee all SWFs. This would reduce the number of laws and barriers prepared by respective governments of SWFs and investee countries.

Interviewee is not suggesting changing the existing system all of a sudden; however recommends an incremental transition for Oman SWF to become a separate entity rather than being a department of MoF.

Interview 18

Date: 14.12.2010
Time: 9:00 am to 11:00 am
Interviewee: Royal Office

Interviewee works with the royal office which looks after departments managed directly by His Majesty Sultan Qaboos. Interviewee has no access to MoF documents; however confirms that final decision for large investments are approved by Sultan having trust in the MoF proposals. On a random basis, work is delegated to see the facts and figures of the capital investments.

Mr.Albusaidi suggested that around the globe many SWFs are managed by finance ministries (MoF) and central banks, hence, MoF manages our Oman SWF is not a problem at all. The problem is how we control our finances and employee turnover. The cost of operating SWF is so high that MoF does not have resources to disburse only for SWF. This might be the reason why MoF is not utilizing the international experts or wealth management consulting from well known banks or investment banks.

Interviewee confirms that MoF should be handling this inflow of finds to SWF appropriately as this money belongs to all Omani citizens. Therefore, MoF should have at least proper investment strategy so that profits can be realised on these investments. Our oil wealth is limited so planning should be done considering the future generations of Oman. The interviewee agreed that Oman SWF lacks the vision like Norway and Singapore who has accumulated more than 300bn within the last two decades. Therefore, it is up to policy makers in the Al-Shura and States council to decide how to preserve the benefits of oil wealth in terms of SWF profits or trade balances.

Interview 19

Date: 14.12.2010
Time: 1:00 pm to 2:45 pm
Interviewee: Royal Office

This interviewee works in the royal office and is not direct stakeholder of SWF or MoF. However, once he was conveyed what are SWF and what benefits it can bring to Oman. He suggested that he wants Oman SWF to be restructured and the responsibility of Oman SWF to be given to trusted and knowledgeable officers in the government.

Interviewee favoured that there should be independent counsel to manage the money which is almost 8 to 13 billion. This amount of money can change the face of the country or every industry within the Oman in few minutes. The industry developments is very much necessary as Interviewee confirmed that oil wealth is limited and must be used appropriately for years to come. This wealth is not owned by any one person and thus, any one managing SWF should have Oman and future Omani generations' interests.

The interviewee was surprised to understand that Oman started SWF in same time with UAE and still have only US$ 8 to 13bn whereas ADIA has 100 times more assets than Oman SWF. Thus, interviewee suggested that we should restructure and govern the

Oman SWF far better than its current status. Our credibility should be improved as we are one of the well known in the GCC region and around the world for our values and quality of the culture. Interviewee stressed that governance, talent development and investment strategy should be the first priorities for making improvements or changes in the Oman SWF.

Interview 20

Date: 17.12.2010
Time: 10:00 am to 11:45 am
Interviewee: Internal Security

This interviewee has not much information regarding SWF; however he works for an internal security of the majesty and country so understand the implications of what MoF is doing.

He explained that any multi-million transaction has to be approved by either panel designated by Sultan or be approved by central bank of Oman. If MoF is not following this procedure then it is violation of constitution of Oman and existing laws.

According to him, MoF should be not delegated authority to manage SWF anymore as they have created an issue of credibility out of it. First of all, a committee formed by Al-shura, states council, royal office and auditor general should take charge of SWF from MoF and then create a basic framework of how and who will be the governing and management team of SWF. This would automatically bring the governance, transparency and accountability to SWF. In this manner, SWF will be administered by many public figures and it will not be any more single decision maker's portfolio. This type of restructuring also will bring the trust of employees and Omani citizen in their SWF just like other countries population is proud of their SWFs, for example Norway, UAE and Saudi Arabia.

Appendix F Final Questionnaire

Dear Participant

Ref.: 'Analytical study of Sovereign Wealth Funds' Policies and Strategies: A Case of Sultanate of Oman'

This is a group of questions related to my doctoral thesis about ***'Sovereign Wealth Fund in the Sultanate of Oman'***. The information you provide will help to analyse the critical issues for improvement of the quality of sovereign wealth funds operations and management for Oman.

Please respond to the question as frankly and honestly as possible since, your response will be kept strictly confidential. To ensure the utmost privacy, only the research team will have access to the information you provide as responses in the attached questionnaire.

A formal approval has been already sought to launch this questionnaire within financial institutions in the sultanate of Oman. On the completion of the project, a set of recommendations would be prepared for Oman wealth funds' management to improve returns.

Thank you very much for your time and co-operation. I greatly appreciate your organizations and your help in furthering this research endeavour.

Kind regards

Majid Al-Saidi

‘Analytical study of Sovereign Wealth Funds’ (SWF) Policies and Strategies:

A Case of Sultanate of Oman’

This study is about the SWF of Oman. The following questions are designed to assess the factors and their impact on working of SWF.

For most of the questions, a general Likert scale of 1 to 7 is adopted. Scale of 1 to 7 is categorised as

1 = Strongly disagree with the statement given

2 = Disagree

3 = Disagree to an extent

4 = Can not say

5 = Agree to an extent

6 = Agree

7 = Strongly agree with the statement given

Where there is no Likert scale option, other choices are given to select. Please mark your responses using cross, tick or circle marks on the number.

There are no right or wrong answers for any questions so please do not have any fright to provide the answer based on your understanding, knowledge and experience. The questions are designed in the easy to understand words. However, feel free to seek any assistance for responding to any question.

Your details are collected to analyse the responses for each management level and organizational groups. To maintain the confidentiality, it is collected separately on the next page 3.

On completion, please keep the questionnaire in the reply envelope provided and seal it. This would be collected from you by a member authorised as part of the research team.

Respondent’s information

Name: ----------
(optional)

Ministry/ Unit: ----------

Reserved Funds' Related handled tasks: ----------

Your designation in the company: ----------

Questionnaire

Section A : Current Status of Oman SWF

1. You agree that following are the **Main Objectives** of Oman Sovereign Wealth Fund. (H6)

To fund public expenditure	1 2 3 4 5 6 7
To promote long term consideration of oil revenues	1 2 3 4 5 6 7
To develop economy and industry within the country	1 2 3 4 5 6 7
To bring change through responsible investments	1 2 3 4 5 6 7
To increase return and value of foreign investments	1 2 3 4 5 6 7
To stabilize the currency of Oman	1 2 3 4 5 6 7
To increase the bilateral trade with selected countries	1 2 3 4 5 6 7
To achieve any political objective through investments	1 2 3 4 5 6 7
To meet the strategic demand of developed countries	1 2 3 4 5 6 7

2. Following is true in case of the present **Structure of the fund**: (H6)

Purpose of setting up fund in unclear	1 2 3 4 5 6 7
Objectives of operating SWF are ambiguous	1 2 3 4 5 6 7
Ownership of the fund is of Govt. of Oman but it is largely controlled by Ministers in the Government	1 2 3 4 5 6 7
Sources of funds for SWF are many but are not monitored or controlled	1 2 3 4 5 6 7
Management style of the SWF is like govt. body and not like a professionally managed company	1 2 3 4 5 6 7
All decisions are superseded by Ministers and professional knowledge or experience is not utilized	1 2 3 4 5 6 7
Conflicts are left unresolved within SWF	1 2 3 4 5 6 7

3. Currently, **Investee Countries** are selected based on: (H2) & (H5)

Political reasons	1 2 3 4 5 6 7
National security	1 2 3 4 5 6 7
Investment environment	1 2 3 4 5 6 7
Availability of investment laws and regulations	1 2 3 4 5 6 7
Strategic alliance with common interests	1 2 3 4 5 6 7
Meaningful on long-term	1 2 3 4 5 6 7
Strong growth and development	1 2 3 4 5 6 7

Section B : Factors Affecting Oman SWF

4. The following aspects form the major **Governance Reform** agenda for Oman SWF: (H1)

Good Governance procedures are in place	1 2 3 4 5 6 7
Appropriate Disclosure of information is in place within and outside the fund	1 2 3 4 5 6 7
Decisions makers are fully accountable for investment decisions they make	1 2 3 4 5 6 7
Managerial roles are clearly defined	1 2 3 4 5 6 7
SWF managers take overall responsibility of SWF considering it as wealth of national population	1 2 3 4 5 6 7

5. You agree to following statements in terms of **Transparency** surrounding the investment process: (H1)

Government investments are regularly announced	1 2 3 4 5 6 7
Investment returns are present in state public budget	1 2 3 4 5 6 7
Regulators can review wealth fund reports	1 2 3 4 5 6 7
Investment strategy use benchmarks	1 2 3 4 5 6 7
Strategy limits the investments based on ratings	1 2 3 4 5 6 7
Regular evaluation and follow-up is reported	

6. Oman SWF invests in the companies which follow **Globally Accepted Laws** of: (H1) & (H5)

Human rights	1 2 3 4 5 6 7
Child labour laws	1 2 3 4 5 6 7
Equality and diversity laws	1 2 3 4 5 6 7
Fair employee treatment criteria	1 2 3 4 5 6 7
Pollution control limits	1 2 3 4 5 6 7
Weapon control limits	1 2 3 4 5 6 7
Money laundering regulations	1 2 3 4 5 6 7

7. You agree that following are true in case of Oman SWF **Investments Rights** in foreign companies as an investor: (H2) & (H4)

Having the right to vote	1 2 3 4 5 6 7
Having the right to nominate and elect directors	1 2 3 4 5 6 7
Having the right to trade shares freely	1 2 3 4 5 6 7
Having the right to open and timely information	1 2 3 4 5 6 7

8. You agree that following attributes of **Trade Balances** affect SWF significantly. (H3)

Volume of bi-lateral trade	1 2 3 4 5 6 7
Currency value changes through trade balances	1 2 3 4 5 6 7
Trade balance effects on gross domestic production	1 2 3 4 5 6 7

9. Lack of **Investment Planning** affects the investment strategy in the form of: (H4), (H7), and (H8)

Short term planning	1 2 3 4 5 6 7
Decisions contain personal bias	1 2 3 4 5 6 7
Decisions appraisals are merit based	1 2 3 4 5 6 7
Absence of development plans and goals	1 2 3 4 5 6 7
Over dependence on specific persons for decisions	1 2 3 4 5 6 7
Administration system is un-organized	1 2 3 4 5 6 7
There is lack of professional skills	1 2 3 4 5 6 7
Lack of training funds for talent development	1 2 3 4 5 6 7

10. Oman doesn't **Integrate Investments** with other Gulf countries, especially their leading investors (Abu Dhabi, Dubai, Qatar and Kuwait) due to: (H5), (H8)

Political reasons	1 2 3 4 5 6 7
Administrative and financial differences	1 2 3 4 5 6 7
Unwillingness of the Sultanate	1 2 3 4 5 6 7
Unwillingness of neighbouring countries	1 2 3 4 5 6 7
It is not helpful	1 2 3 4 5 6 7
Difference in Size of investments and experience	1 2 3 4 5 6 7

11. **Absence of a specific plan** in place to shape the foreign investment is due to: (H4)

Govt. departments have overlapping responsibilities	1 2 3 4 5 6 7
Lack of interest from Govt.	1 2 3 4 5 6 7
Fear of risky foreign investment	1 2 3 4 5 6 7
Liquidity needed within the country	1 2 3 4 5 6 7
Political agenda is stronger	1 2 3 4 5 6 7

12. Following drawback of **Sponsoring Country Laws** in Oman affect the growth of fund. (H5)

It requires updating	1 2 3 4 5 6 7
Old laws are inappropriate with global markets	1 2 3 4 5 6 7
Current laws are very general	1 2 3 4 5 6 7
Favours local investments over foreign investments	1 2 3 4 5 6 7
Based on political objectives rather than investments	1 2 3 4 5 6 7

12. The following changes to **Laws & Regulations** will improve the investment process: (ST D1)

Diversifying Investment options	1 2 3 4 5 6 7
Applying common objectives to all funds	1 2 3 4 5 6 7
Identifying means of follow-up & assessment	1 2 3 4 5 6 7
Determining penalties for accountability	1 2 3 4 5 6 7
Conducting specialized research studies	1 2 3 4 5 6 7

14. The foreign investments **Allocation** is done with the following objectives: (H7)

Capital utilization	1 2 3 4 5 6 7
Diversification of income sources	1 2 3 4 5 6 7
The achievement of sovereign status	1 2 3 4 5 6 7
Integration with world markets	1 2 3 4 5 6 7

15. **Rejection of Foreign Investments** is resulted from the following: (H5)

Risk of low return	1 2 3 4 5 6 7
Priority towards local investment	1 2 3 4 5 6 7
Lack of clear objectives	1 2 3 4 5 6 7
Lack of sufficient information on global markets	1 2 3 4 5 6 7
Absence of agencies in investment decision-making	1 2 3 4 5 6 7
Risk of confiscation of capital invested	1 2 3 4 5 6 7
Wars and unrest	1 2 3 4 5 6 7
Bi-lateral trade relations	1 2 3 4 5 6 7

16. **Foreign Investments** are favoured on the basis of: (H7)

Low risk	1 2 3 4 5 6 7
Substantial financial returns	1 2 3 4 5 6 7
Guaranteed growth potential	1 2 3 4 5 6 7
Level of durability	1 2 3 4 5 6 7
Carrying global demand	1 2 3 4 5 6 7
Preferred by competing funds	1 2 3 4 5 6 7
Technology transfer objective	1 2 3 4 5 6 7

17. **Globally Specialized Companies** are approached for an investment opinion due to: (H4), (H7)

To do market research about global trends and competitors	1 2 3 4 5 6 7
Non-availability of sufficient expertise	1 2 3 4 5 6 7
To increase returns on investments made	1 2 3 4 5 6 7
To reduce internal staff costs	1 2 3 4 5 6 7
Absence of dedicated team to manage the process	1 2 3 4 5 6 7
Lack of clear policies and investment objectives	1 2 3 4 5 6 7

If any other reason, please mention here _____

18. Following scenarios are designed to develop the **Investment Deal** process further. (H7)

Increase the volume of foreign investments	1 2 3 4 5 6 7
Diversification of investments	1 2 3 4 5 6 7
Investment in new countries	1 2 3 4 5 6 7
Reduce the overall number of investment holdings	1 2 3 4 5 6 7
Help of specialized firms like Banks and Consultants	1 2 3 4 5 6 7

19. Following dimensions affect the **Operational Efficiency** of the fund: (H7), (H8)

Systematic Decision making process	1 2 3 4 5 6 7
Reliable decision making using professional managerial expertise	1 2 3 4 5 6 7
Research based decision making	1 2 3 4 5 6 7

20. The criteria upon which the **Investment Decision** is based are: (H8)

Volume of interest	1 2 3 4 5 6 7
Margin of risk	1 2 3 4 5 6 7
Financial guarantees	1 2 3 4 5 6 7
Security and stability of the country invested in	1 2 3 4 5 6 7
Return on investment	1 2 3 4 5 6 7
Size of the deal	1 2 3 4 5 6 7
Asset class of the investment	1 2 3 4 5 6 7

Section C : Change and Future of Oman SWF

21. **Oman SWF investment performance** is evaluated based on : (D)

Oman's policy towards Investment functions	1 2 3 4 5 6 7
Oman's performance compared to other GCC funds	1 2 3 4 5 6 7
The proportion of funds invested against returns	1 2 3 4 5 6 7
Comparisons with global financial institutions	1 2 3 4 5 6 7
Performance of funds in the fields of development	1 2 3 4 5 6 7
Divergence from plans	1 2 3 4 5 6 7
Contribution of the fund in reducing budget deficit	1 2 3 4 5 6 7
Rate of return achieved by fund	1 2 3 4 5 6 7

22. Below are **Possible Solutions** to develop investment strategy which would make Oman SWF competitive and growing. (IST)

Increasing importance of investment objectives	1 2 3 4 5 6 7
Creating plans and specific goals	1 2 3 4 5 6 7
Developing new laws and regulations	1 2 3 4 5 6 7
Cooperation and integration with GCC countries	1 2 3 4 5 6 7
Outsourcing global expertise from companies	1 2 3 4 5 6 7
Developing specialized human resources	1 2 3 4 5 6 7
Increase research for world markets	1 2 3 4 5 6 7
Adopting the system of assessment	1 2 3 4 5 6 7
A heavy sanctions for transgressors	1 2 3 4 5 6 7

23. Following **Changes** may improve the Fund's current success rate: (IST)

Increase the amount available to invest from current allocation limit of '15% of Oil revenue' to SWF	1 2 3 4 5 6 7
Increase the overseas investments	1 2 3 4 5 6 7
Increase the investment in emerging markets	1 2 3 4 5 6 7
Increase the local industry's investment	1 2 3 4 5 6 7
Bring Transparency level to international standards	1 2 3 4 5 6 7

24. You agree that following issues have significant **Impacts on the Progress** of Oman sovereign wealth fund. And, we shall remove these weakening aspects. (IST)

Bureaucratic decision making hierarchy	1 2 3 4 5 6 7
Risk aversion policy	1 2 3 4 5 6 7
Absence of any regulatory system	1 2 3 4 5 6 7
Lack of strategic planning	1 2 3 4 5 6 7
No usage of fund management skills	1 2 3 4 5 6 7
Non-research based investment decisions	1 2 3 4 5 6 7
Heavy emphasis on local investments	1 2 3 4 5 6 7
Spending investments money for budget deficit	1 2 3 4 5 6 7
Managing SWF from the finance ministry	1 2 3 4 5 6 7

25. You agree that following attributes may help to **Improve the Success Rate** of Oman SWF: (D)

Development of local talent	1 2 3 4 5 6 7
Strong cultural and religion integration of population	1 2 3 4 5 6 7
Improving trade relations within GCC region	1 2 3 4 5 6 7
Introducing new laws and regulations	1 2 3 4 5 6 7
Availability of multi sources of funds	1 2 3 4 5 6 7
Increasing consumer markets in Oman	1 2 3 4 5 6 7
Increasing governance and transparency of SWF	1 2 3 4 5 6 7

Section D: Investment Decision Making Process

Please select the most appropriate answers to decision making system of Oman SWF for each question from the alternatives provided. You may select more than one answer, in that mention your comments for selection.

No	Attribute
1	**Do recipient country clients approach SWF first to start the negotiation?** A: Yes, this happens in most cases B: No, it is very rare that they approach fund directly C: It depends on the opportunity and needs of either side.
2	**Whom does the client contact first in case the amount involved is large?** A: Government Ministry B: Top Management or Decision makers in SWF C: Departmental Managers in SWF D: Client's representative like consultant or investment banks contacts SWF
3	**What documents are required to be submitted by clients initially?** A: Project report B: Company report C: Annual report D: Investor presentations
4	**Based on which criteria the opportunities are scanned for investment?** A: Continuous stable income B: Short term liquidity and profit C: Currency stabilization D: Strategic assets
5	**Which factors influenced the appraisal of the investment proposals?** A: Strategic advantage over other competing SWFs B: Financial returns C: Bilateral trade with that country D: Political motives
6	**What is the organizational hierarchy to finalize the investment?** A: Client --> SWF top management --> Ministry --> SWF managers --> Client B: Client --> Ministry --> SWF top management --> Client C: SWF top management --> Ministry --> Client --> SWF managers D: SWF managers --> Client --> Ministry --> SWF top management
7	**Who manages the account post-investment?** A: Government Finance Ministry B: SWF managers C: Professional consultant / appointed advisor
8	**Who is responsible for making Decision Making of investment deals?** A:Each investment unit E: Specialized organization B: An ad-hoc committee F: Minister C: Special taskforce team G: Professional Manager D: Financial institutions H: External Portfolio Consultant
9	**What is the reporting structure for deal monitoring or divestment?** A: Ministry informs SWF management B: SWF management submits approval request to Government C: If other, please specify.
10	**What is re-investment or utilization of return or profit from the investments?**

	A: Addition to SWF assets for re-investment B: Transfer to other Government accounts C: Direct allocation to government sponsored projects within the country
11	**Why do SWF carry out divestment?** A: Social responsibility reasons like pollution by that company B: Trade regulations in that country C: Trade relations with that country D: Political relations with that country E: Decreasing Assets value F: Decreasing currency exchange rate of that country

You may provide your responses to the following last question in the space provided.

Could you tell me about recent specific incidents of a sovereign wealth fund that you feel went very well and went badly? Describe these two incidents and explain that why did you choose this incident.

A. Incident that went well:

B. Incident that could have been improved:

I would like to thank you for your valuable time and contribution in the research for Sovereign Wealth Fund of Sultanate of Oman and other countries. Your response is critical to further development and is really important.

Appendix G Global Sovereign Wealth Funds

Country & Fund Name	Amount US$ bn	Inception	Main source
United Arab Emirates Abu Dhabi Investment Authority (ADIA)	875	**1976**	Oil
Singapore Government of Singapore Investment Corporation (GIC)	330	**1981**	Non-commodity
Norway Government Pension Fund - Global (GPFG)	322	1990	Oil
Saudi Arabia Various funds	**300**	**NA**	**Oil**
Kuwait Investment Authority (KIA)	250	**1953**	Oil
China China Investment Company Ltd.	200	2007	Non-commodity
Hong Kong Hong Kong Monetary Authority Investment Portfolio	140	1998	Non-commodity
Russia Stabilization Fund of the Russian Federation (SFRF)	127	2003	Oil
China Central Hujin Investment Corp.	100	2003	Non-commodity
Singapore Temasek Holdings	108	**1974**	Non-commodity
Australia Australian Government Future Fund (AGFF)	50	2004	Non-commodity
Libya Reserve Fund	50	NA	Oil
Qatar Qatar Investment Authority (QIA)	40	2000	Oil
United States Alaska Permanent Reserve Fund Corporation (APRF)	40	1976	Oil
Brunei Brunei Investment Agency (BIA)	35	**1983**	Oil
Ireland National Pensions Reserve Fund (NPRF)	29	2001	Non-commodity
Algeria Reserve Fund	25	NA	Oil
South Korea Korea Investment Corporation (KIC)	20	2006	Non-commodity
Malaysia Khazanah National BHD (KNB)	18	1993	Non-commodity
Kazakhstan Kazakhstan National Fund (KNF)	18	2000	Oil, gas, metals
Canada Alberta Heritage Fund (AHF)	**17**	**1976**	Oil
Taiwan Taiwan National Stabilisation Fund (TNSF)	15	2000	Non-commodity
United States New Mexico State Investment Office Trust Funds	**15**	**1958**	Non-commodity
Iran Foreign Exchange Reserve Fund	15	1999	Oil
Nigeria Excess Crude Account	11	2004	Oil
New Zealand New Zealand Superannuation Fund	10	2003	Non-commodity
Oman State General Stabilisation Fund (SGSF)	**8.2**	**1980**	**Oil, gas**
Chile Economic and Social Stabilization Fund (ESSF)	6.0	2007	Copper
Botswana Pula Fund	4.7	1993	Diamonds et al.
United States Permanent Wyoming Mineral Trust Fund (PWMTF)	3.2	1974	Minerals
Norway Government Petroleum Insurance Fund (GPIF)	2.6	1986	Oil
Azerbaijan State Oil Fund	1.5	1999	Oil
East Timor Timor-Leste Petroleum Fund	1.2	2005	Oil, gas
Venezuela Investment Fund for Macroeconomic Stabilization (FIEM)	0.8	1998	Oil
Kiribati Revenue Equalisation Reserve Fund (RERF)	0.6	1956	Phosphates
Chile Pension Reserves Fund	0.6	2007	Copper
Uganda Poverty Action Fund	0.4	1998	Aid
Papua New Guinea Mineral Resources Stabilization Fund (MRSF)	0.2	1974	Minerals
Mauritania National Fund for Hydrocarbon Reserves	0.0	2006	Oil, gas
United Arab Emirates Dubai Intern. Financial Centre Investments (DIFC)	NA	2002	Oil
Angola Reserve Fund for Oil	NA	2007	Oil
Total	**3,190.00**		
Memorandum items: Planned SWF projects			
China State Foreign Exchange Investment Corporation (SFEIC)	200	2007e	Non-commodity
Russia Future Generations Fund of the Russian Federation (SFRF)	32	2008e	Oil
Bolivia (Establishment of SWF planned)	NA	2008e	Oil
Japan (Establishment of SWF presumed)	NA		Non-commodity

Source: Kern (2007) at www.dbresearch.com