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DOCTORAL THESIS

POLICY RISK AND INVESTMENT AND DIVESTMENT DECISIONS ABROAD

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RESUMEN DEL CONTENIDO DE TESIS DOCTORAL

RESUMEN (en español)

La presente tesis doctoral se compone de tres capítulos en los cuales se analiza la influencia que el contexto político en el país de destino tiene en las decisiones de inversión y desinversión de las empresas multinacionales. En concreto, esta tesis se centra en el análisis del efecto que el riesgo regulatorio tiene en estas decisiones haciendo especial hincapié en las multinacionales que desarrollan su actividad en sectores regulados. Para los propósitos de esta investigación, por empresa regulada se entiende aquella empresa que desarrolla su actividad en sectores en los cuales las condiciones de entrada, precios, y la mayor parte de los aspectos de su actividad son decididas por el gobierno. Por riesgo regulatorio se entiende el grado en el cual un determinado gobierno posee suficiente discrecionalidad para alterar las "reglas de juego" bajo las cuales la empresa desarrolla su actividad, con el consiguiente riesgo de que la rentabilidad de las inversiones de la empresa se vea dañada.

Los procesos de desregulación y liberalización vividos en los últimos años, así como la globalización de las economías, han impulsado el crecimiento internacional de las empresas reguladas. Durante mucho tiempo las empresas reguladas han disfrutado de ventajas de naturaleza oligopolista e incluso monopolista en sus países de origen como consecuencia de la alta regulación y del proteccionismo imperante. Esta situación favorable empezó a cambiar en el momento en el que los mercados domésticos iniciaron su liberalización y apareció la amenaza de competidores extranjeros. Este nuevo escenario hizo que las empresas reguladas se vieran obligadas a salir al exterior en busca de nuevos mercados. Al mismo tiempo, los procesos de liberalización iniciados en otros países también impulsaron el crecimiento exterior de las empresas reguladas. A pesar los cambios acontecidos en la industria, la decisión de estas empresas de expandirse internacionalmente así como el rendimiento de su expansión internacional continúan condicionados por las decisiones de los gobiernos. Operar en distintos entornos institucionales mediante la adopción de estrategias políticas efectivas es de vital importancia para las empresas multinacionales, y más aún para las empresas en sectores regulados. Por tanto, el componente político de la estrategia internacional de las empresas y, por consiguiente, las relaciones entre la empresa multinacional y el gobierno del país de destino, continúan siendo una cuestión muy importante.

Como consecuencia de la situación de proteccionismo vivida en el país de origen estas empresas carecen de los activos intangibles que han sido considerados como la base de la internacionalización de las empresas –e.g. tecnología propia. Sin embargo, estudios recientes argumentan que estas empresas han desarrollado en sus países de origen capacidades políticas que son una de las bases fundamentales de su crecimiento internacional. Estas capacidades les han permitido invertir en países con elevado riesgo regulatorio. A pesar de estos trabajos continuamos sin entender de forma completa el comportamiento internacional de estas empresas. Por este motive, esta tesis doctoral tiene un doble propósito. De un lado se busca determinar si realmente las empresas reguladas, en comparación con las empresas no-reguladas, siguen una estrategia de internacionalización diferente. De otro lado, se busca esclarecer el papel que las capacidades políticas juegan en la expansión internacional de las empresas. En realidad se continúa sin saber si las capacidades políticas son específicas de las empresas reguladas; o si las empresas no-reguladas también han desarrollado este tipo de capacidades. Adicionalmente, este trabajo también trata de determinar las condiciones bajo las cuales dichas capacidades políticas son más efectivas. El análisis de las cuestiones de investigación planteadas se lleva a cabo desde la perspectiva de las decisiones de inversión y desinversión.

Capítulo 1: En el primer capítulo se analiza la relación entre el riesgo regulatorio existente en el país de destino y la decisión de la empresa de invertir en dicho país. Las empresas que desarrollan su actividad en sectores regulados como la electricidad, agua, transporte y telecomunicaciones no siempre evitan el riesgo regulatorio cuando deciden invertir en un determinado país. En este primer capítulo se formula un modelo teórico basado en la teoría sobre el poder de negociación para determinar las condiciones bajo las cuales esta estrategia se puede desarrollar de forma más efectiva. Se argumenta que las empresas pertenecientes a estos sectores no evitan el riesgo regulatorio cuando invierten en países institucionalmente similares a su país de origen y cuando el desarrollo de la infraestructura local es bajo. Adicionalmente, se argumenta que las empresas de sectores regulados no siguen un proceso de expansión internacional gradual en lo que a su exposición al riesgo regulatorio se refiere. En análisis empírico desarrollado en este capítulo utilizando datos de panel de empresas españolas pertenecientes a sectores regulados y no-regulados durante los años 1986-2008 confirman las hipótesis planteadas en el capítulo. Por tanto, podemos afirmar que las empresas reguladas no evitan el riesgo regulatorio cuando deciden crecer internacionalmente. Así mismo, las empresas reguladas serán capaces de convertir este riesgo en una ventaja cuando el país de destino posea el mismo sistema legal que su país de origen y el desarrollo de la infraestructura local sea bajo.

Capítulo 2: En el Segundo capítulo se analiza el efecto que las conexiones políticas desarrolladas en el país de origen tienen en el crecimiento internacional de las empresas. Por conexiones políticas se entiende la existencia de algún tipo de lazo, bien de carácter personal o institucional, entre la empresa y el gobierno. Pese a que existen varios tipos de conexiones políticas, en este capítulo nos hemos centrado en el caso concreto de los lazos políticos en el consejo de administración. En este caso, la existencia de una conexión política implica que un miembro del consejo de administración de la empresa haya tenido previamente algún cargo en el gobierno. Investigaciones previas han demostrado que las empresas obtienen ventajas de sus conexiones políticas, sin embargo no todas las empresas obtienen beneficios de tales conexiones en la misma medida. En este capítulo se desarrolla un modelo multinivel el cual determina las condiciones a nivel de empresa, industria, país

de destino y región que hacen que las empresas puedan explotar en el exterior con mayor efectividad sus conexiones políticas. Se plantea que las conexiones políticas favorecen el crecimiento internacional de las empresas sobre todo para aquellas con un mayor nivel de activos intangibles, operando en sectores regulados, invirtiendo en países que poseen gobiernos con elevada discrecionalidad y en regiones en las que los países comparten similitudes institucionales. En este capítulo se consideran a las conexiones políticas como un recurso valioso que les va a permitir expandirse en el exterior. Utilizando datos de panel sobre las conexiones políticas de las empresas españolas cotizadas en el periodo 1986-2008 se obtienen resultados robustos que confirman las hipótesis planteadas en este capítulo.

Capítulo 3: En el tercer capítulo se analiza la relación entre el riesgo regulatorio en el país de destino y la decisión de desinvertir en el exterior. El riesgo regulatorio en el país de destino se ha venido considerando como un factor disuasorio tanto de la decisión de invertir como la de mantener las inversiones en un determinado país, toda vez que la exposición a cambios arbitrarios en las regulaciones reduce el valor de las inversiones. Sin embargo, tal y como se demuestra en el primer capítulo, las empresas reguladas no siempre evitan el riesgo regulatorio a la hora de invertir. En este sentido, este último capítulo trata de determinar el efecto que el riesgo regulatorio en destino tiene en la decisión de desinvertir en el exterior. Partiendo de la teoría de dependencia de recursos se desarrolla un marco teórico para explicar la influencia del riesgo regulatorio en la decisión de desinvertir de las multinacionales que operan en sectores regulados. Mediante un modelo de supervivencia se analiza la interrelación entre el riesgo regulatorio y el nivel de capacidades políticas de las empresas, así como otros cambios en el entorno y, cómo en conjunto condicionan la decisión de desinvertir. Los resultados obtenidos muestran que en el caso de empresas reguladas el riesgo regulatorio disminuye la probabilidad de que se produzca una desinversión, siendo esta relación aún más negativa para aquellas empresas que poseen un mayor nivel de capacidades políticas. Sin embargo, cambios en el partido o coalición política que se encuentra gobernando en el país de destino, así como el paso del tiempo, hacen menos negativo el efecto del riesgo regulatorio sobre la probabilidad de desinvertir.

En resumen, esta tesis doctoral contribuye a la literatura sobre la estrategia internacional de las empresas considerando el contexto político del país de destino. En concreto, este trabajo contribuye al desarrollo de una reciente línea de investigación la cual considera que las capacidades políticas desarrolladas en origen permiten a las empresas crecer en el exterior. Los resultados presentados en esta tesis nos permiten afirmar que las empresas son heterogéneas en su comportamiento hacia el riesgo regulatorio en destino. Se demuestra cómo las empresas reguladas, al contrario que las no-reguladas, no evitan invertir en países con elevado riesgo regulatorio. Así, estas empresas son capaces de transformar es tipo de riesgo en una ventaja, siempre y cuando el país de destino sea institucionalmente similar a su país de origen y la infraestructura local esté poco desarrollada. Así mismo, se demuestra cómo las conexiones políticas desarrolladas en origen favorecen la expansión internacional de las empresas, siendo más valiosas para aquellas con un mayor nivel de activos intangibles, operando en sectores regulados, e invirtiendo en países con gobiernos discrecionales y con el mismo sistema legal que su país de origen. Finalmente, los resultados presentados en esta tesis nos permiten confirmar que en el caso de empresas reguladas el riesgo regulatorio disminuye la probabilidad de que las empresas decidan desinvertir, siendo esta relación aún más negativa para aquellas empresas con un mayor nivel de capacidades políticas. Se confirma también que el paso del tiempo y cambios en los gobiernos disminuyen el efecto negativo de esta variable en la decisión de desinvertir.

RESUMEN (en Inglés)

This thesis is comprised of three chapters which analyze the effect that the political context in the host country has on firms' investment and divestment decisions abroad. In particular, this thesis analyzes the effect that policy risk has on these decisions with a special focus on firms operating in regulated industries. For the purposes of this research regulated firms are those which develop their activities in industries where conditions of entry, prices, and many other aspects of the business are often decided by the government. By policy risk we understand the degree to which governments and regulators have the discretion to alter the conditions under which a firm develops its activities in a country ("the rules of the game"), potentially damaging the profitability of its investments.

Deregulation and liberalization processes around the world, coupled with globalization, have prompted the internationalization of firms operating in regulated industries. For a long time, these firms have enjoyed oligopolistic and even monopolistic advantages in their home markets due to regulation and protectionism. This favorable situation changed as home markets started their deregulation and liberalization, and the threat of foreign competition appeared. This new scenario forced regulated firms to invest abroad looking for new markets to compensate this less favorable situation at home. At the same time, liberalization processes initiated in other countries also encourage firms' foreign growth.

Despite these changes in the industry, the decision of expanding abroad and the performance of the international expansion of these firms are conditioned by government's decisions everywhere. As a consequence, cross-country differences regarding the institutional environment are more important nowadays than ever. Navigating institutional differences through the implementation of effective political strategies is imperative for multinationals, and more for those operating in regulated industries. So, the political component of the firm's international strategy, and consequently relationships between multinationals and host country governments, remain an important issue.

As a consequence of the lack of competition in their home countries, these firms have not developed proprietary technology and/or other intangible assets —e.g. market and managerial skills— which have been considered the bases of the international expansion of firms. In this vein, some recent works have highlighted that these firms have developed at home political capabilities which are the cornerstone of their international growth. These capabilities allow regulated firms to invest in foreign countries characterized for having greater levels of policy risk. The main justification of this thesis is that, despite these works, we do not fully understand the international behavior of regulated firms. For this reason this work has a

twofold purpose. First, this thesis tries to analyze if regulated firms actually follow a different international strategy in comparison with non-regulated firms and also determine the limits of this strategy. Second, it seeks to clarify the role that political capabilities play on firms' international expansion. Actually, we do not know if these capabilities are specific to regulated firms or, on the contrary, also non-regulated firms have developed them. Additionally, this work also establishes the boundary conditions in the effective use of these capabilities.

Chapter 1: In the first chapter we analyze the relationship between the level of policy risk in the host country and the decision of firms to invest abroad. Firms operating in regulated industries such as electricity, water, transportation, and telecommunications do not always avoid policy risk when choosing a foreign country in which to invest. In this first chapter we formulate a theoretical framework based on bargaining power theory to account for the boundary conditions of this risk-seeking behavior. We argue that regulated firms do not shy away from policy risk when entering a country with a similar legal system, and when the development of the infrastructure is low. We also argue that regulated firms do not follow a gradual process in their exposure to policy risk. An empirical analysis using panel data on the international expansion of Spanish regulated and non-regulated listed firms from 1986 to 2008 confirms these hypotheses. So, we can affirm that regulated firms do not avoid policy risk when investing abroad. They are able to turn policy risk into an advantage when the host country institutional environment is similar to the home country one, and when the level of local infrastructure development is low.

Chapter 2: In the second chapter we analyze the effect that political connections developed at home have on firms' foreign growth. By political connections we understand that a firm is connected to the government through personal or institutional links. In this thesis we have focused our analysis in one type of political connections, that is, on political connections on the board of directors. In this case, a political connection exists when one member of the board of directors has held a position in the government. Previous research has shown that organizations derive advantages from their political connections, although not every organization profits from such connections to the same extent. We develop a multi-level theory of the effect of political connections in the home country on foreign organizational growth, delineating the boundary conditions at the firm, industry, country, and supranational levels. We argue that political connections facilitate foreign growth, especially for firms with higher levels of intangible assets, in heavily regulated industries, in foreign countries with few checks and balances on the executive branch of the government, and in regions of the world sharing a similar institutional framework with the firm's home country. We use panel data on the political connections of Spanish listed firms from 1986 to 2008, and find robust support for these hypotheses. This work adopts a recent view that considers political connections as valuable resources for firms expanding abroad more than personal ties.

Chapter 3: The third chapter analyzes the relationship between policy risk in the host country and the decision of divest. Policy risk in the host country has been considered as a deterrent both to incoming foreign direct investments and to the maintenance such investments there, as the exposure to arbitrary changes in regulations reduces the value of the investment. However, as it showed in the first chapter, regulated firms do not avoid investing in these countries. In this sense, this last chapter tries to analyze the effect that policy risk has on the decision of divest of these firms. Building on resource dependence theory we developed a theoretical

framework to explain the influence of policy risk on divestment decisions by multinationals from regulated industries. Using a survival model we analyze the interrelation of policy risk with the firms' level of political capabilities as well as other changes in the environment, and how all of them condition divestment decisions. The results show that in the case of regulated firms, policy risk decreases the chance of a divestment occurrence. In addition, the level of political capabilities makes this effect even more negative. However, changes in the political party that is in power in the host country and the firm's experience in that country increase the probability of divest.

In summary, this thesis tries to contribute to shed new light on the analysis of firms' international strategy considering the effect of the political context. In particular, this work contributes to the recent line of research that states that firms have developed at home political capabilities that allow them to grow abroad. The results showed in this thesis allow us to confirm that firms are heterogeneous in their behavior when facing policy risk in the host country. It is demonstrated that regulated firms, in comparison with non-regulated firms, do not avoid investing in policy risky countries. These companies are able to transforms policy risk into an advantage when the host country institutional environment is similar to the one in the home country, and when the level of the local infrastructure development is low. In the same way, it is demonstrated that political connections in the home country encourage firms' foreign growth, being more valuable for firms with more intangible assets, operating in regulated industries, and investing in countries having discretionary governments and in regions of the world sharing a similar institutional framework with the firm's home country. Finally, our results also confirm that for regulated firms political resources are valuable also during the life of the investment. It has been demonstrated that policy risk has a negative effect on firms' divestment decisions, being this effect more negative for firms having more political capabilities. However, this effect is less negative as time goes on, and there are changes in the political party that occupies the government.

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INTRODUCTION

The Political Context of Foreign Direct Investment

INTRODUCTION: The Political Context of Foreign Direct Investment

Deregulation and liberalization processes around the world, coupled with globalization, have prompted the internationalization of firms operating in regulated industries. For a long time, these firms enjoyed oligopolistic and even monopolistic advantages in their home markets due to regulation and protectionism. However, this favorable situation changed as home markets started their deregulation and liberalization, and the threat of foreign competition emerged. This new scenario forced regulated firms to invest abroad looking for new markets to compensate their declining prospects at home. At the same time, liberalization processes initiated in other countries also encouraged firms' foreign growth.

Despite these changes in the industry, for these firms the decision of expanding abroad and the performance of the international expansion are still conditioned by government's decisions everywhere. As a consequence, cross-country differences regarding the institutional environment are more important nowadays than ever. Navigating institutional differences through the implementation of effective political strategies is imperative for multinationals, especially for those operating in regulated industries. Thus, the political component of the firm's international strategy, and consequently the study of the relationships between multinationals and host country governments, remains an important issue. For the purposes of this research regulated firms are those which develop their activities in industries where conditions of entry, prices, and many other aspects of the business are often decided by the government.

Empirical research illustrates the relevance that the political context has on the international expansion of regulated firms. The cases of some Spanish companies investing in Latin America constitute a clear example of this situation, being the recent case of Repsol in Argentina a paradigmatic one. In 1999 Repsol bought YPF, the first Argentinian oil company, becoming one of the main world players in the industry. After thirteen years operating in the country, the Argentinean government decided in 2012 the nationalization of Repsol's subsidiary, YPF. Conflicts between the Argentinean government and Repsol started after the company discovered gas and oil fields in Vaca Muerta, which became the biggest reserves of petroleum in the West[1]. Far from being resolved, the conflict between the Spanish company and the Argentinian government came to the International Centre for Settlement of Investment Disputes (ICSID), and currently, Argentina and Repsol have reached an agreement which includes an economic compensation to the Spanish company. But not only Spanish multinationals are affected by conflicts with foreign governments. The same happens with other companies based in other countries such as, for instance, the Egyptian telecommunication company Orascom Telecom. In its operations in Algeria, as consequence of a diplomatic mistake made by the construction arm of the Orascom group, the Algerian government started a crusade against the company. Changes in the rules of the game provoked the leave of Orascom from Algeria with the sale of its Algerian subsidiary to the Russian company VimpelCom.

[1] Reuters, 25th November 2013.

As a consequence of the lack of competition in their home countries, regulated firms have not developed proprietary technology and/or other intangible assets like marketing skills which have been considered the bases of the international expansion of firms. In this vein, some recent works have highlighted that these firms have developed at home political capabilities which are one of the main cornerstones of their international growth. Because these capabilities allow regulated firms to deal with foreign politicians and regulators, previous research has found that these firms prefer investing in countries where the level of policy risk is high (García-Canal and Guillén, 2008; Holburn and Zelner, 2010), as in these countries the number of people involved in the negotiations is lower. These works explain this fact acknowledging that regulated firms have political capabilities which allow them to take advantage of policy risk. However, despite these works, there are some gaps in this literature that this research tries to fill. For instance, we still do not know what are political capabilities, nor the direct effect that they have on the international expansion of firms. Furthermore, we do not know to what extent non-regulated firms develop political capabilities in the same way that regulated ones. Additionally, the extant literature regarding this topic has centered its analysis on firms' investment decisions and they have overlooked the analysis of firms' divestment decisions, an equally important one in the international expansion of firms.

Considering all these gaps, this work has a twofold purpose. On the one hand, this dissertation tries to analyze whether or not regulated firms actually follow a different international strategy in comparison with non-regulated firms. On the other hand, it seeks to clarify the role that political capabilities play on firms' international expansion; that is, whether these capabilities are specific to regulated firms or, on the contrary, also non-regulated firms develop them. Additionally, this work also identifies the boundary conditions

in the effective use of these capabilities, which will allow us to better understand firms' political behavior in general and regulated firms' political behavior in particular.

In this dissertation we develop a theoretical framework based on Bargaining Power and Resource Dependence Theories to analyze the influence that the political context in the host country has on firms' investment and divestment decisions abroad. The international expansion of firms can be analyzed from a political perspective, considering it as the outcome of a bargaining relationship between the foreign multinational and the host country government. In this relationship, both parties pursue their own objectives but, at the same time, they are highly interdependent, because each of them has resources that the other needs. Local governments search for foreign direct investment to improve local competition, the development of the local infrastructure, and the upgrade of domestic firms' technology. Foreign multinational pursue access to natural resources, new markets, and other local advantages such a lower labor costs. Firm's investment and divestment decisions abroad reflect the outcomes of the negotiation between both, the foreign multinational and the local government.

In fact, multinationals-host country governments' relationships have been considered in terms of the balance of power and mutual dependence between both parties. Traditionally, the literature analyzing these relationships has considered them as relationships of confrontation (Eden et al. 2005). Once the company has made its investments in the host country the balance of power shifts to the host government —a shift labelled by Vernon (1971) as the "Obsolescing Bargain." International Business researchers have left aside this kind of relations as they were associated with the conflictive international environment in the 70s. Nevertheless, recent events such as the cases of Repsol or Orascom, and even Sacyr in

Panama are clear evidence of the revival of these conflictive relationships. In this sense, the concept of Obsolescing Bargain should not be forgotten.

In summary, this work tries to answer the following research questions in relation to the firm's international expansion: Do regulated and non-regulated firms behave in the same way when facing an unfavorable political context in the host country?; Which are the limits in the international expansion of regulated firms?; Do political resources favor firm's international expansion?; Which are the limits to the effective use of these resources?; How does the political context influence on getting favorable outcomes in multinationals-host governments relationships?, and finally, Which are the limits to getting favorable outcomes in these negotiations?

As empirical evidence we analyzed the effect that policy risk in the host country has on firm's investment and divestment decisions abroad, and also the effect that the level of political resources has on these decisions. For the purposes of this research, by policy risk we understand the degree to which governments and regulators have the discretion to alter the conditions under which a firm develops its activities in a country ("the rules of the game"), potentially damaging the profitability of its investments (Henisz, 2000). The main source of information to carry out this analysis was the Systematic Database on International Operations of Spanish Companies, built under the sponsorship of the Spanish Institute for Foreign Trade, ICEX (see Guillén and García-Canal, 2007). This database comprises international operations carried out by Spanish firms from year 1986 to 2010.

This dissertation has been structured in three chapters. In the first chapter we analyze how the level of policy risk in the host country influences firms' decision to invest in the case of firms operating in regulated and non-regulated industries. We find that regulated firms do not avoid investing in policy risky countries whilst non-regulated firms avoid investing there.

We also analyze the boundary conditions of this different behavior of regulated firms. In the second chapter we analyze the role that political connections developed at home have on the decision of entering into foreign countries, and the boundary conditions in the effective use of these resources. We find that the advantages associated with political ties are contingent on firm, industry, host country, and supranational characteristics. In the third chapter we analyze the effect of policy risk in the host country on firms' divestment decisions, and also the conditions under which this risk may increase the probability that a firm takes this decision.

The last part of this thesis summarizes the main contents and conclusions that can be extracted from this work.

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Chapter 1

Do Regulated Firms Have a Taste for Risky Countries?

1.1. INTRODUCTION

Recent research has examined the nonmarket considerations that lead firms to adopt different strategic postures with a view to enhancing their performance (Baron 1995, 1999, 2003; Boddewyn and Brewer, 1994; Bonardi et al., 2006; Henisz, 2003; Hillman and Hitt, 1999; Wan, 2005; Puck et al. 2013). Nonmarket strategy is about gaining the support of, or overcoming the resistance of, politicians, regulators, and governments, among other stakeholders. In fact, it is through the concept of nonmarket strategy that scholars are starting to explain intriguing stylized facts documented in recent empirical research, such as the overexposure of some companies to countries with high policy risk (see, for instance, García-Canal and Guillén, 2008; Holburn and Zelner, 2010; Jiménez et al., 2013). By policy risk we understand the degree to which governments and regulators have the discretion to alter the conditions under which a firm develops its activities in a country ("the rules of the game"), potentially damaging the profitability of its investments.

When choosing the destination of their horizontal foreign direct investments (FDIs), firms tend to focus on locations where they can exploit their ownership advantages, taking into account not only the availability of resources in the host country, but also other local factors, such as macroeconomic and policy risks (Dunning, 1988; Rivoli and Salorio, 1996). Avoiding countries with discretionary governments seems to be the natural response to policy risk for most firms. Obviously companies have a second option, i.e. managing this uncertainty by implementing nonmarket strategies to mitigate the negative impact of policy risk. However, the vast majority of previous research has shown how firms tend to avoid investing in countries with discretionary governments in order to avoid being expropriated, either in full or in part (Globerman and Shapiro, 2003; Henisz, 2000; Henisz and Delios, 2001; Henisz and Macher, 2004; Henisz and Zelner, 2005; Holburn, 2001; Murtha, 1991; Murtha and Lenway,

1994). Previous research also shows that experience in operating in countries with policy risk moderates the propensity to avoid these countries (Delios and Henisz, 2003). This result suggests that not all firms are equally prepared to deal with policy risky countries. Nevertheless, we do not know yet which are these firms and the boundary conditions under which they can successful operate in these countries.

Empirical evidence clearly shows discrepancies regarding the avoidance or risk-taking behavior of firms when dealing with policy risk. Some works consider policy risk as an exogenous factor that discourages investments, and others see this factor as something that can be managed, an endogenous factor. Most of the work that sees policy risk as an exogenous factor, has analyzed the case of firms operating in non-regulated industries (Delios and Henisz, 2003; Desbordes, 2007; Guler and Guillén, 2010; Henisz and Delios, 2001; Henisz and Macher, 2004). In contrast, those that highlight the endogenous nature of this variable basically analyze firms from regulated industries (García-Canal and Guillén, 2008; Holburn and Zelner, 2010). For instance, García-Canal and Guillén (2008) highlight the different behavior of firms operating in regulated industries when facing policy risk or macroeconomic uncertainty. They show how regulated firms in their sample avoided investing in countries where macroeconomic uncertainty was high, whilst they tended to invest in countries with high policy risk. This different behavior may be explained if we consider that some firms have polit ical capabilities that help them to take advantage of the discretionary power of host governments to get favorable outcomes in the bargaining process, in such a way that firms and governments can get to win-win situations.

It is hard to understand the existence of MNEs from regulated industries without taking into account political capabilities. Regulated firms lack the traditional ownership advantages that have been used to explain a firm's international expansion, such as technology or renowned brands. Instead of these traditional assets, these firms have, among other things, political capabilities that have been the basis of their international expansion (García-Canal and Guillén, 2008; Henisz, 2003; Holburn and Zelner, 2010). Specifically, these firms have accumulated knowledge regarding how to deal with regulators and governments in home countries, which can be used when they expand to unstable environments (Buckley et al., 2007; Cuervo-Cazurra, 2011; Cuervo-Cazurra and Genc, 2008; García-Canal and Guillén, 2008; Holburn and Zelner, 2010). Henisz (2003) defines this knowledge as "the ability to manage institutional idiosyncrasies". In his work, Henisz adds these skills to the traditional ownership advantages (marketing and managerial skills, and technology) that explain the internationalization of firms from regulated industries.

In this chapter, we analyze entry decisions in policy-risky countries as the outcomes of bargaining processes with host governments in which firms leverage their political capabilities to obtain favorable entry conditions. Our framework is based on bargaining power theory (Eden and Molot, 2002; Kobrin, 1987; Nebus and Rufin, 2010; Vernon, 1971; Vivoda, 2009, among others). From this perspective, bargaining relationships were traditionally considered as relationships of confrontation (Lecraw, 1984; Moran, 1974; Vernon, 1971), although recent developments analyze them as cooperative processes aimed at getting to win-win situations for all of the parties in the relationship (Dunning, 1993; Luo, 2001, 2004; Stopford, 1994). We argue that regulated firms have more political capabilities than non-regulated ones. Thank to these capabilities they are able to get better outcomes when bargaining with discretionary governments. That is the reason why they are more prone to

invest in policy-risky countries. We also argue that the similarity between home and host legal systems, the host country's level of infrastructure development, and the firm's international experience, moderate the propensity of regulated firms to invest in policy-risky countries. We test our hypotheses with a sample of Spanish regulated and non-regulated listed companies that invested during the period 1986-2008. Our results show that regulated firms show greater propensity to invest in countries where policy risk is higher than do non-regulated firms, which actually avoid investing in these countries. However, this differentiated behavior varies across policy-risky countries and it is also moderated by the type of legal system, the degree of the host country's infrastructure development, and the firm's international experience.

1.2. THEORY AND HYPOTHESES

As we have stated before, a firm's entry decision into a particular country may be considered as the outcome of a bargaining relationship between the MNE and the host country government (Vernon, 1971). In this bargaining relationship MNEs may be granted by host governments with privileged access to their markets, infrastructure and natural resources. In exchange, MNEs are able to improve a host country's resource endowment by transferring scarce resources to domestic firms, such as knowledge, financial resources and management skills (see Eden and Molot, 2002; Grosse and Aramburu, 1999). The existence of policy risk makes bargaining processes with host governments more complex because any agreement regarding taxation, pricing, investments, and so on, is less credible, as discretionary governments can alter the rules of the game due to the lack of checks and balances (Henisz and Williamson, 1999). In other words, when dealing with discretionary governments firms can suffer what Vemon (1971) called the "obsolescing bargain." He described MNE-host government bargaining as a process in which the MNE is the part that has more power at the

beginning of the relationship, but once the MNE invest in the country the balance of power shifts to the host government.

In the context of a relationship of confrontation, policy risk in the host country is a factor that strongly discourages MNEs to enter into these bargaining relationships. The average firm that is willing to invest in a foreign country will avoid policy-risky destinations because of the lack of credibility of the commitments of the host government (Henisz and Williamson, 1999). Additionally, in the presence of uncertainty, some firms may prefer to postpone their investments, waiting for a more favorable scenario to start a bargaining process with the government (Rivoli and Salorio, 1996). The strong evidence above, regarding MNE investment avoidance in policy-risky countries by belonging to non-regulated industries, clearly shows that these firms stick to what can be expected according to the received theory concerning the influence of policy risk in location choice. Considering these arguments we state in our first (baseline) hypothesis that:

Hypothesis 1. Policy risk in the host country discourages entry by foreign firms.

1.2.1. Boundary Conditions

As stated before, there is some controversy about the effect of host country policy risk on firms' location choice. It is expected that regulated firms —those more exposed to regulations— have developed political capabilities in their home countries to a greater degree than non-regulated firms, and can help them to deal with policy risk when investing abroad. Additionally, we argue that not all countries with discretionary governments may constitute an opportunity for these firms, as we expect that there are limits to the effectiveness of their political capabilities. We also argue that regulated companies have a different expansion path

than the one suggested by the Uppsala Model, due to the specific way in which they experience the "obsolescing bargain" Vernon (1971).

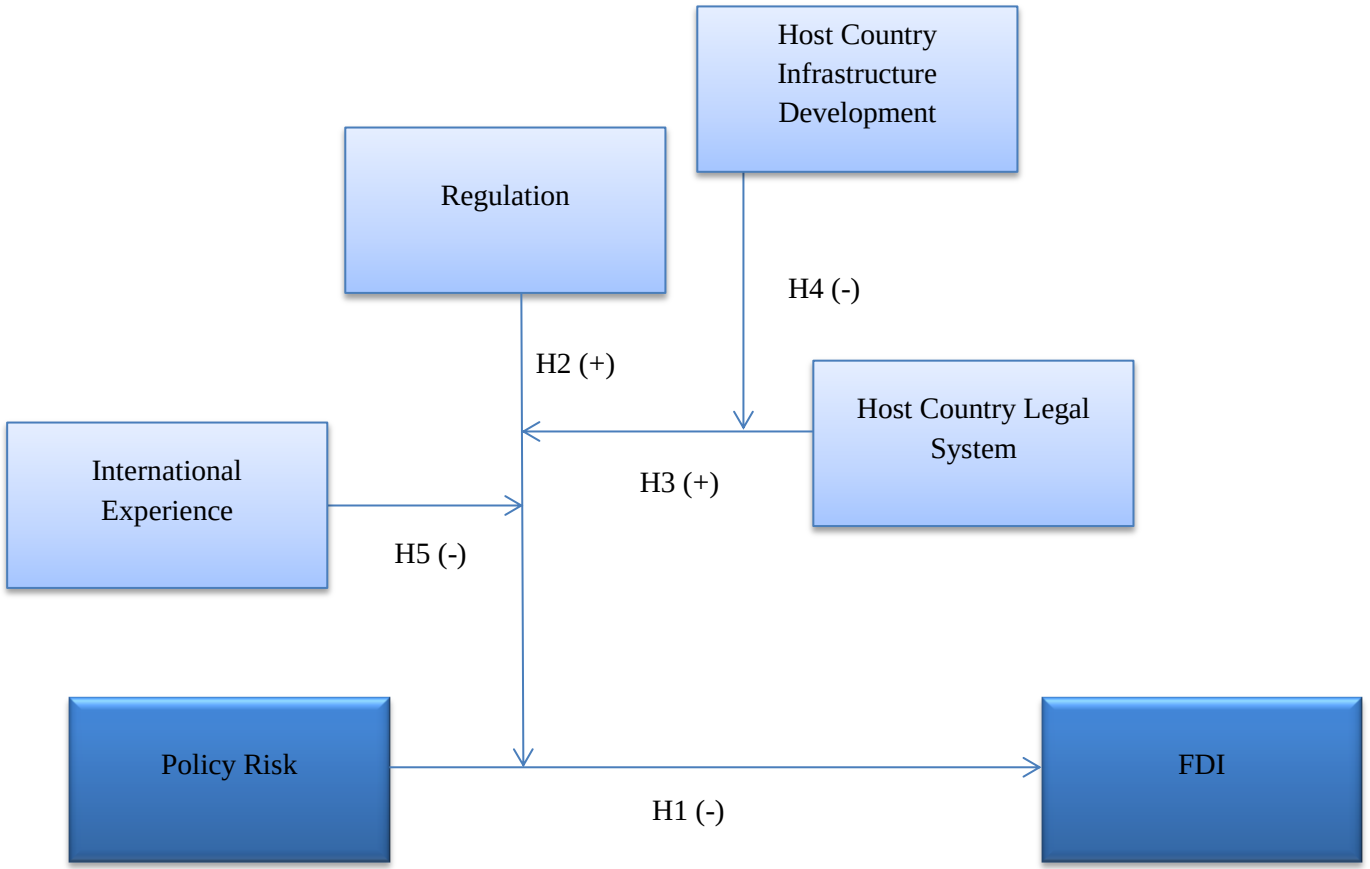
Attitude toward policy risk across industries: regulated vs non-regulated firms. The bargaining relationship described for the average firm may be somewhat different in the case of regulated industries, as suggested by recent empirical evidence and recent theoretical developments on the relationship between MNEs and host governments. In effect, a more recent stream of research has considered these relationships as cooperative situations in which both parties can gain (Dunning, 1993; Luo, 2001, 2004; Stopford, 1994). On this basis, we argue that in regulated industries it is easier to achieve win-win situations when governments have greater discretion, as they can grant better entry conditions to the MNE in exchange for infrastructure investments that extend the regulated service to the entire population of the host country (Garcia-Canal and Guillén, 2008). Put another way, in this situation governments have ample discretion to achieve a greater commitment by the MNEs, and MNEs can achieve better entry and operating conditions. These entry conditions can entail reduced fees, less competition, privileged finance, and so on. Thus, in policy risky countries it is possible to gain better entry conditions than in policy stable countries. In policy stable countries there are more checks and balances, so it is more difficult to move beyond conventional practices in the industry (Holburn and Vanden Berg, 2002). The flip side is that this discretion makes it easy for host governments not to honor their commitments, altering the "rules of the game" after the MNE's entry. Discretionary governments may want to renegotiate investment conditions in an opportunistic way (Ontiveros et al., 2004), finally damaging the MNE investment's profitability.

Obviously, regulated firms can be more damaged by policy risk, as they are the most exposed to regulations (Levy and Spiller, 1994; Ramamurti, 2003; Ramamurti and Doh, 2004). However, firms from regulated industries can exploit abroad the political skills developed at home by operating in a regulated context not only at the initial negotiation stage, but also in the post-investment negotiations. Thanks to these capabilities they can take advantage of, and/or keep at bay, the discretionary power of the government. In addition, FDI in regulated industries is usually the consequence of privatization or liberalization programs that are easier to put into practice by discretionary governments (García-Canal and Guillén, 2008). For these reasons, we expect more investments in countries with discretionary governments in the case of regulated industries, than for non-regulated ones. As previously mentioned, in the case of non-regulated industries we do not expect this effect of FDI attraction by policy-risky countries, not only because non-regulated firms have less political capabilities, but also because governments have less impact on their profitability in the context of a win-win situation, and firms rely more on their own resources (Luo, 2004). Furthermore, policy stability is a crucial factor for non-regulated firms, principally for companies with highly developed technology, as the protection of this resource is essential (Henisz and Macher, 2004), something that is less important for regulated firms which lack proprietary technology. Finally, whereas non-regulated firms lose all their bargaining power once in the foreign country, regulated firms retain some of their bargaining power, as infrastructure development is made gradually (Lecraw, 1984). Taking all of this into account, our second hypothesis states that:

Hypothesis 2. Regulated firms will show a higher propensity to invest in policy-risky countries than firms from non-regulated industries.

As we expect regulated firms to behave differently when facing policy risk due to their greater level of political capabilities, an additional research question arises: do these firms behave in the same way in all countries with policy risk? Some evidence suggests that the preference for policy-risky environments is not present in all countries. In fact, Henisz and Zelner (2001) found that policy risk, on average, reduces the probability of infrastructure investment in the telecommunication industry. We argue that some boundary conditions apply to the preference that regulated firms have for policy-risky countries. First, we expect that the host country's legal system and the degree of infrastructure development will moderate the propensity of regulated firms to invest in policy-risky countries. In addition, we also argue that this preference will be reduced as firms accumulate more international experience. Figure 1.1 summarizes the causal relationships stated in our hypotheses.

Figure 1.1. Causal relationships established in our theory



Influence of the home country legal system. We argue that the political capabilities developed by regulated companies in their home country are specific to the local law. This is due to the fact that the bargaining experience accumulated in their home country is related to operating under the local legal system. Obviously, each national legal system has different boundaries regarding what is acceptable and what is not, and when it comes to defending a firm's interests, each legal system requires specific routines and has idiosyncratic ways of framing legal issues that firms must be aware of (La Porta et al., 2008; Luiz and Rupla, 2010; Scott, 2011). For all these reasons the knowledge and skills accumulated by regulated companies in their home country are specific to their legal system. When trying to exploit this sort of knowledge abroad, it is more valuable in countries which share the same legal system, i.e. whose national law is close to that of the regulated MNE home country.

Legal systems matter because they affect the way in which governmental agencies and regulatory bodies are organized, and also the level of regulation (La Porta et al., 2008). Legal origin theory establishes that "countries have pervasive regulatory styles inherited from the transplantation of legal systems" (Botero et al., 2004: 1339). In fact, several studies have established similarities between countries and their type of regulations, depending on their legal origin. For instance, Botero et al. (2004) found that legal origins explain the variation in labor regulations across eighty-five countries. Glaeser and Shleifer (2002) showed how the independence of the judicial system also varies across families of the legal system. When firms expand to countries with a different legal system, they have more difficulties in operating and dealing with regulations, because they lack the common ground provided by the similarity of the legal system. In other words, when companies move outside the set of countries sharing the same legal system, they are less able to turn policy risk into an advantage. Based on these arguments we state that:

Hypothesis 3. The propensity of regulated firms to invest in policy-risky countries will be greater for those with the same legal system as the investor's home country.

Influence of the host country's infrastructure development. As we argued previously, the development of infrastructure in the host country is one of the most important bargaining chips for regulated multinationals dealing with discretionary host governments. Considering that regulated firms prefer to invest in policy-risky countries with the same legal system as that of their home country (previous hypothesis), we argue that they are likely to invest more in countries where the level of infrastructure development is low. In this sense, some countries, particularly developing countries, are usually dependent on foreign direct investment when they launch deregulation or privatization processes aimed at improving the provision of regulated services (Guillén and García-Canal, 2013; Narula and Dunning, 2000; Ramamurti, 2004). In fact, the literature on regulation theory has shown how developed and developing countries have different objectives when they embark on privatization or deregulation processes (Boubakri et al., 2005; Parker and Kirkpatrick, 2005: 528): on the one hand, developed countries look for improvements in the provision of these services by fostering competition and raising extra funds through bidding processes. On the other hand, governments and regulators in developing countries are more concerned with development of the infrastructure, something that is already complete in developed countries, so as to promote economic development and national welfare.

It is in this context of low infrastructure development and homogeneity of legal systems where a regulated company willing to expand abroad can find the best scenario for reaching win-win agreements with discretionary governments. First, policy risk and homogeneity in legal systems favor open negotiations. Second, the degree of infrastructure development will influence the bargaining power of both firms and host countries (Galan et

al., 2007; Narula and Dunning, 2000). Third, the bargaining power of regulated firms in these countries does not become obsolete as quickly, as happens with the investments of non-regulated firms, because infrastructures are developed gradually (Lecraw, 1984). There is, thus, a time window in which regulated companies can use their bargaining power to avoid being expropriated by the host government while enjoying the favorable entry conditions negotiated with it. The length of this time window will decrease with the degree of development of the local infrastructure. Thus, while policy risk can be an advantage when infrastructure development is low (provided that the host country has the same legal system as the home country of the MNE), it turns into a disadvantage when infrastructure is fully developed. This is why it is expected that regulated firms will reduce their propensity to invest in countries with discretionary governments that share their same legal system as the degree of infrastructure development in the host country increases, because they would be fully exposed to the obsolescing bargain. Based on these arguments we state in our fourth hypothesis that:

Hypothesis 4. As host country infrastructure development increases, the propensity of regulated firms to invest in countries sharing the same legal system under conditions of policy risk decreases.

International experience and policy risk. As FDI in regulated industries is the outcome of bargaining processes between MNEs and governments, processes in which the host governments have always the last word, gradual approaches to international expansion can hardly be applied to these industries. In such gradual approaches, the default process of international expansion is as follows: firms gradually invest abroad with the aim of reducing the negative side of risk exposure (Chang, 1995; Johanson and Vahlne, 1977; Rivoli and Salorio, 1996). In the particular case of investment decisions under policy risk, multinationals

tend to invest first in those countries with low policy risk and, as they gain experience, they start to invest in unstable ones (Henisz and Delios, 2003). However, this carefully planned process is difficult to implement in regulated industries as the opportunity to invest in a new country appears suddenly and in an unpredictable way.

Regulated firms follow an internationalization process driven by deregulation, and privatization abroad, with entry frequently restricted by the government, generally under a system of licenses. For this reason, foreign entrants face strong incentives to commit large amounts of resources and to establish operations quickly, whenever and wherever opportunities arise (García-Canal and Guillén, 2008; Sarkar et al., 1999). In this context, it is perfectly plausible that firms follow a non-incremental process, investing first in countries with discretionary governments with the aim of exploiting their political capabilities.

In regulated industries policy risk facilitates a firm's entry. In fact, lack of international experience can to some extent be a proxy of the liability of foreignness for these firms, as this experience can be a requirement for some bidding (Cuhna and Berg, 2011; Wibowo, 2004; Jung et al., 2010). Firms lacking such experience may look for policy risky countries where they can exploit their political capabilities in order to gain favorable conditions for entry and start accumulating international experience. At the same time, international experience allows the company to qualify for bidding in policy stable countries, making entry into these countries easier.

Considering of a firm's investments as a portfolio is another explanation for this non-incremental expansion. Bearing in mind this idea of portfolio investment, a firm's diversification across countries may be a good way to mitigate risk exposure. Portfolio investment theory establishes that diversification is the best way to reduce risk (Markowitz, 1959; Tobin, 1958). The initial exposure to policy risk that favors regulated firms may

become overexposure as firms invest more. Thus, once the firm reaches a threshold in terms of accumulated experience in countries with high policy risk, they may feel overexposed to this type of risk and in consequence start to invest in more stable countries. For instance, Klein and Wocke (2007) show the case of an African MNE that invested only in emerging countries and was punished by the market for its overexposure to policy risk. The firm's reaction was to immediately geographically diversify its investments, investing in more developed countries. Thus, our fifth hypothesis states that:

Hypothesis 5. As a regulated firm gains international experience, the propensity to invest in policy-risky countries decreases.

1.3. SAMPLE, VARIABLES, AND METHOD

1.3.1. Sample

Our sample comprises the FDI location choices made from 1986 to 2008 by the whole set of Spanish listed firms in 1990 (belonging both to regulated and non-regulated industries). The main reason for using data from Spain lies in the fact that the internationalization of Spanish firms is a recent phenomenon (Guillén, 2005), so we can include the bulk of their FDI in our data base. In fact, the initial year of our sample is especially appropriate due to the fact that it was the year of the effective entry of Spain into the European Economic Community (nowadays European Union). Spanish companies then started to invest significantly abroad —according to the UNCTAD data, the stock of foreign direct investment was only 0.85% of the Gross Domestic Product (GDP) in 1980, and increased to 2.43% in 1986, to 10.27% in 1998, and to 42.46% in 2011. The sample is comprised of a total of 105 firms from regulated industries (banking, telecommunications, electricity, gas, water, petroleum, construction), and a variety of non-regulated firms ranging from the steel industry

to turnkey projects (see Appendix B for a description of the firms in the sample and the host countries in which they invested).

Data for the number of entries has been obtained from the Systematic Database on International Operations of Spanish Companies, built under the sponsorship of the Spanish Institute for Foreign Trade, ICEX (see Guillén and García-Canal, 2007). This database comprises international operations carried out by Spanish firms in the period 1986 -2008. The database categorizes several types of international operations: strategic alliances (distribution agreements, research and development projects, and technological alliances); joint-ventures; partial and total acquisitions; administrative concessions; and greenfield wholly owned subsidiaries. For this study, we included only foreign direct investments, since these are the ones that generate a higher level of sunk costs in the process of entering a foreign country. We consider as foreign direct investments those operations in which the multinational possess the 10% or more of a foreign company (U.S. Bureau of Economic Analysis, 2004). Therefore, operations such as technical assistance, licensing agreements or similar, have been excluded, since they do not constitute an investment in the traditional sense of the term.

1.3.2. Variables

Our *dependent variable* is a count variable defined as the number of entries made for each firm, each country, and each year. Our unit of observation is then firm-country-year.

The *independent variable* of the model is policy risk, defined as the degree to which politicians and regulators can unilaterally alter the conditions in which firms operate in a country, in a way that affects investments' profitability. With this definition we measure policy risk using the level of policy discretion in the host country. In this sense, the political constraint index POLCONV, developed by Henisz (2000), turns out to be the most accurate

measurement from which we can build a policy risk index. The POLCONV index accounts for the number of independent power branches —e.g. the executive, legislative, and judicial powers— with veto capacity over policy changes in each country, as well as the degree of alignment among them. Values in this index ranges from zero to one, zero being the lowest degree of political constraint and one the highest. The bigger the number of power branches with veto capacity, and the lower their alignment; that is, the higher the POLCONV index, the more difficult it is for politicians to unilaterally change the rules of the game. From the POLCONV index, we have constructed a policy risk index as follows: Policy risk=1-POLCONV. This policy risk index ranges from zero to one, zero being the lowest policy risk level and one being the highest.

Our *moderating variables* are the similarity between the home and host legal systems, the host country infrastructure development, and the firm's international experience. To measure the similarity between the home and host country legal systems we have built a dummy variable ("Civil Code"), valued one if the host country legal system is the Civil Code, because this is the type of legal system in Spain, and valued zero otherwise. To build this variable we have used La Porta et al.'s (2008) data. To measure the degree of development of the host country's infrastructure we created an index that we called "Infrastructure Development". This index ranges from zero to one, zero being the lowest level of infrastructure development and one the highest. To do this, we have gathered different variables from the World Bank Database Indicators to serve as proxies of the degree of development of the local infrastructure for each regulated industry. We used the following indicators to develop this index: the percentage of population with access to water, for firms in the water industry; the total road network[2] (km of roads per capita) for firms in the

[2] This indicator includes: motorways, highways, and main or national roads, secondary or regional roads, and all other roads in a country (we have also included rail lines).

construction industry; electricity production (kWh produced per capita) for firms in the electricity industry; number of mobile cellular subscriptions per capita for firms in the telecommunication industry; use of primary energy (measure as kg of oil per capita) for firms in the energy industry; and bank private credit as a percentage of the GDP for firms in the banking industry. Finally, we divided each value between the maximum value of the analyzed period (1986-2008) taking into account all potential host countries (by industry) to obtain an index that ranges from 0 to 1 and was comparable across industries. Finally, we measured our last moderating variable, international experience, as the number of international investments made by the company as of the end of the previous year.

Even though our independent variable is policy risk, there are multiple factors related to the firm, the industry, and the host country that can influence a firm's entry decision. For this reason we have tried to include in our model all possible *control variables* at firm, industry, and host country level. One of these control variables is "macroeconomic uncertainty", which is an important factor when deciding whether to invest in a country. Some previous studies show how firms avoid macroeconomic uncertainty when investing abroad (Dunning, 1993), especially when the amount of investment is high (Campa, 1993). We calculated this variable following the methodology developed by Servén (1998) for measuring unexpected changes in economic growth (see Appendix A for more information regarding this methodology). Another fact that may influence a firm's entry decision is whether the State is a shareholder. García-Canal and Guillén (2008) show that regulated firms are heterogeneous in their aversion to taking risks, being those participated by the state more prone to risk taking. We have thus created a dummy variable "partial state ownership", valued at one when there is at least partial State participation in the firm and valued zero otherwise. To build this variable we employed the information compiled by Vergés (1999, 2010). The rest of the

control variables included in the model are as follows. At the firm level we introduced a firm's revenues as a control variable for firm size; and Tobin's q ratio, as a proxy for intangible assets owned by the firm (Berry, 2006). To compute Tobin's q ratio we followed the procedure described by Chung and Pruitt (1994). At the country level, we introduced GDP at year 2000 constant prices, and GDP percent growth as measurements for market size and growth potential respectively; host country's attractiveness to foreign investors measured as the total of inward foreign direct investment as a percentage of the GDP; imports plus exports as a percentage of GDP to account for openness to trade[3]; and a dummy variable that indicates whether the host country has initiated a market reform. To create the last variable we used information from Lora (2000), Henisz et al., (2005), and Wallsten (2002). We also included industry, host country, and year dummies. We used logarithms for the GDP and firm revenues variables. Finally, policy risk, infrastructure development index and all control variables were lagged one year.

1.3.3. Method

As our dependent variable is non-negative and integer-valued, Poisson regression is more appropriate than ordinary least squares. To adjust for over dispersion, we used the negative binomial model, a generalization of the Poisson model in which the assumption of equal mean and variance is relaxed (Cameron and Trivedi, 1998; Hausman et al., 1984). Finally, we dealt with the longitudinal character of the data by using the fixed-effects specification of Hausman et al. (1984), which includes a time-invariant variance-to-mean ratio for each firm (Allison and Waterman, 2002). This fixed effect specification reduces our sample to 68 firms that have made at least one entry in a foreign country. Table 1.1 shows the descriptive statistics and the correlation matrix of our variables. As the interaction terms had a

[3] These three variables were obtained from the database of the World Bank Indicators.

high correlation with the main effect, we mean centered the continuous variables they included (Jaccard and Turrisi, 2003).

As it is expected that firms' investing behavior under conditions of policy risk will vary across regulated and non-regulated firms, we have divided our full sample into two subsamples (regulated and non-regulated industries) with the objective of test our second hypothesis. To test the rest of our hypotheses, relative to the other boundary conditions, we used the sample of regulated firms, as these hypotheses refer only to this type of company. Additionally, the index for the infrastructure development has been developed only for regulated firms, and so this variable and its interactions with other variables are only included in the sample of regulated firms to test the third, fourth and fifth hypotheses of our model.

Table 1.1. Descriptive statistics and correlations of the regulated firm sample

	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1 Firm entries-country-year	0.035	0.26	1																		
2 Policy Risk	-3.9E-09	0.31	-0.05	1																	
3 Policy Risk x Civil Code	0.03	0.21	-0.08	0.71	1																
4 Policy Risk x CivilCode x Infra.Devel	-0.004	0.04	0.01	-0.10	-0.14	1															
5 Policy Risk x Intern. Experience	-0.26	14.80	-0.07	0.54	0.39	-0.04	1														
6 Policy Risk x Infra. Development	-0.01	0.06	0.02	-0.03	-0.07	0.66	0.02	1													
7 Civil Code x Infra. Development	-0.01	0.13	-0.01	-0.10	-0.13	0.09	-0.05	0.05	1												
8 Civil Code	0.51	0.50	0.08	0.19	0.13	-0.10	0.12	0.08	-0.09	1											
9 Infrastructure Development	8.01E-10	0.20	0.00	-0.20	-0.09	0.07	-0.11	-0.22	0.66	-0.12	1										
10 International Experience	27.60	41.71	0.11	-0.02	0.00	0.00	-0.01	0.00	0.02	0.00	0.03	1									
11 Tobin's Q	1.39	0.95	-0.01	-0.01	-0.01	0.00	0.00	0.00	0.01	0.00	0.01	-0.04	1								
12 Partial State Ownership	0.13	0.33	-0.01	0.01	0.00	0.00	0.00	0.03	-0.08	0.01	-0.12	-0.16	-0.09	1							
13 Sales	7.92	1.44	0.10	-0.01	-0.01	0.01	-0.01	0.02	-0.03	0.00	-0.03	0.72	-0.18	0.07	1						
14 Macr. Uncertainty	-7.16	1.19	-0.01	0.23	0.24	-0.01	0.08	0.04	-0.08	0.14	-0.09	-0.09	0.00	0.05	-0.07	1					
15 GDP	24.17	2.02	0.14	-0.42	-0.37	0.05	-0.21	-0.06	0.10	-0.09	0.19	0.04	-0.01	-0.01	0.04	-0.33	1				
16 GDP Growth	3.68	4.36	0.01	0.02	-0.05	0.05	0.06	0.04	0.02	-0.07	0.00	0.11	0.02	-0.06	0.08	-0.02	-0.03	1			
17 FDI Inward	5.40	28.88	-0.01	-0.09	-0.14	-0.10	-0.08	-0.06	0.14	0.07	0.10	0.05	0.00	-0.03	0.04	0.00	-0.02	0.06	1		
18 Trade Openness	78.45	52.58	-0.07	-0.12	-0.09	-0.03	-0.08	0.02	0.11	-0.16	0.08	0.07	0.01	-0.03	0.06	0.09	-0.17	0.16	0.35	1	
19 Market Reforms Initiated	0.57	0.49	0.09	-0.12	-0.20	0.08	-0.03	0.05	0.04	-0.02	0.06	0.17	0.03	-0.10	0.13	-0.13	0.30	0.12	-0.07	0.02	1

1.4. RESULTS

Table 1.2 shows the results of the negative binomial regressions of the samples that account for all types of firms, firms operating in non-regulated industries and firms operating in regulated industries. There are several specifications of the model: only control variables, independent variables included, and interaction effects included.

Our first hypothesis regarding the general effect of policy risk receives support, as this variable is negative and significant in the sample of non-regulated firms, and also in the sample that accounts for all firms. This result is robust across specifications of the model. So we can affirm that, in general, firms avoid investing in countries where the level of policy risk is high.

We obtain support for all the boundary conditions established in our model. Our prediction about the different behavior among regulated and non-regulated firms when facing policy risk (Hypothesis 2) receives support, as the difference between both coefficients of policy risk in the sample of regulated and non-regulated industries is positive ($b_{1reg} - b_{1no\text{-}reg} = 1.21$) and significant at the 0.1 level of significance (the coefficients used are those of the specification model 2, for samples of both regulated and non-regulated firms, that only comprise the independent variables).

The results also corroborated our prediction about the boundary condition of the host legal system (Hypothesis 3). The moderating effect of the Civil Code variable that accounts for the similarity between the home and host country legal systems is positive and significant. A regulated firm, without international experience and investing in a country with the minimum level of infrastructure development, invests 16.22 percent more in response to one

standard deviation increase in policy risk if it invests in a country with the Civil Code System {[-(2.87x0.31)+(2.94x0.31x1)- (2.15x0.31x0.10)+((-6.18)x(-0.10)x1x0.31)]}.

Table 1.2. Firm fixed-effects negative binomial regressions predicting foreign market entry

		All firms			Non-regulated firms			Regulated firms			
	VARIABLES	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(4)
b_1	Policy Risk (H1: $b_{1reg}>b_{1noreg}$)		-0.58*	-2.28*		-1.52**	-0.52		-0.31	-0.41	-2.87*
			(-1.86)	(-1.86)		(-2.37)	(-0.25)		(-0.88)	(-1.09)	(-1.87)
b_2	Policy Risk x Civil Code (H2)			2.04			-1.70				2.94*
				(1.63)			(-0.79)				(1.89)
b_3	Policy Risk x Civil Code x Infra.Devel. (H3)										-6.18***
											(-3.27)
b_4	Policy Risk x Intern. Experience (H4)			-0.00*			0.05**				-0.01**
				(-1.81)			(2.41)				(-2.57)
b_5	Policy Risk x Infra. Development										2.15**
											(2.44)
b_6	Civil Code x Infra. Development										-1.83***
											(-3.47)
b_7	Civil Code	-0.92	-0.55	-0.76	14.30	13.43	14.97	-0.67	-0.71	-0.36	-1.12
		(-0.55)	(-0.33)	(-0.44)	(0.00)	(0.00)	(0.00)	(-0.35)	(-0.37)	(-0.18)	(-0.56)
b_8	Infrastructure Development							-0.69		-0.69	0.16
								(-1.48)		(-1.47)	(0.28)
b_9	International Experience	-0.00**	-0.00**	-0.00***	-0.07***	-0.07***	-0.07***	-0.00	-0.00*	-0.00	-0.00*
		(-2.32)	(-2.32)	(-2.62)	(-4.58)	(-4.58)	(-4.21)	(-1.46)	(-1.81)	(-1.46)	(-1.76)

Table 1.2 (continued)

		All firms			Non-regulated firms			Regulated firms			
	VARIABLES	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)	(4)
b_{10}	Tobin's Q	0.11	0.11	0.11	-0.03	-0.03	-0.03	0.36***	0.27**	0.36***	0.37***
		(1.55)	(1.57)	(1.56)	(-0.27)	(-0.28)	(-0.32)	(2.78)	(2.10)	(2.79)	(2.87)
b_{11}	Partial State Ownership	0.09	0.09	0.10	-0.32	-0.33	-0.36	0.08	0.11	0.08	0.06
		(0.63)	(0.63)	(0.65)	(-0.72)	(-0.73)	(-0.78)	(0.46)	(0.67)	(0.46)	(0.38)
b_{12}	Sales	0.35***	0.35***	0.35***	0.31**	0.31**	0.30**	0.47***	0.52***	0.47***	0.46***
		(3.93)	(3.93)	(3.93)	(2.34)	(2.31)	(2.24)	(3.36)	(3.84)	(3.36)	(3.29)
b_{13}	Macr. Uncertainty	0.04	0.04	0.04	0.18	0.20	0.21*	-0.02	-0.00	-0.02	-0.01
		(0.60)	(0.70)	(0.64)	(1.46)	(1.60)	(1.69)	(-0.29)	(-0.06)	(-0.23)	(-0.18)
b_{14}	GDP	1.07***	0.97***	1.14***	1.20*	1.16*	0.79	0.88**	0.91**	0.80*	1.18**
		(3.03)	(2.74)	(3.14)	(1.78)	(1.72)	(1.12)	(2.05)	(2.14)	(1.83)	(2.57)
b_{15}	GDP Growth	0.01	0.01	0.01	-0.01	0.00	-0.00	0.02	0.02	0.02	0.02*
		(0.78)	(1.04)	(1.13)	(-0.25)	(0.00)	(-0.13)	(1.32)	(1.37)	(1.47)	(1.73)
b_{16}	FDI Inward	-0.00	-0.00	-0.00	-0.01	-0.01	-0.01	0.00	0.00	0.00	0.00
		(-0.31)	(-0.36)	(-0.38)	(-0.97)	(-1.00)	(-0.98)	(0.44)	(0.26)	(0.41)	(0.30)
b_{17}	Trade Openness	-0.00	-0.00	-0.00	0.01	0.01	0.01	-0.01**	-0.01*	-0.01**	-0.01**
		(-0.92)	(-0.92)	(-1.02)	(1.03)	(0.97)	(1.00)	(-2.10)	(-1.67)	(-2.09)	(-2.13)
b_{18}	Market Reforms Initiated	0.46***	0.46***	0.46***	0.03	0.01	-0.02	0.60***	0.61***	0.60***	0.58***
		(2.84)	(2.85)	(2.82)	(0.12)	(0.03)	(-0.07)	(2.93)	(3.11)	(2.96)	(2.84)
	Constant	-30.82***	-28.68***	-32.74***	-46.56	-44.57	-36.37	-27.39***	-28.33***	-25.54***	-34.35***
		(-3.93)	(-3.64)	(-4.06)	(-0.01)	(-0.02)	(-0.01)	(-2.85)	(-2.99)	(-2.63)	(-3.37)
	Difference in coefficients Ho: b1reg-b1noreg=0					1.21*					
	t value of difference					(1.65)					
	Observations	91,741	91,741	91,741	59,957	59,957	59,957	28,107	31,784	28,107	28,107
	Number of firms	68	68	68	45	45	45	23	23	23	23

Note: **** p<0.001, *** p<0.01,** p<0.05, *p<0.1. z-statistics in parentheses

The joint moderating effect of the host country legal system and the level of the host country infrastructure development stated in our fourth hypothesis also obtains support. In this three-way interaction the index of infrastructure development is continuous, and so we have to analyze the net effect of policy risk at different levels of that variable. A regulated firm investing in a host country with the Civil Code legal system invests 10.46 percent more in response to a one-half standard deviation increase in policy risk in countries, where the level of infrastructure development is low (one standard deviation below the mean). As the level of infrastructure development increases, firms invest less in response to an increase in policy risk. In fact, when the level of infrastructure development is medium (valued in its mean), the propensity to invest turns negative and the same firm invests 2.52 percent less in response to a one-half standard deviation increase in policy risk, investing 13.99 percent less when the level of host country infrastructure development is high (one standard deviation above the mean). Figure 1.2 shows the joint effect of the level of infrastructure development and the legal system, comparing both situations when the host and home country share the same legal system and when both countries have different legal systems.

The hypothesis relative to a firm's international experience (Hypothesis 5) is also supported. The moderating effect of this variable is negative and significant. Figure 1.3 shows the net effect of policy risk as firms gain international experience (maintaining the infrastructure development valued in its mean). After a firm makes ten entries, increases in policy risk turn the net effect of this variable negative, if the investment is made in a Civil Code country. In fact, after twenty entries a firm invests 1.53 percent less in response to a one-half standard deviation increase in policy risk. Considering these results we can confirm that regulated firms, contrary to the established theory, do not follow an incremental path in their internationalization process when facing policy risk.

Figure 1.2. Policy Risk effect on a firm's propensity to invest, as host country infrastructure development increases (international experience valued at its mean)

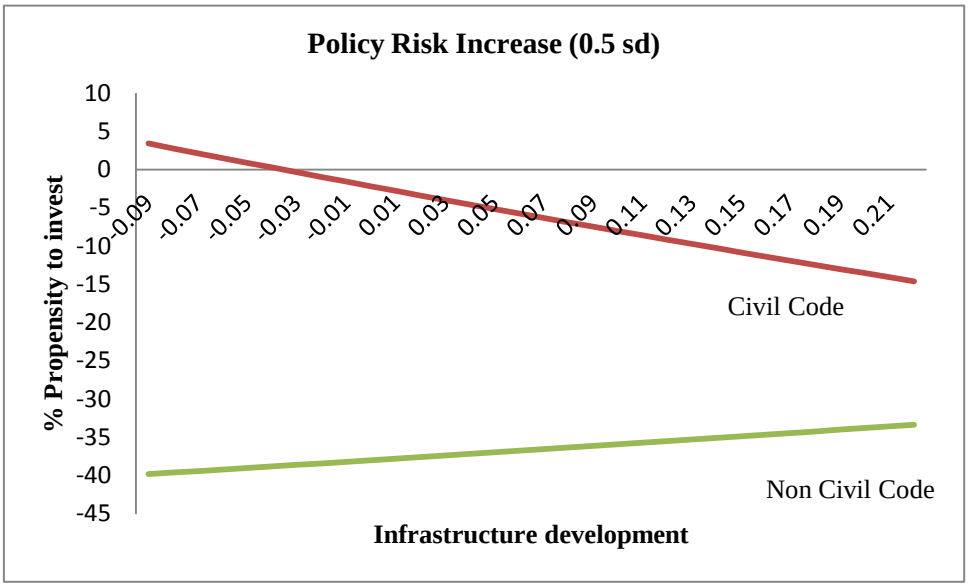
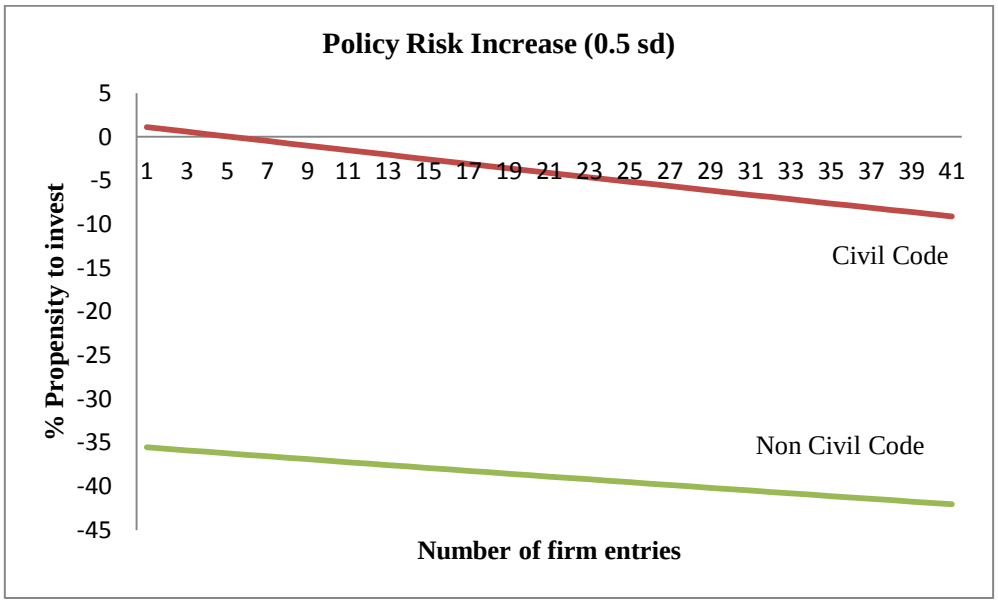


Figure 1.3. Policy Risk effect on a firm's propensity to invest as firm international experience increases (infrastructure development valued at its mean)



The rest of the control variables have the expected sign but some are non-significant in some models and significant in other models. The only control variable that is significant in all samples and model specifications is the firm's sales.

1.5. DISCUSSION AND CONCLUSION

Our results show how the received theory regarding the influence of policy risk on a firm's location choice remains of critical relevance, as we found that, generally speaking, firms avoid investing in policy risky countries. However, the theoretical framework developed in this chapter has allowed us to establish the conditions under which firms can take advantage of this risk. In this sense, our results clearly show how firms are heterogeneous regarding their response to policy risk. We have argued that, thanks to their more developed political capabilities, regulated firms are more prone to invest in countries with discretionary governments than are non-regulated firms. In this sense, we have shown how policy risk in the host country may not constitute a liability for regulated firms, as it does for non-regulated ones. However, not all policy-risky countries constitute an opportunity for regulated firms to invest. We have argued and found empirical support for the theory that regulated firms only show a clear preference for investing in policy-risky countries with the same legal system as their country of origin. It is in these countries where regulated firms expect to overcome the disadvantages of policy risk, as it is where they can fully exploit their political capabilities in dealing with host governments in order to obtain and maintain favorable entry conditions.

The empirical work presented in this chapter clarifies previous results —e.g. García-Canal and Guillén (2008); Jiménez (2010)— by showing that this preference for policy risk is only demonstrated by regulated firms and only for a specific type of host countries —those sharing the same legal system and with low infrastructure development. Thus, a remarkable implication of our empirical work is that firms that are used to dealing with regulators in a particular legal system seem to be more able to overcome policy risk in countries sharing the same legal system. Specifically, we contribute to the literature that considers political

capabilities as the main resource supporting the international expansion of regulated firms (García-Canal and Guillén, 2008; Holburn and Zelner, 2010) by highlighting the fact that these capabilities are not equally valuable in all countries.

Another contribution is that this is the first work that analyzes the effect that host country infrastructure development may have in regulated firms' location choices in the presence of policy risk. Some studies, as is the case of Mudambi and Navarra (2003), have emphasized the major role that infrastructure quality plays in the attraction of FDI. Contrary to our results, these authors found that firms invest more in regions where the quality of the infrastructure is higher. However, this apparent contradiction can be easily explained if we take into account the differences between regulated and non-regulated firms and the role of the similarity of legal systems. For non-regulated companies infrastructure development is a necessary condition for investing; whilst in the case of regulated firms, infrastructure development reduces both growth opportunities and bargaining power in the foreign country. The case of Egypt's Orascom Telecom is a good example of how firms take this variable into account. Orascom looks for countries with underdeveloped infrastructure, as they have more growth potential. This company is used to policy risk, as it has grown in an unstable environment at home (Guillén and García-Canal, 2013). A low degree of infrastructure development in the host country, as well as being a source of market opportunity and bargaining power for regulated firms, makes obtaining favorable entry conditions feasible for the MNE when coupled with policy risk. However, our results show that a low level of infrastructure development only boosts incoming FDI in policy-risky countries when the home and the host country share the same legal system. It is in these countries where the firm can effectively employ its political capabilities, and consequently when the firm can use the bargaining position that stems from both the low level of infrastructure development, and its

political capabilities to obtain favorable entry conditions. If these favorable conditions cannot be obtained, as happens in countries with a different legal system, FDI is discouraged (see Figure 1.2 for a comparison between the moderating effect of infrastructure development in countries with the Civil Code system and in countries with a different legal system).

The main implication of this result is that for countries sharing the same legal system, there is a time window in which the firm can achieve win-win agreements with discretionary host governments, i.e. favorable entry conditions in exchange for infrastructure development. This is due to the fact that policy risk may turn into a disadvantage as the degree of infrastructure development increases, because firms progressively lose their bargaining power. In this sense, our work may be the basis of a more refined explanation of the concept of "obsolescing bargain" in the field of regulated firms. Some studies have argued that the "obsolescing bargain" is a concept that has to be reconsidered, as in the twenty first century relationships between governments and MNEs are more cooperative and less conflictive than they have been before (Dunning, 1993; Luo 2001, 2004; Stopford, 1994). Nonetheless, the relatively recent revival of "populism" in some Latin American countries is one example which goes against this approach (Madrid, 2010). Consistent with this recent evidence, our work shows that the obsolescing bargain is a concept that is still applicable today, at least for regulated firms under the influence of governments with high policy risk. It also shows that the hazards associated with the obsolescing bargain depend on the level of infrastructure development. The corollary of the above reasoning and results is that policy risk is a double-edged sword. On the one hand, it constitutes an opportunity for regulated firms at the initial stage of their investments to negotiate favorable entry conditions. On the other hand, it may turn into a disadvantage with the passage of time, as firms may lose their initial bargaining power once the bulk of the investment is made. However, one interesting question that

remains for future research is whether or not a firm can make use of non-market strategies to deal with the risks associated with the obsolescing bargain.

Another interesting result is that, contrary to established theory in international business, regulated firms do not follow an incremental expansion process when investing abroad, as they are more willing to invest in policy-risky countries in the early stages of their international expansion than in subsequent stages. One possible explanation is that at the beginning of their internationalization process, entry to less developed countries is easier because the number of potential entrants is lower as a consequence of the few location advantages that these countries offer (Narula and Dunning, 2000) and the higher degree of policy risk they usually have (Guillén and García-Canal, 2013; Kirkpatrick et al., 2006). Other studies, such as Cuervo-Cazurra (2011), argue that this deviation from the expected path could be due to the development of capabilities that are valuable in more unstable countries, such as the ability to manage complexity. Our results are compatible with this view, as we argue that political capabilities are valuable only in policy-risky countries sharing the same legal system. Once invested in these countries, the firm would invest in less policy-risky countries in subsequent stages. In addition, the simple passage of time, all else being equal, reduces the opportunities of regulated firms to invest in policy-risky countries due to the higher degree of development of local infrastructure. However, we have to take into account that sometimes international experience, per se, is a factor that is required to invest in some countries, so firms lacking this international experience can only rely on their political capabilities to enter into policy-risky countries.

To rule out the possibility that our results were driven by other sources of risk, such as corruption, we have run an additional regression in which we have added the level of corruption[4] of the host country along with the different interactions. Table 1.3 shows that the results obtained for corruption are the opposite of our results using policy risk, and that our results hold after including corruption. So, we can discard the possibility that our results respond to the effect of the level of corruption in the host country.

In summary, our study contributes to the literature in international business with theory and evidence to explain the internationalization process of regulated firms. We have shown how these firms do not avoid policy risk when investing abroad as compared to non-regulated firms, and that they do not follow an incremental process when investing abroad. Furthermore we contribute to the stream of research that considers policy risk as an endogenous factor that may be managed by multinationals. In this sense, we also show how the effect that political capabilities may have on the international expansion of regulated firms seems to be temporary, as their opportunities to invest in policy-risky countries to leverage their political resources are limited in number. Additionally, the obsolescing bargain also limits the use of these political capabilities, because as the level of infrastructure development increases, firms have less bargaining power and fewer opportunities to use their political skills. Thus, our results and theoretical framework highlight the importance of adopting a socio-political framework that also accounts for a firm's political resources when studying the international expansion of regulated firms. Specifically, in this chapter we contribute to the development of bargaining theory by highlighting where and why regulated firms can take advantage of their political capabilities to obtain favorable entry conditions and invest in policy-risky countries.

[4] We obtained this variable from the ICRG database. We have inverted the index to use a measure of corruption instead of a measure of lack of corruption.

One of the main limitations of this work is that we were not able to measure political capabilities. We have proxied them, considering that regulated firms have more political capabilities than non-regulated firms. From this limitation emerges a promising future line of research, that of measuring political capabilities. These capabilities could be measured by focusing on the non-market strategy of a firm in their home country. Another limitation of our work is that we only analyze Spanish firms, and more studies analyzing a greater number of home countries may be a future extension of this work. Another future line of research is the study of post-investment dynamics in regulated industries in foreign countries. Given that the obsolescing bargain is a real threat for these companies, further research could analyze the extent to which firms can use nonmarket strategies to prevent that associated risk. Some of the limitations of the work highlight fruitful avenues for future research aimed at overcoming them.

Table 1.3. Firm fixed-effects negative binomial regressions predicting foreign market entry including corruption variable for regulated firms' sample

VARIABLES	Regulated firms
Policy Risk	-4.32**
	(-2.57)
Policy Risk x Civil Code	4.22**
	(2.48)
PolicyRisk x Civil Code x Infra.Development	-7.03***
	(-3.09)
Policy Risk x Intern. Experience	-0.01**
	(-2.30)
Policy Risk x Infra. Development	2.73**
	(2.04)
Civil Code x Infra. Development	-2.68***
	(-3.65)
Corruption	0.47***
	(3.28)
Corruption x Civil Code	-0.37**
	(-2.34)
Corruption x Civil Code x Infra.Development	0.26
	(0.55)
Corruption x Infra. Development	-0.20
	(-0.52)
Civil Code	0.72
	(0.33)
Infrastructure Development	0.40
	(0.66)
International Experience	-0.00**
	(-2.06)
Firm Tobin's Q	0.37***
	(2.88)
Partial State Ownership	0.05
	(0.27)
Firm Sales	0.46***
	(3.29)
Host Country's Macr. Uncertainty	-0.01
	(-0.17)
Host Country's GDP	0.93*
	(1.87)
Host Country's GDP Growth	0.02
	(1.60)
Host Country's FDI Inward	0.00
	(0.25)
Host Country's Trade Openness	-0.01**
	(-2.24)
Host Country's Market Reforms Initiated	0.54***
	(2.62)
Constant	-29.86***
	(-2.70)
Observations	25,535
Number of firms	23

Note: **** p<0.001, *** p<0.01,** p<0.05, *p<0.1. z-statistics in parentheses

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Chapter 2

Political Connections and Organizational Growth:

A Multi-Level Analysis

2.1. INTRODUCTION

The impact of political connections on organizational decision making, growth, and performance has received intermittent attention in the field of organizational studies. Selznick's (1949) classic study of cooptation in the Tennessee Valley Authority, Pfeffer and Salancik's (1978) resource-dependence perspective, and Mizruchi's (1992) study of the political behavior of American corporations represent important milestones in the development of this area of research. More recently, researchers have examined the effect of political connections, including Siegel (2007), who showed that political ties in the home country allowed South Korean firms to establish more international alliances, and that the value of political ties was contingent on changes in who occupied the highest political offices in the home country. In fact, he documented that political connections can be both an asset and a liability, depending on who controls the executive branch of government. In a similar vein, Marquis and Qian (2013) described political ties as a "double-edged sword" because, on the one hand, they provide firms with access to resources, but on the other the very same connections make them more prone to government control. Brockman et al. (2013) showed that the effect of political connections on post-merger performance depended on institutional characteristics of the country—e.g. level of corruption and the strength of the legal system. Despite this previous research, we still do not fully understand the boundary conditions around the basic proposition that organizations with political connections enjoy certain advantages over those lacking them, including higher rates of growth and performance.

The effect of political connections on organizational growth has received far more attention in other fields. The corporate governance literature in the field of finance has documented that politically-connected firms have higher stock valuations (Faccio, 2006; Fisman, 2001; Goldman et al. 2009), obtain more government protection (Faccio et al., 2006),

take higher financial risks (Boubakri et al., 2013), enjoy greater access to financial resources (Claessens et al., 2008), and display a greater degree of diversification (Li et al., 2012) than firms lacking such connections. These studies emphasize that politically-connected firms secure resources that enable them to grow faster.

In this chapter we examine the contingent advantages associated with political connections in the case of foreign corporate growth. Foreign investment is the typical way in which companies take advantage of growth opportunities abroad. These growth opportunities are in part possible because of the resources accumulated by firms in their home country (Caves, 1996; Buckley and Casson, 1976). Given that political connections can be understood as a firm-specific resource, and that it is easier for firms to develop political connections in the home country, a number of questions arise. Do such domestic ties discourage or encourage foreign growth? Are political connections valuable for all firms? Are political connections more useful in some industries than others? Do they apply equally in different foreign markets defined at the national and supranational levels?

Building on resource-dependence theory, we formulate a model of the contingent effect of political connections. We argue that political connections in the home country encourage foreign growth, and that this effect is greater for firms with more intangible assets such as technology and brands, those in heavily regulated industries, those expanding in countries having governments with high level of discretionary power, and those expanding into foreign countries with similar institutions as the home country. Thus, we argue and test the general proposition that the value of political resources in general, and political connections in particular, is contingent on variables that operate at different levels of analysis.

Our theoretical approach involves formulating a multi-level contingency model in order to analyze the effect of political connections on firms' foreign growth more comprehensively (Ghayour et al., 2013; Hitt et al., 2007). Previous research in organizational theory and strategy has emphasized the firm, industry, country and region as the key levels of analysis (Flores and Aguilera, 2007). At the firm level, firm's resources have been considered as crucial in achieving competitive advantages and in consequence in delineating firms' strategy (Barney, 1991; Peteraf, 1993). Similarly, industry characteristics and structure have also been important in determining firms' outcomes (Porter, 1980). In the case of the last two dimensions, host-country and regional levels, research in the field of international strategy has highlighted the need to jointly analyze these dimensions in order to explain firms' international strategy. Above the country-level analysis, regions have been proposed as a relevant domain (Arregle et al. 2009, 2013; Flores and Aguilera, 2007; Ghemawat, 2003).

2.2. A MULTI-LEVEL PERSPECTIVE ON POLITICAL TIES

Most previous studies on the political connections of firms focus on the crucial role of the board of directors. There is a long tradition of organizational research linking the composition and background of the board of directors to organizational outcomes such as performance (McDonald et al., 2008), and growth through diversification (Jensen and Zajac, 2004). Interpersonal dynamics on the board of directors, where people with different backgrounds and connections interact, is widely accepted to be an arena in which the organization negotiates and manages its external contingencies (Pfeffer 1973, 1974). More specifically, organizational researchers have focused on the phenomenon of interlocking directors, i.e. individuals who sit on more than one corporate board (Mizruchi, 1989; Mizruchi et al., 2006; Mizruchi, 1996; Mizruchi and Stearns, 1988). As noted by Pfeffer and Salancik (2003:161), interlocking directors are "one form […] to manage the environment by

appointing significant external representatives to positions in the organization." The role of politicians and former politicians on corporate boards of directors has also received some attention in the literature. In fact, the mobility of politicians to organizations and vice versa generates common understandings. The provision of valuable resources is another important role that resource-dependence researchers have attributed to the board of directors (Hillman and Dalziel, 2003). Hillman (2005) further argued that former politicians on the board do not only provide the organization with connections with governments, but also valuable knowledge regarding how the political process works more generally. In this sense, recent research has argued that politicians acting as directors may bring two types of resources to the organization, namely, human and social capital (Lester et al., 2008).

Building on the idea that the presence of directors with political connections helps organizations secure certain resources, we argue that, if political connections matter for organizational growth in the form of foreign investments, it must be the case that their presence provides some kind of a firm-specific advantage (Buckley and Casson, 1976; Caves, 1996; Hennart, 1982; Teece, 1977). Previous research has included political resources into the firm's resource set, as they usually are unique, inimitable and valuable (Boddewyn and Brewer, 1984; Dahan, 2005; Guillén and García-Canal, 2010), and, thus likely to become a source of competitive advantage (Barney, 1991, 2001; Moran and Ghoshal, 1999). In a similar way, early entrants into a foreign market use political resources to obtain first-mover advantages (Frynas et al., 2006; Sun et al., 2010). In this vein, a recent stream of research has found political resources developed in the home country as drivers of organization's international growth (Cuervo-Cazurra and Genc, 2008; García-Canal and Guillén, 2008; Holburn and Zelner, 2010; Jiménez-Palmero, 2010).

For political ties in the home country to have an impact on foreign organizational growth, however, they must help the firm secure valuable resources in the home country or be portable to foreign locations, or both. Research has shown that political connections in the home country may help the firm secure valuable resources that are useful to international expansion, including funding, market share, and managerial talent (Bunkanwanicha and Wiwattanakantang, 2009; Faccio, 2010; Goldman et al., 2013; Khwaja and Mian, 2005; Leuz and Oberholzer-Gee, 2006; Sun et al., 2010; Wang et al., 2012). The literature has also shown that the benefits of political connections are also transferable from the home country to other countries (Henisz, 2003; Holburn, 2001). Frynas et al. (2006) took this line of reasoning one step further by arguing that political resources are clearly portable from one country to another because politicians on the board may have knowledge and/or contacts in foreign markets. Given these arguments and evidence, we formulate:

Hypothesis 1. The greater the presence of directors with domestic political connections on the board, the greater the firm's foreign growth.

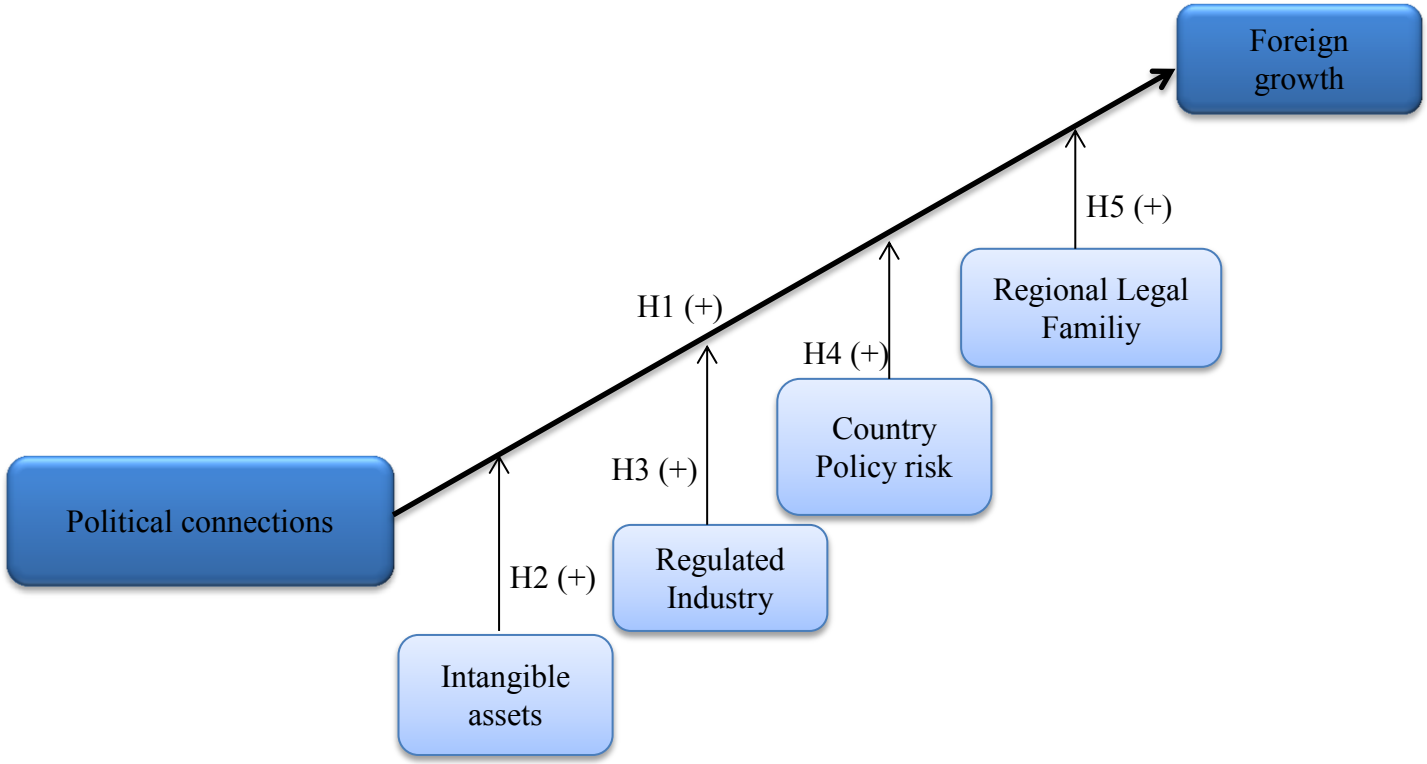
2.2.1. Multi-Level Boundary Conditions

Organizational literature about social ties has emphasized their contingent nature as their value depends on the environmental context in with firms are embedded (Burt, 1997; Siegel, 2007). Even though political ties have been less analyzed than social ties, the contingent nature of political ties has begun to be analyzed in organizational and strategy research (Siegel, 2007). Some studies have focused on the characteristics of host countries, e.g. developed versus emerging (Sun et al., 2012; Wang et al., 2012), institutional characteristics such as the degree of corruption or the strength of the legal system (Brockman et al., 2013), or how political connections abroad are not equally beneficial to all firms, because other factors need to be taken into account. For instance, Sun et al. (2010) showed

how the firm's level of technology development conditions the effectiveness of political ties. Peng and Luo (2000) found that in a transition economy the effect of political ties on firms' performance varied across ownership types, business sectors, and size. They showed that political ties increase performance of non-state owned firms, firms in the service sector, and small firms. Other research has shown the contingent value of political connections depending on the alignment of the directors with the political regime at different points in time (Fisman, 2001; Goldmand et al., 2009; Goldman et al., 2013; Siegel, 2007; Sun et al., 2012), or with the level of uncertainty (Wang et al., 2013).

Previous research, however, has not assessed the complete set of boundary conditions at various levels of analysis such as the firm, the industry, the country, and the supranational region. We approach the contingent value of political connections from a multi-level perspective, emphasizing that certain types of firms, operating in specific industries and foreign locations stand to obtain more benefits than others. In the following paragraphs, we analyze the impact of different boundary conditions at the firm, industry, country, and supranational levels. Figure 2.1 shows the causal relationships established in our theory.

Figure 2.1. Causal relationships established in our multi-level theory



Firm level. The benefits stemming from domestic political ties in the board of directors may not be equal for all firms expanding abroad, as their effectiveness is conditioned by some firm characteristics. As noted above, the literature has emphasized that political connections may not only help the firm obtain specific favors from the government but also provide it with general knowledge about how the political process works (Hillman, 2005), and enable the firm to access information more effectively (Useem, 1986). Thus, political connections facilitate firms' entry into a foreign country. However, a successful entry is just a first step in the process of making profits in a foreign country, as firms will face some competition from established local firms. Indeed, when firms expand abroad, they face the so-called liability of foreignness because they are not familiar with the environment in which they are going to compete (Hymer, 1976; Zaheer, 1995). This fact puts them in a situation of disadvantage when compared to local firms, forcing the foreign firm to have some distinctive competitive advantages to overcome this liability. In this sense, it has been demonstrated that the firms' level of intangible assets, such as proprietary technology, trademarks, or managerial capabilities, provide firms with these competitive advantages (Buckley and Casson, 1976; Dunning, 1993; Hymer, 1976). Thus, whereas political connections are used to facilitate entry into a foreign market, when it comes to increase market share or make a profit vis-à-vis local competitors, intangible assets are required. This is a requirement for any kind of industry. For instance, when analyzing the international expansion of the largest Spanish multinationals in Latin America, Guillén and García-Canal (2010) and Guillén (2005) found that these companies relied not only on their political capabilities to operate profitably, but also on their intangible assets such as project-execution capabilities (Amsden and Hikino, 1994). In sum, firms with greater levels of intangible assets are expected to benefit more from political connections. Thus, we predict that:

Hypothesis 2. The greater the firm's intangible assets, the greater the effect of domestic political connections on the firm's foreign growth.

Industry level. The government is an important external stakeholder that influences all kind of firms through regulation and other policies. The government can even change the firms' opportunity set (Lester et al., 2008). However, the extent to which firms are affected by the decisions of governments varies across industries (Hillman, 2005; Pfeffer, 1973, 1974). In heavily regulated industries such as electricity or water, conditions of entry, prices, and many other aspects of the business are often decided by the government (Hillman, 2005; Keim and Hillman, 2008). In these industries, government intervention may alter the profitability of the firms through changes in regulated prices, the degree of competition, or even by expropriating part of the cash flows or their entire investments (García-Canal and Guillén, 2008; Henisz, 2000; Henisz and Zelner, 2001). As Pfeffer and Salancik (2003: 203) once put it, in regulated industries "the decisions of consumers become less important than the decisions of lawmakers and government agents." Thus, it is not a surprise that previous research has shown that political interlocks are profitable for all types of firms, but more so for heavily regulated firms (Agrawal and Knoeber, 2001; Hadani and Schuler, 2013; Hillman, 2005).

The foreign growth of regulated firms has often occurred in the wake of privatization and liberalization processes in both the home and the host countries (Guillén and García-Canal, 2010). These processes created investment opportunities for firms to enter foreign markets through license bidding processes (Bonardi, 2008; García-Canal and Guillén, 2008). During these liberalization processes, the interaction between political institutions and regulators manifests itself to varying degrees (Levy and Spiller, 1994). Even though these processes did not follow the same path or occur at the same pace in all countries, some common patterns can be discerned (Coen, 2005; Levy and Spiller, 1994). In countries having

more of a market-based economy, managers and politicians involved in liberalization processes possess valuable experience and knowledge regarding how these processes work that can be applied in foreign countries. Thus, political connections in the home country may also be valuable when these companies invest abroad, as directors know how the regulatory process works and how to deal with governments and regulators. As evidence of the crucial importance of these type of knowledge in regulated industries, a manager of one of the most important companies in the telecommunications industry in Europe told us in a personal interview that having people inside the company that know how the political process works is a crucial factor for firms in the industry[5]. These individuals can help anticipate regulatory changes and know how to establish negotiations with politicians and regulators. Taking into account these arguments, we predict that:

Hypothesis 3. For firms in heavily regulated industries, the positive effect of domestic political connections on firm's foreign growth will be greater.

Host-country level. Countries differ from one another in terms of their political structure, traditions, and culture, with implications for the value and impact of political connections. Differences in political systems and the degree of institutional development can make international expansion easier or more difficult (Cuervo-Cazurra and Genc, 2008). The advantages associated with domestic political connections will be different depending on those cross-national differences. Specifically, we argue that, when expanding abroad, these advantages are more effective in foreign countries with governments enjoying policy discretion. If the number of checks and balances on the executive branch of government is high (low policy risk) it is more difficult for all veto players to reach an agreement to change policies or regulations (Tsbelis, 1995, 2002). Moreover, when checks and balances are

[5] Telephone interview held on 21th July 2011

abundant, it is more likely that different actors across the three branches of government will have different preferences. In that case, the difficulty of building consensus for policy change is even greater (Tsbelis, 1995, 2002). It is difficult to implement political strategies as the number of checks and balances increases because firms need to invest much time, effort, and resources to influence pivotal politicians or officials having greater influence in policymaking (Holburn and Vanden Berg, 2002). On the contrary, if there are few checks and balances, firms may take advantage of governmental discretion to get better entry conditions — sometimes in exchange of commitments for local infrastructure development in the case of firms operating in regulated industries (García-Canal and Guillén, 2008; Guillén and García-Canal, 2010). Thus, bargaining relationships between multinationals and host governments are easy to implement in the presence of policy risk because firms do not have to deal with a large number of actors but just with one official (Arregle et al., 2013).

The ability of former politicians to obtain information easily (Useem, 1986) may allow politically connected firms to know the interest of policy makers, and how these interests are aligned with those of the firm (Pfeffer and Salancik, 2003). In this context, political ties may act as facilitators of negotiations between firms and host governments to define a win-win situation for both parties. Thus, political connections may help the firm move beyond conventional practices by reaching ad hoc agreements with governments not subject to checks and balances. Therefore, we predict that:

Hypothesis 4. When investing in countries with governments enjoying policy discretion, the positive effect of domestic political connections on the firm's foreign growth will be greater.

Supranational Level. Besides the political structure of the host country, supranational institutional features can also reduce or increase the effect that domestic political ties have on the foreign growth of the firm. As their degree of internationalization increases, firms have to deal with an ever-increasing array of institutional environments (Keim and Hillman, 2008). However, host countries in which the firm may invest can be grouped in different blocs according to their degree of similarity with the institutional environment of the home country of the firm.

Countries sharing a common historical background tend to develop similar institutions (Makino and Tsang, 2011). Past research illustrates how the origin, structure, and functioning of the national legal system is closely related to patterns of colonization, migration, and cultural development (Guillén and Suárez, 2001; Rangan and Drummond, 2004; Schneper and Guillén, 2004). In fact, in relation to colonization patterns, legal origin theory (La Porta et al., 1998; La Porta et al., 2008) establishes that "countries have pervasive regulatory styles inherited from the transplantation of legal systems" (Botero et al., 2004: 1339). Several studies have found similarities among countries and their type of regulations considering their legal origin. For instance, Botero et al. (2004) showed that legal origin explains the variation in labor regulations across 85 countries. Glaeser and Shleifer (2002) highlighted how the independence of the judicial system also varies across families of the legal system.

The common background that the legal system provides makes it a suitable variable to build institutional blocs based on historical legacy. So, it is expected that legal systems will play a crucial role when politically connected firms expand abroad. Legal systems matter because they differ not only in the way in which governmental agencies and regulatory bodies are organized, or in the level of regulation, but also in a number of different aspects which condition economic activity (La Porta et al., 2008). We argue that firms with more

political ties will be more successful using their political resources in blocs of countries that share the same legal system. Indeed, we can assume that former politicians acting as directors provide multinationals with valuable knowledge regarding how to operate under a particular legal system, knowledge that can be transferred easily to countries having a similar legal system as a consequence of sharing a common historical background.

Legal systems are also a reflection of a society's system of norms and values (La Porta et al., 2008; Pfeffer and Salancik, 2003). For this reason the knowledge provided by former politicians regarding how to do interact with politicians and regulators under a specific legal system not only assures company to comply just with the law, but also with the underlying values of the host society. As organizations are part of a social system, in order to survive they must act according to the norms, values, and beliefs of that system, that is, they must act with legitimacy (DiMaggio and Powell, 1991; Pfeffer and Salancik, 2003). In other words, by coopting former politicians into the board, firms assure legitimacy in their behavior (Pfeffer and Salancik, 2003) in the foreign country. Thus, we predict that:

Hypothesis 5. For a firm investing in regions of the world with the same legal system as the home country, the positive effect of domestic political connections on firm's foreign growth will be greater.

2.3. METHOD

2.3.1. Sample

Our sample comprises the foreign investments made by all Spanish listed firms between 1986 and 2008. The main interest of using data from Spain lies in the fact that the internationalization of Spanish firms is a recent phenomenon, and thus it is possible to create a dataset with minimal left censoring. The sample includes a total of 105 listed firms. We secured the information about the foreign direct investments of these firms from the

Systematic Database on International Operations of Spanish Companies, built under the sponsorship of the Spanish Institute for Foreign Trade, ICEX (see Guillén and García-Canal, 2007). (See Appendix B for a description of the firms in the sample and the host countries in which they invested). We consider as foreign direct investments those operations in which the multinational possess the 10% or more of a foreign company (U.S. Bureau of Economic Analysis, 2004).

2.3.2. Variables

Dependent variable. Our dependent variable is the count of each firm's foreign investments in each country and year. Therefore, our unit of observation is the firm-country-year.

Main independent variable. To capture the level of *political connections* for each firm we calculated a time-varying variable ("% Connections") that accounts for the percentage of members of the firm's board of directors who served in the government prior to becoming a director. We considered the highest-level political positions, whether elected or appointed, including prime minister, vice-prime minister, cabinet minister, deputy minister, and member of the national parliament and senate. We collected these data following two steps: (1) we identified the names of the directors serving on each company's board for each year during the period under investigation using legal filings, annual reports, company websites, and corporate directories[6]; and (2) we searched for the name of each director in comprehensive newspaper databases to identify those who had played a role in the government either as an appointed or as an elected official.

[6] The Maxwell Espinosa: Shareholders Directory Spain, Duns50000 and DICODI

Firm characteristics. As a proxy for the *intangible assets* owned by the firm we used Tobin's q. Previous research has considered this ratio as an appropriate variable to measure the firms' level of intangible assets (Berry, 2006). Indeed, the higher the Tobin's q the higher the value of the intangible assets (Mork et al., 1988) that lie at the core of a firm's competitive advantages. To compute Tobin's q, we followed the procedure described by Chung and Pruitt (1994).

Industry. To account for the *regulated* nature of the industry in which the firm operates, we created a dummy variable called "Regulated," which takes a value of 1 if the firm operates in a regulated industry (banking, telecommunications, electricity, gas, water, petroleum, or construction), and zero otherwise.

Host country checks and balances. We measured the efficacy of the checks and balances in the host country using the level of policy risk. We define *policy risk* as the degree to which politicians and regulators can unilaterally alter the conditions in which firms operate in the country, in a way that affects the profitability of their investments. Considering this definition, the political constraint index POLCONV, developed by Henisz (2000), is the most accurate and widely-used measurement from which we can build a policy risk index. The POLCONV index includes the number of independent power branches (e.g., the executive, legislative and judicial powers) with veto capacity over policy changes in each country, considering also the degree of alignment among them. Values in this index range from zero to one, with zero being the lowest degree of political constraints and 1 the highest. The higher the number of power branches with veto capacity, and the lower the alignment among them; that is, the higher the POLCONV index, the more difficult it is for politicians to unilaterally change the rules of the game. From the POLCONV index, we constructed a policy risk index by subtracting the POLCONV score from 1.

Supranational level. To measure the institutional similarity between the home and host institutions we used a dummy variable ("Regional Legal Family") equal to 1 if the host country legal system is based on the Napoleonic Civil Code (as it is the case of Spain), and zero otherwise (La Porta et al., 2008).

Control variables. We also include in all models a battery of control variables at the host country, industry, and firm levels. We use "Macroeconomic Uncertainty" to control for other sources of risk unrelated to politics and policy (Campa, 1993; Dunning, 1993). We calculated this variable following the methodology developed by Servén (1998) for measuring unexpected changes in economic growth (see Appendix A for more information regarding this methodology). We also included in all regressions a measure for the size of the economy (logged GDP at constant 2000 prices), economic growth (GDP growth rate), the attractiveness of the country to foreign investors (total inward foreign direct investments as a percentage of the GDP), openness to trade (imports plus exports as a percentage of GDP),[7] and a dummy variable indicating if the host country has initiated market reforms (Henisz et al., 2005; Lora, 2000; Wallsten, 2002). At the industry level we included a set of dummy variables. At the firm level, we included: a dummy variable denoting if the state participates in the equity of the firm, under the assumption that listed firms with an equity participation by the state are less risk averse than other firms (García-Canal and Guillén, 2008; Vergés 1999, 2010); firm size as measured by logged assets; and the firm's international experience measured by the number of previous foreign investments. In addition to industry dummies, all analyses include firm, year, and host-country fixed effects. All independent variables were lagged one year.

[7] These four variables have been obtained from the World Bank indicators database

2.3.3. Empirical Model

Political connections across firms are not distributed randomly, because each firm makes a choice as to whom to appoint to the board. Thus, political ties should be considered as an endogenous variable. Some unobserved firm characteristics may be influencing both the establishment of political ties and our dependent variable, i.e. the firm's propensity to grow abroad. To correct for this endogeneity problem we used the instrumental variable (IV) method. We first built a panel data regression model[8] in which the dependent variable was political connections and the independent variables were the traditional instrumental variables that the literature uses to explain the level of political connections: whether the firm is located in the capital of the country (Boubakri et al., 2008; Boubakri et al., 2013); and the age or experience accumulated by the firm (Leuz and Oberholzer-Gee, 2006). We also included in the first stage other control variables such as firm's sales, number of patents, the percentage of foreign ownership, and two dummy variables indicating whether the firm is included on the IBEX 35 (the blue-chip Spanish Stock index), and whether the firm pays dividends. We also included industry and year dummies. Given the longitudinal nature of our data, we ran a Hausman test to determine whether to use fixed or random-effects specifications (Hausman, 1978). The Hausman test was not significant, meaning that the random-effects specification is more appropriate than fixed effects. Location and sales variables were significant at the 0.01 level of significance, and firm's experience variable was significant at the 0.1 level of significance (p=0.083). We then proceeded to use the predicted values of political connections obtained from the first-stage panel data regression as our main independent variable in the second stage.

[8]We modeled the level of political connections of firm i in year t as: $y_{it} = \alpha + \beta_1 LOC_{it} + \beta_2 AGE_{it} + \beta_3 SALES_{it} + \beta_4 PAT_{it} + \beta_5 FOROWN_{it} + \beta_6 IBEX_{it} + \beta_7 DIVID_{it} + u_{it}$

As the dependent variable of our model is non-negative and integer-valued, Poisson regression is more appropriate than ordinary least squares. To adjust for over dispersion, we used the negative binomial model, a generalization of the Poisson model in which the assumption of equal mean and variance is relaxed (Cameron and Trivedi, 1998; Hausman et al., 1984). We dealt with the longitudinal character of the data using the fixed-effects specification of Hausman et al. (1984), which includes a time-invariant variance-to-mean ratio, for each firm (Allison and Waterman, 2002). This fixed-effects specification reduces our sample to 62 firms that have made at least one entry into a foreign country during the observation period. Table 2.1 reports the descriptive statics and the correlation matrix. To avoid high correlations between main and interaction effects, we mean centered the continuous variables involved in the latter (Jaccard and Turrisi, 2003).

2.4. RESULTS

Table 2.2 shows the results for the negative binomial regressions with levels of significance reported for two-tailed tests. The results are presented using three cumulative specifications: control variables only, main effects, and interaction effects to test the boundary conditions.

We find support for each of our predictions. As predicted by Hypothesis 1, domestic political connections have a positive impact on firms' foreign growth. Hypothesis 2, which predicted that the effect of domestic political ties is greater as the firm's intangible assets increase, receives strong support as well. The prediction that the positive effect of domestic political ties on firms' foreign growth is higher for firms operating in regulated industries (Hypothesis 3) is also supported. Hypothesis 4, predicting that the positive effect of domestic political ties on firm's foreign growth is higher as policy risk in the host country increases, also receives support. Finally, Hypothesis 5, which predicted that the positive effect of

domestic political ties on firm's foreign growth is higher if the firm invests in a foreign country with the same legal system as the firm's home country, receives strong support. In the case of the control variables only the host country market reforms and host country GDP are significant in all regressions.

Table 2.1. Means, standard deviations, and correlations

	Variables	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1	Firm entries-country-year	0.01	0.16	1																		
2	%Connections	-6.72E-12	0.05	0.08	1																	
3	%Connections x Firm's Tobin's q	-0.01	0.07	-0.02	-0.16	1																
4	%Connections x Regulated Industry	0.01	0.03	0.09	0.85	-0.21	1															
5	%Connections x Country Policy Risk	2.68E-05	0.01	-0.03	0.01	-0.01	0.01	1														
6	%Connections x Regional Legal Family	-7.40E-06	0.03	0.10	0.72	-0.11	0.61	0.15	1													
7	Firm's Tobin's q	8.24E-09	2.32	-0.02	-0.06	-0.28	-0.11	0.00	-0.05	1												
8	Regulated Industry	0.32	0.47	0.08	0.67	-0.18	0.64	0.00	0.48	-0.16	1											
9	Country Policy Risk	-2.08E-09	0.31	-0.04	0.00	0.01	0.00	0.01	0.00	0.00	0.01	1										
10	Regional Legal Family	0.52	0.50	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.20	1									
11	Partial State Ownership	0.05	0.23	0.01	0.29	-0.09	0.26	0.01	0.21	-0.07	0.21	0.00	0.00	1								
12	Assets	-0.22	2.17	0.10	0.74	-0.17	0.62	0.00	0.53	-0.11	0.77	0.01	0.00	0.20	1							
13	Previous Firm Entries Inter.	11.60	25.83	0.13	0.46	-0.10	0.47	-0.01	0.33	-0.09	0.42	-0.01	0.00	-0.03	0.61	1						
14	Macr. Uncertainty	-7.12	1.23	-0.01	0.00	-0.01	0.00	0.01	0.00	0.01	0.01	0.23	0.14	0.04	-0.03	-0.06	1					
15	Host Country GDP	24.01	2.06	0.10	0.00	0.00	0.00	0.00	0.00	-0.01	-0.01	-0.43	-0.09	-0.02	0.01	0.03	-0.33	1				
16	Host Country GDP growth	3.70	4.75	0.00	0.03	0.00	0.02	0.02	0.02	0.00	-0.01	0.01	-0.06	-0.03	0.03	0.08	-0.04	-0.01	1			
17	Host Country inward FDI	5.60	30.00	-0.01	0.00	0.01	0.00	0.00	0.00	-0.01	-0.01	-0.10	0.07	-0.02	0.01	0.03	-0.01	-0.01	0.05	1		
18	Host Country Opennes Trade	79.34	51.84	-0.04	0.00	0.00	0.00	0.00	0.00	-0.01	-0.01	-0.14	-0.18	-0.02	0.02	0.04	0.06	-0.15	0.14	0.36	1	
19	Host Country market reforms initiated	0.59	0.49	0.06	-0.01	0.01	-0.01	0.00	0.00	-0.02	-0.03	-0.12	-0.06	-0.06	0.03	0.09	-0.17	0.32	0.13	-0.07	0.04	1

Table 2.2. Firm fixed-effects negative binomial regressions predicting the count of foreign investments

VARIABLES	(1)	(2)	(3)
%Connections (H1)		27.03***	15.97**
		(4.75)	(2.28)
%Connections x Firm's Tobin's q (H2)			3.50**
			(2.55)
%Connections x Regulated Industry (H3)			13.03**
			(2.19)
%Connections x Country Policy Risk (H4)			7.81***
			(3.03)
%Connections x Regional Legal Family (H5)			6.34***
			(4.25)
Firm's Tobin's q	0.11	0.10	0.06
	(1.47)	(1.32)	(0.71)
Regulated industry	-0.70	0.28	-0.19
	(-1.16)	(0.45)	(-0.39)
Country Policy Risk	-0.46	-0.45	-0.82**
	(-1.40)	(-1.36)	(-2.33)
Regional Legal Family	-0.61	-0.67	-0.92
	(-0.35)	(-0.39)	(-0.53)
Firm's Partial State Ownership	0.02	0.01	0.07
	(0.14)	(0.07)	(0.45)
Firm's Assets	0.13	-0.13	-0.11
	(1.58)	(-1.31)	(-1.09)
Firm's International Experience	-0.00	-0.00	-0.00
	(-1.53)	(-1.27)	(-1.62)
Macroeconomic Uncertainty	0.05	0.05	0.05
	(0.80)	(0.80)	(0.70)
GDP	0.94**	0.95**	0.95**
	(2.50)	(2.54)	(2.55)
GDP Growth	0.01	0.00	0.01
	(0.48)	(0.44)	(0.48)
FDI Inward	0.00	0.00	0.00
	(0.61)	(0.62)	(0.64)
Trade Openness	-0.01	-0.01	-0.01
	(-1.41)	(-1.46)	(-1.53)
Market Reforms Initiated	0.53***	0.54***	0.54***
	(2.98)	(3.03)	(3.04)
Constant	-24.73***	-24.85***	-24.83***
	(-2.99)	(-3.00)	(-3.00)
Observations	77,043	77,043	77,043
Number of firms	62	62	62

Note: z-statistics in parentheses ***p<0.001, ** p<0.01,* p<0.05

2.4.1. Magnitude of the Effects

Our results regarding the effect of political connections on firm's foreign growth are not only significant but also large in magnitude. The size of the effect of political connections must be assessed considering also the moderating effects of the boundary conditions. Since our full model includes two moderators that are dummy variables, there are four possible scenarios resulting from the combination of them (see Table 2.3). We start our analysis using the baseline scenario established in our theory and then we compare it with other possible scenarios. In addition, as there are two continuous moderating variables (Tobin's q and Policy Risk), we calculated the magnitude of the effect of political connections considering the variation of each of these two effects separately, keeping the variable that is not of interest valued at its mean. We used the coefficient estimates from the third specification reported in Table 2.2.

The first two columns of Table 2.3 show the magnitude of the moderating effect of intangible assets, as measured by Tobin's q, under the four different scenarios. We present the results for a level of Tobin's q equal to the mean plus one-half standard deviation, while holding policy risk at its mean. In the baseline scenario of investments by firms in regulated industries undertaken in countries located in the Civil-Code legal region, the firm's foreign investments increase by 150.58 percent in response to a one-half standard deviation increase in political connections. That is the scenario with the highest percentage increase. The lowest percentage increase is 60.08 percent for firms in non-regulated industries investing in countries that are not located in the Civil-Code legal region. The last two columns in Table 2.3 show the percentage increases when both Tobin's q and policy risk are held at their means. As predicted by our full regression model in Table 2.2, the percentage in the first two

columns of Table 2.3 under each of the four scenarios is always significantly greater than the corresponding percentage in the last two columns.

The third and fourth columns in Table 2.3 report the moderating effect of a policy risk at a level of increase of one-half of a standard deviation, while keeping intangible assets at mean value. As in the case of intangible assets, the highest percentage is to be found in the baseline scenario (134.16 percent) and the lowest in the most different scenario across the two columns (49.59 percent). Each percentage in these columns is significantly greater than the corresponding one in the last two columns of Table 2.3, although not as high as in the case of the effect of intangible assets.

Table 2.3. Percentage Increase in the Firm's Foreign Investments in Response to a one-half standard deviation increase in political connections under four alternative scenarios

	Tobin's q (mean+one-half SD)		**Policy Risk (mean+one-half SD)**		**Both Policy Risk and Tobin's q set at the mean**	
	Regulated	**Non-Regulated**	**Regulated**	**Non-Regulated**	**Regulated**	**Non-Regulated**
Same Regional Legal Family	150.58	85.41	134.16	73.26	127.79	68.55
Different Regional Legal Family	116.34	60.08	102.17	49.59	96.68	45.52

Figure 2.2 shows the marginal effects of political connections on firms' foreign growth in the baseline scenario, at different levels of policy risk. Similarly, Figure 2.3 shows the marginal effects of political connections on firms' propensity to invest abroad at different levels of the firm's Tobin's q.

Figure 2.2. Marginal effects of political connections on firms' foreign entries when Tobin's q is valued at its mean

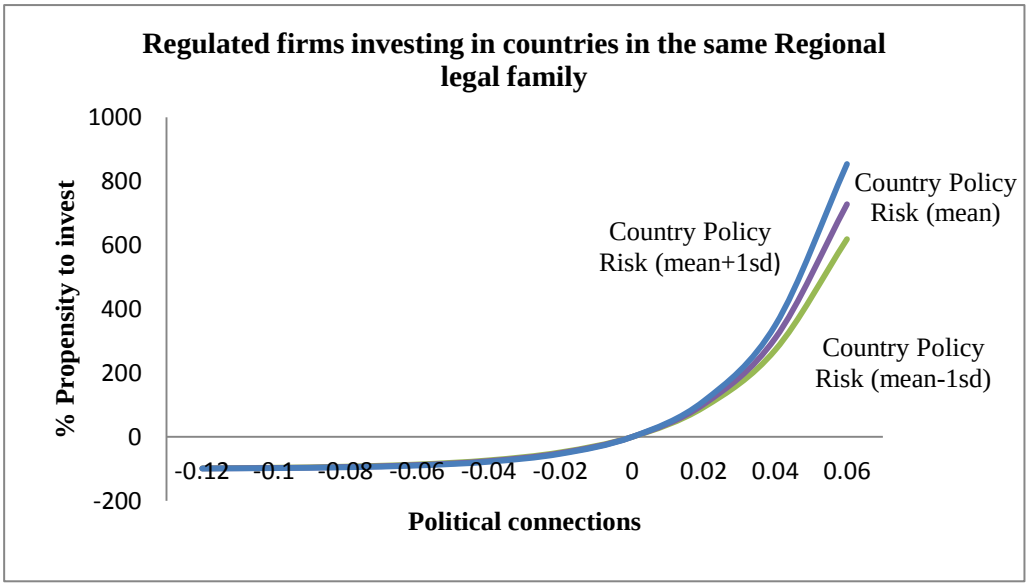
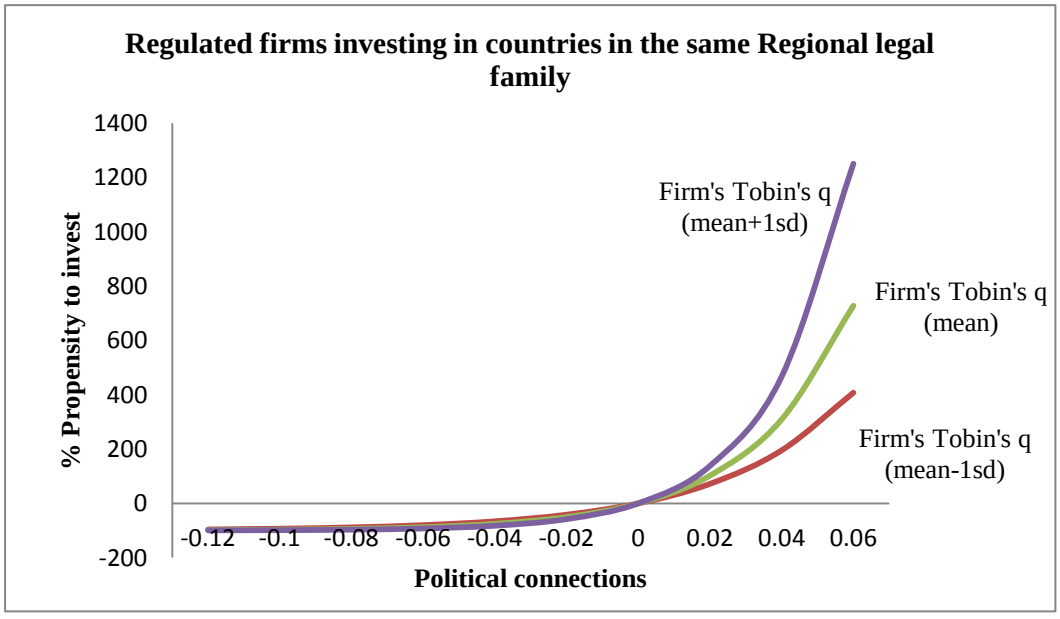


Figure 2.3. Marginal effects of political connections on firms' foreign entries when policy risk is valued at its mean



2.4.2. Robustness Checks

We conducted supplementary estimations aimed at ensuring the robustness of our results. The fixed-effects specification of our models excludes firms that did not invest abroad during the period of observation. To rule out the existence of selection biases we re-estimated our negative binomial regression following a two-stage procedure based on Heckman's selection method (1976, 1979). In the first step we estimated a probit regression for panel data to explain the decision to invest abroad. In this first step the unit of observation is the firm-year. We introduced several variables at the firm and home-country levels that may influence the firm's decision of investing abroad. At the firm level we used the log of sales, Tobin's q, the number of years that the CEO has been in his/her position, the concentration of ownership, whether the CEO is also the chairman of the company, the leverage ratio, and whether the firm is partially state owned.[9] At the home country level we used the GDP growth rate and the number of months that the Spanish economy had been in recession at each year.[10] We also included industry dummies. In the second step we entered the inverse Mills ratio in the negative binomial regression (Heckman, 1979). Our results remain the same after correcting for potential sample selection bias (see Table 2.4). The effect of political connections remains positive and significant in the specification with the main effects. In the full regression model the significance of this variable falls below the 0.05 level but it is significant at the 0.1 level (p=0.056). The interaction terms remain significant across all the specifications, supporting each of the hypotheses about boundary conditions.

[9] Data regarding the number of years that the CEO has been in the company, the concentration of ownership, when the CEO is also member of the board of directors, the level of leverage have been obtained from companies' reports and press news.
[10] Data obtained from the World Bank indicators.

Table 2.4. Firm fixed-effects negative binomial regressions predicting the count of foreign investments. Results corrected for selection bias

VARIABLES	(1)	(2)	(3)
%Connections (H1)		26.28***	13.57*
		(4.58)	(1.91)
%Connections x Firm's Tobin's q (H2)			3.02**
			(2.13)
%Connections x Regulated Industry (H3)			15.10**
			(2.48)
%Connections x Country Policy Risk (H4)			7.80***
			(3.01)
%Connections x Regional Legal Family (H5)			6.63***
			(4.41)
Firm's Tobin's q	0.14	0.12	0.09
	(1.71)	(1.50)	(1.01)
Regulated industry	0.51	-0.11	-0.25
	(1.10)	(-0.22)	(-0.51)
Country Policy Risk	-0.44	-0.43	-0.79**
	(-1.33)	(-1.30)	(-2.26)
Regional Legal Family	-0.61	-0.67	-0.93
	(-0.35)	(-0.38)	(-0.54)
Firm's Partial State Ownership	0.03	0.02	0.07
	(0.22)	(0.14)	(0.47)
Firm's Assets	0.11	-0.14	-0.12
	(1.24)	(-1.35)	(-1.18)
Firm's International Experience	-0.00	-0.00	-0.00
	(-0.98)	(-0.84)	(-1.12)
Macroeconomic Uncertainty	0.05	0.05	0.05
	(0.83)	(0.82)	(0.73)
GDP	0.93**	0.95**	0.95**
	(2.50)	(2.53)	(2.55)
GDP Growth	0.00	0.00	0.00
	(0.44)	(0.40)	(0.45)
FDI Inward	0.00	0.00	0.00
	(0.62)	(0.63)	(0.65)
Trade Openness	-0.01	-0.01	-0.01
	(-1.43)	(-1.47)	(-1.55)
Market Reforms Initiated	0.53***	0.54***	0.54***
	(2.97)	(3.03)	(3.03)
Inverse Mills	-0.20	-0.15	-0.18
	(-1.91)	(-1.51)	(-1.74)
Constant	-24.64***	-24.69***	-24.73***
	(-2.98)	(-2.98)	(-2.99)
Observations	74,359	74,359	74,359
Number of firms	62	62	62

Note: **** p<0.001, *** p<0.01,** p<0.05, *p<0.1. z-statistics in parentheses

We also ran another regression using a random-effects specification, using the sample of all 97 firms regardless whether they ever invested abroad or not. Table 2.5 shows the results using this specification. The main and interaction effects remain significant without the fixed-effects. We also re-estimated this negative binomial regression using the random-effects specification, just for the sample of 62 investing firms. The results of this regression are shown in Table 2.6. We obtained similar patterns of significance. The only remarkable change is that the significance of the main effect falls below the 0.1 level in the full regression model.

We also ran an additional robustness check to see if using a binary dependent variable instead of the count of investments would change the results, i.e. by truncating the dependent variable to values of zero (no investments) or one (one or more investments). We were concerned that perhaps the endogenous nature of political connections would produce different results with different definitions of the dependent variable. We show the results in Table 2.7 using a probit regression model in the second stage, and the same instrumental-variables model in the first stage. The coefficient for the political connections variable and all interaction terms are significant using this alternative method, proving the robustness of our results. In sum, each of our robustness analyses confirms that the positive effect of domestic political connections on the firm's foreign growth is magnified when each and all of the conditions established in our theory are met.

Table 2.5. Random-effects negative binomial regressions predicting the count of foreign investments. Results for the sample that accounts for investing and non-investing firms

VARIABLES	(1)	(2)	(3)
%Connections (H1)		26.22***	17.02***
		(5.47)	(3.06)
%Connections x Firm's Tobin's q (H2)			4.13***
			(3.47)
%Connections x Regulated Industry (H3)			13.49**
			(2.53)
%Connections x Country Policy Risk (H4)			7.42***
			(2.90)
%Connections x Regional Legal Family (H5)			6.24***
			(4.23)
Firm's Tobin's q	-0.06	-0.07	-0.09
	(-0.95)	(-1.20)	(-1.42)
Regulated industry	0.62	-0.01	-0.15
	(1.67)	(-0.03)	(-0.40)
Country Policy Risk	-0.45	-0.44	-0.80**
	(-1.37)	(-1.34)	(-2.27)
Regional Legal Family	-0.58	-0.63	-0.89
	(-0.33)	(-0.36)	(-0.51)
Firm's Partial State Ownership	0.00	-0.01	0.07
	(0.02)	(-0.09)	(0.48)
Firm's Assets	0.23***	-0.04	-0.01
	(3.11)	(-0.48)	(-0.15)
Firm's International Experience	-0.00	-0.00	-0.00
	(-1.40)	(-1.13)	(-1.59)
Macroeconomic Uncertainty	0.05	0.05	0.04
	(0.79)	(0.78)	(0.68)
GDP	0.93**	0.94**	0.95**
	(2.48)	(2.51)	(2.53)
GDP Growth	0.01	0.00	0.01
	(0.49)	(0.45)	(0.48)
FDI Inward	0.00	0.00	0.00
	(0.61)	(0.62)	(0.64)
Trade Openness	-0.01	-0.01	-0.01
	(-1.40)	(-1.44)	(-1.53)
Market Reforms Initiated	0.53***	0.54***	0.55***
	(2.99)	(3.04)	(3.06)
Constant	-24.92***	-24.94***	-25.04***
	(-3.01)	(-3.01)	(-3.03)
Observations	99,202	99,202	99,202
Number of firms	97	97	97

Note: **** p<0.001, *** p<0.01,** p<0.05, *p<0.1. z-statistics in parentheses

Table 2.6. Random-effects negative binomial regressions predicting the count of foreign investments. Results just for the sample of investing firms

VARIABLES	(1)	(2)	(3)
%Connections (H1)		20.26***	7.42
		(4.15)	(1.34)
%Connections x Firm's Tobin's q (H2)			4.19***
			(3.10)
%Connections x Regulated Industry (H3)			17.33***
			(3.26)
%Connections x Country Policy Risk (H4)			6.82***
			(2.62)
%Connections x Regional Legal Family (H5)			6.01***
			(3.99)
Firm's Tobin's q	0.05	0.04	0.03
	(0.68)	(0.49)	(0.42)
Regulated Industry	-0.41	0.35	-0.01
	(-0.80)	(0.64)	(-0.02)
Country Policy Risk	-0.43	-0.42	-0.69**
	(-1.30)	(-1.27)	(-1.99)
Regional Legal Family	-0.99	-1.03	-1.24
	(-0.57)	(-0.59)	(-0.71)
Firm's Partial State Ownership	0.01	-0.00	0.08
	(0.09)	(-0.01)	(0.52)
Firm's Assets	0.23***	0.02	0.05
	(3.17)	(0.18)	(0.59)
Firm's International Experience	-0.00	-0.00	-0.00
	(-0.47)	(-0.35)	(-0.73)
Macroeconomic Uncertainty	0.05	0.05	0.04
	(0.78)	(0.78)	(0.69)
GDP	1.04***	1.05***	1.05***
	(2.75)	(2.77)	(2.79)
GDP Growth	0.01	0.01	0.01
	(0.53)	(0.51)	(0.52)
FDI Inward	0.00	0.00	0.00
	(0.59)	(0.59)	(0.62)
Trade Openness	-0.01	-0.01	-0.01
	(-1.62)	(-1.65)	(-1.73)
Market Reforms Initiated	0.54***	0.55***	0.55***
	(3.02)	(3.05)	(3.08)
Constant	-27.30***	-27.17***	-27.38***
	(-3.28)	(-3.26)	(-3.29)
Observations	77,368	77,368	77,368
Number of firms	62	62	62

Note: **** p<0.001, *** p<0.01,** p<0.05, *p<0.1. z-statistics in parentheses

Table 2.7. Probit regression predicting foreign market entry

VARIABLES	(1)	(2)
%Connections (H1)	14.02***	8.36***
	(5.08)	(2.87)
%Connections x Firm's Tobin's q (H2)		1.50***
		(2.61)
%Connections x Regulated Industry (H3)		8.69***
		(3.32)
%Connections x Country Policy Risk (H4)		2.80**
		(2.25)
%Connections x Regional Legal Family (H5)		3.48***
		(4.96)
Firm's Tobin's q	-0.05	-0.04
	(-1.75)	(-1.69)
Regulated Industry	0.13	0.09
	(0.44)	(0.32)
Country Policy Risk	-0.22	-0.35**
	(-1.47)	(-2.14)
Regional Legal Family	-0.06	-0.16
	(-0.08)	(-0.21)
Firm's Partial State Ownership	0.04	0.06
	(0.44)	(0.68)
Firm's Assets	-0.05	-0.03
	(-0.98)	(-0.73)
Firm's International Experience	-0.00	-0.00
	(-0.93)	(-1.33)
Macroeconomic Uncertainty	0.03	0.03
	(1.09)	(1.06)
GDP	0.34	0.33
	(1.91)	(1.84)
GDP Growth	0.00	0.00
	(0.71)	(0.89)
FDI Inward	-0.00	-0.00
	(-0.30)	(-0.32)
Trade Openness	-0.00	-0.00
	(-0.44)	(-0.51)
Market Reforms Initiated	0.15	0.15
	(1.95)	(1.90)
Constant	-10.67***	-10.40***
	(-2.73)	(-2.66)
Observations	99,202	99,202
Number of firms	97	97

Note: **** p<0.001, *** p<0.01,** p<0.05, *p<0.1. z-statistics in parentheses

2.5. DISCUSSION AND CONCLUSION

Our study provides strong and robust evidence on the impact of political ties in foreign organizational growth. By developing a multilevel contingency theory based on resource-dependence theory, we show that having political ties in the board of directors makes firms more prone to foreign expansion, especially to countries with policy instability and a legal system similar to the one of their home country. We also show that it is for firms with strong competitive advantages, and competing in regulated industries where this effect is more important. Rather than considering political ties as personal connections with politicians, as the majority of previous research in this field has assumed, we adopted the view that considers these ties as sources of knowledge regarding how the political process works (Hillman, 2005; Lester et al., 2008) and how firms can gain easy access to relevant information (Useem, 1986). By doing so we extend resource-dependence theory to explain the role that firms' political ties at home play on the firm's foreign growth.

Our first remarkable result is that domestic political ties have a positive influence in foreign expansion. Previous research shows that the degree of internationalization of firms is positively correlated to the size of the board (Sanders and Carpenter, 1998; Tihanyi et al., 2000). For this reason, firms having larger boards would be better prepared to deal with the uncertainties and increased resource dependence associated to international expansion, as suggested by the seminal work of Pfeffer and Salancik, making them more prone to invest abroad. However, why hiring local politicians help companies to expand abroad in *specific countries* and in *specific industries*? This result is not straightforward, as domestic politicians could be expected to provide investment opportunities in the home country, the country in which they have developed their political experience, or just gaining the support of the local administrations. In this way foreign politicians could be more instrumental to promote

foreign expansion. We explain this apparent paradox by arguing that these politicians do not only provide direct ties with governments, but also valuable knowledge regarding how to deal with governments and regulations abroad, even in countries where they do not have personal ties. This result is consistent with the recent trend to analyze the contribution of board members, not only in terms of coopting external organizations, but also in terms of the social and human capital provided by the board members (Kor and Sundaramurthy, 2009; Westphal and Fredrickson, 2001).

Another important result of our work is that the impact of domestic politicians in foreign growth is dependent on a number of boundary conditions at the firm, industry, country, and regional levels of analysis.

At the firm level, we found a robust and positive moderating effect of the firms' intangible assets, as measured by Tobin's q. This result suggests that political and market-based resources are complementary. Domestic political ties allow firms to achieve greater levels of foreign growth if they are complemented by other firm's intangible assets such as a technology, and project execution capabilities among others. In this vein, we are contributing to the literature that jointly analyzes market-based and political resources (Baron 1995, 1999; Boddewyn and Brewer, 1994; Hillman and Hitt, 1999). Some studies in the field of political strategy have highlighted the importance of political variables to the success of the firm in obtaining a profit in the marketplace. The vast majority of this research sees political and market strategies as complementary (Baron 1995, 1999; Keim and Hillman, 2008; Shaffer et al., 2000) whilst others assert that both strategies can sometimes be substitutes (Bonardi 2004, 2011). Our analysis clarifies to some extent this controversy in the case of firms' foreign growth. We argued that political and economic resources provide firms with different benefits that, jointly, allow these companies growing abroad. Political resources are oriented

to obtain better entry conditions and facilitate the entry of the firm into a foreign country whilst market-based resources allow firms to achieve success when facing local competitors in the market arena (Shaffer et al., 2000) overcoming the liability of foreignness. In other words, political connections facilitate the first step in the location choice, but market-based resources act as a guarantee of the firm's success facing local competitors.

Organizational and strategic literatures largely recognize the influence of institutions on the behavior of organizations (DiMaggio and Powell, 1991; North, 1990; Peng, 2002; Peng et al., 2009; Scott, 1995; Williamson, 1985). Consistent with this literature, our theoretical approach proposed that the positive effect that political connections have on firms' foreign growth is constrained by institutional environment in two ways. First, we found that characteristics of the host-country institutional environment regarding its political structure — the effectiveness of checks and balances— constitute one of these constraints. Usually, countries where checks and balances are more effective have been considered as more attractive for firms implementing political strategies (Bonardi et al., 2005; Kingsley et al., 2012). However, our result regarding the moderating effect of policy risk shows that for firms having more political resources these strategies are easier to put in practice in countries where checks and balances are less effective. These firms are able to leverage their political resources and take advantage of policy risk, something that is more difficult in countries with more effective checks and balances because firms have to use more time and resources to influence the decisions of governments. Second, the institutional similarity between home and host countries also constitutes a limit in the exploitation of political ties. Even though institutions vary country by country (Hillman and Keim, 1995; Keim and Hillman, 2008), organizations embedded in a particular institutional environment have developed certain skills that can be used to obtain benefits in countries with similar intuitional characteristics

(Delios and Henisz, 2003; Henisz, 2003, Henisz and Delios, 2002,). Thus, our analysis speaks to the debate about the impact of institutional similarity on organizational strategies (Henisz and Zelner, 2005; Kostova and Roth, 2002; Perkins, forthcoming).

Another finding with important implications is the one related to the difference between regulated and non-regulated industries. Previous argued that regulated firms have more political capabilities than other firms (García-Canal and Guillén, 2008; Guillén and García-Canal, 2010, 2012; Henisz, 2003; Holburn and Zelner, 2010). We contribute to this line of research as our results suggest that firms in regulated industries are able to leverage their firm-specific political resources to a greater extent than firms in other industries. This moderation effect is above and beyond the main effect of political connections (Hillman 2005). In our sample, firms in regulated industries not only have more political connections (9.7 percent versus 3.6 percent), but they leverage them to a greater extent.

Overall, our results sustain and reinforce the underlying assumption in our theory, i.e. that the contribution of political connections to a firm's growth opportunities goes beyond the number of personal ties that politicians may have. First, as previously mentioned, if politicians from the firm's home country were coopted just for their personal relationships with governments and regulators, politically connected firms should invest more in their home country than non-politically connected firms, as the bulk of the personal connections of these politicians are their home country. In addition, if the impact of political ties on international expansion were exclusively associated to friendship and personal ties, it would be negative or positive depending on the positions of power of the agents tied to the politicians in the board, as the evidence of Siegel (2007) and Fisman (2001) suggest. For these reasons, our results cannot be explained just on the basis of the personal ties of the politicians. In addition, the fact that the impact of domestic politicians in foreign expansion is

greater in regulated industries and in countries with the same legal system cannot be explained just for the direct ties of politicians. It is in these industries where the knowledge and expertise provided by the politicians become more valuable, and it is in countries sharing the same legal system where their knowledge and experience is more applicable. Thus an important contribution of our work is to highlight not only that political connections provide companies with knowledge regarding how the political process works; but also that this knowledge that can be exploited outside the firm's home country. Acknowledging this contribution of political ties in terms of knowledge rather than political action could also be a step forward to combine Resource Dependence Theory with the Resource Based View of the firm (Barney, 1991; Hillman et al., 2009), as this is a sort of knowledge difficult to obtain in a competitive market and thus is valuable, rare, difficult to imitate and difficult to substitute. In the same way, some bridges can be built between resource-dependence theory and internationalization theory (Buckley and Casson, 1976; Caves, 1996), as the main assumption of internationalization theory is that firms exploit abroad knowledge, experience, and assets developed in their home countries.

Although we have found robust support for a multi-level theory of the contingent value of political connections, the research reported in this chapter suffers from some limitations. One of them has to do with the institutional environment. We only analyzed what North (1990) called "formal institutions" (laws, regulations, and rules), overlooking the effect that informal institutions may exert. Another limitation is that we were unable to control for the possibility that firms may have political connections in the host country. Analyzing the impact of those connections would require correcting for the endogeneity based on initial entry into the country, a problem that lies beyond the scope of our work. In addition, we have measured only direct political connections through the cooptation of former politicians as

members of the board of directors, but not through other types of connections not based on personal ties. A final limitation of our work has to do with the generalizability of the results beyond the case of Spanish companies.

These limitations offer several opportunities to advance in the study of political ties and political resources in general. Regarding the analysis of institutional similarities between host and home countries regarding "informal institutions" (norms and culture), some characteristics such as language can also influence the effect of political ties on organizational foreign growth. Concerning local political, it would be interesting to analyze their effect not only at the moment of entry but also when it comes to subsequent investments. It is likely that these local ties do not influence the firm's initial entry into a particular host country but that they can be a determinant factor in subsequent investments and even in the survival of the firm's investments. These and other areas of research can be pursued to continue advancing the theory of contingent political advantages pursued in this chapter.

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Chapter 3

Policy Risk and the Survival of Foreign Subsidiaries in Regulated Industries: A Bargaining Power Perspective

3.1. INTRODUCTION: MNEs and Host country government relations (MGRs) in regulated industries

Relations between host countries and multinational enterprises (MNEs) have been widely analyzed as bargaining processes (Eden and Molot, 2002; Kobrin, 1987; Luo 2001, 2004; Moran, 1974; Nebus and Rufin, 2010; Vivoda, 2009). MNEs want to secure favorable entry conditions and/or an adequate environment for doing business by being granted access to natural resources, cheap labor, tax incentives, among other benefits. Host countries expect the MNE to contribute to the economic development of the country with resources such as technology, knowledge, financial resources and management skills, which are scarce in host countries (Eden and Molot, 2002; Grosse and Aramburu, 1991).

There are two streams of research that analyze these bargaining processes. The traditional view considers this relation as a relationship of confrontation which is aggravated by the so-called "obsolescing bargain", the shifting balance of power from the MNE to the host country once the former incurs in sunk costs in foreign soil (Kobrin, 1987; Vernon, 1971). A more recent stream of research adopts a cooperative view of these bargaining processes (Dunning, 1993; Luo 2001, 2004, Stopford, 1994), which are aimed at getting to win-win situations in which both parties achieve their objectives. In these two streams, the problem most frequently analyzed is the entry decision. However, the study of divestment decision, an equally important outcome, has been overlooked.

These bargaining processes can be analyzed from a power dependence perspective, because both MNEs and host country are in control of resources that are valuable for each other. While this interdependence exists in every industry, in the specific case of regulated industries it is amplified. In these industries, foreign investors are welcome in host countries for several reasons. In the case of developing countries the foreign investor can be required to

provide financial, managerial and technological resources needed to provide efficiently public services such as water and electricity. In the case of developed countries, foreign entrants can be required just to increase the degree of competition. Additionally, in regulated industries governments can radically affect the profits of companies by taking decisions on prices, number of licenses granted or amount of investments required (Hillman, 2005; Keim and Hillman, 2008). A critical variable in defining the interdependence between governments and foreign multinationals is policy risk. Whereas in some countries there are a number of checks and balances that limit the discretion that government has to unilaterally alter the "rules of the game", in others, the lack of these institutional constraints led to policy risk (Henisz, 2000). Thus, the presence of policy risk amplifies the dependence of foreign firms on host governments due to their greater discretion. But for the same reason, this discretion also increases the difficulties of governments in attracting foreign resources, due to the lack of credibility of their commitments regarding the stability of their policies.

Ample empirical evidence shows that, in general, companies tend to avoid countries with high levels of policy risk, so as to prevent the expropriation of the returns of their investments as a consequence of discretionary changes in the rules of the game (Henisz, 2000; Henisz and Zelner, 2005; Murtha, 1991; Murtha and Lenway, 1994). However, not all companies behave in the same way. Recent research on the international expansion of regulated firms shows that they are sometimes willing to expose themselves to policy risky environments (García-Canal and Guillén, 2008; Holburn and Zelner, 2010). This policy-risk seeking behavior has been explained on the basis that these firms accumulate and develop "political capabilities" that can be used to overcome the disadvantages of policy risk. These capabilities can be defined as the firms' knowledge and skills that allow them to negotiate with politicians and regulators (Boddewyng and Brewer, 1994; Bonardi, Holburn and

VandenBergh, 2006; García-Canal and Guillén, 2008; Holburn, 2001). Although this policy risk seeking behavior by regulated firms is well documented, no evidence exists of what are the outcomes of this exposure, given the problem of "obsolescing bargain" poised out by Vernon (1971). In this chapter we develop and test a theoretical framework based on resource-dependence theory (Aldrich and Pfeffer, 1976; Pfeffer and Salancik, 1978, 2003) to explain the influence of policy risk on divestment decisions by multinationals from regulated industries. Building on the concepts of mutual dependence and power imbalance (Casciaro and Piskorski, 2005; Pirskorski and Casciaro, 2006) we analyze how policy risk influences the profitability of a firm's subsidiary and hence its survival. We also analyze the interrelation of policy risk with the firms' level of political capabilities as well as other changes in the environment, and how all of them condition divestment decisions. Resource-dependence theory is an appropriate framework to study the outcomes of these bargaining processes in the presence of policy risk, as it is a useful tool for analyzing the causes and consequences of a firm's bargaining power vis-à-vis its environment (Pfeffer and Salancik, 2003). As empirical evidence we have analyzed the survival of investments carried out by Spanish firms from regulated industries during the period 1986-2008.

3.2. THEORY AND HYPOTHESES

3.2.1. Resource-dependence theory and MNE-Host governments bargaining processes

Resource-dependence theory posits that organizations interact with their environment in order to reduce uncertainty and secure the access to external resources (Pfefer and Salancick, 1978, 2003). In this "negotiated environment", control over critical resources is a source of power, but following the insights of Emerson, power is not considered as inherent to the individual or organization, but as a "property of the social relation" (Emerson, 1962: 32). Power, thus, entails the dependence on other organizations. Mutual dependence is a critical

concept in resource-dependence theory, as this dependence is a necessary condition for the establishment of inter-organizational bargaining processes, but not sufficient. As argued by Casciaro and Piskorski (2005), the extent to which organizations can get to satisfactory outcomes in their bargaining processes depend also on power imbalance, defined as "the power differential between two organizations" (Casciaro and Piskorski, 2005: 168). When power imbalance is high it is difficult to get to satisfactory outcomes because the less powerful organization has trouble in using their own resources as bargaining chips. Under this framework the most favorable scenario for a satisfactory bargaining will be the one when mutual dependence is high and power imbalance is low, because in this case it is easy for both organizations to manage their interdependencies (Casciaro and Piskorski, 2005).

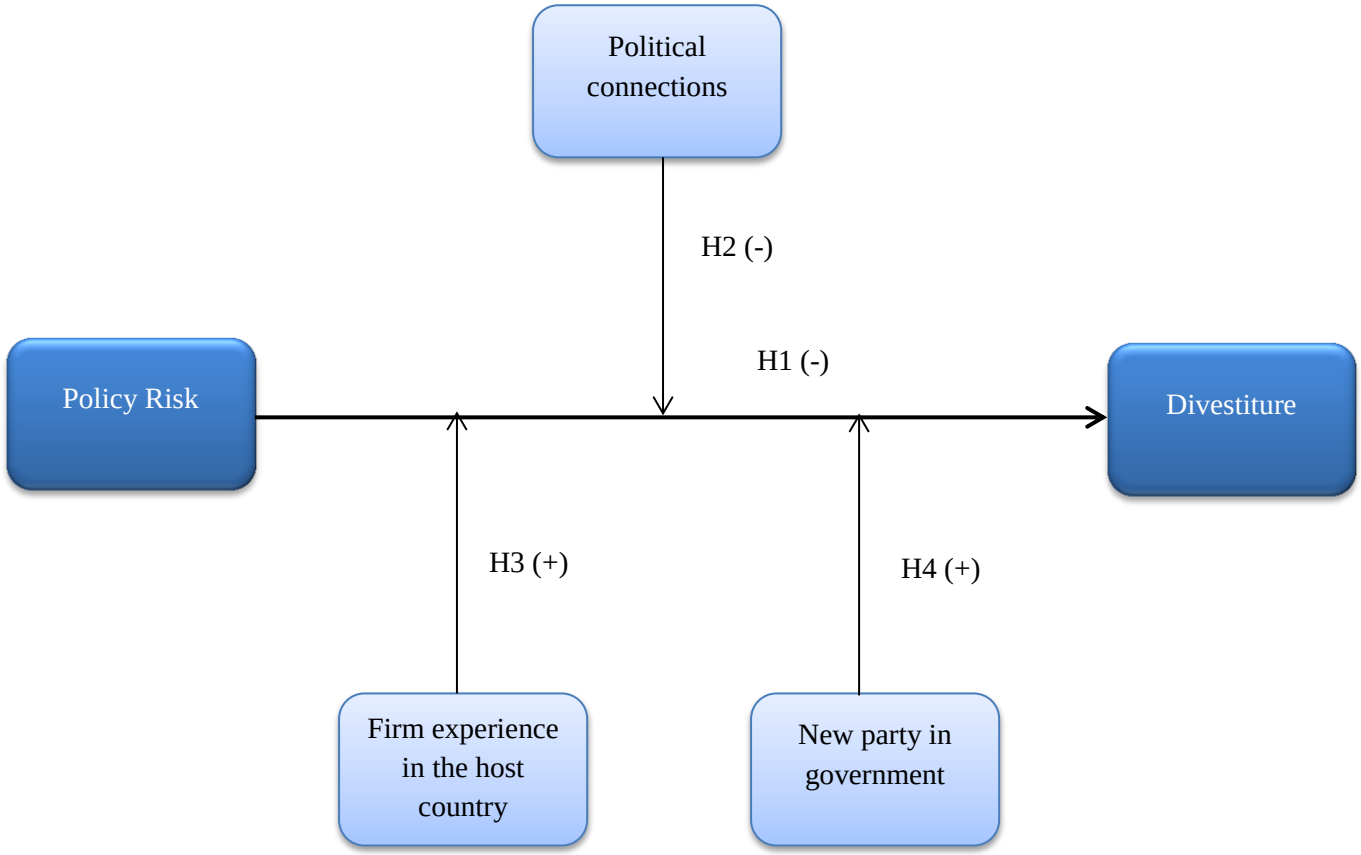
Applying this framework to the field of MNE–Host country bargaining processes in regulated industries, we find that mutual dependence will be higher when policy risk is high, because in this case the government and foreign firms have more interdependencies. In these industries, multinationals and local governments certainly maintain an interdependent relationship as the profitability of the project is conditioned by the commitments reached by both parties: on the one hand, the commitments made by the firm related to infrastructure investment, payment of licenses, and/or, if applicable, rationalization of the acquired privatized company. On the other hand, those commitments made by the government regarding the stability of the rules of the game in terms of competition levels, and prices, and so on. For this reason, any increase in policy risk in the host country can lead to unilateral changes in the rules of the game that could damage the expected profitability of the investment. But policy risk also increases the dependence of host governments on foreign firms as fewer organizations are willing to invest in these countries. Firms tend to prefer governments with an established and credible set of rules and policies, which ultimately

decreases investment risk (Delios and Henisz, 2003; Henisz, 2000; Henisz and Zelner, 2005). As the number of firms willing to invest in such country decreases, companies willing to enter into bargaining processes with discretionary local governments see their bargaining power increased. These companies exist. There is in fact empirical evidence showing that firms do not always avoid being exposed to policy risk as a consequence of political capabilities acquired in their home country (García-Canal and Guillén, 2008; Holburn and Zelner, 2010; Jiménez, 2010).

However, as previously mentioned, the number of companies having more political capabilities and willing to invest in policy risky countries is just a fraction of the multinationals in regulated industries. For this reason, when confronting governments with discretion with multinationals with political capabilities mutual dependence is high, but power imbalance is low, due to the lower number of firms willing to invest. This is the reason why these firms investing in policy-risky countries usually get, as outcome of the initial bargaining process, a favorable ad-hoc package of conditions that may adjust better to both the company and the country needs, in terms of required investment, potential competitors, and pricing policy (García-Canal and Guillén, 2008).

In the following section we analyze how the level of political capabilities, changes in the counterpart, and the passage of time interact with policy discretion to explain divestment decisions by multinationals from regulated industries. Figure 3.1 shows the causal relationships established in our theory.

Figure 3.1. Causal relationships established in our theory



3.2.2. Divestment decisions and policy risk

Literature on foreign affiliates' survival points to the subsidiary's profitability as the main factor influencing a divestment decision (see Berry, 2010 for a review of the literature). From this perspective, it can be expected that policy risk plays a major role over a project's longevity, because politicians and regulators can have a significant influence on investment profitability (Henisz, 2000; Henisz and Zelner, 2001). However, the relationship between policy risk and divestment decisions is more complex that what could be initially expected. It is clear that if we assume that investments in infrastructure are the only source of power of foreign multinationals, once the bulk of the investment is made, the bargaining power of the foreign company sharply decreases. This situation leads to power imbalance and to unsatisfactory outcomes of the interorganizational bargaining processes between governments and multinationals, that could end in divestments. However, this vision is quite simplistic. First, because the same capabilities a firm use to negotiate favorable entry conditions can also be used to solve potential conflicts with the host country government after the entry. Secondly and more important, firms do not lose bargaining power overnight, because the investments of the multinational firm are made gradually.

In effect, the relationship between multinational and foreign government could be understand as a process in which the two parties make adjustments to reach favorable outcomes for both parties (Luo, 2001, 2004): favorable conditions to operate, in the case of the multinational (García-Canal and Guillén, 2008), and improvements in welfare in the case of government (Eden and Molot, 2002). Building on social exchange theory (Granovetter, 1985), Luo (2001) argues that multinationals and governments can enter into a virtuous cycle in which the norm of reciprocity makes possible the definition of a cooperative relationship. Trust is also an outcome of this relationship and is an asset easy to depreciate in case of one

of the parties fails to honor its commitments. In this context, policy stability could be even an impediment to reach to cooperative situations due to the difficulties to change the initial terms of the agreement or industry standards to adapt the relationship to changing circumstances in the host country (Arregle et al., 2013). These adjustments are easy to implement with governments enjoying greater discretion. The case of Digicel in Haiti is a clear example. Haiti's regulator, Conatel, found Digicel—an Irish mobile operator—to be in violation of international standards, but was overruled by the government, who argued that Digicel was making the market more affordable for Haiti's poor majority (Economist, 2007). As this case shows, policy risk is a variable that makes easy the renegotiations of the initial agreement to make adjustments that are beneficial for both the foreign multinational and the local government. For this reason, under the presence of policy risk firms can retain bargaining power and thus keep power imbalance at low levels as they made the required investments gradually developing a cooperative relationship. On this basis, we propose the following hypothesis:

Hypothesis 1. In regulated industries, conditional on the foreign firm having invested there, divestitures are less likely as policy risk in the host country increases.

Not all regulated firms are equally prepared to deal with host governments, especially once the investment has been made. As previously mentioned, as the foreign firm makes its investments in the host country, it is expected that it loses the major part of their bargaining power and then power imbalance increases. However, we argue that regulated firms have developed at home certain political skills (Bonardi, 2004; Holburn and Zelner, 2010; Guillén and García-Canal, 2010) that allow them to keep power imbalance at low levels. In other words, these political capabilities facilitate MNE-Host government negotiations. Political resources have been considered by many authors as part of firms' resource set and the

cornerstones of their political strategies (Baron, 1995; Baron, 1999; Oliver and Holzinger, 2008). Political resources satisfy the characteristics that a resource must have to be source of competitive advantage, that is, they are unique, valuable and inimitable (Boddewing and Brewer, 1994; Guillén and García-Canal, 2010; Oliver and Holzinger, 2008). Although all regulated firms may have these political capabilities developed at home, these firms are heterogeneous in their political resources and capabilities endowment as happens with other kind of firms' resources (Hillman and Hitt, 1999). So, it is expected that not all regulated firms are equally equipped to successfully renegotiate with host governments.

We argue that political capabilities will be more effective in countries having governments enjoying greater discretion. In these countries firms having more political resources will be more able to obtain better conditions in their contracts' renegotiations with host governments. In this situation firms only need to influence a few number of key veto players making easy their bargaining with governments (Arregle et al., 2013). On the contrary, implementing political strategies in countries where governments have less discretion is an expensive strategic choice for firms, as they have to influence and persuade a greater number of veto players (Holburn and Vanden Berg, 2002). So, we can expect that in the presence of discretionary governments, the possession of political resources would compensate the negative effect of increases in power imbalance associated to an ever increasing investing activity. Maintaining an adequate balance of power is critical for getting favorable outcomes for both parties, firms and governments contributing to the survival of the firm's investments. Taking into account all these arguments our second hypothesis states that:

Hypothesis 2. The negative effect that policy risk has on the probability of divestiture will be even more negative as the level of firms' political resources increases

3.2.3. What are the limits in getting win-win outcomes in MGRr under policy risk?

Policy risk is, thus, an advantage at least while the firm is in the process of turning around a privatized company or improving the infrastructure in the host country. We can expect, however, that once the company has done the bulk of the investment and the main adjustments in the relationship with the host government have been made, increments in policy risk would only harm the profitability of the foreign unit, due to the sunk costs associated with the investment project (see Henisz and Williamson, 1999; Vernon, 1971). As Axelrod (1984) shows cooperation requires a long shadow of the feature. For this reason there is a time window at the beginning of the life of the investment where policy risk can play in favor of the foreign investor. Certainly, as the firm gains experience operating in the host country, it gains also local knowledge and contacts that can prevent opportunistic behavior by the local government. This type of country-specific political resources can hardly be acquired in the market (Holburn and Zelner, 2010). However, as Bonardi (2004) states political capabilities in the host country are not as effective as in the home country. This is partly due to the fact that bargaining processes between firms and governments are easy at home, as the interests of both parties are usually more aligned (Bonardi, 2004). So, the main source of bargaining power of regulated firms comes from the investments in infrastructure to be made in the host country. For this reason, as times goes by the negative impact of policy risk on the probability of divesting would be reduced, increasing power imbalance and the chances of less satisfactory outcomes in subsequent bargaining processes. Therefore, we formulate:

Hypothesis 3. With the passage of time, the negative effect of policy risk on the probability of divestiture is attenuated.

Given that the political contacts gained by the firm is the only force that prevent the company being worse off as a consequence of increases of policy risk, a critical factor that can alter dramatically the situation of the company is a change in the government entailing a different political party supporting it. As long as the local agents with whom the company had negotiated the entry conditions remain in charge, the company can use the experience and relationship developed with them to enforce the specific entry conditions negotiated and previous adjustments.

Stevens and Cooper (2010) state that governments in countries with less effective checks and balances are more concerned about the commitments they make with foreign firms, because at the end, these commitments are the only guarantee that foreign firms have to prevent host governments' opportunistic behavior. Thus, as long as the same party remains in power, the firm can expect reciprocity in their relationships with the foreign government. However, a change in political actors leave the company increasingly unarmed to deal with changes in the rules of the game as policy risk increases. In Ontiveros et al. (2004), it is shown that the underlying risks associated to policy risk come to the surface when there is a change in government. This fact means that companies are able to maintain entry conditions as long as the government with which they were negotiated remains in charge. In fact, Siegel (2007) and Fisman (2001) show that the advantages that firms obtain from local political networks turn into liabilities when the government from which they obtain these advantages leaves office.

Political resources in the host country are thus government specific rather than country-specific, so their value falls sharply when a new government supported by a different party arrives. In this case, power imbalance would increase as the firm loses the edge provided by their government specific local resources. On this basis we argue that:

Hypothesis 4. After a power transition, e.g. different party or political coalition occupying the executive branch of government, divestitures are more likely as policy risk increases.

3.3. METHOD

3.3.1. Sample

Our work analyzes investments performed by the set of firms from regulated industries listed in the Spanish stock market. The analyzed period spans from 1986 to 2008. The initial year is considered as adequate due to the fact that it was the year of the effective entry of Spain into the European Economic Community (nowadays European Union). After this moment, Spanish companies started to significantly invest abroad —according to the UNCTAD data, the stock of foreign direct investment was only 0.85% of the Gross Domestic Product (GDP) in 1980, and increased to 2.43% in 1986, to 10.27% in 1998, and to 46.93% in 2010. Specifically, the sample is comprised by the FDI made by a total of 27 firms from the banking, telecommunications, electricity, gas, water, and petroleum industries. Data about the investments undertaken by these companies have been obtained from the Systematic Database on International Operations of Spanish Companies, built under the sponsorship of the Spanish Institute for Foreign Trade, ICEX (see Guillén and García-Canal, 2007). This database comprises international operations carried out by Spanish firms from year 1986 to 2010. For this study, we only included those considered foreign direct investments, since these are the ones that generate a higher level of sunk costs in the process of entering a country. We consider as foreign direct investments those operations in which the

multinational possess the 10% or more of a foreign company (U.S. Bureau of Economic Analysis, 2004). (See Appendix C for more information regarding the composition of the sample and the host countries where the firms invested).

Once all the investments had been identified, we proceeded to confirm whether these were still alive at the end of the observation period or if, on the contrary, they had been abandoned or liquidated at some point along this period. For each of the investments, research was thoroughly carried out through news databases and other sources of information. We proceeded to systematically filter the names of the subsidiaries, the host country, and the names of the parent corporations in several press databases, in order to verify whether these investments had survived their experience abroad or not. Finally, we used other information sources with a twofold purpose: on the one hand, to gain further insight into each specific case and corroborate the previously collected information, and on the other hand, to complete that information with divestments that had not been detected in the first search. The secondary information sources used were: information released by the parent firm, such as annual reports and/or their websites; official communications to the Spanish stock market regulator, Comisión Nacional del Mercado de Valores (CNMV); as well as documents from multilateral institutions (such as the ICSID, the International Centre for Settlement of Investment Disputes; or the World Bank).

3.3.2. Variables

Dependent variable. Our dependent variable accounts for the probability of the happening of an event in a determined moment of time t. In our case, that event would be the probability of a divestment at moment t, in either one of two ways: total divestment (event 1) or partial divestment (event 2).

Independent variables and moderating variables

Policy risk. Policy risk is our main independent variable. Policy risk, as has been defined in previous sections, is the extent to which politicians and regulators can unilaterally alter the conditions in which firms operate in the country, in a way that affects their profitability. Considering this definition, the political constraint index POLCONV, developed by Henisz (2000), is the most accurate and widely-used measurement from which we can build a policy risk index. The POLCONV index includes the number of independent power branches (e.g., the executive, legislative and judicial powers) with veto capacity over policy changes in each country, considering also the degree of alignment among them. Values in this index range from zero to one, with zero being the lowest degree of political constraints and 1 the highest. The higher the number of power branches with veto capacity, and the lower the alignment among them; that is, the higher the POLCONV index, the more difficult it is for politicians to unilaterally change the rules of the game. From the POLCONV index, we constructed a policy risk index by subtracting the POLCONV score from 1.

Home country political resources. As a proxy of firm's political resources developed at home we used firm's political ties on the board of directors. A great number of studies have considered political ties as a way through which firms can manage and reduce the uncertainty of the environment (Hillman, 2005; Lester et al., 2008; Pfeffer and Salancik, 2003). The provision of resources is another important role that resource dependence

researchers have attributed to the board of directors (Hillman and Dalziel, 2003). Hillman (2005) further argued that former politicians on the board do not only provide the organization with connections with governments, but also with valuable knowledge regarding how the political process works more generally. In this sense, recent works have considered that politicians acting as directors may bring two types of resources to the organization, namely, human and social capital (Lester et al. 2008). In this sense, political ties may be a suitable variable to measure the level of political resources accumulated by the firm.

To capture the level of *political connections* for each firm we calculated a time-varying variable ("% Connections") that accounts for the percentage of members of the firm's board of directors who served in the government prior to becoming a director. We considered the highest-level political positions, whether elected or appointed, including prime minister, vice-prime minister, cabinet minister, deputy minister, and member of the national parliament and senate. We collected these data following two steps: (1) we identified the names of the directors serving on each company's board for each year during the period under investigation using legal filings, annual reports, company websites, and corporate directories[11]; and (2) we searched for the name of each director in comprehensive newspaper databases to identify those who had played a role in the government either as an appointed or as an elected official.

Experience in the host country. We measured the company's accumulated experience in the host country as the number of years since the first investment performed by the firm in that country, to the date of the investment being analyzed. Over the observation period, several mergers occurred among the analyzed firms. For this reason, the experience in the host country for companies implicated in mergers starts to count from the moment in which

[11] The Maxwell Espinosa: Shareholders Directory Spain, Duns50000 and DICODI

the first investment was performed independently of which firm made it (the bidder or the target).

New party in government. The variable "New party in government" is a dummy variable valued one if a change of the party or political coalition that was in power occurred one year before the analyzed period. To build this variable we used the Database of Political Institutions (DPI) developed by the World Bank. This database includes several variables about different aspects of political institution in 179 countries. We used the variable that accounts for the political party that is in power each year[12].

Control variables

Multiple factors related to the firm, the industry, and the host country can influence the subsidiary's profitability, and, therefore, divestment decisions. For this reason we tried to include in our model all possible control variables, at firm, industry, and host country level.

Macroeconomic uncertainty. Macroeconomic uncertainty constitutes an important variable when deciding to invest in a country, as well as when choosing to divest. Some previous studies show how firms avoid macroeconomic uncertainty when investing abroad (Dunning, 1993), and even more when the amount of the investment is high (Campa, 1993). We calculated this variable following the methodology developed by Servén (1998) for measuring unexpected changes in economic growth (see Appendix A for more information regarding this methodology).

[12] This variable is named EXECME in the DPI database.

State as shareholder. Over the analyzed period, some of the companies included in the sample had the State as a shareholder. Companies fully or even partially owned by the state have traditionally been considered inefficient and more prone to risk-taking (see Cuervo and Villalonga, 2004; Meggison and Netter, 2001). This situation is mainly due to the fact that, as a shareholder, the state is less committed to maximize financial performance, leaving managers leeway for pursuing their own goals, sometimes at the expense of making risky decisions (García-Canal and Guillén, 2008). To account for state ownership, we created two dummy variables: "State Ownership" valued one when the firm is participated by the State and valued of zero otherwise; and "State Ownership only at entry" valued one if the firm was participated by the State when it made the investment, but not at the moment of the observation. To build these variables we used the information compiled by Vergés (1999, 2010).

Other control variables. The rest of the control variables included in the model are described as follows. At the firm level we introduced firm's sales, as a control variable for firm size; and Tobin's q, as a proxy for intangible assets owned by the firm (Berry, 2006). To compute Tobin's q ratio we followed the procedure described by Chung and Pruitt (1994). Furthermore, we control for the possibility that a divestment can be the continuation of previous divestments. For this reason, we created a dummy variable (Previous divestment) valued one if the divestment has a previous partial divestment as precedent, and zero otherwise. At the country level, we introduced GDP at constant 2000 prices and GDP percent growth as measurements for market size and growth potential, respectively[13]. We included three more variables in order to control for the risk of the host country: Government Stability, Corruption, and Law and Order. Government Stability accounts for the popular support of the government established at each time and its ability to stay in office; Corruption accounts for

[13] Data for both variables have been obtained from the World Bank.

the degree of corruption in each country at each particular year; and Law and Order accounts for the quality, strength and impartiality of the legal system of each country. The first variable adopts values between zero and twelve whilst the other two variables take values between zero and six. These three variables were obtained from the International Country Risk Guide (ICRG) database[14]. Moreover, we introduced four dummy variables to account for the probability that a given government may influence the outcome of the relation because it has a particular political orientation. In this sense, we created the following variables: "Leftwing party", "Rightwing party", "Other orientation"[15]. Given that an important percentage of the sample investments were made in Latin America, we included a dummy variable (LATAM) in order to control for the host country. This variable is valued one in case that the investment has been in fact made in any Latin American country and zero otherwise. At the industry level, we controlled for the sector to which the firm belongs to. For this purpose, we created five dummy variables valued one whenever the firm belongs to a specific sector and zero otherwise. Each of these five variables refers to the industries being analyzed: the banking, the telecommunication, water, electricity, and gas and the petroleum industries. In the same way many studies on investment survival have done before, we used logarithms for the GDP variable (Barkema et al. 1996; Tsang and Yip, 2007). As it was previously stated, over the observation period there were several mergers among the companies being studied that could have influenced in divestment decisions. As a consequence, we created a dummy variable (Recent Merger), valued one if the merger was made one year before the observation, and zero in the rest of the cases.

[14] In the case of the corruption variable we inverted the original index contained in the ICRG database to use a measure of corruption instead of a measure of lack of corruption.
[15] Data for these variables have been obtained from the "EXECRLC" variable of the DPI (Database of Political Institutions) database.

Finally, policy risk and all control variables have been lagged one year. As interactions had a high correlation whit their main effect, we mean centered the variables included in them before their calculation (except the dichotomous variable "New party in government"). Furthermore, we clustered our observations by countries.

3.3.3. Empirical model. Survival analysis.

We have estimated a survival model in order to determine which variables best explain the probability that companies in regulated industries divest in a foreign affiliate, taking into account that there are two types of divestments: total divestments (event 1), in which the firm completely abandons the project; and partial divestments (event 2), in which the firm retains an equity stake in the project. While the latter corresponds to readjustments on the firm's portfolio, the former means a complete withdrawal from the project. Our event of interest is total divestment as these decisions are related to an overall unsatisfactory performance, while partial divestments can be due to financial adjustments.

Our unit of analysis is each of the investments performed by the 27 firms over the analyzed period, that is, the unit of observation is investment-year. In order to be able to perform the survival analysis, it is necessary to specify the instant in which the investment enters into the analysis, as well as the moment in which it exits from it. In this way, an investment enters into the dataset the year in which it is made, and exits at the time the divestment occurs.

As total and partial divestments are competing risks, we used a modified Cox proportional hazards model developed by Fine and Gray (1999), also known as the competing risk regression approach. This approach is used when the object of study may experience an

event other than the one of interest (partial divestment) which alters the probability of experiencing the event of interest (total divestment).

In the same way as the Cox model, Fine and Gray's (1999) model is a semi parametric model in which the *baseline subhazard* for each competing event is not specified, while the effect of the independent variables is assumed to be proportional. For the event of interest (total divestment) a set of coefficients that estimate the positive or negative impact of the independent variables on the subhazard ratio are calculated. The estimations were obtained by using the stcrreg procedure of STATA.

3.4. RESULTS

Our study follows the procedure described by Cleves et.al (2010) to perform the regression in presence of competing risks. Event 1, total divestment, has been considered as the event of interest, while partial divestment (Event 2) is treated as competing event against event 1. All our results are referred to the total divestment as is our event of interest.

Table 3.1 shows the descriptive statistics and correlations among our variables. Table 3.2 summarizes the main results obtained from the regressions. Each of the columns shows the estimated coefficients for each of the variables for different specifications of the model. Six specifications are presented: the first one includes only control variables; the second one includes also the independent variables; in the third, fourth and fifth specifications we removed one of the ICRG's variables (Corruption, Government stability and Law and Order),

Table 3.1. Means, standard deviations, and correlations

	Variables	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12
1	Policy Risk	2.06E-10	0.22	1											
2	Policy Risk x %Connections	-4.62E-04	0.02	-0.09	1										
3	Policy Risk x Firm's experience	-0.05	1.15	-0.19	0.07	1									
4	Policy Risk x New Party in Government	-2.40E-03	0.07	0.30	0.02	-0.08	1								
5	%Connections	6.37E-10	0.09	-0.02	-0.02	0.00	-0.02	1							
6	Firm's experience	1.21E-08	5.31	-0.04	0.00	0.01	-0.01	0.11	1						
7	New Party in Government	0.13	0.33	-0.03	-0.01	0.00	-0.09	0.05	0.02	1					
8	Partial State Ownership	0.07	0.26	0.03	-0.06	-0.02	0.04	0.36	-0.24	-0.02	1				
9	Partial State ownership begining	0.34	0.47	-0.03	0.00	0.08	-0.02	0.12	0.17	0.03	-0.20	1			
10	Tobin's q	1.36	0.34	-0.02	0.00	0.04	-0.03	-0.05	0.04	0.03	-0.05	0.43	1		
11	Sales	19.07	16.32	0.01	-0.04	-0.05	0.00	0.23	0.55	0.03	-0.20	0.43	0.07	1	
12	Previous divestment	3.62E-03	0.06	-0.01	-0.02	0.01	0.00	0.00	0.04	-0.02	-0.02	0.00	0.00	0.04	1
13	Recent Merger	0.02	0.14	0.02	-0.02	0.00	-0.01	0.01	-0.06	0.00	-0.02	-0.09	-0.03	-0.10	0.01
14	GDP	26.01	1.55	-0.25	-0.02	0.02	-0.13	-0.03	0.13	-0.01	-0.08	0.04	0.06	0.09	0.03
15	GDP growth	3.69	3.93	0.24	-0.09	0.03	0.13	-0.07	0.07	-0.11	0.01	-0.01	0.02	0.10	0.02
16	Macroeconomic Uncertainty	-7.15	1.08	0.19	0.00	0.09	0.10	0.06	-0.03	0.01	0.13	0.04	-0.01	-0.03	-0.03
17	Leftwing party	0.36	0.48	0.11	-0.04	0.02	-0.07	-0.05	0.16	0.06	-0.11	0.07	0.08	0.13	0.04
18	Rightwing party	0.50	0.50	-0.20	0.01	-0.05	-0.01	0.00	-0.16	-0.05	0.06	-0.11	-0.10	-0.17	-0.02
19	Corruption	2.95	1.03	0.50	-0.08	0.02	0.11	0.02	0.11	0.04	-0.09	0.16	0.10	0.11	-0.01
20	Law and Order	3.79	1.39	-0.55	-0.05	-0.03	-0.26	-0.02	-0.09	0.01	0.05	-0.07	-0.01	-0.08	0.01
21	Government Stability	8.34	1.62	0.02	-0.05	0.05	-0.02	-0.08	0.07	-0.05	-0.25	0.17	0.17	0.09	0.03
22	LATAM	0.58	0.49	0.24	-0.04	0.08	0.11	0.03	-0.02	0.03	0.02	0.05	0.00	-0.04	-0.02
23	Telecommunication	0.15	0.36	-0.06	-0.07	-0.04	-0.01	0.10	0.10	0.03	0.13	0.46	0.44	0.28	-0.03
24	Banking	0.36	0.48	-0.03	0.01	-0.08	-0.02	0.01	0.17	-0.01	-0.19	-0.52	-0.43	0.03	0.03
25	Electricity	0.27	0.44	-0.04	-0.04	0.04	-0.01	-0.15	-0.29	-0.02	0.01	-0.03	-0.01	-0.32	-0.03
26	Petrol and Gas	0.17	0.37	0.15	0.10	0.09	0.06	0.19	0.05	-0.01	0.15	0.36	0.13	0.21	0.03

Table 3.1 (continued)

		Mean	Std. Dev.	13	14	15	16	17	18	19	20	21	22	23	24	25	26
13	Recent Merger	0.02	0.14	1													
14	GDP	26.01	1.55	0.01	1												
15	GDP growth	3.69	3.93	-0.05	-0.11	1											
16	Macroeconomic Uncertainty	-7.15	1.08	0.02	-0.25	0.16	1										
17	Leftwing party	0.36	0.48	0.00	0.15	0.20	-0.15	1									
18	Rightwing party	0.50	0.50	0.02	0.04	-0.25	0.12	-0.75	1								
19	Corruption	2.95	1.03	-0.04	-0.17	0.16	0.23	0.01	-0.17	1							
20	Law and Order	3.79	1.39	0.04	0.16	-0.13	-0.15	-0.16	0.25	-0.58	1						
21	Government Stability	8.34	1.62	0.00	0.02	0.14	-0.03	0.11	-0.20	0.00	0.15	1					
22	LATAM	0.58	0.49	-0.01	-0.24	0.12	0.59	-0.04	0.13	0.38	-0.55	-0.14	1				
23	Telecommunication	0.15	0.36	-0.06	0.10	-0.03	0.05	0.02	-0.01	-0.03	0.01	0.02	0.05	1			
24	Banking	0.36	0.48	0.18	0.07	-0.02	-0.05	-0.01	0.07	-0.18	0.10	-0.11	-0.07	-0.32	1		
25	Electricity	0.27	0.44	-0.09	-0.07	-0.01	-0.08	-0.02	0.04	0.04	-0.02	0.05	0.00	-0.26	-0.46	1	
26	Petrol and Gas	0.17	0.37	-0.05	-0.12	0.05	0.04	0.02	-0.16	0.22	-0.17	0.02	-0.02	-0.19	-0.33	-0.27	1

Table 3.2. Competing hazards model results (coefficients for total divestments)

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Policy Risk (H1)		-2.75**	-3.77**	-3.77**	-4.43***	-4.84***
		(-2.40)	(-2.47)	(-2.45)	(-3.45)	(-3.81)
Policy Risk x %Connections (H2)			-24.61*	-24.63*	-26.32**	-25.77*
			(-1.84)	(-1.83)	(-2.04)	(-1.94)
Policy Risk x Firm's Experience (H3)			0.38***	0.38***	0.40***	0.39***
			(2.65)	(2.75)	(2.80)	(2.76)
Policy Risk x New Party in Government (H4)			3.08**	3.07**	2.80*	3.23**
			(2.14)	(2.19)	(1.77)	(2.10)
%Connections	-3.81*	-3.98**	-5.38***	-5.38***	-5.51***	-5.54***
	(-1.92)	(-1.97)	(-2.81)	(-2.79)	(-2.89)	(-2.89)
Firm's Experience	0.06	0.05	0.08	0.08	0.08	0.07
	(1.29)	(1.10)	(1.60)	(1.55)	(1.61)	(1.44)
New Party in Government	0.61**	0.58**	0.73**	0.73**	0.74**	0.64**
	(2.19)	(2.33)	(2.46)	(2.43)	(2.55)	(2.36)
Control Variables Firm Level						
Partial State Ownership	-0.09	0.31	0.42	0.41	0.48	0.46
	(-0.10)	(0.32)	(0.41)	(0.40)	(0.44)	(0.41)
Partial State ownership begining	0.60	0.82	0.95	0.95	1.05	1.02
	(0.64)	(0.93)	(1.08)	(1.08)	(1.20)	(1.10)
Tobin's q	0.01	0.07	0.11	0.11	0.15	0.14
	(0.04)	(0.22)	(0.37)	(0.37)	(0.47)	(0.44)
Sales	-0.01	-0.01	-0.02	-0.02	-0.02	-0.01
	(-0.76)	(-0.77)	(-0.95)	(-0.96)	(-0.95)	(-0.89)
Previous Divestment	-16.05***	-14.84***	-15.32***	-15.32***	-15.33***	-15.34***
	(-26.65)	(-24.90)	(-24.78)	(-25.09)	(-23.56)	(-25.28)
Recent Merger	1.14*	1.15	1.03	1.03	0.99	0.99
	(1.68)	(1.63)	(1.61)	(1.60)	(1.55)	(1.47)

Table 3.2. (continued)

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Control Variables Host Country Level						
GDP	0.14	0.10	0.10	0.10	0.08	0.08
	(1.18)	(0.88)	(0.89)	(0.87)	(0.67)	(0.72)
GDP Growth	0.01	0.03	0.02	0.02	0.02	0.01
	(0.18)	(0.57)	(0.33)	(0.31)	(0.37)	(0.28)
Macroeconomic Uncertainty	0.19	0.25	0.15	0.15	0.20	0.18
	(0.97)	(1.34)	(0.79)	(0.75)	(1.03)	(0.97)
Leftwing Party	0.22	0.49	0.21	0.20	0.26	0.56
	(0.36)	(0.80)	(0.42)	(0.40)	(0.48)	(0.97)
Rightwing Party	0.48	0.75	0.42	0.42	0.63	0.84
	(0.76)	(1.20)	(0.90)	(0.90)	(1.13)	(1.45)
Corruption	0.17	0.33				0.34*
	(0.89)	(1.61)				(1.72)
Law and Order	0.08	-0.13			-0.20	-0.11
	(0.46)	(-0.87)			(-1.02)	(-0.68)
Government Stability	0.03	0.09		-0.01	0.01	0.05
	(0.26)	(0.71)		(-0.04)	(0.11)	(0.40)
LATAM	-0.32	-0.61	-0.06	-0.06	-0.38	-0.47
	(-0.64)	(-1.05)	(-0.14)	(-0.15)	(-0.62)	(-0.83)
Telecommunication	-0.42	-0.67	-0.90	-0.90	-1.07	-1.06
	(-0.40)	(-0.68)	(-0.89)	(-0.89)	(-1.09)	(-1.04)
Banking	0.72	0.80	0.88	0.88	0.86	0.94
	(1.14)	(1.36)	(1.38)	(1.38)	(1.38)	(1.62)
Electricity	0.68	0.70	0.83	0.82	0.70	0.69
	(1.17)	(1.15)	(1.46)	(1.52)	(1.09)	(1.06)
Petrol and Gas	-0.83	-0.99	-0.92	-0.92	-1.10	-1.21
	(-1.06)	(-1.34)	(-1.45)	(-1.45)	(-1.51)	(-1.54)
Observations	6,570	6,570	6,570	6,570	6,570	6,570

Note: **** p<0.001, *** p<0.01,** p<0.05, *p<0.1. z-statistics in parentheses

Firm's and year dummies have not been included in the table due to space

as they are highly correlated with policy risk; and finally in the last specification we included all variables.

Consistently with Hypothesis 1, policy risk has a negative and significant coefficient across different specifications. Increases in policy risk reduce the probability of divesting. We obtain support for our Hypothesis 2 as the interaction term between policy risk and the level of firm's political resources is negative and significant. Our third hypothesis also receives

support. The positive and significant coefficient of the interaction between policy risk and firm's experience in the host country shows how the negative impact of policy risk in the probability of divest is attenuated as the time goes by. The same happens when there is a change in governmental supported by a different political party, given the positive and significant coefficient of the interaction between policy risk and the arrival of a new political party to the government as stated by Hypothesis 3.

In addition to having the expected sign, the coefficients are also large in magnitude. As we have two interactions with continuous variables (political connections and host country experience) we have calculated the magnitude of the effect of policy risk on the probability of divest at different levels of that variables. We considered the variation of each of these variables separately, keeping the variable that is not of interest valued at its mean.

To analyze the effect of political connections we maintained the value of the firm's experience in the host country valued at its mean. Considering the scenario in which a new party arrives at government, one-half standard deviation increase in policy risk *reduces* the chance of divest in *31.21 percent* when political connections are valued at one standard deviation above their mean. However, if we consider the scenario in which a change in government does not occur the effect of policy risk on the probability of divest is even more negative. So, one-half standard deviation increase in policy risk *reduces* the chance of divest in *54.45 percent* when political connections are valued one standard deviation above their mean.

We followed the same procedure to analyze the moderating effect of firm's experience in the host country. If we consider the scenario in which a new party arrives at government, one-half standard deviation increase in policy risk *increases 5.18 percent* the chances of divest when firm's experience is valued one standard deviation above its mean. The

magnitude of the effect turns negative if we consider the scenario in which a change in government does not occur. In this case, one-half standard deviation increase in policy risk *reduces* the chances of divest *26.04 percent*.

To better analyze our results we plot in figures 3.2 to 35 the estimated effect of policy risk on the subhazard rate of a divestment occurrence depending on the value of the other independent variables. On the one hand, considering political connections valued at its mean, figure 3.2 presents the effect when the New Party in government variable is valued zero (for those spells in which there is no change in government or the new government is supported by the same party) and figure 3.3 presents the effect when there has been a change in the party that was in power. On the other hand, considering firm's host country experience valued at its mean, figure 3.4 shows the effect of policy risk when the same party remains in power (the variable New party in government is valued zero) and figure 3.5 shows the effect when a new party arrives at government.

Figure 3.2. Effect of policy risk on the decision of divest when the same party is in government. Firm's political connections valued at mean

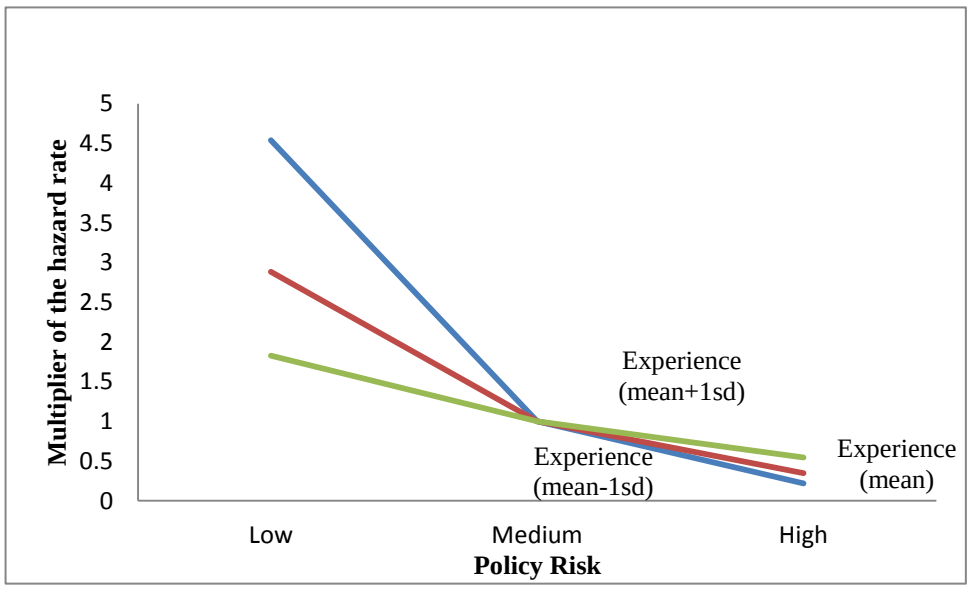


Figure 3.3. Effect of Policy risk on the decision of divest when new party arrived at government. Firm's political connections valued at mean

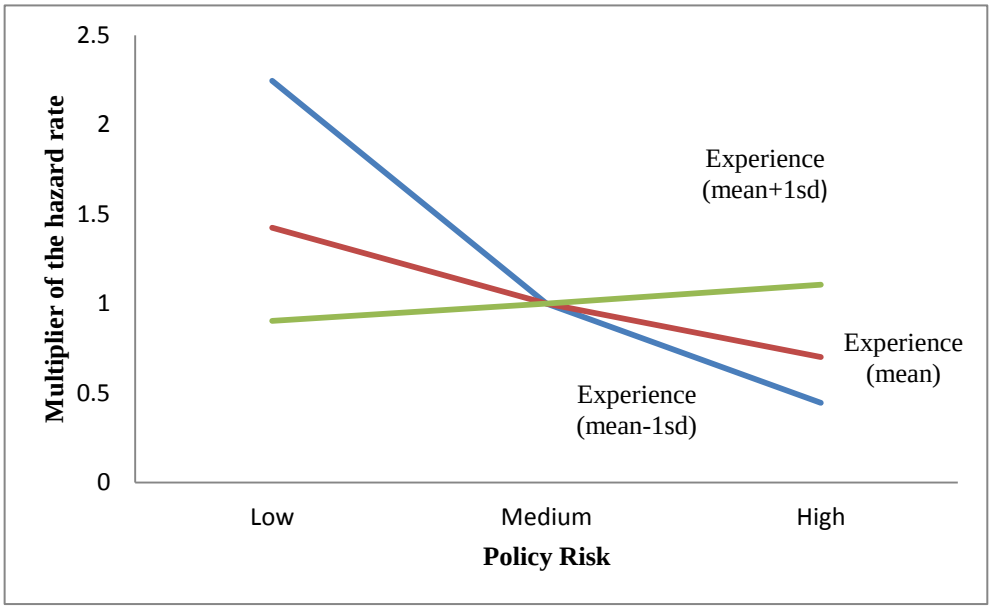


Figure 3.4. Effect of policy risk on the decision of divest when the same party is in government. Firm's experience valued at mean

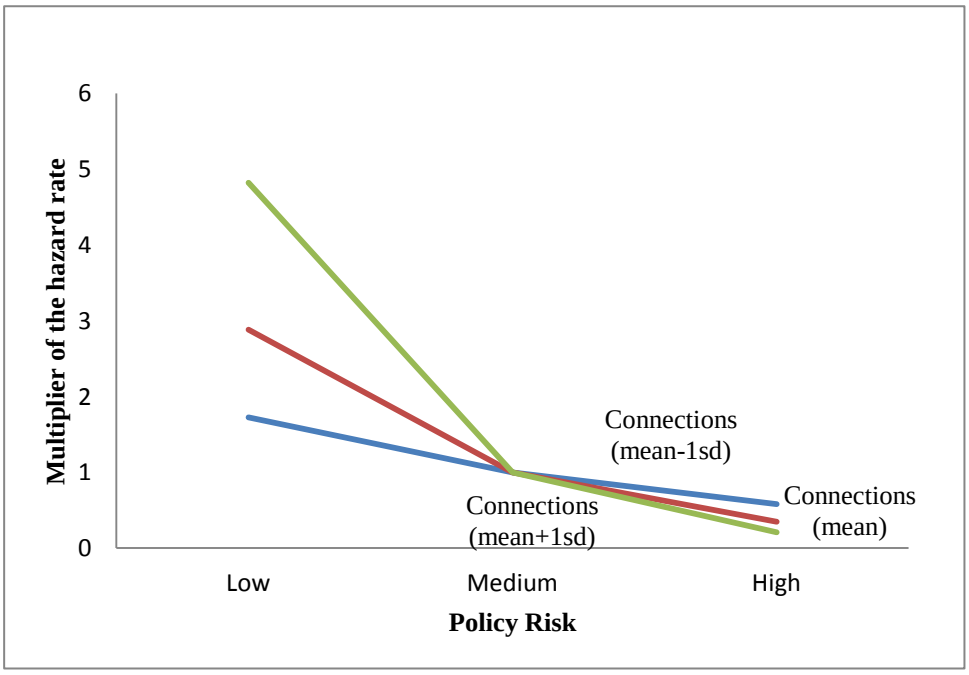
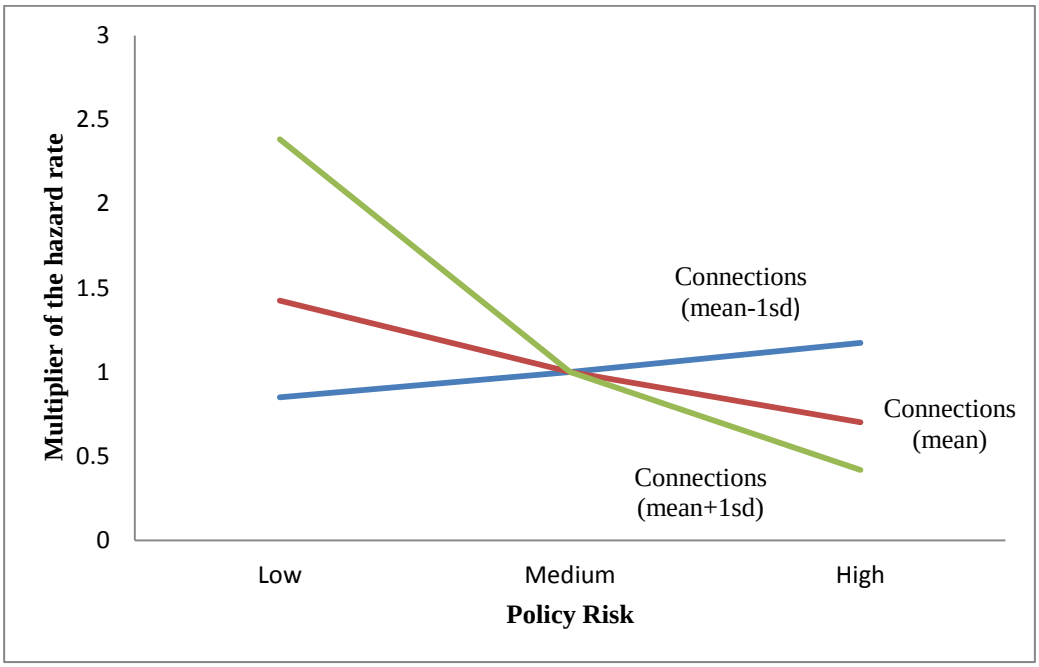


Figure 3.5. Effect of Policy risk on the decision of divest when new party arrived at government. Firm's experience valued at mean



3.5. DISCUSSION AND CONCLUSION

In this chapter we have developed a theoretical framework based on resource dependence theory to analyze the drivers of divestitures of foreign affiliates in regulated industries. We considered divestment decisions as outcomes of bargaining processes between MNEs and host country governments, analyzing the role played by policy risk in the host country. We have argued that policy risk in regulated industries is not always a disadvantage. In these industries, it is easier for multinationals to reach agreements with discretionary governments when power imbalance in the relationship is low. We also argued that the level of political capabilities increases the advantages that regulated firms may obtain from discretionary governments. Finally, we identified the limits through which these bargaining processes can lead to favorable outcomes, as we found how the passage of time and changes in the political party in power diminish the negative effect that policy risk has on the chance

of divest. An empirical analysis based on survival models applied to international investments performed between the years 1986 and 2008 by Spanish companies from regulated industries confirms our hypotheses.

Our results contribute to the literature analyzing the relationships between multinationals and host governments (Eden and Molot, 2002; Kobrin, 1987; Luo 2001, 2004; Moran, 1974; Nebus and Rufin, 2010; Vivoda, 2009). We considered MGR as a dynamic relationship, being foreign subsidiaries' survival the outcome of the effective management of it. In fact, our results go in the same direction that those highlighting that MGRs s should be considered as cooperative situations in which both parties, governments and multinationals, achieve their own goals (Luo, 2001). We showed how this situation of cooperation may be kept alive at least during the first stage of the life of the investment. However, as time goes on, this cooperative situation turns into a conflictive one, as firms suffer the so called "obsolescing bargain" (Vernon, 1971). Even though recent works have stated that this concept should be reconsidered, our results suggest that the obsolescing bargain concept remains a determinant factor at least for firms operating in regulated industries. Luo (2004) stated that MGRs are situations of coopetition, that is, they are cooperative and conflictive at the same time. However, in the context of regulated industries and policy risk these relationships seem to be a continuum between cooperation and conflict.

In addition to the passage of time, a crucial factor in determining the outcome of the negotiation is the occurrence of a change in the government. In relation to this result, Henisz and Delios (2004) showed that when a change in the political regime, which entails the replacement of the whole political structure of the country (e.g. a transition from authoritarian regime to a democratic one), firms have less influence on this new political regime and policy

risk increases the chance of a divestment. Our study goes one-step further showing that changes at lower levels also matter for the survival of investments in risky environments.

We also contribute to the recent line of research that states that some firms have developed at home political capabilities that have been one of the bases of their international expansion (Cuervo-Cazurra and Genc, 2008; García-Canal and Guillén, 2008; Holburn and Zelner, 2010). In this regard, the result regarding the moderating effect of firm's political resources contributes to this line of research, showing how firms having a greater level of political resources are able to take advantage of policy risk to a greater extent that those with a lower level of political resources. Our study allow us, therefore, shed new light on the role that political capabilities play in the processes of international expansion of regulated firms. Political capabilities are, consequently, and in addition to project execution capabilities (Amsdem and Hikino, 1994; Guillén and García-Canal, 2010), one of the main sources of competitive advantages for these companies.

Finally, as we are analyzing the occurrence of a divestment, our results clearly contribute to the literature that analyzes the survival of firms' foreign subsidiaries (Li, 1995; Mitchell et al., 1993; Mitchell et al., 1994; Pan and Chi, 1999; Shaver, 1998; Woodcock et al., 1994). The vast majority of the works in this field have considered that policy risk decreases the chance of firms' investments survival (Dhanaraj amd Beamish, 2009; Berry, 2010). However, we have showed how firms in regulated industries are able to take advantage of the discretion of governments and keep their investments in policy-risky countries.

Summing up, our results contribute to the analyses of the international expansion of regulated firms and the role that political capabilities and also the obsolescing bargain play on it. In this context of regulated industries, policy risk can be seen as a double-edged sword: on the one hand, policy risk increases government's opportunism as they may alter firm's status

quo trough changes in tariff, tax and operating conditions; on the other hand, the discretion of governments facilitates ad-hoc adjustment between governments and MNEs. Policy risk is present not only at the beginning or entry stage of the investment but also throughout the investment's life. Once the investment was made, policy risk far for disappear increases as firm is exposed to changes in pricings (regulated), tax and tariffs. Both parties in MGRs may be willing to change the initial conditions established at entry. Develop these adjustments is more easy to MNEs in the presence of discretionary governments as this governments have more capacity to alter the rules of the game. In this context, MNEs may have more possibilities to achieve improvements in its operation conditions if they are able to negotiate with host governments in an efficient manner. One of the arms that may help MNEs in this task is political capabilities. How firms manage their relations with host governments is crucial to firms' investments survival.

A striking outcome of our study is the effect of the variable "Corruption" in the probability of divests. This variable shows how firms tend to divest in countries where the level of corruption is high, that is, firms in regulated sectors avoid maintain their investments in countries with high levels of corruption, but they maintain their investments in countries with high policy risk. From this result we can conclude that political capabilities are not a form of bribery, as firms that have these capabilities avoid maintain their investments in countries with high corruption. However, we do not find enough research about political capabilities and due the importance of these capabilities they deserve more attention form researchers.

One of the limitations of our work is that we have measured only one type of political capabilities, but other types of these capabilities should be considered too. In this sense, Dahan (2005) developed a typology of political resources from which we can obtain other approximations for other types of political capabilities. This limitation constitutes the beginning of a promising line of research using other variables to measure political capabilities. Other limitation of this study is that we have only considered a sample of Spanish firms, and thus it could prove interesting to perform the study on a more global scale that would allow a generalization of the results here presented. Another limitation derives from the difficulty of introducing a variable for controlling the profitability of the investment. Due to the lack of information about the investments analyzed, it was not possible to include this variable in the model. Finally, our sample includes only firms from regulated industries, and therefore the introduction of companies from different sectors would allow us to compare both types of firms and also analyze which sectors tend to accumulate political capabilities and consequently which sectors are less affected by policy risk.

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RESUMEN Y CONCLUSIONES

RESUMEN

La presente tesis se centra en el análisis del efecto que el riesgo regulatorio tiene en las decisiones relacionadas con la expansión exterior de las empresas multinacionales, haciendo especial hincapié en las multinacionales que compiten en sectores regulados. Por empresa regulada se entiende aquella que desarrolla su actividad en sectores en los cuales las condiciones de entrada, precios e inversión requerida, entre otros muchos aspectos de su actividad, vienen condicionadas por decisiones de gobiernos y reguladores. Por riesgo regulatorio se entiende el grado en el que un determinado gobierno tiene suficiente discreción para alterar las "reglas de juego" bajo las cuales la empresa desarrolla su actividad, con el consiguiente riesgo de que la rentabilidad de las inversiones de la empresa se vea dañada (Henisz, 2000). En cada uno de los tres capítulos que conforman esta tesis doctoral, se trata de dar respuesta a diversas preguntas de investigación relacionadas con la influencia que el riesgo regulatorio en el país de destino ejerce en las decisiones de inversión y desinversión de las empresas multinacionales. En los párrafos que siguen se sintetizan los objetivos, metodología y principales resultados de los tres estudios empíricos realizados en cada capítulo.

Resumen Capítulo 1

En el primer capítulo se perseguía analizar la influencia que el riesgo regulatorio tiene en las decisiones de inversión en el exterior tomadas por empresas en sectores regulados y no regulados. En la medida en que se esperaba que las empresas reguladas prefirieran, o al menos no evitaran, invertir en países con elevado riesgo regulatorio, otro objetivo que se perseguía era determinar las condiciones bajo las cuales estas empresas podrían estar interesadas en exponerse a un elevado riesgo regulatorio en el exterior.

El grueso de la teoría recibida hasta el momento establece que, por lo general, las empresas evitan invertir en países con elevado riesgo regulatorio, con el fin de proteger la rentabilidad de sus inversiones y/o evitar la expropiación de las mismas (Globerman y Shapiro, 2003; Henisz, 2000; Henisz y Delios, 2001; Henisz y Macher, 2004; Henisz y Zelner, 2005; Murtha, 1991; Murtha y Lenway, 1994). Tomando como punto de partida la Teoría sobre el Poder de Negociación (Eden y Molot, 2002; Kobrin, 1987; Nebus y Rufin, 2010; Vernon, 1971; Vivoda, 2009), se desarrolla un modelo teórico con el fin de explicar si, y bajo qué condiciones en su caso, las empresas de sectores regulados y no regulados podrían estar interesadas en invertir en países con gobiernos discrecionales.

En la primera parte del modelo se argumenta que las empresas de sectores regulados, en comparación con las empresas no reguladas, deberían presentar una mayor tolerancia a invertir en países con elevado riesgo regulatorio. Ello se debe a que las empresas reguladas han acumulado en su país de origen un mayor nivel de capacidades políticas que les permitirían invertir en este tipo de países, obteniendo incluso ventajas en sus negociaciones con los gobiernos. En la segunda parte del modelo se identifican las condiciones que han de cumplirse para que las empresas reguladas logren obtener tales ventajas.

La primera de estas condiciones está relacionada con el sistema legal del país de origen. La experiencia que las empresas reguladas acumulan en sus diferentes negociaciones con los gobiernos se obtiene operando bajo un determinado sistema legal. Comoquiera que este conocimiento acumulado se puede considerar específico a un determinado sistema legal, en el capítulo se argumenta que las empresas reguladas podrán obtener ventajas en países con elevado riesgo regulatorio, siempre y cuando el sistema legal del país de destino sea el mismo que el de su país de origen. Será en estos países donde las empresas reguladas puedan explotar con mayor efectividad las capacidades políticas desarrolladas en su país de origen. Una segunda condición para la exposición ventajosa al riesgo regulatorio, dentro de este

conjunto de países con el mismo sistema legal, es que las empresas de sectores regulados serán capaces de retener un mayor poder de negociación mientras la infraestructura local para desarrollar su actividad esté poco desarrollada.

Adicionalmente, se argumenta que la experiencia internacional acumulada por las empresas reguladas constituye un límite a la adopción de este tipo de estrategia. La expansión internacional de estas empresas está condicionada por procesos de liberalización y privatización tanto en su país de origen como en el exterior. Muchas de estas empresas han estado sometidas a procesos de privatización en sus países de origen que les han impulsado a crecer internacionalmente (Cuervo y Villalonga, 2000). Al mismo tiempo procesos iniciados en otros países también han propiciado su expansión internacional. Por tanto, las empresas reguladas tienen que aprovechar las oportunidades de inversión allá donde aparezcan (García-Canal y Guillén, 2008). Al inicio de su expansión internacional, las empresas reguladas invierten en países de elevado riesgo regulatorio como principal destino para la explotación de sus capacidades políticas. Sin embargo, a medida que las empresas reguladas ganan experiencia internacional, se encuentran sobreexpuestas a este tipo de riesgo, con lo que diversificarán su cartera de inversiones comenzando a invertir en países regulatoriamente más estables.

El posterior análisis empírico, utilizando una muestra compuesta por un panel de empresas españolas cotizadas en la Bolsa de Madrid en 1990, confirma cada una de las hipótesis planteadas en el capítulo. Los resultados obtenidos nos permiten afirmar que las empresas reguladas, al contrario que las no reguladas, no evitan el riesgo regulatorio a la hora de invertir en el exterior. Asimismo, estos resultados también nos permiten afirmar que las empresas reguladas son capaces de sacar mayores ventajas, invirtiendo bajo condiciones de riesgo regulatorio cuando el país de destino posee el mismo entorno legal que su país de origen y el desarrollo de la infraestructura local es bajo. Finalmente, en este capítulo se

demuestra que las empresas reguladas no siguen un proceso gradual en su expansión internacional en lo que a su exposición al riesgo regulatorio se refiere.

Resumen Capítulo 2

En el capítulo 2 se buscaba determinar el efecto que las conexiones políticas desarrolladas en el país de origen tienen en el crecimiento internacional de la empresa. Adicionalmente, se perseguía determinar las condiciones bajo las cuales las ventajas asociadas a dichas conexiones son mayores. Por conexiones políticas se entiende la existencia de algún tipo de lazo, bien de carácter personal o institucional, entre la empresa y el Gobierno. Pese a que existen varios tipos de conexiones políticas, en este capítulo nos hemos centrado en el caso concreto de los lazos políticos en el Consejo de Administración. En este caso, la existencia de una conexión política implica que un miembro del Consejo de Administración de la empresa haya tenido previamente algún cargo en el gobierno.

Partiendo de la Teoría de Dependencia de Recursos (Pfeffer y Salancik, 1978), se desarrolla un modelo multinivel con el objetivo de identificar las condiciones, a nivel de empresa, industria, país de destino y región, bajo las cuales las conexiones políticas favorecían la expansión internacional de las empresas. El objetivo de desarrollar un marco teórico a varios niveles es explicar de forma completa el efecto de las conexiones políticas en el crecimiento internacional de las empresas.

La Teoría de Dependencia de Recursos considera al Consejo de Administración como un instrumento que puede ayudar a las empresas a reducir la incertidumbre del entorno (Pfeffer y Salancik, 2003). En este capítulo, se considera a las conexiones políticas como un recurso a disposición de la empresa, en la medida en que las conexiones políticas no sólo proporcionan a las empresas lazos con el gobierno, sino también conocimiento acerca de cómo funciona el proceso político (Hillman, 2005). Para que las conexiones políticas

permitan a la empresa crecer en el exterior, deben de proporcionar a la misma una mayor capacidad para acumular recursos en su país de origen que faciliten su expansión internacional; o bien, que el conocimiento que dichas conexiones proporcionan sea transferible a otros países. Trabajos previos han establecido que las conexiones políticas cumplen con estas dos condiciones (Bunkanwanicha y Wiwattanakantang, 2009; Faccio, 2010; Frynas et al. 2006; Goldman et al., 2013; Holburn, 2001; Henisz, 2003; Leuz y Oberholzer-Gee, 2006), de ahí que se espere que este tipo de recurso vaya a permitir a las empresas que lo posean crecer internacionalmente.

El modelo multinivel desarrollado establece que a nivel de empresa, las conexiones políticas serán más valiosas para aquellas multinacionales que posean un mayor nivel de activos intangibles —ej. habilidades directivas y experiencia acumulada en el negocio. Pese a que las conexiones políticas pueden facilitar la entrada de la empresa en el país de destino, éstas pueden ser insuficientes para superar la desventaja del extranjero. Para que las empresas políticamente conectadas puedan llegar a tener éxito compitiendo con las empresas locales, las conexiones políticas deben de ser complementadas con otros activos intangibles. Por tanto, se plantea la necesidad de combinar los activos de no-mercado con activos de mercado con el fin de que la empresa alcance el éxito.

A nivel de industria, se argumenta que las empresas de sectores regulados serán capaces de obtener mayores ventajas de sus conexiones políticas. El tener ex-políticos en el consejo de administración puede proporcionar a estas empresas conocimiento sobre cómo funcionan los procesos de liberalización, desregulación y, en general, cómo negociar con gobiernos y reguladores. Es lógico pensar que este conocimiento será de mayor utilidad para las empresas que desarrollen su actividad en sectores regulados, ya que estas empresas se ven más afectadas y al mismo tiempo son más dependientes de las decisiones que tomen los gobiernos (Hillman, 2005).

A nivel de país de destino, se argumenta que las empresas políticamente conectadas obtendrán mayores ventajas de sus conexiones políticas en aquellos países con gobiernos que posean una elevada discrecionalidad. En este caso las conexiones políticas actúan como un factor facilitador de las negociaciones entre la empresa multinacional y el gobierno del país de destino. Para una empresa con un alto nivel de conexiones políticas resultará más fácil desarrollar estrategias políticas en países en los que la efectividad en la separación de poderes sea menor. Cuanto menor sea el número de agentes políticos con capacidad de veto, y mayor sea la alineación de preferencias entre ellos, más fácil le resultará a la empresa multinacional influir en el gobierno (Arregle et al., 2013) para obtener mejores condiciones de entrada y operación en el país.

Finalmente, se considera que pese a que los países son institucionalmente diferentes, muchos de ellos comparten un legado histórico que les ha llevado a desarrollar instituciones similares (Makino y Tsang, 2011). En consecuencia, los países pueden ser agrupados en bloques institucionales atendiendo a la tradición histórica de su sistema legal. En otras palabras, los países pueden ser agrupados según el origen de su sistema legal. Partiendo de esta base, se argumenta que el conocimiento que las conexiones políticas proporcionan a las empresas será de mayor utilidad en un marco institucional similar a aquel donde se haya desarrollado dicho conocimiento, en la medida en que los políticos están más acostumbrados a operar bajo dicho marco institucional.

Una vez desarrollado el modelo teórico, y planteadas las hipótesis a contrastar relativas a cada una de las condiciones establecidas en el mismo, se procede en el capítulo al desarrollo de la parte empírica. Al igual que en el capítulo anterior, se utiliza como muestra el panel compuesto por el conjunto de empresas españolas que cotizaban en 1990. Los resultados obtenidos tras realizar el análisis empírico nos permiten confirmar cada una de las hipótesis planteadas en el capítulo. Por tanto, podemos afirmar que las conexiones políticas

desarrolladas en el país de origen permiten a las empresas multinacionales crecer en el exterior, siendo aún más efectivas para empresas que poseen un elevado nivel de activos intangibles, operando en industrias reguladas, invirtiendo en países con gobiernos discrecionales y dentro de la misma familia del sistema legal.

Resumen Capítulo 3

En el capítulo 3 se buscaba analizar el efecto que el riesgo regulatorio tiene en la decisión de desinversión en el exterior por parte de empresas en sectores regulados. En los dos capítulos anteriores se analizaba la influencia que esta variable y las conexiones políticas tienen en la decisión de crecer en el exterior, es decir, en la decisión de inversión. En este último capítulo se analiza otra de las decisiones que, pese a haber recibido menos atención por parte de los investigadores, es una de las decisiones más importantes que la empresa debe de tomar en su expansión internacional.

Muy pocos son los trabajos que analizan la decisión de desinversión en el exterior considerando la influencia del riesgo regulatorio. Al igual que en el capítulo 2, en este capítulo se parte de la Teoría de Dependencia de Recursos (Pfeffer y Salancik, 1978; Casciaro y Piskorski, 2005) para desarrollar un modelo teórico que explique las decisiones de desinversión en el exterior por parte de empresas en sectores regulados. Se considera a las decisiones de desinversión como un posible resultado de las negociaciones entre la empresa multinacional y el gobierno del país de destino. En este caso, se adopta una visión dinámica de la relación, ya que no solo se están considerando las negociaciones en el momento de la inversión, sino que también éstas prosiguen a lo largo de la vida de la inversión, aunque bajo circunstancias diferentes.

En un contexto en el cual la dependencia entre ambas partes es elevada y el desequilibrio de poder es bajo, la existencia de riesgo regulatorio hace más fácil la obtención de resultados beneficiosos tanto para la empresa multinacional como para el gobierno. Al tratarse de gobiernos con elevada discrecionalidad, podría pensarse que la balanza de poder se inclinaría a su favor, en tanto y cuanto tienen más facilidad para alterar las reglas del juego en su propio beneficio. Sin embargo, es precisamente esta elevada discrecionalidad la que hace que estos países sean menos atractivos a la hora de atraer a inversores extranjeros, por lo que el poder de las empresas dispuestas a invertir en este tipo de países se ve incrementado. En esta situación, ambos agentes, empresa y gobierno, llegan a poseer niveles de poder similares. Se produce por tanto un clima de negociación satisfactorio para alcanzar situaciones que podríamos calificar de cooperación entre ambas partes (Casciaro y Piskorski, 2005). Sin embargo, no todas las empresas reguladas están capacitadas para invertir en este tipo de países. Se argumenta en este capítulo que las empresas con un mayor nivel de capacidades políticas serán capaces de obtener mayores ventajas a la hora de negociar con gobiernos discrecionales.

Asimismo, en este capítulo se determina los límites que pueden impedir alcanzar y mantener estas situaciones de carácter cooperativo. De un lado, el desarrollo de la infraestructura local es una de las principales armas que estas empresas poseen para hacer frente al riesgo regulatorio y poder obtener ventajas del mismo. Sin embargo, a medida que el tiempo transcurre y la infraestructura local va aumentando, la empresa pierde parte de su poder de negociación inicial, inclinándose la balanza de poder a favor del gobierno local (Henisz y Williamson, 1999; Vernon, 1971). Ante esta situación de desequilibrio de poder, aumentos en el riesgo regulatorio pueden incrementar la probabilidad de que la empresa desinvierta. De otro lado, cambios en los gobiernos también pueden alterar el equilibrio de poder. Además del desarrollo de la infraestructura local, las relaciones que la empresa haya

generado en el país de destino son lo único que le protege de potenciales cambios en las reglas del juego. Por tanto, cabe esperar que cuando se produzca un cambio en el gobierno la empresa pierda la red de contactos locales, y con ello las ventajas que pudiese haber obtenido en las negociaciones con dicho gobierno (Siegel, 2007). Tanto el paso del tiempo como los cambios en el gobierno conducen a mayores desequilibrios de poder en la relación, lo que puede desembocar en resultados no deseables en las negociaciones y, eventualmente, en la decisión de desinvertir por parte de la empresa.

Seguidamente al desarrollo del modelo teórico, en el capítulo se procede a la realización del análisis empírico. En este capítulo se utiliza una muestra compuesta por las inversiones en el exterior realizadas por las empresas españolas de sectores regulados que se encontraban cotizando durante el periodo 1986-2008. Sobre esta muestra se llevó a cabo un análisis de supervivencia utilizando como método un modelo Cox modificado, el cual tiene en cuenta la presencia de riesgos competitivos. Los resultados obtenidos confirman que, para el caso de las empresas de sectores regulados, el riesgo regulatorio disminuye la probabilidad de que se produzca una desinversión. Asimismo, se confirma que para las empresas con un mayor nivel de capacidades políticas, el efecto negativo del riesgo regulatorio en la probabilidad de desinvertir es aún mayor. Finalmente, los resultados obtenidos también confirman que el paso del tiempo y cambios en la contraparte de la negociación (ej. el partido o coalición que ocupa el gobierno) disminuyen el efecto negativo que el riesgo regulatorio tiene en la decisión de desinversión y, por tanto, dificultan que se consiga alcanzar situaciones de cooperación entre ambas partes.

CONCLUSIONES

A continuación se presentan las principales conclusiones que se pueden extraer de los tres capítulos que forman esta tesis doctoral. Las limitaciones y futuras líneas de investigación han sido detalladas específicamente en cada capítulo.

Conclusiones capítulo 1

El capítulo 1 contribuye a arrojar luz sobre uno de los debates que venían existiendo en la literatura sobre inversión en el exterior y el riesgo regulatorio en el país de destino. Los resultados obtenidos demuestran que las empresas son heterogéneas en lo que a su comportamiento frente al riesgo regulatorio en destino se refiere. En este capítulo se confirma que las empresas en sectores regulados siguen un comportamiento diferente al resto de empresas cuando se enfrentan a este tipo de riesgo. Al contrario que las empresas no reguladas, las empresas que operan en sectores regulados no evitan invertir en países con gobiernos altamente discrecionales.

Al mismo tiempo, este capítulo contribuye a conocer de forma más detallada las estrategias de internacionalización seguidas por las empresas reguladas. Con este trabajo se demuestra cómo para estas empresas el riesgo regulatorio puede constituir una ventaja más que un inconveniente. En otras palabras, para las empresas de sectores regulados el riesgo regulatorio es una variable de naturaleza endógena, la cual pueden manejar a su favor. La existencia de riesgo regulatorio permite a estas empresas obtener mejores condiciones de entrada y operación, yendo incluso más allá de los estándares fijados en la industria (Guillén y García-Canal, 2012).

Este capítulo contribuye también a determinar los límites existentes a la hora de adoptar esta estrategia. En este sentido, se ha demostrado cómo la similitud institucional y el grado de desarrollo de la infraestructura local, son claves para las empresas de sectores regulados.

Asimismo, se ha puesto de manifiesto la necesidad de redefinir el concepto de "Obsolescing Bargain" desarrollado por Vernon (1971). Estudios recientes pretendían evidenciar que dicho concepto había dejado de ser válido, ya que el clima de conflictividad entre las empresas multinacionales y los gobiernos no se produce en la actualidad (Ramamurti, 2001). Sin embargo, los resultados relativos a la variable del grado de desarrollo de la infraestructura local sugieren que, al menos para las empresas reguladas, este concepto continúa siendo aplicable y relevante.

Conclusiones Capítulo 2

El capítulo 2 contribuye a avanzar en el conocimiento sobre el papel que los recursos políticos y, en particular, las conexiones políticas juegan en la expansión internacional de las empresas. Son muy pocos los trabajos que analizan el efecto de estas conexiones sobre el crecimiento internacional, y aún menos los que analizan el efecto que tienen las conexiones políticas en origen. Hasta donde sabemos en el momento de la redacción de este trabajo, sólo Siegel (2007) ha analizado el efecto que las conexiones políticas en origen tienen en la expansión internacional de las empresas a través de alianzas estratégicas.

Los resultados obtenidos en este capítulo demuestran que las conexiones políticas desarrolladas en el país de origen son un recurso determinante en la expansión internacional de la empresa. En este sentido, este capítulo contribuye a la reciente línea de investigación que considera a las capacidades políticas desarrolladas en el país de origen como una de las

principales bases de la internacionalización de ciertas empresas (Cuervo-Cazurra y Genc, 2008; García-Canal y Guillén, 2008; Holburn y Zelner, 2010). Adicionalmente, la teoría multinivel desarrollada nos ha permitido determinar las condiciones que han de cumplirse a distintos niveles de análisis para que las conexiones políticas sean aún más valiosas.

En el caso del primer nivel se ha puesto de manifiesto la importancia de complementar los recursos políticos con los recursos de mercado. Para aquellas empresas con un mayor nivel de recursos intangibles como la tecnología, las conexiones políticas les proporcionan más ventajas. Por tanto, podemos afirmar que ambos tipos de recursos son necesarios para que la empresa multinacional desarrolle una expansión internacional exitosa. En este sentido, se contribuye a la literatura que analiza la integración de las estrategias de mercado y de no-mercado (Baron 1995, 1999; Boddewyn y Brewer, 1994; Hillman y Hitt, 1999).

En lo que se refiere al segundo nivel de análisis, los resultados obtenidos confirman que los recursos políticos, en este caso las conexiones políticas, son de mayor utilidad para aquellas empresas que desarrollan su actividad en sectores regulados. Este capítulo contribuye, por tanto, a esclarecer de una forma más concreta el debate que trataba de resolver el capítulo anterior.

Nuestro trabajo también contribuye a la literatura que analiza el papel que el entorno institucional juega en el comportamiento de las empresas (DiMaggio y Powell, 1991; North, 1990; Peng, 2002; Peng et al., 2009; Scott, 1995; Williamson, 1985). En primer lugar, nuestros resultados muestran cómo la estructura política del país de destino condiciona el efecto que las conexiones políticas tienen en el crecimiento internacional de la empresa. Se demuestra que las conexiones políticas son más valiosas en países en los que la efectividad en la separación de poderes es menor; es decir, en países donde los gobiernos poseen una mayor discrecionalidad. En este caso, las conexiones políticas actúan como un factor facilitador en

las negociaciones entre la empresa multinacional y el gobierno del país de destino. En segundo lugar, nuestros resultados muestran la importancia de la similitud institucional entre el país de destino y el país de origen, en la medida en que las conexiones políticas son más valiosas en países con el mismo sistema legal que el país de origen. El marco institucional que proporciona el sistema legal va a permitir a las empresas con un mayor nivel de conexiones políticas obtener más ventajas de las mismas.

En resumen, este capítulo contribuye a conocer en mayor detalle las estrategias políticas adoptadas por las empresas en su expansión internacional. La principal conclusión que se puede extraer es que los recursos políticos desarrollados en el país de origen son valiosos para aquellas empresas que deciden crecer internacionalmente. De esta manera, se está considerando a las capacidades políticas como uno de los activos clave en la expansión internacional de las empresas.

Conclusiones Capítulo 3

Los resultados obtenidos en este capítulo contribuyen al análisis de las relaciones entre la empresa multinacional y el gobierno del país de destino (Eden y Molot, 2002; Kobrin, 1987; Luo 2001, 2004; Moran, 1974; Nebus y Rufin, 2010; Vivoda, 2009). Considerando a la decisión de desinversión como un producto de dichas relaciones, se analiza el papel que el riesgo regulatorio juega en las mismas. Nuestros resultados muestran cómo el riesgo regulatorio en destino permite alcanzar situaciones de cooperación entre empresa y gobierno, al menos al inicio de la inversión. Sin embargo, al igual que en el capítulo 1, nuevamente se pone de manifiesto la pervivencia de las relaciones conflictivas entre la empresa multinacional y el país de destino descritas por Vernon (1971). Por tanto, podemos afirmar que en sectores regulados las relaciones entre la empresa multinacional y el gobierno del país de destino son un continuo entre cooperación y conflicto.

Con este trabajo se contribuye también a la literatura que analiza el papel que las capacidades políticas juegan en la expansión internacional de las empresas (Cuervo-Cazurra y Genc, 2008; García-Canal y Guillén, 2008; Holburn y Zelner, 2010). Los resultados relativos al efecto moderador que el nivel de recursos políticos tiene en la relación entre riesgo regulatorio y decisiones de desinversión, confirman la importancia que este tipo de recurso tiene para las empresas reguladas. Las empresas con un mayor nivel de recursos políticos son capaces de extraer ventajas del riesgo regulatorio en destino. De este modo, en este capítulo se contribuye a conocer en mayor profundidad qué son las capacidades políticas y cómo influyen en la expansión internacional de las organizaciones; en este caso, en cómo influyen en la supervivencia de las inversiones.

Finalmente, al estar analizando las decisiones de desinversión, nuestro trabajo también contribuye a la literatura relacionada con dicha decisión. El análisis de las desinversiones en relación al riesgo regulatorio en destino ha recibido escasa atención por parte de los investigadores (Berry, 2010; Dhanaraj y Beamish, 2009). Nuestro trabajo permite avanzar en el estudio de este tipo de decisión tan importante como es decidir si la empresa mantiene o no una inversión en el exterior.

En resumen, este trabajo da un paso adicional en el análisis de la estrategia internacional de las empresas en sectores regulados, así como en el papel que las capacidades políticas y también el "Obsolescing Bargain" juegan en la determinación de la misma. En este trabajo se muestra cómo el riesgo regulatorio puede ser considerado como una espada de doble filo. De un lado, facilita alcanzar situaciones de cooperación entre la empresa y el gobierno mientras que, de otro, incrementa la probabilidad de comportamientos oportunistas por parte del gobierno. Es en esta situación donde las capacidades políticas son determinantes para que las empresas reguladas gestionen de forma efectiva sus relaciones con los gobiernos.

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Tomada en su conjunto, las principales aportaciones de esta tesis doctoral son las siguientes:

- Una de las principales conclusiones de este trabajo es que el riesgo regulatorio en destino puede ser considerado como una variable endógena, la cual las empresas pueden manejar a su favor. Los resultados obtenidos permiten afirmar que las empresas sometidas a una mayor regulación en su país de origen son capaces de extraer ventajas del riesgo regulatorio en destino.
- Los resultados presentados en esta tesis doctoral nos permiten conocer en mayor profundidad la estrategia de internacionalización seguida por las empresas que operan en sectores regulados. En este trabajo se establecen las condiciones bajo las cuales las empresas de sectores regulados son capaces de gestionar el riesgo regulatorio en destino. Estas empresas serán capaces de obtener ventajas en países con elevado riesgo regulatorio, siempre y cuando dichos países posean el mismo sistema legal que su país de origen y no se haya completado el desarrollo de la infraestructura local para la prestación del servicio.
- Se contribuye también a profundizar en el conocimiento sobre las capacidades políticas y el papel que estas han jugado en la expansión internacional de la empresa. Los resultados obtenidos en este trabajo sugieren la necesidad de incorporar los recursos políticos al conjunto de activos intangibles que permiten a las empresas crecer internacionalmente.
- Se han delimitado las condiciones que a distintos niveles han de cumplirse para que los recursos políticos desarrollados en origen proporcionen mayores ventajas a las empresas. Los resultados obtenidos permiten afirmar que los recursos políticos, al menos en el caso particular de las conexiones políticas, serán más valiosos para las

empresas con un mayor nivel de activos intangibles —ej. habilidades de marketing, directivas, experiencia en el negocio, entre otros—, que operan en sectores altamente regulados e invierten en países con gobiernos discrecionales y con un entorno institucional similar al de su país de origen.

- Finalmente, se pone de manifiesto la relevancia que el concepto de "Obsolescing Bargain" continúa teniendo para las empresas reguladas. Muchos investigadores en dirección internacional han dejado a un lado este concepto. Sin embargo, para las empresas reguladas el mismo continúa siendo clave, constituyendo las capacidades políticas una variable clave para que dichas empresas puedan evitar la obsolescencia de su poder negociador. Serán dichas capacidades las que ayudarán a la empresa multinacional a alcanzar situaciones de cooperación en sus negociaciones con gobiernos discrecionales, y evitar así el tener que abandonar sus inversiones en el exterior.

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APPENDIX A

Procedure to calculate Macroeconomic uncertainty variable

We calculated this variable following the methodology developed by Servén (1998) for measuring unexpected changes in economic growth. Macroeconomic uncertainty has been computed as the logarithm of the conditional variance of GDP growth for a determined year, using available information up to that moment. Specifically, we have followed a GARCH (1, 1) model, which is formulated as follows:

$$y_{it} = \alpha_1 t + \beta_1 y_{i,t-1} + \varepsilon_t$$

$$\sigma_t^2 = \gamma_{i,0} + \gamma_{i,1} \varepsilon_{i,t-1}^2 + \delta_i \sigma_{i,t-1}^2$$

Where y_{it} is the country GDP for a specific year t, and σ^2 is the variance of ε_t conditioned to the available information up to that year t. σ^2 was computed separately for each of the countries.

APPENDIX B

Table B. Count of investments by firm

Firm	Count of investments
ACCIONA	58
ACEPROSA	0
ACERINOX, S.A.	17
ACS	66
AGROMAN	9
AGUAS DE BARCELONA	44
ALTADIS (FORMER TABACALERA)	8
ALTOS HORNOS DE VIZVAYA	0
AMPER, S.A.	13
ARGENTARIA (FORMER BANCO EXTERIOR)	9
ASTURIANA DE ZINC	0
AVANZIT	7
AZKOYEN	7
AZUCARERA	0
BAMI	0
BANCO CENTRAL	35
BANCO ESPAÑOL DE CREDITO	17
BANCO HERRERO	0
BANCO HISPANO AMERICANO	4
BANCO PASTOR	3
BANCO POPULAR	8
BANCO SANTANDER	161
BANCO ZARAGOZANO	1
BANKINTER	2
BBV	130
BODEGAS Y BEBIDAS	3
CAMPOFRIO FOOD GROUP	35
CARBUROS METALICOS	1
CEMENTOS ALFA	0
CEMENTOS LEMONA	1
CEMENTOS PORT.VALDERRIVAS	1
CEVASA	0
CIE AUTOMOTIVE	24
CONSTRUCCIONES Y AUCILIAR DE FERROCARRILES (CAF)	23
CRISTALERIA ESPAÑOLA	0
DRAGADOS	87
DURO FELGUERA	13
EBRO	27
EL ÁGUILA	0
ELECNOR	30
ENDESA	108
EPPIC	0

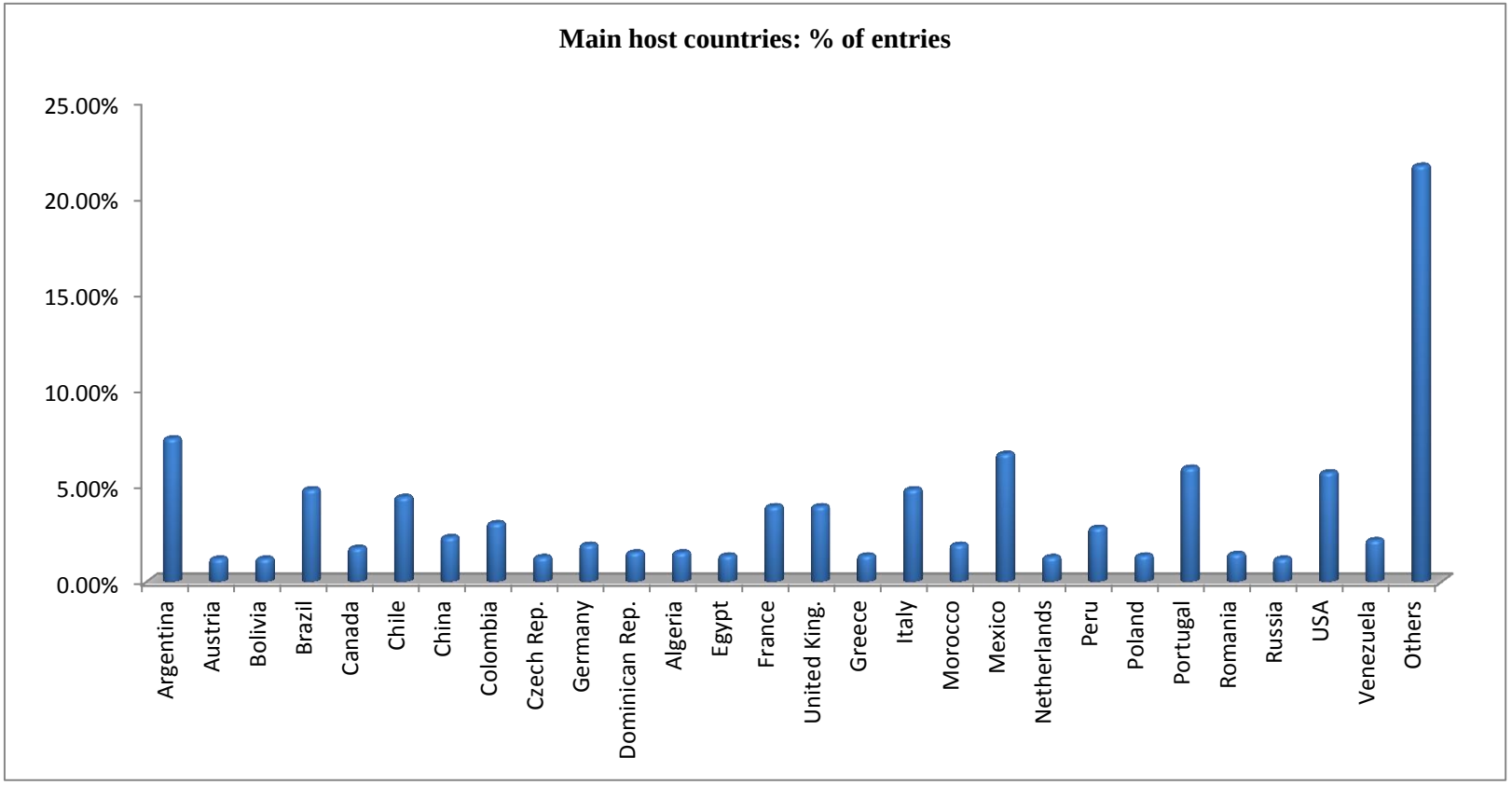
Table B. (Continued)

Firm	Count of investments
ERCROS	2
ESPAÑOLA DE ZINC	0
ESSA	0
FAES FARMA	4
FASA	0
FECSA	0
FILO	0
FINANCIERA Y MINERA	0
FCC	131
FRIMANCHA	0
GAS NATURAL SDG	42
GLOBAL STEEL WIR	1
GRUPO EMPRESARIAL ENCE	3
H COTO CORTES	0
HIDROCANTABRICO	5
HISALBA	0
IBERDROLA (FORMER IBERDUERO)	172
INDO INTERNACIONAL	19
INDRA SISTEMAS	60
INDUSTRIAS DEL BESÒS	0
INMOBILIARIA COLONIAL	3
INMOBILIARIA DEL SUR	1
INMOBILIARIA URBIS	1
INMOLEVANTE	0
INYPSA INFORMES Y PROYECTOS	10
KOIPE	0
KOXKA	1
LA SEDA DE BARCELONA	14
LEISA	0
N MONTAÑA QUIJANO	0
NATRA	8
NICOLAS CORREA	2
OBRAS Y SERVICIOS	0
PAPELERA ESPAÑOLA	1
PAPELERA NAVARRA	0
PASCUAL HERMANOS	1
PESCANOVA	23
CEPSA	30
PRIM	5
PROCISA	0
PROSEGUR	30

Table B. (Continued)

Firm	Count of investments
PULEVA	1
REPSOL YPF	129
RÚSTICAS	0
SARRIO	2
SERVICE POINT SOLUTIONS	23
SEVILLANA DE ELECTRICIDAD	0
SNIACE	2
SOTOGRANDE	0
TAFISA	14
TAVEX ALGODONERA	10
TECNOCOM	7
TELEFONICA	183
TUBACEX	14
TUDOR	5
UNILAND CEMENTERA	5
UNION FENOSA	89
UNIPAPEL	6
VALENCIANA DE CEMENTOS	4
VIDRALA	6
VIDRIERA LEONESA	0
VISCOFAN	18
ZABALBARU	0
ZARDOYA OTIS	1
Total	1,838

Figure B. Main host countries receiving Spanish firms' FDI (only countries with more than 1% of the total FDI)



APPENDIX C

Table C 1. List of firms in the sample and number of investments and divestments

Industry / Firm	Investments	Divestments
Water		
Aguas de Barcelona		
1986-1990	1	0
1991-1995	9	0
1996-2000	19	0
2001-2005	8	3
2006-2008	14	7
Banking		
Argentaria (since 1999 BBVA)		
1986-1990	0	0
1991-1995	3	0
1996-2000	2	1
2001-2005	0	1
Banco Atlántico (since 2003 Banco de Sabadell)		
1986-1990	0	0
1991-1995	4	0
1996-2000	0	0
2001-2005	1	2
Banco Central (since 1991 BCH)		
1986-1990	1	0
1991-1995	0	1
Banco de Bilbao (since 1988 BBV)		
1986-1990	2	0
Banco de Sabadell		
1986-1990	0	0
1991-1995	3	0
1996-2000	8	0
2001-2005	2	0
2006-2008	8	0
Banesto (since 1994 Banco de Santander)		
1986-1990	7	0
1991-1995	9	6

Table C 1. (Continued)

Industry / Firm	Investments	Divestments
Banco Herrero (since 2001 Banco de Sabadell)		
1986-1990	1	0
1991-1995	0	0
1996-2000	0	0
2001-2005	0	0
Banco Hispano Americano (since 1991 BCH)		
1986-1990	5	0
1991-1995	0	1
Banco Popular		
1986-1990	1	0
1991-1995	3	0
1996-2000	2	0
2001-2005	2	1
2006-2008	1	3
Banco Santander		
1986-1990	14	0
1991-1995	25	2
1996-2000	57	5
2001-2005	27	14
2006-2008	28	8
Bankinter		
1986-1990	1	0
1991-1995	0	0
1996-2000	0	0
2001-2005	0	1
2006-2008	0	0
BBV		
1986-1990	4	0
1991-1995	19	1
1996-2000	51	0
2001-2005	20	2
2006-2008	15	3
BCH (since 1999 BSCH)		
1986-1990	4	0
1991-1995	13	1
1996-2000	11	2

Table C 1. (Continued)

Industry / Firm	Investments	Divestments
Gas		
Enagás (since 1994 Gas Natural SDG)		
1986-1990	0	0
1991-1995	2	0
Gas Natural SDG		
1986-1990	0	0
1991-1995	6	0
1996-2000	6	0
2001-2005	12	0
2006-2008	17	1
Electricity		
Endesa		
1986-1990	0	0
1991-1995	16	0
1996-2000	29	1
2001-2005	23	5
2006-2008	30	0
Iberdrola		
1986-1990	0	0
1991-1995	8	0
1996-2000	35	5
2001-2005	39	2
2006-2008	74	3
Red Eléctrica de España		
1986-1990	0	0
1991-1995	1	0
1996-2000	1	0
2001-2005	0	0
2006-2008	2	0
Unión Fenosa		
1986-1990	1	0
1991-1995	8	0
1996-2000	41	3
2001-2005	14	5
2006-2008	9	3

Table C 1. (Continued)

Industry / Firm	Investments	Divestments
Oil		
CEPSA		
1986-1990	5	1
1991-1995	1	1
1996-2000	5	0
2001-2005	7	0
2006-2008	10	0
Repsol YPF		
1986-1990	12	0
1991-1995	13	0
1996-2000	36	4
2001-2005	35	5
2006-2008	26	0
Telecommunications		
Telefónica		
1986-1990	13	0
1991-1995	17	3
1996-2000	64	5
2001-2005	37	5
2006-2008	26	6
Total	1086	123

Table C 2. Number of investments and divestments by host country

Country	Nº of Investments	Nº of Divestments
ANGOLA	1	0
ALBANIA	1	0
ANDORRA	1	0
U. ARAB EMIRATES	1	0
ARGENTINA	112	24
AUSTRALIA	1	0
AUSTRIA	2	2
AZERBAIJAN	1	0
BELGIUM	6	0
BULGARIA	2	0
BAHAMAS	1	0
BOLIVIA	14	4
BRAZIL	68	6
CANADA	7	0
SWITZERLAND	1	1
CHLILE	62	8
CHINA	24	0
COLOMBIA	38	1
COSTA RICA	3	0
CUBA	11	0
CZECH REPUBLIC	8	0
GERMANY	16	2
DENMARK	1	0
DOMINICAN REPUBLIC	9	2
ALGERIA	27	3
ECUADOR	9	1
EGYPT	13	1
ESTONIA	1	0
FINLAND	2	0
FRANCE	43	9
UNITED KINGDOM	35	4
EQUATORIAL GUINEA	2	0
GREECE	15	0
GUATEMALA	5	0
HUNGARY	4	0
INDONESIA	5	2
INDIA	3	0
IRELAND	2	0
IRAN	1	0
ITALY	63	12
JORDAN	1	0
JAPAN	3	0
KAZAKHSTAN	2	0
KENYA	6	0
CAMBODIA	1	0
KOREA	2	0
LIBERIA	1	0

Table C 2. (Continued)

Country	Nº of Investments	Nº of Divestments
LIBYA	4	0
LUXEMBOURG	1	0
LATVIA	1	0
MOROCCO	21	4
MONACO	1	1
MOLDOVA	1	0
MEXICO	94	4
NIGER	2	0
NICARAGUA	1	0
NETHERLANDS	11	1
NORWAY	2	0
OMAN	1	0
PANAMA	6	2
PERU	42	0
PHILIPPINES	6	5
POLAND	5	0
PORTUGAL	94	7
PARAGUAY	1	0
QATAR	2	0
ROMANIA	4	0
RUSSIA	8	0
SINGAPORE	3	0
EL SALVADOR	1	0
SLOVAK REPUBLIC	5	0
SWEDEN	2	1
SYRIAN ARAB REP.	1	0
THAILAND	1	0
TRINIDAD AND TOBAGO	4	0
TUNISIA	1	0
TURKEY	1	0
UKRAINE	2	0
URUGUAY	14	3
USA	64	6
VENEZUELA	25	4
YEMEM	1	0
SOUTH AFRICA	1	0

Figure C. Temporal evolution of firms' investments and divestments