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DOCTORAL THESIS

THE EFFECT OF INTERNATIONALIZATION ON THE RESULTS OF SPANISH LISTED FIRMS: 1986-2010

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RESUMEN DEL CONTENIDO DE TESIS DOCTORAL

1.- Título de la Tesis	
Español/Otro Idioma: EL EFECTO DE LA INTERNACIONALIZACIÓN SOBRE LOS RESULTADOS DE LAS EMPRESAS ESPAÑOLAS COTIZADAS: 1986-2010.	Inglés: THE EFFECT OF INTERNATIONALIZATION ON THE RESULTS OF SPANISH LISTED FIRMS: 1986-2010.

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RESUMEN (en español)

La presente tesis doctoral pretende analizar las características del proceso de internacionalización de las empresas españolas cotizadas y el impacto que esto tiene en sus resultados. Específicamente, en ella se estudian las razones de la diversificación geográfica de las empresas y el efecto que esto pueda tener en su rentabilidad atendiendo a su grado de internacionalización y velocidad de expansión internacional.

Aunque estos temas han sido ampliamente estudiados durante las últimas décadas, aún no se ha llegado a un consenso acerca de los desencadenantes de la internacionalización o las consecuencias de esta estrategia de diversificación. Ampliando estudios previos en la materia, mi tesis busca responder las siguientes preguntas de investigación:

- Capítulo 1: ¿cuáles son los determinantes de las estrategias de diversificación internacional?
- Capítulo 2: ¿afecta por igual el grado de expansión internacional a los resultados de todas las empresas?
- Capítulo 3: ¿qué efecto tiene la velocidad de internacionalización en las expectativas de los mercados de capitales?

Se argumenta que ni los determinantes ni el efecto de la internacionalización en la rentabilidad empresarial es el mismo entre industrias. Se propone que operar en industrias reguladas o no reguladas afecta tanto a la decisión de internacionalización de las compañías como a sus resultados. Además, se plantea que la velocidad de internacionalización también tiene efecto sobre los resultados de las empresas. Se sugiere que mientras que niveles bajos y

moderados de velocidad de internacionalización crean valor para los accionistas, niveles elevados tienden a disminuir la rentabilidad de mercado.

Estas hipótesis son analizadas en una muestra de datos de panel desde el año 1986 hasta 2010 que incluye 120 empresas españolas cotizadas en 1990. Los datos de las operaciones en el exterior llevadas a cabo por estas compañías fueron obtenidos de la Base de Datos Sistemática sobre las Operaciones Internacionales de las Empresas Españolas, desarrollada bajo el patrocinio del Instituto Español, ICEX (ver Guillén y García-Canal, 2007). Como recursos complementarios para la construcción de variables adicionales se consultaron otras fuentes de información, como COMPUSTAT, DATASTREAM, los informes financieros anuales de las compañías, y/o las propias páginas web de las empresas.

En relación a las técnicas econométricas implementadas para analizar nuestras hipótesis, en el Capítulo 1 se realizaron regresiones probit sobre nuestra muestra de datos de panel utilizando STATA 12 para estudiar la probabilidad de establecer filiales extranjeras tanto en la muestra completa como en las sub-muestras de industrias reguladas y no reguladas. Con el objetivo de controlar por la endogeneidad, en los Capítulos 2 y 3 se implementó el método de estimación de Heckman en dos etapas (1979) y se usaron los modelos probit del Capítulo 1 como base para nuestra primera etapa.

Después de realizar los análisis, se encontró que las amenazas a la posición de mercado de empresas reguladas y no reguladas difieren entre industrias y, por tanto, también los motivos de su internacionalización. Además, se observa que en industrias reguladas la relación entre diversificación geográfica y resultados es más lineal que en las no reguladas dado que hay límites a las estrategias de agregación que las últimas pueden seguir. Finalmente, se descubre que hay una velocidad de internacionalización óptima. Si se llega a sobrepasar un determinado umbral, destruye valor para los accionistas. Este umbral se puede retrasar en la medida en que las empresas posean más recursos y capacidades, necesiten menos adaptación de sus productos en el extranjero y tengan más expectativas de crecimiento futuro.

RESUMEN (en Inglés)

This dissertation attempts to analyze the characteristics of the internationalization process of Spanish listed firms and the impact they have on their performance. More specifically, it studies the reasons behind the geographic diversification of companies as well as the effect this may have on their performance depending on their degree of internationalization and speed of foreign expansion.

Even though these topics have been vastly studied during the last decades, there is no consensus yet either on the internationalization drivers or the outcomes of this diversification strategy. Building on former studies within the subject, my dissertation aims to answer the following research questions:

- Chapter 1: which are the triggers of firms' international strategy?
- Chapter 2: does the degree of foreign expansion affect the performance of firms equally regardless of the industry where they operate?
- Chapter 3: what impact does the speed of internationalization have on the market performance of multinationals?

We argue that neither the drivers nor the effect of internationalization on performance are the same across industries. We propose that operating in regulated or non-regulated industries affects both the decision to internationalize and its outcome. Besides, we posit that the speed of foreign expansion also has an impact on the companies' results. We suggest that whereas low and moderate levels of internationalization speed create value, high levels tend to diminish market performance.

We test our hypotheses n a panel data sample from 1986 to 2010 which includes 120 Spanish listed firms in 1990. Data from the FDI operations carried out by these companies was obtained from the Systematic Database on International Operations of Spanish Companies, developed under the sponsorship of the Spanish Institute for Foreign Trade, ICEX (see Guillén and García-Canal, 2007). As complementary resources for building the other variables, we consulted other information sources such as COMPUSTAT, DATASTREAM, companies' annual reports and/or firms' own websites.

Regarding the econometrics techniques implemented to analyze our hypotheses, in Chapter 1 we run a probit regressions on our panel data sample using STATA 12 to analyze the probability of establishing foreign subsidiaries in the full sample as well as in the regulated and non-regulated industries subsamples. In order to control for the endogeneity of the decision to expand abroad, in Chapters 2 and 3 we implement Heckman's two-step estimation method

(1979) and use the probit models run in Chapter 1 as the basis for our first stage.

After running our analyses, we find that the threats to the position regulated and non-regulated companies hold in the market differ between industries and, thus, so do the drivers of their internationalization. In addition, we observe that in regulated industries the relationship between geographic diversification and results is more lineal than in non-regulated ones since they are limits to the aggregation strategies the latter can follow. Finally, we discover that there is an optimal speed of internationalization. Beyond a certain threshold, it destroys value for shareholders. This threshold can be delayed whenever firms possess more resources and capabilities, need fewer levels of adaptation and have more growth potential.

SR. DIRECTOR DE DEPARTAMENTO DE ADMINISTRACIÓN DE EMPRESAS/
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INTRODUCTION

The Causes and Consequences of Internationalization

INTRODUCTION: The Causes and Consequences of Internationalization

The analysis of the causes and consequences of international expansion, like other corporate strategy decisions, constitutes a mainstream topic in management. However, the results are still non-conclusive regarding core research questions such as why do firms expand abroad and what are the performance consequences of international expansion. Interestingly, some recent phenomena such as globalization, and the surge of internationalization during these past decades, coupled with the prevalence of pure domestic firms has renewed the interest of this research line. A final catalyst of studies on this topic is the refinement of econometric techniques that makes possible more robust estimations that could shed light on the reasons behind the decision of companies to establish a foreign subsidiary and the effect it has on their performance.

Previous research dealing with the drivers of the international expansion of firms has acknowledged several reasons why companies might aim to establish foreign subsidiaries, mainly the possession of a competitive advantage (Barney, 1991, 2001; Buckley, 2014; Buckley and Casson, 1976; Dunning, 1993; Kogut and Zander, 1993), the existence of managerial discretion (Jensen and Meckling, 1976; Oesterle *et al.*, 2013; Sanders and Carpenter, 1998), and the presence of threats to their position in the market (Caves, 1971; Chen and Martin, 2001; Fuentelsaz *et al.*, 2002; Hymer, 1976; Kindleberger, 1969; Knickerbocker, 1973; Oesterle and Wolf, 2011; Wang *et al.*, 2012). These causes have been traditionally applied to multinationals coming from developed countries. However, researchers studying emerging market multinationals stress the need to adapt them and search for new ones which fit better this special setting (Moghaddam *et al.*, 2014; Ramamurti, 2012).

Besides the motives for international expansion, scholars have also been largely focused on analyzing the outcomes of this decision. In this sense, studies analyzing the effect of internationalization on firm performance have primarily focused on two characteristics of their foreign expansion: its extent and its speed. Nonetheless, as we have previously stated, there is no consensus yet neither on the reasons why companies internationalize their activities nor on the effect that it may have on their results.

Regarding the degree of internationalization, whereas some authors argue that it has no effect on the performance of companies (Hennart, 2007; Morck and Yeung, 1991), early researchers on the topic often found the relationship between these two variables to be linear (Click and Harrison, 2000; Collins, 1990; Qian, 2002; Vernon, 1971). The increase in the ease to retrieve data and the remarkable evolution of econometric techniques prompted scholars to begin finding evidence of non-linear patterns. These patterns took the form of a U (Capar and Kotabe, 2003; Contractor *et al.*, 2007; Lu and Beamish, 2001; Qian, 1997; Thomas, 2006), an inverted U (Geringer *et al.*, 1989; Goerzen and Beamish, 2005; Hitt *et al.*, 1997; Ramaswamy, 1995), an S (Benito-Osorio, 2011; Contractor *et al.*, 2003; Lu and Beamish, 2004; Rugman and Oh, 2010; Ruigrok et al, 2007) and, even, an M (Almodóvar and Rugman, 2014; Lee, 2013).

Literature on the nature of the relationship between speed of internationalization and performance has also provided mixed results. Although former studies usually agreed that a gradual foreign expansion is the best way to benefit from being established abroad (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975; Vermeulen and Barkema, 2002), new evidence tends to challenge this stream of research. Accordingly, certain kind of firms can also profit from undertaking an accelerated internationalization. Among them, *born globals* (Knight and Cavusgil, 2004; Musteen *et al.*, 2010; Zhou *et al.*, 2007), *born-again globals* (Jantunen *et al.*,

2008), and *latecomer multinationals* (Chang and Rhee, 2011; Kumar *et al.*, 2013) stand out.

Taking into account these research gaps in the literature on the causes and consequences of internationalization, this dissertation has three main purposes. First, it seeks to shed more light on the study of the drivers of internationalization taking into account the industries where companies operate. Second, it attempts to discover if there could be different effects in the impact of internationalization on performance depending on the industries where firms develop their activity. Third, it aims to reconcile previous patterns found in the literature regarding the speed of internationalization of multinationals and the effect it has on their performance, as well as identify boundary conditions that may affect the extent to which companies can profit from a rapid foreign expansion. Summing up, this dissertation attempts to provide an answer to the following research questions related to the internationalization process of companies: which are the triggers of the international strategy of firms?; does the degree of foreign expansion affect the performance of firms equally regardless of the industry where they operate?; and finally, what impact does the speed of internationalization have on the market performance of multinationals?

After developing a theoretical framework for each research question, we performed our empirical analysis on a panel-data sample from 1986 to 2010 which includes all Spanish listed firms in 1990. Data from the FDI operations carried out by these companies was obtained from the *Systematic Database on International Operations of Spanish Compa*nies, developed under the sponsorship of the Spanish Institute for Foreign Trade, ICEX (see Guillén and García-Canal, 2007). As complementary resources for building the other variables, we consulted other

information sources such as *COMPUSTAT*, *DATASTREAM*, companies' annual reports and/or firms' own websites.

This dissertation has been structured in three chapters. In Chapter 1 we analyze the drivers of the foreign expansion of regulated and non-regulated firms. We find that since the main threats to the position they hold in the market differ, so do the reasons of their internationalization. Once we have studied the main causes of the establishment of foreign subsidiaries in our first chapter, in Chapter 2 we focus on the effect that the degree of internationalization has on the results of companies operating in regulated and non-regulated industries. We discover that non-regulated firms can aggregate their foreign operations to a larger extent than regulated ones, which eventually damages their performance. Finally, in Chapter 3 we study the nature of the relationship between multinationals' speed of internationalization and their performance. We reconciled the evidence of previous works by finding that it follows an inverted-U shaped pattern. Moreover, we establish some boundary conditions that have an effect on this relationship.

The last part of this dissertation summarizes its main contents as well as the conclusions we have reached.

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CHAPTER 1

Internationalization Drivers in Regulated and Non-regulated Industries

1.1. INTRODUCTION

The reasons behind the internationalization of firms have been vastly studied for decades. Most research has relied on the ownership of firm-specific advantages (Barney, 1991, 2001; Buckley, 2014; Buckley and Casson, 1976; Dunning, 1993; Kogut and Zander, 1993; Tallman and Chacar, 2011), the existence of threats to the position companies hold in the market (Caves, 1971; Chen and Martin, 2001; Fuentelsaz et al., 2002; Hymer, 1976; Kindleberger, 1969; Knickerbocker, 1973; Oesterle and Wolf, 2011; Wang et al., 2012), and managerial discretion (Jensen and Meckling, 1976; Oesterle *et al.*, 2013; Sanders and Carpenter, 1998) to explain why firms expand abroad. Although the bulk of these studies has focused on traditional multinationals coming from developed countries, more recent studies have applied and adapted these internationalization drivers by using samples from emerging or less developed countries. Among them, emerging market multinationals stand out (Guillén and García-Canal, 2010; Moghaddam *et al.*, 2014; Ramamurti, 2012; Wang *et al.*, 2012). Therefore, this literature on firms from less developed countries has focused on the differences in the internationalization drivers attributable to the home country of the companies. For this reason, the distinction among industries is still understudied, especially the one related to regulated and non-regulated firms. Research on internationalization in regulated industries has tended to be neglected, and only a few studies have actually dealt with the diversification strategy of regulated companies (Calzolari, 2004; Palmer, 1991; Sappington, 2003; Sarkar *et al.*, 1999; Urbiztondo *et al.*, 2013). However, we have not found any previous work which has explicitly and empirically addressed the differences in the internationalization drivers of regulated and non-regulated firms.

Although regulation affects to some extent all companies, in certain industries it has a larger effect. In this kind of industries, commonly named regulated industries, the

government can decide conditions of entry and price, among other aspects of the business (Henisz, 2000; Henisz and Williamson, 1999). For the purpose of this study, we consider to be regulated industries electricity, water, oil, gas, transport and telecommunications, banking, financial services, and the construction industry because they all satisfy the three conditions proposed by Henisz (2003): 1) the government plays a relevant role within the industry, 2) liberalization is caused by the need for foreign capital, and 3) access to new capital is more costly due to the uncertainty created by institutional idiosyncrasies (Barth *et al.*, 2004; Sarkar *et al.*, 1999; Stern, 2010).

We propose that distinguishing between regulated and non-regulated companies is an important research gap to fill in the study of internationalization drivers for two main reasons. First, regulation may affect the incentives companies have to become multinational (Urbiztondo *et al.*, 2013). Second, international diversification is an endogenous variable so the different sources of unobserved heterogeneity should be taken into account. Therefore, we aim to answer the following research question: are there any differences between the internationalization drivers of regulated and non-regulated firms? We argue that even though possessing a competitive advantage affects the internationalization decision in both types of companies, their management team and the competitive threats they face in the market have a different effect on their probability to venture into new countries. In the case of regulated companies, we argue that managers have more discretion than in non-regulated ones because they are less subject to the discipline of the market. Therefore, we propose that managerial discretion affects the decision to internationalize in regulated industries but not in non-regulated ones, whose companies expand abroad when there are competitive threats to their position in the market.

We test and confirm our hypotheses by using a sample of Spanish regulated and non-regulated listed companies which covers the period 1986-2010. In the next section, we elaborate an in-depth literature review prior to developing in further detail our hypotheses.

1.2. LITERATURE REVIEW

Early theories regarding the internationalization of the firms relied on interest rates to explain the existence of foreign investments. Multinationals were conceived as return-on-equity maximizers which profited from financial arbitrage, transferring capital from locations where the cost of capital was low to others where they would make more of their investments[1]. However, this is a very basic conceptualization of the internationalization process because it does no account for the fact that countries can be both recipients and providers of capital flows.

For this reason, Hymer challenged prior literature on the subject in his doctoral dissertation from 1960 (eventually published in 1976), and suggested that multinationals exist due to market imperfections. He proposed that when companies enter a new country they often suffer from the *liability of foreignness* or a lack of experience operating in the host country. However, successful multinationals are able to overcome this setback because they have monopolistic control of valuable resources such as technology, which they can transfer across borders in order to replicate their dominant position in the home market. Furthermore, by means of controlling foreign operations they are able to reduce the levels of competition abroad and replicate the monopolistic position held at home in foreign countries.

[1] For a more detailed description of the state of the international business theory pre-Hymer, see Buckley (2011).

With his seminal work, Hymer set the basis of the theory of industrial organization, which was further developed by Caves (1971), Kindleberger (1969), and Rugman (1981). We can also include within this theory the study of Knickerbocker (1973), which pointed out the existence of oligopolistic responses in the international markets. He proposed that in highly-concentrated industries the strategy followed by one company has a great impact on the remaining firms operating in such industry. In this sense, some companies might venture abroad in order to maintain their market position.

Therefore, the basic hypothesis of the works comprised within this theory is that multinationals may appear because companies want to preserve and strengthen their competitive position by exploiting abroad their advantages under a monopoly regime, as they were already doing at home. Even though Hymer's contributions are still acknowledged nowadays (Barnard, 2010; Buckley, 2006; Dunning and Pitelis, 2008; Moeller *et al.*, 2013; Zhou and Guillén, 2014), most authors criticize his emphasis on market power instead of on the efficiency a firm can achieve by internalizing its foreign activities.

Dunning (2003) and Teece (2006) explain that Hymer addressed in both his dissertation as well as in his paper "The large multinational corporation" (1968) the internalization of competitive advantages, where he showed a clear influence from Coase (1937). However, he did not fully embrace transaction costs and preferred to focus on the reduction of competition. For this reason, Buckley and Casson (1976), Hennart (1977), and McManus (1972) are considered the pioneers in the study of transaction costs applied to internationalization. According to them, the agents who operate in the market may have incentives to behave opportunistically since there are no complete contracts to protect the competitive advantages of the firms. Thus,

multinationals exist because companies often have to incur in such high transaction costs that it is more efficient for them to internalize their operations than to go to the markets (Hennart, 2009; Rugman *et al.*, 2011). This is the reason why transaction cost theory is also commonly known as internalization theory (Rugman, 1986).

The internalization theory is widely accepted, especially in the study of the entry mode in the host country (Arregle *et al.*, 2006; Brouthers, 2013; Brouthers and Brouthers, 2003; Erramili and Rao, 1993; Laufs and Schwens, 2014; Shrader, 2001). However, it has also received some criticism, mainly from authors who support knowledge-based theories (Kogut and Zander, 1993, Tallman, 2003, Verbeke, 2003). They suggest that companies which possess valuable knowledge may transfer it more efficiently through internal channels even when there is no risk of opportunistic behaviors. As Kogut and Zander (1993) argue, the more implicit and complex the knowledge the company attempts to transmit, the more efficient it is to transfer it within firm boundaries. Therefore, the main difference between the internalization theory and the knowledge-based theory is their unit of analysis (Madhok, 1997). Whereas the first one focuses on the transaction, the second one puts its emphasis on the firm. The disregard of market failures has been the main source of criticism for this theory. Regardless of the type of knowledge a firm is willing to transfer, the efficiency of the markets should be acknowledged and taken into account as a sufficient condition for the existence of multinational companies (Teece, 2006). As a result, firms may not always be the best choice to transfer it across borders (Fransson *et al.*, 2011).

The concept of internalization has also been of great importance for Dunning, who integrated it within its eclectic paradigm (1977, 1988, 1993, 1998, 2003). According to this author, there are three main drivers of the international expansion of companies: ownership (O), location (L), and internalization (I) advantages. For this

reason the eclectic paradigm is also known as the OLI framework. Firms possess valuable intangible assets (ownership advantages) which are more efficiently transferred through internal channels (internalization advantages). In this sense, there is a link between the eclectic paradigm and the theory of transaction costs (Dunning, 2000; Rugman, 2010). Nonetheless, Dunning extends this theory by adding location advantages, which allow multinationals to complement and upgrade their set of resources by combining them with those of the host countries they enter. This framework has been commonly used when explaining the international expansion of traditional multinationals. Nonetheless, in recent years it has also been applied to the specific case of emerging market multinationals (Cuervo-Cazurra, 2012; Dunning and Lundan, 2008; Luo and Tung, 2007; Tan and Mathews, 2014; Yiu, 2011). Indeed, Mathews (2006) introduced the Linkage-Leverage-Learning (LLL) framework by applying the traditional OLI framework to this specific context. However, there seems to be no great difference between both frameworks (Peng, 2012).

Besides describing the reasons behind the foreign expansion of companies, the eclectic paradigm has also been used when explaining the degree of development of countries and the position they hold in the international scenario (Dunning, 2001). This has been done by focusing on the concept of *investment development path* (Dunning, 1975, 1981; Dunning and Narula, 1996), which suggests that OLI advantages and the development of a country have a mutual influence on each other.

So far, in this literature review we have focused on market power, competitive advantages, and transaction costs. The resource-based view of the firm (Barney, 1991, 2001; Penrose, 1959; Peteraf, 1993; Wernerfelt, 1984) can be defined as a synthesis of all these concepts. The studies that rely on this theory propose that companies possess competitive advantages which they can exploit in other countries. Furthermore, they can

access local resources in better conditions thanks to the bargaining power that those competitive advantages grant them.

It seems that possessing a competitive advantage is a pre-requisite for the foreign expansion. However, shareholders and managers play also an important role in deciding whether to internationalize or stay domestic, as proposed by the agency theory developed by Jensen and Meckling (1976). Even though the agency theory is not limited to the international scenario, it can be used to explain the decision to internationalize. In this sense, several studies have linked the top management team and its characteristics to international diversification (George et al., 2005; Liu et al., 2011; Sanders and Carpenter, 1998; Tihanyi *et al.*, 2000). The baseline hypothesis of the agency theory is that when the interests of shareholders and managers are not properly aligned, managers have incentives to behave opportunistically. Therefore, firms could go abroad even at the expense of their performance. One possible solution to potential opportunistic behaviors from managers might be trying to align their objectives with those of shareholders by providing them with equity packages or by increasing their returns (Denis, 2001; Nyberg *et al.*, 2010; O'Connor *et al.*, 2006; Shleifer and Vishny, 1997).

Taking the literature review as a whole, we propose that there are three main drivers of the international expansion of companies: their set of competitive advantages, their eagerness to maintain or strengthen their competitive position, and managerial discretion. Table 1.1 summarizes the main theories comprised in this literature review. In the following section we propose several hypotheses regarding these three factors and the effect they have on the international expansion of regulated and non-regulated companies.

Table 1.1. Main drivers of Foreign Direct Investment (FDI)

Theory	Internationalization driver	Description	Main authors
Theory of industrial organization	Preserve and/or strengthen the competitive position	Companies aim to replicate in the host country the dominant position held at home	Caves (1971), Hymer (1976), Kindleberger (1969), Knickerbocker (1973)
Theory of transaction costs or Theory of internalization	High transaction costs	Firms are the most efficient mechanism to reduce transaction costs when there are potential opportunistic behaviors	Buckley and Casson (1976), Hennart (1977), McManus (1972)
Knowledge-based theories	Difficult transferability of intangible assets	Firms are the most efficient mechanism to transfer intangible assets even when there are no potential opportunistic behaviors	Kogut and Zander (1993), Madhok (1997)
Eclectic paradigm or OLI framework	Ownership, location and internalization advantages	Firms possess valuable intangible assets which are transferred more efficiently through internal channels. Furthermore, they can access local resources in the host countries they enter.	Dunning (1977, 1988, 1993, 1998, 2003)
Resource-based view	Capitalize on their resources and access new ones	It can be considered a synthesis of the former ones: companies exploit their resources abroad and access new ones in an advantageous position.	Barney (1991, 2001), Penrose (1959), Peteraf (1993), Wernerfelt (1984)
Agency theory	Managerial discretion	Misalignment in the objectives of shareholders and managers can lead to opportunism	Jensen and Meckling (1976)

1.3. HYPOTHESES

The literature review we have developed shows that the causes behind the foreign expansion of companies are largely heterogeneous. For this reason, we divide them into three categories: possession of a competitive advantage, managerial discretion, and the existence of competitive threats. In the following paragraphs we explain in more detail how we suggest they affect the decision to expand abroad of regulated and non-regulated companies.

1.3.1. Competitive Advantages and Internationalization

As proposed by the resource-based view, the key element for a successful internationalization is the possession of a competitive advantage (Barney, 1991, 2001; Wernerfelt, 1984). Multinationals own firm-specific advantages developed at home which they can exploit across markets (Guillén and García-Canal, 2009). In doing so, they can achieve superior financial performance because the resources and capabilities they possess help them overcome more easily the setbacks they must face along their internationalization process, such as the *liability of foreignness* (Hymer, 1976; Zaheer, 1995) and the *liability of outsidership* (Johanson and Vahlne, 2009).

Even though both regulated and non-regulated companies may possess competitive advantages which they can transfer to foreign countries, they differ in the nature of the resources and capabilities that are more valuable for them. Since non-regulated firms operate in final markets where they suffer from high levels of competition, technology and marketing skills tend to give them an edge over their competitors.

In the case of regulated companies, they benefit from the support of their regulator, which tends to restrict competition. For this reason, although intangible

resources like proprietary technology or marketing skills may confer them a competitive advantage, political and project execution capabilities are the true cornerstones of their foreign expansion. Having political capabilities allows regulated companies to deal more efficiently with foreign governments and regulators and, thus, it facilitates establishing subsidiaries abroad, especially in countries where there is a high level of policy risk (Buckley *et al.*, 2007; Cuervo-Cazurra, 2011; Cuervo-Cazurra and Genc, 2008; García-Canal and Guillén, 2008; Holburn and Zelner, 2010). Apart from political capabilities, successful regulated companies which expand abroad possess the ability to efficiently manage and execute large-scale projects. Since regulated firms are highly dependent on government policies, they often have to be granted licenses so that they can operate in the countries they aim to enter (Bonardi, 2004). As a result, knowing how to adjust the bids to win the licenses and maximize future returns is of prime importance (Guillén and García-Canal, 2010). Furthermore, if the company wins the license and it is allowed to operate in the country, it has to be able to handle the execution of its projects efficiently. In this sense, having the ability to integrate newly-acquired resources with previous ones while trying to reduce costs and promote learning constitutes one of the most relevant competitive advantages a regulated firm can have (Amsden and Hikino, 1994; Goldstein, 2007; Guillén, 2000; Guillén and García-Canal, 2010; Ramaurti and Singh, 2009).

According to the above discussion, we argue that holding a competitive advantage affects the decision to internationalize in regulated as well as in non-regulated firms, since they both aim to make the most out of the resources and capabilities they possess. Therefore, we suggest that:

Hypothesis 1: Having a competitive advantage influences the decision to internationalize of both regulated and non-regulated companies.

1.3.2. Managerial Discretion and Internationalization

Jensen and Meckling (1976) proposed that the objectives of managers and shareholders can be misaligned, a situation which eventually damages the performance of the company. Whereas shareholders aim to maximize the value of the stock they own, managers may pursue other interests that increase their welfare but do not benefit the company as a whole. In this sense, they can decide to venture abroad for two main reasons. The first one is related to the reduction of the risk the firm faces. Risk-averse managers tend to diversify the firm's portfolio of investments in order to secure their jobs and maintain their reputation in the market (Amihud and Lev, 1981; Anantharaman and Lee, 2014; Dennis *et al.*, 2002; Laeven and Levine, 2009). The second one is linked to the concept of *empire building* (Aggarwal and Samwick, 2003, 2006; Morck and Yeung, 1991). According to Oesterle *et al.* (2013), managers may have incentives to increase the size of their companies through internationalization to increase their own returns (Baker *et al.*, 1988; Penrose, 1959; Wright *et al.*, 2002), confirm their suitability for the position they hold (Aggarwal and Samwich, 2003; Schleifer and Vishny, 1989), decrease their dependence from pressure groups in the home market (Whitley, 1998), and increase their power and prestige at an international level (Aggarwal and Samwick, 2003; Dennis *et al.*, 2002; Jensen, 1986).

Therefore, in some cases diversifying into foreign markets may be caused by managerial discretion and not because it is the optimal decision for the company. This situation is enhanced when the managers of the company have more freedom to make decisions because they lack control from either the markets or the shareholders of the firm. When the ownership of a company is dispersed, shareholders have few incentives to control the actions of managers because they may have a largely diversified portfolio and the benefits of overseeing managers do not pay off the costs of doing so (Anderson

et al., 2003; Tufano, 1996). Furthermore, the discretion of managers can be intensified when they do not have to turn to capital markets in order to get additional funding to internationalize since they already have enough cash-flow to expand abroad (Jensen, 1986).

In this regard, we propose that managerial discretion affects regulated companies to a larger extent than non-regulated ones. According to Urbiztondo *et al.* (2013), companies operating in regulated industries tend to have greater amounts of free-cash flow than those operating in non-regulated ones. Thus, they are less subject to the control of the capital markets which means that they might act opportunistically if their goals are not aligned with those of shareholders. Therefore, we propose that:

Hypothesis 2: Managerial discretion in regulated companies affects their decision to expand abroad.

1.3.3. Competitive Threats and Internationalization

Companies aim to maintain or improve the position they hold in the market. In this sense, the economic situation of their home country and the characteristics of the industry where they operate might have an effect on it and, thus, on their decision to expand abroad.

According to Hutzschenreuter and Gröne (2009), developing an activity in a country whose Gross Domestic Product (GDP) is growing can discourage venturing abroad because companies are readily able to increase their sales without investing in foreign countries as a result of the additional domestic demand derived from the economic growth.

At industry-level, companies may aim to become multinational in order to preserve their position in the market when their competitors expand to new countries. Although establishing foreign subsidiaries often entails facing the *liability of foreignness* (Hymer, 1976; Zaheer, 1995) and the *liability of outsidership* (Johanson and Vahlne, 2009), it also helps companies achieve some benefits which would be harder to reach if they stayed domestic. First, during their internationalization process firms can complement and upgrade their resources and capabilities with those of the host country where they invest (Asmussen and Foss, 2014; Buckley and Hashai, 2009; Dunning and Narula, 1995; Guillén and García-Canal, 2010; Kogut and Chang, 1991). Moreover, they can enlarge their customer base, therefore facilitating the achievement of economies of scale and scope (Cardinal *et al.*, 2011; Hitt *et al.*, 1994; Kogut, 1985; Lu and Beamish, 2004). Having access to these opportunities that operating at an international scale offers usually favors firms obtaining new competitive advantages. In this situation, it would be likely that companies which operate only within their home country experienced an erosion of their competitive advantage and a reduction of their market share because of the advantages that their competitors gain by expanding to foreign countries.

For this reason, despite the challenges they might face at the beginning of their international expansion, companies belonging to the same industry could decide to diversify geographically if their counterparts do so, following an imitative behavior. As previous studies have suggested (DiMaggio and Powell, 1983; Guillén, 2002), firms which share some bond among them tend to adopt similar strategies because they do not only have access to information on new opportunities arising at an international level but also to knowledge on how those opportunities can be handled successfully.

In this regard, we argue that non-regulated firms have more incentives than regulated ones to venture abroad when the economic growth is stalled or competitors establish foreign operations because they are more subject to the discipline of the market. We suggest that regulated companies are less affected by these competitive threats due to the high levels of regulation and protectionism of the industries where they operate in their home country, which provide them with oligopolistic and, in some cases, even with monopolistic advantages. For them, the real challenge arises from the deregulation and liberalization of their markets, which allows the entrance of foreign competition.

Therefore, taking the above discussion into account, we argue that non-regulated firms are the ones likely to suffer from competitive threats, since regulated companies are more likely to suffer from regulatory ones. Therefore, we hypothesize the following:

Hypothesis 3: The existence of competitive threats has an influence on the decision to establish foreign operations in non-regulated industries.

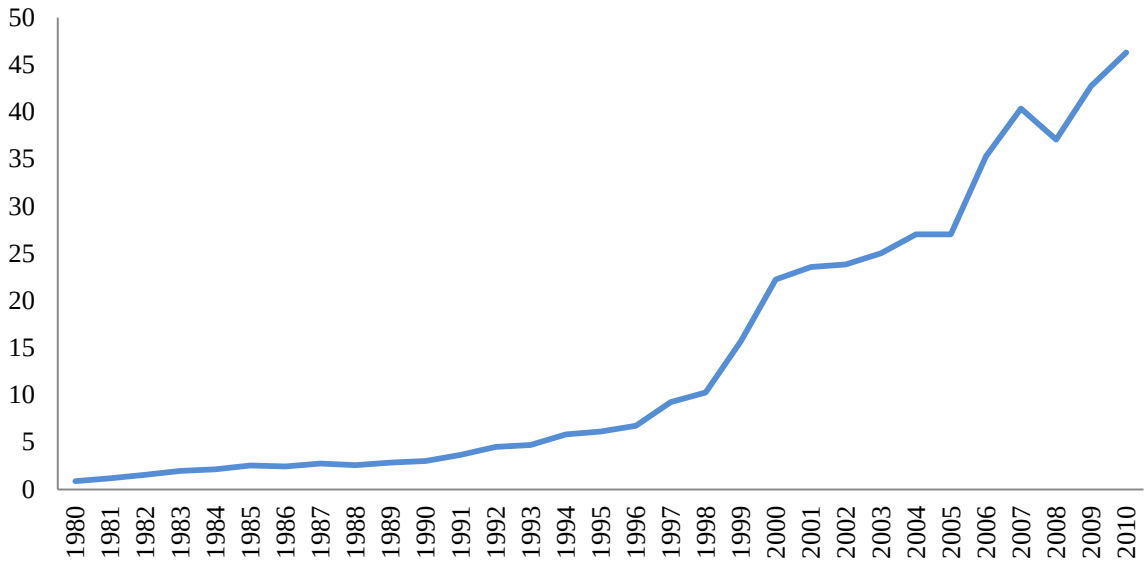
1.4. RESEARCH SETTING, DATA, AND METHODS

1.4.1. Sample

Our study analyzes the drivers of internationalization in regulated and non-regulated industries. In order to test our hypotheses, we have chosen a sample of 120 Spanish firms which were listed in 1990. We performed our analysis on the period 1986-2010. The initial year of our sample is especially suitable since it was the year in which Spain entered the European Economic Community (ECC). From that moment on, Spanish outward FDI experienced a great increase. As shown in Figure 1.1, and according to the data provided by UNCTAD, in 1985 the Spanish stock of outward FDI

only accounted for 2.84% of the Spanish Gross Domestic Product (GDP). In 2000, it increased to 22.26% and by 2010 it had already reached 47.17%.

Figure 1.1. Stock of Spanish outward FDI as a percentage of its GDP



Source: UNCTAD (2012)

Data for the operations established abroad was retrieved from the *Systematic Database on International Operations of Spanish Companies*, developed under the sponsorship of the Spanish Institute for Foreign Trade, ICEX (see Guillén and García-Canal, 2007). This database covers a 25-year span (1986-2010) and comprises several types of operations: acquisitions, strategic alliances, joint ventures, administrative concessions, and greenfield investments. For our analysis, we have only taken into account as foreign direct investments those in which the multinational company possesses at least 10% of the foreign venture (US Bureau of Economic Analysis, 2004). In order to build other variables in this study, we also gathered secondary data from other sources such as *COMPUSTAT*, *DATASTREAM* and/or the Spanish Securities Market Commission and firms' own websites.

1.4.2. Dependent Variable and Method of Analysis

We tested our hypotheses by using a panel-data probit technique. The decision to expand abroad or remain domestic is a binary choice and, therefore, using maximum-likelihood techniques like a logit or a probit are the most appropriate choice (Wooldridge, 2002). Our dependent variable was proxied by a dummy variable which took the value of one if the firm *i* had carried out any foreign operations from its founding year until the end of year *t*, and zero otherwise[2]. Thus, if the coefficient of a certain variable turns out to be significant, it means that its effect on the probability of having foreign subsidiaries is positive. On the contrary, a negative coefficient indicates that the variable exerts a negative influence on the probability of establishing a foreign venture abroad.

Then, we used a log-likelihood ratio test to measure the joint significance of three subsets of variables. First, the ones related to the firms' competitive advantages. Then, those associated to managerial discretion. Finally, the ones linked to the competitive threats which companies face in the markets. In order to perform the analysis, we ran two models to test whether there were significant differences between them. To do so we used Z = -2 (LL1 – LL2), where LL1 was the log of the constrained model's likelihood (the one without the set of variables we aimed to analyze) and LL2 was the log of the unconstrained model's likelihood (the one with all the variables). If this statistic turns out to be significant, then the unconstrained model fits the data better than the constrained one —that is, the set of variables analyzed has a significant effect on the dependent variable.

[2] As previously acknowledged, data on Spanish foreign subsidiaries was retrieved from the *Systematic Database on International Operations of Spanish Companies*.

1.4.3. Independent Variables[3]

We divided the independent variables in our study into three groups: competitive advantages, managerial discretion, and competitive threats. We introduced two proxies to account for the competitive advantages of the firm. First, its size, measured as the logarithm of total sales. Peteraf (1993) refers to size as a competitive advantage and a potential market entry barrier. Data on size was retrieved from *COMPUSTAT*, *DATASTREAM*, the Spanish Securities Market Commission and firms' websites. Apart from size, we used the technological resources of the firm as another proxy for its competitive advantages. We defined this variable as the number of patents accumulated by the company since its founding year. R&D expenditures can overemphasize the technological intensity of a firm since the amount of investment required to generate an outcome can greatly vary. Therefore, we suggest that our variable of accumulated patents is more appropriate to measure the technological resources of the firm. We searched for the information on Spanish patents in *ESPACENET*, a database which was created by the European Patent Office (EPO) and the member states of the European Patent Organization. It comprises more than 80 million patents worldwide and its historical archive reaches as far as 1836.

We also argued that managerial discretion may have an impact on the internationalization of the firm, and we proxied it through through the ownership structures that can restrict or enhance opportunistic behaviors from managers. Thus, we introduced the following three variables in our models: the percentage of stock owned foreign investors and the firm's Board of directors, respectively; and a dummy denoting whether the firm was partially owned or not by the Spanish government. In order to build them, we looked for information in press, several directories (*DICODI*, *DUNS*,

[3] All independent and control variables were lagged one year

The Maxwell Espinosa Shareholders Directory), and Vergés (1999, 2010) for data on Spanish privatizations.

The third set of independent variables is related to the competitive threats a firm can face. In this regard, we considered three levels of analysis. At firm level, we included the company's sales growth ratio. We built this variable by using the same data gathered for our size measure. At industry level we included the percentage of firms which were diversified within an industry in the year of the observation. Dastidar (2009) and Villalonga (2004) have also used this measure to analyze if competitive pressures enhance an imitative behavior. To define this variable, we checked the *Systematic Database on International Operations of Spanish Companies*. Finally, at country-level we followed Dastidar (2009) and introduced a 3-year moving average of the Spanish GDP growth as a potential reason behind the international expansion of companies. We searched for the information about Spanish GDP on the World Bank webpage.

1.4.4. Control Variables

In order to account for other variables which are not central to our study but may have an impact on the decision to invest abroad, we introduced several control variables. The first one considers the company's borrowing power or *potential slack* (term introduced by Burgeois and Singh in 1983). As the amount of debt increases, the borrowing power of firms diminishes and this may prevent them from venturing abroad. We used the leverage of the company (long-term debt to total assets) to control for this issue. Besides its level of leverage, we also included the age of the firm (log of the difference between the company's year of establishment and the year of the observation) as another control of the heterogeneity of the firms comprised in our study.

The degree of product diversification of the firm may also affect its internationalization (Wiersema and Bowen, 2008). Thus, we included a product diversification variable to account for it. Campa and Kedia (2002) and Villalonga (2004) have empirically proven that product diversification is subject to endogeneity. For this reason, we predicted an instrumental variable by running a fixed-effects panel-data regression whose dependent variable was the product diversification measure developed by Haleblian and Finkelstein (1993). This variable considers the unrelated product diversification undertaken by the firm. It was defined as the percentage of unrelated industries where a company developed its activity. Since it is a measure of unrelated diversification, we only took into account the two-digit Standard Industrial Classification codes in which the company was operating (Palepu, 1985). Following the studies of Campa and Kedia (2002) and Villalonga (2004) on the subject, the independent variables included the number of months the economy was in recession during a given year as well as firm characteristics: its profitability (EBIT/Sales); its liquidity (cash and cash equivalents to current liabilities); and its ownership structure, measured as the percentage of stock held by the founder and/or his family, and the ownership concentration, calculated by using Herfindahl's index (1950). Furthermore, we introduced firm, industry, and year controls.

The characteristics of the top management team of the firm and, more specifically, of its CEO, can also influence the decision of the company on whether to diversify or not. Therefore, we included as controls the tenure of the CEO (number of years the CEO has held that position) and a dummy which took the value of one if he was also Chairman of the Board, and zero otherwise.

Since deregulation in Spain might as well have prompted the foreign expansion of Spanish regulated companies, we introduced a deregulation index in the models of

the regulated industries' sub-sample. Following the study of Henisz *et al.* (2005), we built an index which accounts for the privatization, regulatory separation, regulatory depolitization, and liberalization of the market in each of the regulated industries in our sample.

Finally, we used a dummy variable to control for the industry where companies operate. Besides, as our methodology entails using a panel-data probit, we introduced a year control to account for the specific year of the observation.

In order to build our financial measures, we retrieved data from *COMPUSTAT*, *DATASTREAM*, the Spanish Securities Market Commission, and the firms' websites. Regarding the product diversification instrument, we checked the *Thomson Reuters SDC Platinum* database to build the dependent variable and the World Bank website to define the number of months the Spanish economy had been in recession. The information we had gathered for the founding year was completed with the data we found on corporate reports and news databases. As for the variables related to the control of the firm, we also searched for information in press and several directories (*DICODI*, *DUNS*, *The Maxwell Espinosa Shareholders Directory*). Finally, the data used to build the deregulation index was obtained from news databases as well as from diverse papers on the evolution of the Spanish economy (Argüelles Álvarez, 1998; Beato Blanco, 2005; Bel *et al.*, 2006; Bello and Cavero, 2007; Faíña Medín *et al.*, 2003; García de Coca and Mozos Touya, 1999; Rayón Martín and Segura Ayala, 2006).

1.5. RESULTS

Table 1.2 displays the descriptive statistics and correlations of the main variables included in the panel-data probit for the full sample in our study. As can be extracted from the table, we found relatively low correlations. We did not include the remaining correlation matrixes. However, they are available upon request.

Table 1.2. Descriptive statistics and correlation matrix for the full sample (probit regression)

	Mean	S.D.	1	2	3	4	5	6	7	8	9
1 International diversification	0.71	0.46	1.00								
2 Size	5.96	2.09	0.50	1.00							
3 Technological resources	23.96	59.36	0.22	0.24	1.00						
4 Board ownership	18.10	24.32	-0.13	-0.17	-0.08	1.00					
5 State ownership	0.05	0.21	0.04	0.18	0.08	0.00	1.00				
6 Foreign ownership	8.16	22.19	-0.11	0.02	-0.03	0.06	-0.08	1.00			
7 Sales growth	1.27	2.56	-0.02	-0.05	-0.03	-0.01	-0.01	-0.02	1.00		
8 Imitation	0.66	0.25	0.51	0.41	0.20	-0.09	-0.08	0.00	-0.01	1.00	
9 Spanish GDP growth (past 3 years)	2.89	1.31	0.07	0.09	0.02	-0.05	-0.08	-0.04	-0.00	0.10	1.00

Table 1.3 exhibits the panel-data fixed-effects OLS we performed to create the instrumental variable of product diversification. It shows that the ownership structure of firms has a different effect depending on whether they operate in regulated or non-regulated industries. Whereas in regulated industries family-owned companies tend to have less diversified product portfolios, in non-regulated ones the opposite happens. Ownership concentration also has a different effect on both kinds of industries: it favors product diversification in regulated industries but discourages it in non-regulated ones. The situation of the economy in the home country affects the level of diversification of the companies' product portfolio as well. More specifically, during times of recession non-regulated firms are forced to enter new product markets.

Table 1.3. Product diversification instrument (fixed-effects OLS model)

VARIABLES	Model I Full sample	Model II Regulated sample	Model III Non-regulated sample
Family ownership	-0.000508	-0.00281***	0.00237***
	(0.000522)	(0.000519)	(0.000850)
Ownership concentration	-0.0711***	0.0445*	-0.101***
	(0.0198)	(0.0248)	(0.0268)
EBIT/Sales	-0.000751	0.000153	-0.000638
	(0.00330)	(0.00361)	(0.00482)
Cash	-0.000452	-0.0117	3.73e-05
	(0.000780)	(0.00768)	(0.000870)
No. recession months	-0.000407	-0.00262	0.00781**
	(0.00929)	(0.00648)	(0.00322)
Year dummies	Included	Included	Included
Industry dummies	Included	Included	Included
Firm dummies	Included	Included	Included
Constant	0.548***	0.631***	0.398***
	(0.111)	(0.0763)	(0.0346)
Observations	1,657	576	1,081
R-squared	0.067	0.099	0.114
Number of grupon	120	40	80

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 1.4 shows the estimates for the panel-data probit model we ran for the full sample. Since we also aimed to analyze the drivers of the internationalization in regulated and non-regulated industries, we split the full sample into two sub-samples depending on the kind of industry in which firms operated. Thus, Table 1.5 displays the results for the sub-sample of regulated firms and Table 1.6 exhibits those of non-regulated companies. For each one of the samples we ran four separate probit regressions: Model I includes all the independent variables; in Model II, the subset of competitive advantages was excluded; in Model III, we did not account the variables regarding managerial discretion; finally, in Model IV we excluded the variables related to the competitive threats.

Table 1.4. Probit of the decision of internationalization (full sample)

VARIABLES	Model I Full model	Model II Without competitive advantages	Model III Without ownership structure	Model IV Without competitve threats
Size	2.413***		1.452***	2.173***
	(7.453)		(4.754)	(5.805)
Technological resources	0.211***		0.135***	0.142***
	(4.998)		(4.608)	(3.280)
Board ownership	-0.0206*	-0.00289		-0.0163*
	(-1.928)	(-0.358)		(-1.802)
State ownership	-1.258	1.942*		-0.256
	(-0.523)	(1.737)		(-0.103)
Foreign ownership	-0.00559	0.00694		-0.00747
	(-0.339)	(0.608)		(-0.496)
Sales growth	-0.158***	-0.0248	-0.0982*	
	(-2.764)	(-0.760)	(-1.773)	
Imitation	6.450*	10.04***	8.819***	
	(1.691)	(3.805)	(3.067)	
Spanish GDP growth (past 3 years)	-0.123	-0.0221	-0.0888	
	(-0.546)	(-0.145)	(-0.509)	
Leverage	-2.047	-0.793	-1.214	-1.413
	(-1.037)	(-0.580)	(-0.803)	(-0.810)
Firm age	1.285	0.899	0.299	-0.0464
	(0.699)	(1.005)	(0.258)	(-0.0453)
Product diversification	4.494	3.278	10.74	-5.032
	(0.279)	(0.288)	(0.943)	(-0.389)
CEO tenure	-0.0337	-0.0212	-0.0306	-0.00256
	(-0.739)	(-0.728)	(-0.761)	(-0.0593)
CEO duality	-0.0100	-0.613	-0.108	-0.157
	(-0.0165)	(-1.159)	(-0.205)	(-0.288)
Year control	0.350**	0.277***	0.200**	0.540***
	(2.403)	(3.185)	(2.096)	(3.861)
Constant	-29.33***	-9.628*	-22.78***	-18.60***
	(-4.626)	(-1.651)	(-3.177)	(-3.311)
LL ratio test		43.44***	9.31**	11.42***
Observations	1,524	1,524	1,524	1,524
Number of grupon	119	119	119	119

z-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Our estimates back Hypothesis 1. The log-likelihood ratio test statistic is highly significant ($p < 0.0001$) for Model II in Tables 1.4-1.6. Therefore, competitive advantages have a significant impact on the decision of internationalization. Furthermore, both the size of the firm and its technological resources have a robust positive significant influence on the probability of foreign expansion in all samples.

Table 1.5. Probit of the decision of internationalization (regulated sample)

VARIABLES	Model I Full model	Model II Without competitive advantages	Model III Without ownership structure	Model IV Without competitve threats
Size	4.616***		2.443***	5.216***
	(5.066)		(3.814)	(5.719)
Technological resources	0.607**		0.401**	0.585***
	(2.032)		(2.091)	(2.638)
Board ownership	-0.0722**	-0.0737***		-0.0668**
	(-2.123)	(-2.768)		(-2.058)
State ownership	-6.996**	5.523**		-5.171
	(-2.169)	(2.029)		(-1.604)
Foreign ownership	-0.00937	-0.0504		0.00684
	(-0.203)	(-1.530)		(0.157)
Sales growth	0.889	1.234	0.686	
	(0.552)	(0.643)	(0.483)	
Imitation	18.26	17.43**	13.02*	
	(1.131)	(2.420)	(1.925)	
Spanish GDP growth (past 3 years)	-0.223	-0.188	-0.188	
	(-0.421)	(-0.558)	(-0.547)	
Leverage	-2.254	-3.389	-3.819	-6.593
	(-0.561)	(-0.917)	(-1.315)	(-1.639)
Firm age	1.292	5.394***	0.155	2.765
	(0.487)	(3.199)	(0.101)	(1.169)
Product diversification	-33.83	-7.229	-24.22	-27.51
	(-1.282)	(-0.498)	(-1.355)	(-1.103)
CEO tenure	-0.114	0.0174	-0.0275	-0.103
	(-0.595)	(0.146)	(-0.257)	(-0.598)
CEO duality	-1.836	-2.231*	-0.941	-1.778
	(-1.117)	(-1.833)	(-0.727)	(-0.981)
Deregulation index	9.014	3.620	5.112	10.05*
	(1.540)	(0.871)	(1.357)	(1.890)
Year control	-0.233	-0.0798	-0.0939	-0.162
	(-0.967)	(-0.515)	(-0.649)	(-0.750)
Constant	-24.28	-26.54***	-10.59	-29.65***
	(-1.458)	(-2.913)	(-1.187)	(-2.610)
LL ratio test		25.96***	6.59*	2.06
Observations	560	560	560	560
Number of grupon	40	40	40	40

z-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

In the case of the ownership structure, our results are consistent with Hypothesis 2, as displayed in Table 1.5. Thus, in the case of regulated companies this subset of variables exerts a significant influence on the establishment of foreign subsidiaries. However, only board and state ownership have a significant influence on this sub-sample, so they can be considered to some extent the ones that have a greater

impact on the decision of internationalization of companies operating in regulated industries.

Table 1.6. Probit of the decision of internationalization (non-regulated sample)

VARIABLES	Model I Full model	Model II Without competitive advantages	Model III Without ownership structure	Model IV Without competitve threats
Size	2.165***		1.815***	2.066***
	(4.879)		(4.830)	(4.791)
Technological resources	0.174***		0.135***	0.194***
	(3.619)		(3.448)	(3.950)
Board ownership	-0.0101	0.000640		-0.00249
	(-0.765)	(0.0531)		(-0.193)
State ownership	3.636	2.707		4.808
	(0.980)	(0.992)		(0.908)
Foreign ownership	0.00840	0.0271		0.0206
	(0.375)	(1.328)		(0.775)
Sales growth	-0.161***	-0.0522	-0.126**	
	(-2.610)	(-0.822)	(-2.342)	
Imitation	3.788	5.619	5.798	
	(0.963)	(1.413)	(1.547)	
Spanish GDP growth (past 3 years)	-0.581**	-0.278	-0.489**	
	(-1.967)	(-1.042)	(-2.092)	
Leverage	-1.480	-0.808	-1.407	-0.980
	(-0.570)	(-0.348)	(-0.588)	(-0.376)
Firm age	-0.378	-0.442	-1.170	0.00371
	(-0.245)	(-0.278)	(-0.870)	(0.00254)
Product diversification	16.16	6.544	15.32*	8.629
	(1.380)	(0.566)	(1.912)	(0.744)
CEO tenure	0.0229	-0.0180	0.0245	0.00159
	(0.359)	(-0.304)	(0.457)	(0.0283)
CEO duality	0.278	-0.206	0.275	-0.223
	(0.337)	(-0.241)	(0.373)	(-0.220)
Year control	0.557***	0.688***	0.433***	0.705***
	(2.870)	(4.066)	(2.835)	(4.900)
Constant	-24.67**	-11.86	-17.95***	-21.89**
	(-2.574)	(-1.516)	(-2.614)	(-2.391)
LL ratio test		20.56***	3.16	7.74*
Observations	964	964	964	964
Number of grupon	79	79	79	79

z-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Our estimates also back Hypothesis 3. According to the log-likelihood ratio test performed in Model IV in Table 1.6, competitive threats are a determinant of the international expansion of non-regulated companies. More specifically, a halt in the

growth of sales or in the GDP of the home country tend to prompt non-regulated firms to invest abroad.

Whereas the subset of competitive threats has a significant effect on the probability of internationalization of non-regulated firms, it turns out to be non-significant for regulated firms. The major threat for the position held in the market by this kind of companies seems to be the lack of support from the government of the host country. In other words, a deregulation process which increases the levels of competition within their industry poses the biggest risk to the *status quo* of regulated companies. When we include the deregulation index variable in the subset of variables we remove from Model IV, we notice that the log-likelihood ratio test statistic turns out to be significant (results provided upon request). Therefore, this might mean that regulated companies suffer from regulatory threats rather than from competitive ones.

1.6. DISCUSSION AND CONCLUSION

Although many papers have focused on the reasons underlying the international expansion of firms, they have largely overlooked the differences that may exist among them depending on the industry where companies operate, especially in the case of regulated firms. Only few works have tried to determine the reasons behind their diversification strategy (Calzolari, 2004; Palmer, 1991; Sappington, 2003; Sarkar *et al.*, 1999; Urbiztondo *et al.*, 2013). However, to the extent of our knowledge, no prior study has focused so far on distinguishing between the internationalization drivers of regulated and non-regulated companies. After developing a thorough literature review which comprises the most well-known theories trying to explain the foreign expansion of firms, we classify the main motives for internationalization they propose into three categories: possession of a competitive advantage, managerial discretion, and existence of competitive threats. Our results show that some internationalization drivers influence

the decision to internationalize of both regulated and non-regulated companies while others do not.

According to the resource-based view of the firm, we found that regardless of the industry where they operate, companies which possess firm-specific assets are more likely to expand abroad. More specifically, we showed that size and technological resources have a positive effect on the establishment of foreign subsidiaries. As stated by Peteraf (1993), firm size may be a competitive advantage firms can benefit from as well as an entry barrier for new competitors in the market. Accordingly, large firms are able to be more efficient because they can achieve more easily economies of scales. Besides, they are likely to have more bargaining power, which they may use to obtain better terms in the transactions they carry out in the market. Apart from firm size, technological resources may also provide firms with advantages that can result in a higher sustained performance, especially when transferred to other countries (Cantwell and Mudambi, 2005; Caves, 1996; Fang *et al.*, 2007). For this reason, they also affect the decision of whether to engage or not in a foreign expansion (Brock and Yaffe, 2008; Kykäheiko *et al.*, 2011; Tseng *et al.*, 2007; Zahra *et al.*, 2003).

Whereas our results show that there is no difference in the impact of competitive advantages on the probability of establishing foreign subsidiaries, they display differences regarding the effect of managerial discretion and the existence of competitive threats on the internationalization decision.

We contribute to prior studies on agency theory (George et al., 2005; Liu et al., 2011; Sanders and Carpenter, 1998; Tihanyi *et al.*, 2000) by finding that, whereas the foreign expansion of regulated firms is subject to managerial discretion, this issue does not seem to affect the probability of becoming multinational in non-regulated industries.

This might be due to the fact firms operating in industries where regulations act as a shield against competitors are often less subject to the discipline of the markets than non-regulated companies. In this study, we have proxied managerial discretion through the ownership structures that can restrict or enhance opportunistic behaviors from their managers. The first mechanism we take into account is the percentage of the firm's stock which is owned by the members of the Board. In this regard, trying to link the objectives of the Board with those of shareholders by providing them with a moderate percentage of shares would likely result on higher levels of Board control against potential opportunistic actions (Beatty and Zajac, 1994; Boyd, 1994). The same may happen when foreign firms have stock in another company. Even though they can provide their subsidiaries with valuable resources and information on investment opportunities in other countries (Chandler, 1991; Doz and Prahalad, 1981), they can also restrict the freedom in decision-making of the management team (Baliga and Jaeger, 1984; Birkinshaw *et al.*, 1998; Ciabuschi *et al.*, 2012). We have also considered whether the government has a percentage of stock in the companies or not. Regarding this variable, previous studies have proposed that firms which are fully controlled by the government tend to remain domestic, since the gains they might achieve from venturing abroad are not likely to compensate the risk they would be assuming by engaging in strategic changes (Cuervo and Villalonga, 2000; García-Canal and Guillén, 2008; Zahra *et al.*, 2000). However, when they start to undergo a partial privatization, managers have more incentives to diversify into foreign markets to gain more competitiveness and improve the performance of the firm, especially if its stock is going to be publicly traded (García-Canal and Guillén, 2008; Gupta, 2005; Roland and Sekkat, 2000; Zahra *et al.*, 2000). This seems to emphasize the importance that being subject to the discipline of the markets has on undertaking strategic actions.

Since companies which operate in non-regulated industries are more subject to this market discipline, another interesting finding is that in their case the appearance of competitive threats determines their decision to venture abroad. A poor economic situation in their home country or their competitors expanding to foreign countries can damage their market shares. Therefore, the less their sales grow, the more likely it is that they diversify their operations geographically in order to try to access a larger market base to improve their situation and not send negative signs to the markets. As previously stated, in the case of regulated firms, they have the support from the regulators of the industries where they operate so, for them, competitive threats are not decisive in their decision to venture abroad. As proposed by Urbiztondo *et al.* (2013), a hostile relationship with the regulator in the home country appears to be the most important reason behind their diversification strategy. We found support for this argument: whereas competitive threats do not seem to influence the probability of establishing foreign subsidiaries in regulated industries, regulatory threats do. More specifically, a deregulation process which increases the competition in their industries affects their decision to expand abroad.

In spite of the contributions we make to the existing literature on firm internationalization, our study is not exempt of caveats. The first one is that we have only considered Spanish listed firms, so using a multi-country sample to corroborate our results could be interesting. In addition, we have focused on the decision of companies to engage in geographic diversification, but we have neglected the causes of their subsequent foreign investments. Finally, our data comes from secondary sources, which has prevented us from a deeper analysis on the role of competitive advantages in the internationalization of firms. Nonetheless, these limitations open interesting lines for future research.

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CHAPTER 2

The Impact of Internationalization on Performance in Regulated and Non-regulated Firms

2.1. INTRODUCTION

The relationship between a firm's degree of internationalization and its performance has drawn the attention of numerous scholars throughout the years, although empirical results are inconclusive and, thus, no consensus has been reached yet (Kirca *et al.*, 2011). Recent research shows that the relationship between multinationality and performance varies according to the stage of internationalization of the firm. In these papers the logic surrounding these non-linear patterns has been disentangled by focusing on the costs and benefits associated to foreign expansion (Almodóvar and Rugman, 2014; Cardinal *et al.*, 2011; Contractor *et al.*, 2007; Hennart, 2007; Li, 2005; Lu and Beamish, 2001). Nevertheless, there are strong discrepancies regarding the specific pattern of this relationship between internationalization and performance.

One possible explanation for these mixed results lies in the difficulty of estimating this relationship. First, the decision to expand abroad is endogenous, as venturing abroad is a firm's choice and not a randomly distributed attribute. In addition, there are important differences across industries and countries, as in some cases the decision to expand abroad is subject to the host country government's approval; something that is more critical in regulated industries. These possible biases have to be taken into account both in the theoretical framework and the empirical estimations. However, only recently have scholars accounted for the problem of endogeneity and no prior work, to the best of our knowledge, has analyzed the differences between firms from regulated and non-regulated industries. Taking these biases into account, in this paper we try to answer the following question: which pattern or shape does the relationship between internationalization and performance display in regulated and non-regulated industries? Apart from advancing the literature on the subject, answering

this question is especially relevant from a managerial point of view. Even though all firms are somewhat influenced by regulation, this influence is heterogeneous across industries, being the so-called regulated industries the most affected ones. For the purposes of this study, we consider as regulated industries transport and telecommunications, electricity, water, oil, gas, banking, financial services and the construction industry because they comply with the following three characteristics proposed by Henisz (2003): 1) the pre-eminent role of the government, whose objectives may collide with those of private investors; 2) the need for foreign capital which prompts their liberalization; and 3) the existence of institutional idiosyncrasies that create uncertainty for investors and make credit more costly due to risk premiums (Barth *et al.*, 2004; Sarkar *et al.*, 1999; Stern, 2010). According to García-Canal and Guillén (2008), the internationalization path of firms in these industries is to some extent defined by this regulation, especially since governments may impose entry restrictions on foreign capital in the country, generally through a licensing system. This lack of freedom that regulated companies face in the projects they are able to carry out, among other differences between regulated and non-regulated industries, may lead to differences in performance between the two of them.

We argue that at the beginning of the internationalization process, both kinds of firms face several liabilities, which in turn damage their profitability. However, as they move across the different stages of the internationalization process, they start to benefit from the internationalization advantages in a different way. Whereas non-regulated firms are more prone to face the negative consequences of over-diversification, regulated firms, due to the nature of their business, are less exposed to this problem.

We tested our hypotheses by using a Heckman's two-step estimation method (1979) on a panel-data sample over the period from 1986 to 2010 comprising all

Spanish listed firms in 1990 using a database constructed by the Spanish Institute for Foreign Trade (ICEX).

2.2. LITERATURE REVIEW

The literature on the relationship between internationalization and performance is vast and it has experienced a remarkable evolution through the years. Although some authors have put into question the existence of a connection linking the two variables, (Hennart, 2007; Kumar, 1984; Morck and Yeung, 1991), early researchers have traditionally documented either a positive (Grant *et al.*, 1988; Qian, 2002; Vernon, 1971) or a negative (Click and Harrison, 2000; Collins, 1990; Michael and Shaked, 1986) linear relationship between them.

For these pioneers in the study of the nature of the relationship between internationalization and performance either the benefits or the liabilities associated to internationalization prevailed along the whole process of foreign expansion. According to current paradigms in International Business (Buckley and Casson, 1976; Hennart, 1982; Hymer, 1976; Kogut and Zander, 1993) —and consistent with the resource-based view (RBV)—, multinationals that have accumulated knowledge, expertise, and resources in their home countries are able not only to benefit from these ownership advantages abroad, but also to combine and upgrade them with local resources and to gain access to scale and scope economies from their increased international scope (Deeds and Hill, 1998; Dunning 1993; Grant *et al.*, 1988; Lu and Beamish, 2004). However, liabilities faced along the internationalization process may overcome these benefits. Specifically, when entering a foreign country multinationals must deal with the *liability of foreignness* (Hymer, 1976) due to their lack of experience in the host country.

As researchers started to build richer datasets and used more sophisticated econometric techniques, the estimated relationship between internationalization and performance began to show a non-linear pattern. In particular, several authors defend that the initial liabilities in the internationalization process can be overcome as the firm accumulates international experience (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975) and starts taking advantage of its presence abroad (Hitt *et al.*, 1997), therefore originating a U-shaped pattern (Capar and Kotabe, 2003; Contractor *et al.*, 2007; Lu and Beamish, 2001; Qian, 1997; Ruigrok and Wagner, 2003; Thomas, 2006).

Even though some authors found that higher degrees of international presence were linked to higher returns, there is also evidence suggesting that the positive slope appears only for low and moderate degrees of geographic diversification and once an *internationalization threshold* (Geringer *et al.*, 1989) is surpassed, performance declines (Allen and Pantzalis, 1996; Geringer *et al.*, 1989; Goerzen and Beamish, 2005; Hitt *et al.*, 1997; Ramaswamy, 1995), causing the relationship between the two variables to display an inverted U-shaped pattern. Investing abroad beyond an *internationalization threshold* lowers the results of multinationals due to the increase in the managerial costs and the complexity of the business structure (Contractor *et al.*, 2003; Geringer *et al.*, 1989; Ruigrok *et al.*, 2007; Siddarthan and Lall, 1982; Tallman and Li, 1996). This is magnified by the *liability of inter-regional foreignness* (Rugman and Verbeke, 2007) —that is, the more global the operations, the more difficult to efficiently manage them, since the knowledge accumulated at home is more valuable in similar regions.

The horizontal S-shaped relationship tries to reconcile the findings of these U-shaped and inverted U-shaped patterns (Benito-Osorio, 2011; Contractor *et al.*, 2003; Li, 2005; Lu and Beamish, 2004; Oh and Contractor, 2014; Riahi-Belkahoui, 1998;

Rugman and Oh, 2010; Ruigrok *et al.*, 2007; Thomas and Eden, 2004). When companies start venturing abroad, the costs of the diversification and the liabilities they face along the process exceed the benefits of the internationalization (Contractor *et al.*, 2003; Lu and Beamish, 2004). However, as they gain experience in managing operations abroad, they begin to profit from economies of scale and scope. Nevertheless, if multinationals continue carrying operations abroad they may experience a decline in the performance when costs and complexity become unbearable, especially if they are not attaining to close locations (Rugman and Oh, 2010).

Building on the S-shaped pattern, papers analyzing the impact of multinationality on performance for the specific context of international new ventures (INVs) add a positive slope at the beginning of the internationalization process and thus defend an M-shaped relationship (Almodóvar and Rugman, 2014; Lee, 2013). This positive slope has been addressed as *born-global illusion*, and it appears when firms start expanding abroad thanks to the increase in their foreign sales (Almodóvar and Rugman, 2014). However, this is only a short-term increase in performance, since most of the companies are taking advantage of specific opportunities arising from foreign markets and may not be even prepared to diversify their operations to other countries.

The different timing in the establishment of a company's first foreign venture has usually been the focus of several papers analyzing the impact of internationalization on performance (Jiang *et al.*, 2014; Lu and Beamish, 2006; Oviatt and McDougall, 2005; Sapienza *et al.*, 2006; Zahra, 2005; Zhou *et al.*, 2007). Furthermore, the destination of the investments has also attracted the attention of some scholars (Oh and Contractor, 2014; Vermeulen and Barkema, 2002). However, the differences in performance related to the industry in which firms operate have been rather neglected in previous research. To the extent of our knowledge, the only distinction so far has been

made regarding manufacturing and service firms (Chang and Wang, 2007; Contractor *et al.*, 2007). However, no paper has yet addressed whether there are differences in the relationship between internationalization and performance in regulated and non-regulated industries, despite the different impact that regulators and governments can have in both types of industries. In the following section we propose the hypotheses regarding the shape of the pattern of the relationship between internationalization and performance that these two kind of industries display.

2.3. HYPOTHESES

Despite the discrepancies regarding the shape of the pattern of the relationship between internationalization and performance, the literature review shows that the effect of internationalization on performance can be expected to be different across each of the stages of the internationalization process. We argue that the observed discrepancies can be explained on the basis of cross-industry differences on the impact of internationalization on performance across the successive stages of the internationalization process. We develop our hypotheses by integrating the set of liabilities companies might face when they expand abroad into a resource-based view framework.

As previously mentioned, firms which decide to become multinationals possess a distinctive array of competitive advantages and knowledge gathered at home which can be leveraged in foreign markets (Barney, 1991). However, despite these home-grown competitive advantages, we expect their impact on performance to be lower in the early stages of the firm's internationalization, due to several reasons. First, extending the concept of *liability of newness* developed by Stinchcombe (1965) to the field of International Business (Cardinal *et al.*, 2011; Hsu *et al.*, 2013; Lu and Beamish,

2001), it is more likely that multinationals in the earlier stages of their international expansion perform worse than established multinationals, due to their lack of international experience (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975). Furthermore, every time multinationals venture into a new country, they also face the *liability of foreignness* (Hymer, 1976), since they are at an initial disadvantageous position in relation to local firms and have to build up there a reputation, as well as gain local knowledge (Zaheer, 1995). The *liability of foreignness* also entails a *liability of outsidership* (Johanson and Vahlne, 2009); that is, the performance of multinationals declines when they enter a new location because they are not included in the relevant networks of the country, and being a part of those networks only becomes easier once companies have managed to overcome the *liability of foreignness*. Being integrated in a network of suppliers, distributors, customers… is not trivial, since it not only provides multinationals with valuable information but also helps them reduce costs and be more efficient (Krause *et al.*, 2007). All of these liabilities, in the end, are related to the lack of resources that can be acquired only through experience.

Besides the lack of these experience-based resources, there are other hazards related to the international expansion of multinationals. Cuervo-Cazurra *et al.* (2007) argue that both institutional voids and the absence in the host country of the required complementary resources to use the products of the firms lead to the so-called *liability of infrastructure*, damaging the performance of the firms as well. These authors also refer to the *liability of expansion*, another disadvantage that companies face when venturing abroad without having enough slack resources, forcing them to operate inefficiently. In this sense, firms face a dilemma when establishing their presence in another country: do they operate with the resources they already have or, otherwise,

build additional capacity in that location? None of these options is without problems. On the one hand, even though the first one favors achieving economies of scale and scope, it also implies a rise in the costs of distribution and complexity and a lower adaptation to the needs of the host country (Caves, 1971; Dow, 2006; Oh and Rugman, 2012). On the other hand, building additional facilities in the host country may lead to a problem of overcapacity if the company wants to capitalize on them later in their process of internationalization. Hence, it would not be until these companies expand to nearby locations when they could use efficiently the infrastructures they have already developed, as usually these infrastructures are hardly perfectly scalable (Cavusgil, 1984; Tan *et al.*, 2010).

So far we have described the hazards multinationals face at the beginning of their international expansion or when they enter a new country. As they continue expanding abroad they gain knowledge, trust and a critical mass which assist them in reducing the previously explained liabilities and in achieving economies of scale and scope (Johanson and Vahlne, 2009; Lu and Beamish, 2004). However, these advantages do not possess the same relevance regardless of the location. When multinationals expand beyond a particular region, they tend to face the liability of *inter-regional foreignness* since their accumulated knowledge is more valuable within similar regions (Rugman and Verbeke, 2007). Furthermore, they may face again the *liability of expansion*, as they have to build up a presence in the region from scratch and that entails a large deploy of resources. Several authors have already referred to this "regionalization" or "semi-globalization" effect, arguing that there are limits to the globalization of the economic activity (Ghemawat, 2003; Guillén, 2001; Rugman, 2003).

Despite the fact that the challenges and benefits of the international expansion displayed so far in this section affect both regulated and non-regulated companies, the extent of their effect differs between the two types of multinationals. This is the result of the level of integration of their value chain across locations as well as the degree of homogeneity of the products and services they offer.

Ghemawat (2008) addressed the issue of how firms can profit from the location of the activities along the value chain with the development of his *AAA Triangle* framework. According to him, companies are able to choose from three strategic choices: Adaptation (dispersion of the company's activities across locations), Aggregation (integration of the value chain by concentrating activities in a single location) and/or Arbitrage (profiting from the specific advantages of locating a specific activity in a specific country). Non-regulated multinationals are more inclined to favor aggregation so that they are able to achieve economies of scale by being more centralized and by sharing activities of their value chain among the different countries they have invested in (Mauri and Sambharya, 2001). Regulated firms, on the other hand, cannot easily split the value chain across countries as entering into a foreign country is conditioned by the decisions of host governments (Bonardi, 2004) and the entire operation must comply with local regulation. Thus, regulated companies cannot decide on their own where and when to enter, so they cannot take advantage of the advantages of aggregation. For this reason they cannot plan globally their set of operations, which implies that they are also less exposed to the *liability of expansion*.

Even though non-regulated multinationals are able to benefit from their international presence earlier than regulated ones thanks to the higher level of integration of their value chain, this aggregation becomes a handicap once a certain internationalization threshold is surpassed. Integrating activities at a global scale creates

links among the different foreign operations which make coordination more complex and costly, especially when the output of the firm is subject to changes across locations. This hazard is heightened by the *liability of inter-regional foreignness* (Rugman and Verbeke, 2007), since moving beyond a certain region hampers the transferability of the accumulated knowledge of the company from one location to another. Hence, we argue that non-regulated firms suffer from these liabilities when their degree of internationalization and the complexity of their business structure become unbearable for them to handle efficiently, which leads to a decline in their performance.

In the case of non-regulated multinationals, we have linked a high degree of international presence to a lower performance. Does this rationale also hold for companies operating in regulated industries? We expect that the problems linked to a large international presence do not have such a negative effect on them for several reasons. First, the output of regulated firms (transport, telecommunications, electricity, water, oil, gas, banking or construction) does not vary to a great extent from one country to another, as opposed to the ones provided by non-regulated companies. Besides, as we previously mentioned, they find difficulties in taking advantage of cross-country economies of scale. In fact, they are forced to replicate the required value chain in the countries in which they are established, so the links among their foreign operations are few and weak and a decline in the performance in one of their subsidiaries does not hamper the profitability of the whole organization (Mauri and Neiva de Figueiredo, 2012). Taking these facts together, we suggest that it is easier for regulated multinationals than for non-regulated ones to escalate their international operations in a profitably way. Thus, once they are able to overcome the initial setbacks, the larger their foreign presence, the higher their performance.

Taking all the arguments displayed in this section into consideration, we therefore suggest that whereas non-regulated companies tend to experience more negative consequences from surpassing a certain internationalization threshold, the performance of firms in regulated industries does not decline for high degrees of foreign expansion. Hence, we propose the following hypotheses:

H1: In regulated industries, the relationship between the degree of internationalization of a firm and its performance displays a U-shaped form, with a decline in performance for low levels of international presence and an increase in profitability for higher levels of foreign expansion.

H2: In non-regulated industries, the relationship between multinationality and performance is divided in three stages (displaying a horizontal S-shaped form), meaning that extreme degrees of internationalization lower the performance of firms.

2.4. RESEARCH SETTING, DATA, AND METHODS

2.4.1. Research Setting and Data

Our sample comprises the FDI operations conducted by the 120 Spanish companies which were listed in 1990 in the Madrid Stock Market. The analysis was performed for a 25-year span (1986-2010). We chose 1986 as the most suitable starting point since this year sets the date in which Spain became a member of the EEC and its outward FDI underwent a significant growth, as previously explained in Chapter 1.

This study focuses on the degree of internationalization (measured as the accumulated number of countries a company has entered) and its effect on performance. We extracted the information of the FDI operations from the *Systematic Database on International Operations of Spanish Companies*, developed under the sponsorship of the

Spanish Institute for Foreign Trade, ICEX (see Guillén and García-Canal, 2007). We also consulted other information sources such as *COMPUSTAT*, *DATASTREAM* and/or the Spanish Securities Market Commission and firms' own websites in order to build additional variables for the analysis. In the paragraphs below we explain thoroughly the method of analysis we implemented as well as the measures we used and how they were built.

2.4.2. Method and Measures

In this chapter we analyzed the shape that the relationship between the degree of internationalization and the performance of the firms displays. Since the diversification strategies of firms are subject to self-selection, we accounted for it by following the literature on the subject (Campa and Kedia, 2002; Dastidar, 2009; Oh and Contractor, 2014; Villalonga, 2004). Specifically, we implemented Heckman's two-step estimation method (1979) using STATA 12. In the first step, we estimated a panel-data probit model to predict if the firm *i* was already internationalized in the year *t*. Then we calculated the inverse Mills ratio, which we introduced as a control variable for endogeneity in the second stage (fixed-effects panel-data OLS regression). As we aimed to study the effect of the geographic diversification decision on performance, this second stage only comprises observations from companies operating abroad and, specifically, for the years in which they are internationalized. Thus, the first stage includes 1,524 firm-year observations whereas the second one encompasses 1,052. We describe in more detail the measures we used in the analysis in the following sub-sections. In order to better capture the effect of foreign expansion on firm performance all independent and control variables were lagged one year (Wan and Hoskisson, 2003).

2.4.2.1. First stage: the internationalization decision

Our unit of analysis is the firm *i* in the year *t*. The dependent variable in the first stage aimed to capture if a firm had FDI stock or not within a certain year. It was proxied by a dummy which took the value of one if the company had invested abroad from 1986 to the end of year *t*, and zero otherwise. Following Dastidar (2009) and Villalonga (2004), we used as independent variables the characteristics of the firm, their industry, and their home country. Besides, as we are implementing a panel-data analysis, we introduced a year control to account for the specific year of the observation.

Specifically, as firm's characteristics, we included the following (Campa and Kedia, 2002; Dastidar, 2009; Villalonga, 2004): technological resources, proxied by the number of patents a firm has accumulated since its establishment; size (log of total sales); financial structure (long-term debt to total assets); and firm age (log of the difference between the company's foundation year and the year of the observation). Apart from these commonly-used variables, we introduced in our model two additional ones: sales growth and a product diversification instrument. Since product diversification, as internationalization, is subject to endogeneity (Campa and Kedia, 2002; Villalonga, 2004), we predicted an instrumental variable by running a fixed-effects panel-data regression whose dependent variable was the product diversification measure developed by Haleblian and Finkelstein (1993). This variable accounts for strategic unrelatedness and was defined as the percentage of industries in which a company developed its activity which were different from the firm's primary industry (taking into account only two digit Standard Industrial Classification codes). Following the studies of Campa and Kedia (2002) and Villalonga (2004) on the subject, the independent variables comprised the number of months the economy was in

recession during a given year as well as firm characteristics: its profitability (EBIT/Sales); its liquidity (cash and cash equivalents to current liabilities); and its ownership structure, measured as the percentage of stock held by the founder and/or his family, and the ownership concentration, calculated by using Herfindahl's index (1950). Furthermore, we introduced firm, industry, and year controls.

Given that the ownership and control of the firm may as in the case of product diversification have an impact on the degree of internationalization (Liu *et al.*, 2011; Sanders and Carpenter, 1998), we also included variables linked to them in this first stage of the decision to invest abroad. Specifically, we introduced three variables regarding the percentage of stock owned by the Spanish government, foreign investors, and the company's Board, respectively; CEO tenure (log of the number of years the CEO has held that position); and a dummy denoting whether the CEO was also the President of the company.

In addition to checking *COMPUSTAT*, *DATASTREAM*, the Spanish Securities Market Commission and firms' websites, we examined other sources of information for building certain variables. As regards the data on patents, it was retrieved from *ESPACENET*, a platform which contains more than 80 million patents worldwide developed from 1836 to today and which was created by the European Patent Office (EPO) and the member states of the European Patent Organization. In the case of product diversification instrument, we also searched the *Thomson Reuters SDC Platinum* database to build the dependent variable and the World Bank website to construct the variable regarding the number of months the Spanish economy was in recession. The data gathered in relation to the year of establishment of firms was completed with information found on corporate reports and news databases. As for the ownership and managerial structure, we also looked for information in press, several

directories (*DICODI*, *DUNS*, *The Maxwell Espinosa Shareholders Directory*) and Vergés (1999, 2010) for data on Spanish privatizations.

At the industry level, we introduced the percentage of firms which were geographically diversified within an industry in a certain year. Dastidar (2009) and Villalonga (2004) have also introduced this proxy to study whether the rate of firms venturing abroad within an industry enhances an imitative behavior from other competitors within the same industry. This variable was built based on the foreign operations contained in *the Systematic Database on International Operations of Spanish Companies* and carried out by the firms in our sample. We also used a dummy variable to account for the industry in which the companies operate.

Finally, following Dastidar (2009) we included the Spanish GDP growth over the past three years as an explanatory variable of the decision of internationalization. Deregulation in Spain might have also prompted the foreign expansion of regulated Spanish companies. Thus, following Henisz *et al.* (2005) we built an index accounting for the privatization, regulatory separation, regulatory depolitization and liberalization of the market in each of the regulated industries in our sample. The data used to build the first variable was extracted from the World Bank webpage. In the case of the last one, information was obtained from news databases as well as from diverse papers on the evolution of the Spanish economy (Argüelles Álvarez, 1998; Beato Blanco, 2005; Bel *et al.*, 2006; Bello and Cavero, 2007; Faíña Medín *et al.*, 2003; García de Coca and Mozos Touya, 1999; Rayón Martín and Segura Ayala, 2006).

2.4.2.2. Second stage: degree of internationalization and performance

In the second stage we examined the effect that the degree of international expansion of a firm has on its performance, which was measured as the company's

return on assets (ROA). Previous papers analyzing the relationship between these two variables have also used ROA as a measure of performance (Buckey *et al.*, 1984; Contractor *et al.*, 2007; Riahi-Belkahoui, 1998; Ruigrok and Wagner, 2003).

The independent variable in this stage is the degree of internationalization. We measured this variable as the number of accumulated countries a company has entered since the year of its establishment. In the case of firms which have gone through a merger with another company from our sample, the host countries entered by the target became part of the accumulated foreign countries of the bidder. Because we were interested in testing whether this relationship is linear or not, we also introduced this term in its squared and cubic forms. As we have already pointed out, Spanish FDI data was obtained from the *Systematic Database on International Operations of Spanish Companies*.

Since several papers have pointed out the relevance of international experience as well as the choice of mode of entry on performance (Cardinal *et al.*, 2011, Brouthers, 2013), we controlled for them, using the log of the number of years since the first foreign expansion of the company, and the number of countries entered through a wholly-owned subsidiary to total countries, respectively. We took into account wholly-owned subsidiaries since it is the mode of entry which shows a higher commitment in the foreign country (Johanson and Vahlne, 1977). Moreover, we acknowledged the level of development of the host countries entered by the company through their GDP, as it may also have an impact on the returns achieved by the firm (Guillén and García-Canal, 2010). In addition, some of the independent variables included in the first stage were also introduced in the second one as control variables, since they might as well have an effect on the performance of the firms. Because the GDP in the home country may influence the performance of the company (Miller and

Eden, 2006), we controlled for the Spanish GDP growth over the past three years. Following former papers analyzing the effect of diversification on performance (Contractor *et al.*, 2007; Lu and Beamish, 2004; Villalonga, 2004), we also included control variables accounting for firm characteristics. Specifically, we controlled for the size, leverage, firm age, foreign ownership, and product diversification strategies.

As we have already pointed out, data regarding Spanish FDI (number of operations, international experience and mode of entry) was obtained from the *Systematic Database on International Operations of Spanish Companies*. Information on the GDP of the host countries was collected from the World Bank website. Finally, financial data was obtained from *COMPUSTAT*, *DATASTREAM*, the Spanish Securities Market Commission and the own websites of companies.

2.5. RESULTS

Table 2.1 exhibits the correlations and descriptive statistics for the variables included in the second stage of the Heckman model for the full sample. The remaining correlation matrixes are not displayed but are available upon request.

Table 2.1. Heckman's second stage descriptive statistics and correlation matrix for the full sample (fixed-effects OLS regression)

		Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12
1	Profitability (ROA)	0.06	0.09	1.00											
2	No. countries	8.98	9.69	-0.04	1.00										
3	Size	6.68	1.81	-0.03	0.68	1.00									
4	Leverage	0.14	0.13	-0.05	0.20	0.26	1.00								
5	Firm age	4.21	0.53	-0.08	0.13	0.31	0.09	1.00							
6	Product diversification	0.50	0.04	-0.13	0.27	0.18	0.20	0.16	1.00						
7	Foreign ownership	6.52	20.31	0.23	-0.08	0.00	-0.03	0.09	-0.23	1.00					
8	Spanish GDP growth (3 years)	2.94	1.29	-0.05	0.05	0.08	0.01	0.04	0.29	-0.04	1.00				
9	International experience	2.63	0.79	-0.14	0.52	0.43	-0.06	0.22	0.35	0.00	0.10	1.00			
10	Countries entered by WOS (%)	0.54	0.33	-0.16	0.20	-0.05	-0.06	-0.06	0.15	-0.01	0.01	0.37	1.00		
11	Average GDP (host countries)	2.34	2.82	-0.04	0.02	-0.06	-0.02	0.10	0.27	0.01	0.07	0.16	0.05	1.00	
12	Lambda	0.35	1.29	-0.06	-0.17	-0.34	-0.07	-0.23	-0.22	-0.05	-0.09	-0.15	0.10	0.03	1.00

Table 2.2 shows the panel-data fixed-effects OLS ran to create the instrumental variable of product diversification. Meanwhile, Table 2.3 displays the probit models of the decision of internationalization. Since the main goal of this study is the analysis of the shape that the relationship between internationalization and performance displays, and these stages are only instrumental and have already been explained in Chapter 1, for the sake of brevity we only report the estimates.

Table 2.2. Product diversification instrument (fixed-effects OLS model)

VARIABLES	Model I Full sample	Model II Regulated sample	Model III Non-regulated sample
Family ownership	-0.000508	-0.00281***	0.00237***
	(0.000522)	(0.000519)	(0.000850)
Ownership concentration	-0.0711***	0.0445*	-0.101***
	(0.0198)	(0.0248)	(0.0268)
EBIT/Sales	-0.000751	0.000153	-0.000638
	(0.00330)	(0.00361)	(0.00482)
Cash	-0.000452	-0.0117	3.73e-05
	(0.000780)	(0.00768)	(0.000870)
No. recession months	-0.000407	-0.00262	0.00781**
	(0.00929)	(0.00648)	(0.00322)
Year dummies	Included	Included	Included
Industry dummies	Included	Included	Included
Firm dummies	Included	Included	Included
Constant	0.548***	0.631***	0.398***
	(0.111)	(0.0763)	(0.0346)
Observations	1,657	576	1,081
R-squared	0.067	0.099	0.114
Number of grupon	120	40	80

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 2.3. Heckman's first stage (probit model)

VARIABLES	Model I Full sample	Model II Regulated sample	Model III Non-regulated sample
Size	2.302***	3.755***	2.230***
	(6.934)	(4.685)	(6.180)
Technological resources	0.210***	0.395**	0.168***
	(2.885)	(2.113)	(3.746)
Board ownership	-0.0199	-0.0573*	-0.00991
	(-1.197)	(-1.941)	(-0.842)
State ownership	-0.00586	-0.00672	-0.0647
	(-0.174)	(-0.166)	(-1.422)
Foreign ownership	-0.000608	-0.00557	0.00399
	(-0.0131)	(-0.155)	(0.205)
Sales growth	-0.150**	0.550	-0.155***
	(-2.347)	(0.390)	(-3.035)
Imitation	6.600	14.20	3.950
	(1.472)	(1.529)	(1.048)
Spanish GDP growth (3 years)	-0.125	-0.310	-0.538**
	(-0.566)	(-0.740)	(-2.012)
Leverage	-1.845	-5.907	-0.539
	(-0.769)	(-1.460)	(-0.239)
Firm age	-0.182	1.083	0.328
	(-0.0805)	(0.472)	(0.200)
Product diversification	5.479	-39.10	16.30
	(0.295)	(-1.628)	(1.609)
CEO tenure	-0.291	-0.364	-0.420
	(-0.668)	(-0.505)	(-1.194)
CEO duality	-0.106	-1.906	0.452
	(-0.162)	(-1.282)	(0.570)
Deregulation index		8.740*	
		(1.674)	
Year control	0.352**	-0.205	0.418**
	(2.454)	(-1.145)	(2.571)
Industry dummies	Included	Included	Included
Constant	-23.54***	-12.84	-24.54***
	(-3.732)	(-0.824)	(-2.751)
Observations	1,524	560	964
Number of grupon	119	40	79

z-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 2.4 reports the estimates from the fixed-effects OLS regressions in the second stage using six different models: models I to III test the presence of a U-shaped relationship between multinationality and performance whereas the remaining ones analyze the existence of an S-shaped pattern.

Table 2.4. Heckman's second stage (fixed-effects OLS model)

VARIABLES	Model I Full sample	Model II Regulated sample	Model III Non-regulated sample	Model IV Full sample	Model V Regulated sample	Model VI Non-regulated sample
No. countries	-0.00195	-0.00258***	-0.00520	-0.00597***	-0.00271*	-0.0128**
	(-1.460)	(-3.053)	(-1.625)	(-2.748)	(-1.795)	(-2.501)
No. countries^2	4.70e-05*	3.89e-05**	0.000287***	0.000277***	4.59e-05	0.00103**
	(1.904)	(2.507)	(2.848)	(2.736)	(0.688)	(2.550)
No. countries^3				-3.32e-06**	-9.44e-08	-1.74e-05*
				(-2.342)	(-0.107)	(-1.899)
Size	-0.00819	0.00856**	-0.0173**	-0.00871*	0.00857**	-0.0174**
	(-1.600)	(2.092)	(-2.046)	(-1.704)	(2.090)	(-2.069)
Leverage	-0.0822***	-0.0290*	-0.139***	-0.0807***	-0.0288*	-0.144***
	(-3.690)	(-1.842)	(-3.667)	(-3.630)	(-1.816)	(-3.799)
Firm age	-0.0295	-0.0412	-0.0436	-0.000515	-0.0399	-0.0466
	(-0.707)	(-0.999)	(-0.644)	(-0.0119)	(-0.927)	(-0.690)
Product diversification	-0.139	-0.0867	-0.116	-0.122	-0.0852	-0.129
	(-0.717)	(-1.222)	(-0.579)	(-0.631)	(-1.175)	(-0.647)
Foreign ownership	0.000406*	0.000358*	0.000365	0.000433**	0.000358*	0.000370
	(1.939)	(1.864)	(1.164)	(2.070)	(1.862)	(1.183)
GDP growth (3years)	-0.00150	-0.000208	0.0142	0.00227	-0.000183	0.0156
	(-0.258)	(-0.0891)	(0.795)	(0.377)	(-0.0778)	(0.880)
International experience	-0.00269	0.00259	0.0104	0.00487	0.00287	0.0174
	(-0.291)	(0.354)	(0.628)	(0.498)	(0.369)	(1.027)
Countries entered by WOS (%)	0.0228*	0.00496	0.00724	0.0206	0.00503	0.00206
	(1.681)	(0.378)	(0.359)	(1.515)	(0.382)	(0.101)
Average GDP (host countries)	-0.000860	0.00106	-0.000806	-0.000497	0.00109	-0.000508
	(-0.760)	(0.662)	(-0.534)	(-0.435)	(0.669)	(-0.336)
Lambda	-0.00843***	-0.00113	-0.0103***	-0.00895***	-0.00116	-0.0106***
	(-3.566)	(-0.469)	(-3.256)	(-3.780)	(-0.478)	(-3.360)
Constant	0.323	0.226	0.385	0.180	0.219	0.402
	(1.600)	(1.263)	(1.194)	(0.853)	(1.152)	(1.251)
Year and industry dummies	Included	Included	Included	Included	Included	Included
Observations	1,052	436	616	1,052	436	616
R-squared	0.103	0.169	0.157	0.108	0.169	0.163
Number of grupon	78	28	50	78	28	50

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

All models displayed a significant F-test of joint significance. In addition, the inverse Mills ratio (lambda) has proven to be statistically significant in the regressions performed on the full sample and the non-regulated industries sub-sample. Therefore, there is a self-selection problem which justifies the use of Heckman's two-step estimation method (1979).

Our estimates for the sub-sample of regulated firms show that foreign expansion has a significant negative impact on profitability when their presence in other countries is limited. However, as they expand to a greater number of foreign locations, the sign turns out to be positive and significant. Therefore, our evidence points to a U-shaped pattern in this kind of industries, consistent with Hypothesis 1. The minimum of the curve appears at 33 countries ($\frac{\partial\, ROA}{\partial\, X}$ = 3.89e-05X^2 – 0.00258X + 0.226 = 0), when profitability no longer diminishes and it begins to increase. According to Hypothesis 2, non-regulated firms also display a U-shaped pattern at the beginning of their international expansion. However, their relationship between the degree of internationalization and performance does not hold positive beyond the minimum but it reaches a maximum from which profitability lowers again. Therefore, their optimal band of different foreign locations in which invest is between 8 and 32 host countries ($\frac{\partial\, ROA}{\partial\, X}$ = -1.74e-05X^3 + 0.00103X^2 – 0.0128X + 0.402 = 0). Figures 2.1 and 2.2 illustrate the patterns found in our analysis.

Figure 2.1. Impact of the degree of internationalization on performance for regulated companies

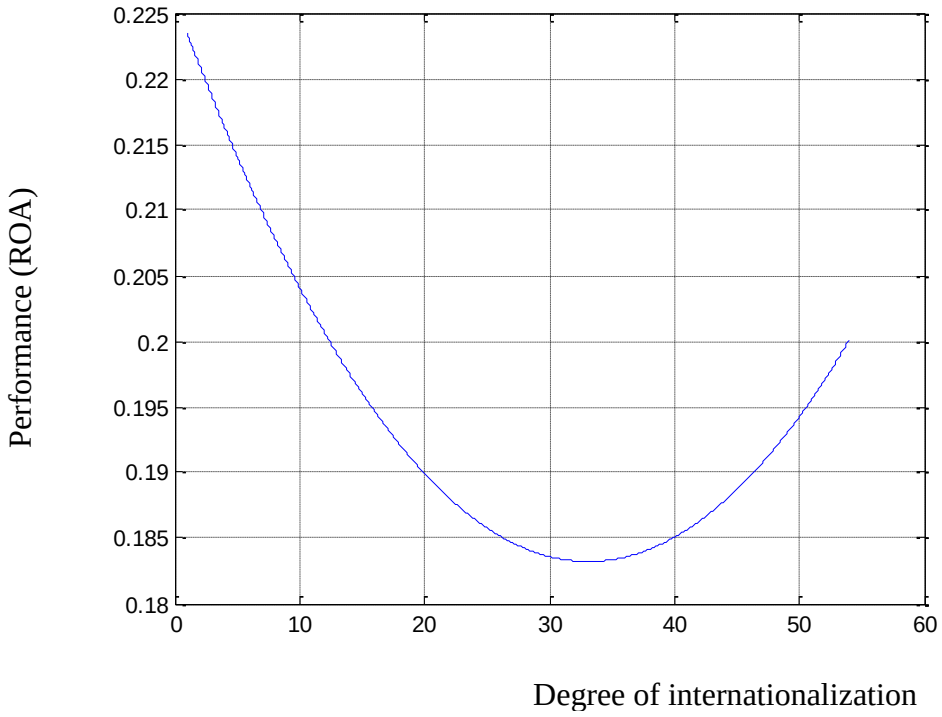
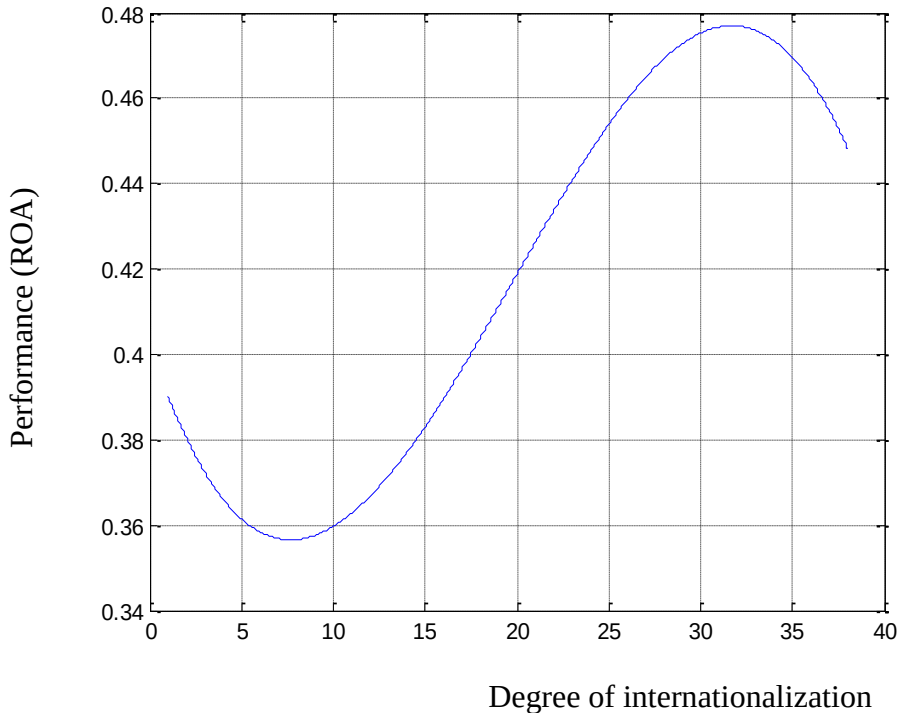


Figure 2.2. Impact of the degree of internationalization on performance for non-regulated companies



As for the control variables included in our study, our results show that leverage burdens the profitability of all the samples. Nonetheless, other control variables display different effects depending on the industry where companies operate. Whereas for regulated companies size shows a positive effect on profitability, for non-regulated firms it displays a negative one. Foreign ownership also has a positive effect on the performance of regulated companies. However, it does not affect the one of non-regulated multinationals.

2.6. ROBUSTNESS CHECKS

We undertook supplementary robustness checks to ensure the validity of our results. The first robustness check we conducted concerned the definition of regulated company. In this study we acknowledged as regulated industries those which suffered from a heavy regulation in the past and, in spite of the liberalization and deregulation processes around the world, still require companies to be granted with a license in order to operate (Bonardi, 2004). As previously mentioned, we included in this category of regulated industries the following ones: water, electricity, oil, gas, transport, telecommunications, banking, financial services, and the construction industry. Even though all of them have traditionally been considered to be regulated, its core often comprises energy (electricity, oil, and gas) as well as water industries (Joskow, 1973; Spiegel and Spulber, 1994; Urbiztondo *et al.*, 2013). Therefore, we implemented Heckman's two-stage technique (1979) after excluding from the sub-sample of regulated industries transport and telecommunications, banking and financial services, and the construction industry, one at a time. Table 2.5 exhibits the estimates of the panel-data fixed-effects OLS regressions run to test for the robustness of the U-shaped pattern (the OLS tests performed to obtain the product diversification instrument and the first-stage probits as well as the correlation matrixes are available upon

request). Our results confirm Hypothesis 1 and, therefore, a greater foreign presence entails higher returns for regulated companies.

Table 2.5. Heckman's second stage (robustness check of regulated industries)

VARIABLES	Model I Without banking and financial services	Model II Without construction services	Model III Without transport and telecommunications
No. countries	-0.00296**	-0.00326***	-0.00299***
	(-2.015)	(-3.184)	(-3.963)
No. countries^2	4.22e-05*	6.02e-05***	4.69e-05***
	(1.667)	(2.665)	(3.334)
Size	-0.0170	0.0112***	0.0104***
	(-1.613)	(2.886)	(3.059)
Leverage	0.0159	-0.0129	-0.0418***
	(0.506)	(-0.810)	(-2.871)
Firm age	-0.0197	-0.0455	-0.0453
	(-0.216)	(-1.058)	(-1.236)
Product diversification	0.0239	0.419**	-0.0979
	(0.300)	(2.282)	(-1.594)
Foreign ownership	0.000153	0.000250	0.000433***
	(0.558)	(1.338)	(2.640)
GDP growth (3years)	-0.00719	0.00431	0.000497
	(-0.955)	(1.128)	(0.243)
International experience	0.00180	0.00439	0.00506
	(0.109)	(0.630)	(0.812)
Countries entered by WOS (%)	0.0312	-0.000379	0.00530
	(1.482)	(-0.0297)	(0.433)
Average GDP (host countries)	0.00351	0.00216	0.000422
	(0.977)	(1.326)	(0.302)
Lambda	0.00438	-0.000750	-0.000276
	(0.700)	(-0.381)	(-0.126)
Constant	0.296	-0.0932	0.231
	(0.774)	(-0.392)	(1.397)
Firm, year and industry dummies	Included	Included	Included
Observations	240	368	401
R-squared	0.213	0.217	0.246
Number of grupon	15	23	26

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

We also ran the second stage of Heckman's procedure (1979) with an alternative dependent variable: the market performance of the company. This variable was calculated by applying Chung and Pruitt's formula (1994) for Tobin's q[4]. Market performance, as opposed to accounting measures, is able to capture present as well as future profitability.

Table 2.6 displays the results of the regressions we ran, which are consistent with those we got after performing our analysis on the ROA. The first three models test for a linear shape whereas the remaining ones study the presence of non-linear patterns. More specifically, models IV-VI analyze the existence of U-shaped or inverted U-shaped patterns and models VII-IX assess the presence of S-shaped relationships.

In the case of regulated firms, markets value positively their internationalization processes. As Tobin's q is able to capture future performance, we observe that even though there is a decline in their accounting profitability at the beginning of their foreign expansion, investors forecast that this is only a temporary handicap until they begin to achieve higher results. The same happens to companies operating in non-regulated industries. The setbacks at the early stages of their internationalization processes are perceived as transitory. However, as they experience another decline in their profitability once they reach high levels of multinationality, here the relationship between their degree of internationalization and their market performance is not linear but shows an inverted U-shaped pattern. Therefore, if we compare the results we obtained by using the accounting performance measure (ROA) and those of performance (Tobin's q), we can extract that markets are one step ahead in realizing the impact of the foreign expansion of companies on their results.

[4] Financial data used to calculate Tobin's q was extracted from *COMPUSTAT, DATASTREAM,* the Spanish Securities Market Commission and firms' websites.

Table 2.6. Heckman's second stage (Tobin's q as the dependent variable)

VARIABLES	Model I Full sample	Model II Regulated sample	Model III Non-regulated sample	Model IV Full sample	Model V Regulated sample	Model VI Non-regulated sample	Model VII Full sample	Model VIII Regulated sample	Model IX Non-regulated sample
No. countries	0.00347	0.00728**	0.0146	0.0267***	0.0132*	0.0761***	0.0577***	-0.00424	0.0831**
	(0.985)	(2.530)	(1.162)	(2.939)	(1.676)	(3.668)	(3.908)	(-0.303)	(2.527)
No. countries^2				-0.000464***	-0.000117	-0.00239***	-0.00224***	0.000790	-0.00309
				(-2.772)	(-0.807)	(-3.701)	(-3.254)	(1.274)	(-1.182)
No. countries^3							2.56e-05***	-1.23e-05	1.64e-05
							(2.658)	(-1.504)	(0.277)
Size	-0.0195	-0.0201	0.0467	-0.0273	-0.0231	0.0603	-0.0230	-0.0226	0.0609
	(-0.537)	(-0.530)	(0.781)	(-0.754)	(-0.606)	(1.020)	(-0.637)	(-0.593)	(1.028)
Leverage	-0.617***	-0.381**	-0.654***	-0.559***	-0.361**	-0.651***	-0.581***	-0.328**	-0.646**
	(-3.919)	(-2.418)	(-2.588)	(-3.537)	(-2.262)	(-2.608)	(-3.679)	(-2.039)	(-2.580)
Firm age	0.917***	0.241	0.226	0.913***	0.310	-0.0217	0.689**	0.475	-0.0193
	(3.220)	(0.642)	(0.516)	(3.219)	(0.803)	(-0.0496)	(2.334)	(1.186)	(-0.0441)
Product diversification	-0.395	0.415	-2.316*	-0.622	0.592	-2.080	-0.794	0.792	-2.075
	(-0.297)	(0.667)	(-1.701)	(-0.468)	(0.897)	(-1.544)	(-0.598)	(1.177)	(-1.538)
Foreign ownership	-0.000260	0.00228	-0.00270	-0.000200	0.00208	-0.00266	-0.000438	0.00211	-0.00266
	(-0.182)	(1.281)	(-1.320)	(-0.141)	(1.162)	(-1.314)	(-0.309)	(1.176)	(-1.316)
GDP growth (3years)	0.00929	-0.00168	-0.177	0.0185	0.000308	-0.201*	-0.0124	0.00422	-0.203*
	(0.232)	(-0.0763)	(-1.532)	(0.462)	(0.0139)	(-1.761)	(-0.298)	(0.189)	(-1.770)
International experience	-0.155**	-0.0434	-0.242**	-0.186***	-0.0591	-0.322***	-0.246***	-0.0215	-0.329***
	(-2.508)	(-0.664)	(-2.292)	(-2.971)	(-0.866)	(-3.029)	(-3.704)	(-0.297)	(-3.010)
Countries entered by WOS (%)	0.00355	0.244**	-0.0216	0.0123	0.244**	0.0267	0.0290	0.252**	0.0311
	(0.0384)	(1.975)	(-0.165)	(0.133)	(1.976)	(0.205)	(0.314)	(2.038)	(0.237)
Average GDP (host countries)	0.0300***	0.0461***	0.0265***	0.0293***	0.0455***	0.0230**	0.0265***	0.0490***	0.0227**
	(3.902)	(3.085)	(2.728)	(3.830)	(3.041)	(2.387)	(3.437)	(3.238)	(2.340)
Lambda	0.0164	0.0690***	0.0227	0.0138	0.0694***	0.0263	0.0175	0.0652***	0.0265
	(0.868)	(3.091)	(0.971)	(0.733)	(3.104)	(1.136)	(0.925)	(2.901)	(1.142)
Constant	-2.022	-0.0412	1.832	-1.909	-0.415	2.667	-0.772	-1.292	2.655
	(-1.464)	(-0.0256)	(0.857)	(-1.387)	(-0.248)	(1.255)	(-0.537)	(-0.730)	(1.248)
Firm, industry and year dummies	Included	Included	Included	Included	Included	Included	Included	Included	Included
Observations	1,039	435	604	1,039	435	604	1,039	435	604
R-squared	0.230	0.403	0.257	0.236	0.404	0.276	0.242	0.407	0.276
Number of grupon	78	28	50	78	28	50	78	28	50

t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Finally, we ran an additional robustness test changing the definition of our independent variable. Instead of using the accumulated number of countries entered by firms as their degree of internationalization, we included the accumulated number of foreign entries made by the companies in our sample[5]. Tables 2.7 and 2.8 exhibit the results we obtained, which continue to support Hypotheses 1 and 2.

[5] Spanish FDI data was obtained from the *Systematic Database on International Operations of Spanish Companies*.

Table 2.7. Heckman's second stage (foreign operations as the independent variable)

VARIABLES	Model I Full sample	Model II Regulated sample	Model III Non-regulated sample	Model IV Full sample	Model V Regulated sample	Model VI Non-regulated sample
No. foreign operations	-8.97e-05	-0.000632***	-0.00113	-0.000209	-0.000999***	-0.00492**
	(-0.300)	(-3.908)	(-0.723)	(-0.384)	(-3.265)	(-2.010)
No. foreign operations^2	1.16e-06	2.59e-06***	4.35e-05*	2.66e-06	6.92e-06**	0.000211**
	(0.842)	(3.657)	(1.861)	(0.451)	(2.199)	(2.437)
No. foreign operations^3				-5.04e-09	-1.38e-08	-1.82e-06**
				(-0.262)	(-1.411)	(-2.008)
Size	-0.00804	0.00973**	-0.0170**	-0.00782	0.0112***	-0.0170**
	(-1.577)	(2.338)	(-2.036)	(-1.513)	(2.610)	(-2.040)
Leverage	-0.0758***	-0.0250	-0.133***	-0.0759***	-0.0255	-0.140***
	(-3.428)	(-1.611)	(-3.477)	(-3.429)	(-1.647)	(-3.647)
Firm age	-0.0208	-0.0260	-0.0459	-0.0203	-0.0283	-0.0423
	(-0.497)	(-0.633)	(-0.681)	(-0.484)	(-0.690)	(-0.629)
Product diversification	-0.160	-0.0648	-0.112	-0.157	-0.0740	-0.116
	(-0.828)	(-0.951)	(-0.564)	(-0.811)	(-1.082)	(-0.585)
Foreign ownership	0.000447**	0.000387**	0.000399	0.000445**	0.000376**	0.000411
	(2.140)	(2.036)	(1.275)	(2.130)	(1.980)	(1.318)
GDP growth (3years)	-0.000310	0.00205	0.0139	-0.000411	0.00204	0.0150
	(-0.0523)	(0.563)	(0.779)	(-0.0693)	(0.560)	(0.841)
International experience	-0.00325	-0.00155	0.00874	-0.00303	0.000575	0.0161
	(-0.354)	(-0.200)	(0.534)	(-0.328)	(0.0729)	(0.960)
Countries entered by WOS (%)	0.0351***	0.00703	0.0327	0.0351***	0.00632	0.0306
	(2.614)	(0.480)	(1.622)	(2.611)	(0.432)	(1.520)
Average GDP (host countries)	-0.00127	0.000925	-0.00126	-0.00126	0.00117	-0.000944
	(-1.104)	(0.515)	(-0.836)	(-1.094)	(0.649)	(-0.624)
Lambda	-0.00811***	-0.000717	-0.00983***	-0.00804***	-0.000616	-0.0102***
	(-3.415)	(-0.302)	(-3.109)	(-3.365)	(-0.259)	(-3.224)
Constant	0.282	0.129	0.372	0.277	0.131	0.356
	(1.388)	(0.724)	(1.156)	(1.361)	(0.739)	(1.107)
Firm, year, and industry dummies	Included	Included	Included	Included	Included	Included
Observations	1,052	436	616	1,052	436	616
R-squared	0.104	0.180	0.156	0.104	0.184	0.162
Number of grupon	78	28	50	78	28	50

t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 2.8. Heckman's second stage (excluding one regulated industry at a time)

VARIABLES	Model I Without banking and financial services	Model II Without construction services	Model III Without transport and telecommunications
No. foreign operations	-0.00154***	-0.000616***	-0.000548***
	(-4.495)	(-3.492)	(-3.684)
No. foreign operations^2	6.58e-06***	2.61e-06***	1.96e-06***
	(4.557)	(3.540)	(3.038)
Size	-0.0208**	0.0113***	0.0111***
	(-2.092)	(2.857)	(3.187)
Leverage	0.0301	-0.0103	-0.0303**
	(1.007)	(-0.658)	(-2.126)
Firm age	-0.00916	-0.0272	-0.0230
	(-0.104)	(-0.632)	(-0.654)
Product diversification	0.0488	0.431**	-0.0386
	(0.672)	(2.371)	(-0.653)
Foreign ownership	0.000181	0.000266	0.000430***
	(0.697)	(1.419)	(2.641)
GDP growth (3years)	-0.0168**	0.00435	0.00306
	(-2.114)	(1.101)	(0.966)
International experience	-0.00833	-0.00231	-0.00220
	(-0.583)	(-0.339)	(-0.346)
Countries entered by WOS (%)	0.0415*	0.0113	0.0118
	(1.955)	(0.820)	(0.959)
Average GDP (host countries)	0.00127	0.00168	-4.77e-05
	(0.356)	(0.963)	(-0.0323)
Lambda	0.00552	-0.000393	2.00e-05
	(0.921)	(-0.203)	(0.00908)
Constant	0.324	-0.178	0.0866
	(0.888)	(-0.756)	(0.547)
Firm, year, and industry dummies	Included	Included	Included
Observations	240	368	401
R-squared	0.275	0.222	0.240
Number of grupon	15	23	26

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

2.7. DISCUSSION AND CONCLUSION

Our study aims to analyze the differences in the relationship between the degree of internationalization and performance for multinationals operating in regulated and non-regulated industries. The foreign expansion of regulated companies is to some

extent defined by the decisions of the host-country governments, so venturing abroad may have a different impact on their profitability. Even though the relationship between the degree of internationalization and firm performance has been a mainstream topic within the International Business literature for decades, most studies do not take into account the effect the industry in which the companies operate may have on their returns. To the best of our knowledge, the differentiation between service and manufacturing firms has been the only explicit distinction that has been made to this date (Chang and Wang, 2007; Contractor *et al.*, 2007).

The main argument in this study is that regulated as well as non-regulated multinationals experience advantages and disadvantages stemming from their foreign expansion but these disadvantages affect them to a different extent. By making this distinction, the theoretical analysis we develop and which serves as a framework for our empirical hypotheses improves our understanding of the trade-offs firms face when expanding abroad. Both types of firms tend to suffer from several setbacks at the beginning of their internationalization process, which appear due to the scarcity of some required resources at firm or at host-country level. Previous papers point to the lack of international experience (Cardinal et al., 2011; Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975), reputation in the host country (Hymer, 1976; Zaheer, 1995), relevant network ties (Johanson and Vahlne, 2009) and slack resources (Cuervo-Cazurra *et al.*, 2007) as the main causes of the negative slope in the relationship between internationalization and performance when companies start venturing abroad. Cuervo-Cazurra *et al.* (2007) add institutional voids together with the inexistence of complementary resources as another liability multinationals may have to deal with at the beginning of their foreign expansion. Nevertheless, the difficulties that companies face at this stage do not prevail over the whole internationalization process

but are overcome as multinationals continue operating abroad and access the resources they lacked and gain enough critical mass to achieve economies of scale and scope (Contractor *et al.*, 2003). However, high degrees of international expansion are not always linked to higher returns. As the multinationality levels of companies increase, so do managerial complexity and control costs, especially when firms invest not only in a different country but in a different region (Oh and Contractor, 2014). We hypothesized that in the case of non-regulated industries the difficulty in the transferability of multinational advantages across regions and the rise in the costs and complexity of managing foreign operations in a large scope of countries lead to a horizontal S-shaped pattern. In the case of regulated industries, we expected to only encounter the first two stages (a U-shaped relationship) due to the fact that coordinating operations in different locations entails lower complexity and costs than in the case of non-regulated industries.

Our findings support these hypotheses and complement previous empirical evidence regarding U-shaped (Capar and Kotabe, 2003; Contractor *et al.*, 2007; Lu and Beamish, 2001; Qian, 1997; Ruigrok and Wagner, 2003; Thomas, 2006) and S-shaped patterns (Benito-Osorio, 2011; Contractor *et al.*, 2003; Li, 2005; Lu and Beamish, 2004; Oh and Contractor, 2014; Riahi-Belkahoui, 1998; Rugman and Oh, 2010; Ruigrok *et al.*, 2007; Thomas and Eden, 2004). Whereas regulated firms profit from being present in a large number of locations, non-regulated companies experience a decline in their performance once they surpass a certain threshold of internationalization. Non-regulated firms tend to integrate their activities globally in pursue of economies of scale, which makes coordination more complicated and costly, especially when they expand beyond a particular region (Rugman and Verbeke, 2007). Besides a rise in the complexity and managerial costs, favoring aggregation to achieve greater economies of scale and, therefore, heavily integrating the value chain, may also cause a negative domino effect

in which if the performance of one of the locations is low that may hamper the profitability of the whole organization (Mauri and Neiva de Figueiredo, 2012).

In the case of regulated firms, their core activities do not vary to a great extent among locations. Even though this should prompt them to follow a global strategy, they cannot plan beforehand neither the destination of their foreign operations nor the extent of their activities in a foreign country since they are conditioned by the government and regulation of the host country, thus having to rely on a multidomestic strategy (Bonardi, 2004). These two embedded characteristics of the activity make them less vulnerable to the *liability of inter-regional foreignness* because each FDI requires adaptation to local regulation irrespective of the distance between home and host countries.

Therefore, the findings we obtained do not only help advance the International Business literature empirically but they also serve as a cautionary tale for managers. They should be aware of the distinctive characteristics of the industry in which their companies operate since they affect both the foreign expansion they can establish as well as the returns they achieve.

It is important to notice that we accounted for endogeneity in order to make our results robust to a potential self-selection bias by implementing Heckman's two-step estimation method (1979). To check the validity of our results, we also ran the second stage of our Heckman's two-stage models using the Generalized Method of Moments (GMM) technique instead of the Ordinary Least Squares (OLS) one. OLS is a special case of GMM and it implies that there is no correlation between the explicative variable and the error term. However, if there was any correlation, then the estimators would be inconsistent. Our results did not vary regardless of the methodology we used in the second stage. These regressions are available upon request.

Nevertheless, our study is not exempt of limitations. First of all, our dataset contains publicly listed Spanish firms, which might raise questions regarding whether or not our results can be compared to other contexts. In addition, we used the geographical scope of the firm as the independent variable in our analysis. Even though Lu and Beamish (2004) or Tallman and Li (1996), among others, have used it in previous studies, it does not account for the differences between the countries, number of operations in each location or the size of the investments (Hennart, 2011). Furthermore, to establish the foreign presence of a firm in a country we only took into account the investments that firms had carried out abroad but not the divestments that may had taken place. Therefore, further research should be based on a multi-country sample and use alternative measures of degree of internationalization as well as account for the possible divestments which multinationals may have carried out abroad.

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CHAPTER 3

Accelerated Internationalization and Performance: A Resource-Based View Framework

3.1. INTRODUCTION

Literature on the nature of the relationship between speed of internationalization and performance has provided mixed results. More specifically, there are two opposing streams within it: studies defending a gradual foreign expansion versus those proposing a rapid one. Traditional patterns, consistently with the insights from the Uppsala school (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975), defend that firms should expand abroad slowly and gradually as they accumulate resources and international experience (Jiang *et al.*, 2014; Vermeulen and Barkema, 2002). However, new evidence shows that an accelerated expansion can lead to higher returns for certain types of firms, as illustrated by the cases of *born globals* (Knight and Cavusgil, 2004; Musteen *et al.*, 2010; Zhou *et al.*, 2007), *born-again globals* (Jantunen *et al.*, 2008), and *latecomer multinationals* (Chang and Rhee, 2011; Kumar *et al.*, 2013). The sheer amount of attention has been put on the latter kind of companies, which undergo a rapid internationalization in order to catch up with their counterparts in a short-time span. The success of these companies constitutes a paradox since they have to deal with the liabilities at the beginning of their internationalization while expanding abroad at a fast pace. Thus, the existence of these firms is hard to reconcile with classic paradigms of international business.

In spite of previous empirical evidence, we do not expect for the relationship between speed of internationalization and performance to be linear since this has some strong managerial implications, especially in the case of a positive one. Therefore, in this chapter we argue that the relationship between speed of internationalization and value creation follows an inverted U-shaped. We suggest that there is a threshold to the value creation of the speed of internationalization and that once it is surpassed, a rapid foreign expansion damages the performance of companies and sends capital markets

negative signs about their future prospects. We are not only going to analyze the nature of the relationship between a rapid foreign expansion and firm performance, but also the boundary conditions for a profitable accelerated expansion. On the one hand, we propose that the ownership of valuable intangible assets such as technological resources or international experience positively moderates the impact of a rapid foreign expansion on market performance. On the other hand, we also posit that the negative effect of an accelerated internationalization on value creation is enhanced whenever multinationals need to adapt to a large extent to the environment in the host country or if they have limited growth opportunities, thus negatively moderating the relationship between a rapid foreign expansion and the market profitability of multinationals.

The propositions displayed above are tested and confirmed by using a panel-data sample from 1986 to 2010 which comprises all Spanish firms listed in 1990. Estimations are performed by implementing Heckman's two-step estimation method (1979) in order to account for a potential self-selection bias.

3.2. A RESOURCE-BASED VIEW OF THE INTERNATIONAL EXPANSION

The international expansion of the firm can be understood as a process which involves learning, adjusting to new environments, and combining new resources and capabilities with previous ones. Firms carrying out operations in foreign countries have competitive advantages developed at home which they can combine with local resources in the host country (Dunning, 1993; Mathews and Zander, 2007). In doing so, they can expand and upgrade their set of resources and capabilities (Chen and Chen, 1998; Guillén and García-Canal, 2010; Narula, 2014; Ramamurti, 2012). Even though several authors assume that the required local (country-specific) resources are readily available for every firm entering the country, Hennart (2009) argues that there can be

problems to their transferability. In this sense, every local context has its own distinct features and firms must learn to adjust to the local specificities in order to benefit from their international expansion. For this reason, the ability to manage different host-country environments constitutes a firm-specific capability which can lead to a superior performance (Henisz, 2003).

Multinationals learn about the host countries as they operate, generating new knowledge over time as they expand abroad (Barkema *et al.*, 1996; Casillas and Moreno-Menéndez, 2014; Delios and Beamish, 2001; Eriksson *et al.*, 1997; Johanson and Vahlne, 2003; Kogut and Singh, 1988). Consistent with the *knowledge-creation spiral* proposed by Nonaka and Takeuchi (1995), experiential learning in foreign markets is supposed to be achieved in a long-term span during which the company goes through several learning cycles. This argument is supported by the members of the Uppsala School, who posit that successful companies commit slowly and gradually to foreign markets (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975). One of the main reasons for the gradual internationalization approach is the uncertainty that managers face when entering a new country (Forsgren, 2002; Huber, 1991). Furthermore, companies usually deal with several liabilities before starting to profit from their foreign expansion (Capar and Kotabe, 2003; Contractor *et al.*, 2007; Lu and Beamish, 2001; Qian, 1997; Ruigrok and Wagner, 2003; Thomas, 2006). More specifically, when multinationals expand to a foreign country they must face the *liability of foreignness* (Hymer, 1976; Zaheer, 1995) due to their lack of experience in the new location. Moreover, they are not included in any of the relevant networks in the host country, so they also are exposed to the *liability of outsidership* (Johanson and Vahlne, 2009). Overcoming these liabilities takes time and thus trying to speed up the

process may lead to poorer results due to the enhancement of time compression diseconomies (Dierickx and Cool, 1989).

In this sense, the case of *latecomer multinationals* is especially interesting. Besides the *liabilities of foreignness* and *outsidership*, they can also suffer from several setbacks due to their late entrance in the markets (Luo and Tung, 2007). Indeed, they have to overcome these hurdles while internationalizing at a fast pace in order to try to catch up with global leaders. In this context, *vicarious learning* —that is, learning from the actions of other firms (Terlaak and Gong, 2008)— can help attenuate the negative impact of an accelerated internationalization by reducing time compression diseconomies (Jiang *et al.*, 2014). Companies which imitate successful strategies followed by other firms may be able to reduce their perceived uncertainty of the host country. This puts into question the Uppsala stage model, as they can access local market knowledge gathered not only from their own experience but also from the one of their competitors (Forsgren, 2002). Furthermore, since the amount of vicarious learning increases over time, it benefits latecomers to a larger extent (Cyert and March, 1963; Jiang *et al.*, 2014; Levinthal and March, 1993). This helps them overcome the difficulties of an aggressive foreign expansion. Moreover, it allows them to successfully become world leaders in spite of starting from a latecomer position (Guillén and García-Canal, 2013; Kerin *et al.*, 1992; Mathews, 2002).

Nonetheless, the sources of information *latecomer firms* can access are only valuable up to a certain degree of speed. This is due to the fact that they must effectively integrate prior and new knowledge and this is determined by their *absorptive capacity* (Cohen and Levinthal, 1990). As Vermeulen and Barkema (2002) argued, absorptive capacity is not constant across time, so the faster the international expansion, the lower the ability of companies to assimilate new knowledge. Therefore, a high speed of

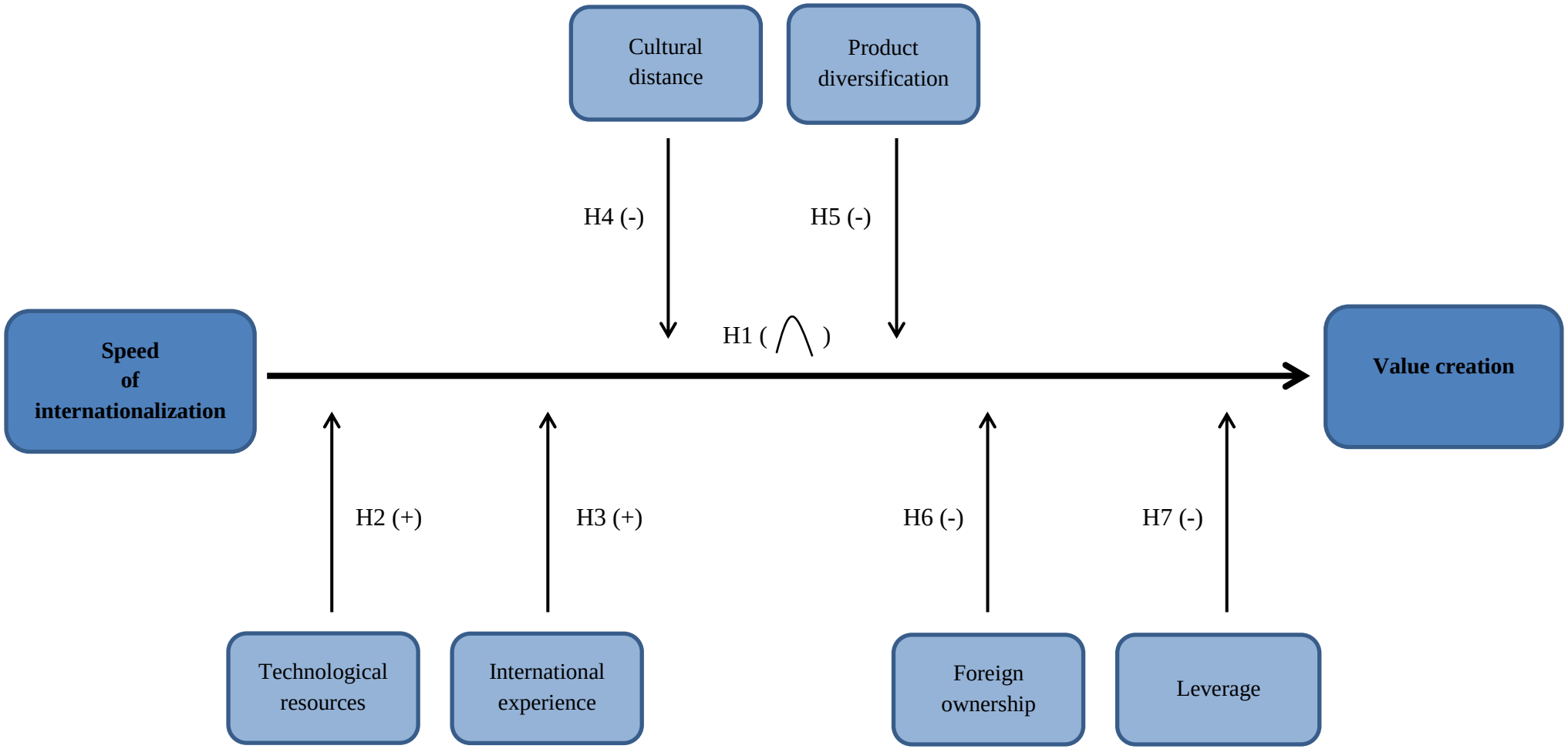
internationalization may eventually damage the performance of multinationals. Hence, we suggest that:

H1: The relationship between the speed of internationalization of latecomer firms and value creation displays an inverted U-shaped form, with an increase in market performance for low and moderate levels of speed of internationalization and a decrease for high levels of speed of foreign expansion.

3.2.1. Boundary Conditions

We expect that firms following a rapid foreign expansion and in possession of a large base of resources and capabilities perform better in the markets than firms lacking such capabilities. However, we also argue that firms which need to adjust their strategies to the host-country conditions and those with limited growth expectations show a decline in their performance when they accelerate their pace of internationalization. Figure 3.1 displays the causal relationships we establish in our theory:

Figure 3.1. Causal relationships established in our theory



3.2.1.1. Speed of internationalization and resources and capabilities

Resources and capabilities can both enhance or hamper the growth of the firm (Penrose, 1959). In this vein, they determine the strategies firms choose to carry out as well as their profitability. The resource-based view highlights that possessing resources which are valuable, rare, inimitable and non-substitutable helps sustain a competitive advantage that leads to an improvement in the returns of companies (Wernerfelt, 1984; Barney, 1991). The resource-based view has been extended by the dynamic capabilities perspective to better depict what happens in dynamic markets, where managers have to create and adapt their resources to hold a sustained competitive advantage (Teece *et al.*, 1997).

One of the main reasons of the international expansion of *latecomer multinationals* is the upgrading of their resources and capabilities (Cuervo-Cazurra, 2012; Lecraw, 1993; Li, 2010; Ramamurti, 2012; Young *et al.*, 1996). More specifically, they aim to follow a dual path where they can gain scope as well as access developed countries to complement its base of resources (Guillén and García-Canal, 2009). Multinationals which possess more intangible assets are more competitive, so they have a lower need to upgrade them. For this reason, they can manage more efficiently the *liability of foreignness* and the *liability of outsidership* they face when they enter a new country, especially if they are expanding abroad at a fast pace. Qian *et al.* (2013) found empirical evidence which supports that companies with higher levels of technological resources tend to overcome more easily the setbacks along the process than their counterparts. Moreover, multinationals can gain economies of scale from expanding abroad at a fast pace and spreading the R&D fixed costs over a larger sales base (Chang and Rhee, 2011). Therefore, we expect that:

H2: The level of technological resources owned by firms positively moderates the relationship between their speed of foreign expansion and value creation.

Besides technological resources, the international knowledge firms gather as they operate abroad also help them along their foreign expansion (Eriksson *et al.*, 2000; Fang *et al.*, 2007). The Uppsala stage model (Johanson and Vahlne, 1977, 1990; 2003; Johanson and Wiedersheim-Paul, 1975) describes internationalization as a sequential process in terms of commitment in the foreign country. When companies lack knowledge about the markets they aim to enter, they often choose exporting as their preferred mode of entry. Then, as they gather experience operating abroad, they start establishing foreign subsidiaries, which shows a higher degree of commitment to the host countries. Therefore, the market knowledge gathered through their foreign operations can be considered a valuable resource which enables multinationals to reduce their perceived uncertainty of the international markets where they invest (Bruneel *et al.*, 2010). In addition, because of the valuable knowledge they gain when expanding abroad, they are more capable of overcoming the *liability of foreignness* they face each time they enter a new country (Cardinal *et al.*, 2011; Johanson and Vahlne, 1990; Zaheer and Mosakowski, 1997). Furthermore, they are able to create and strengthen their ties with customers, suppliers, providers, institutions, and other agents in the host country, thus attenuating the *liability of outsidership* (Johanson and Vahlne, 2009).

Even though most studies focus on the market knowledge companies accumulate as they expand abroad, multinationals also develop knowledge management capabilities when internationalizing. Knowledge management capabilities allow firms to efficiently acquire knowledge as well as adjust and apply it to their needs (Gold *et al.*, 2001). Thus, they can be considered another source of competitive advantage of the firms (Cui *et al.*, 2005; Fernandes Crespo *et al.*, 2014). We argue that international experience coupled

with these management capabilities has a positive impact on the performance of multinationals, especially when they are following a rapid foreign expansion. Therefore, we propose the following hypothesis:

H3: The level of international experience of the firms positively moderates the relationship between their speed of foreign expansion and value creation.

2.2.1.2. Speed of internationalization and need for adaptation

Companies need to adapt to local idiosyncrasies when they expand to foreign countries (Henisz, 2003). We can define *cultural distance* as the difference in values which exists between the home country of the firm and the host countries it enters (Chen and Hu, 2002; Hofstede, 2001; Kogut and Singh, 1988).

Results regarding the nature of the relationship between cultural distance and performance have been mixed (Brouthers and Brouthers, 2001). Even though Gómez-Mejía and Palich (1997) found that there is not such a relationship, most papers have documented a link between both variables. In this sense, some empirical evidence points to a positive linear relationship (Kawai and Strange, 2014; Morosini *et al.*, 1998) although studies within this stream of research have mainly documented a negative linear one (Beugelsdijk *et al.*, 2014; Luo and Park, 2001; Luo and Peng, 1999; Li and Guisinger, 1991).

The main arguments behind the negative impact of cultural distance on firm performance are related to the costs and complexity which entails entering a host country with another set of shared values (Tihanyi *et al.*, 2005). Not only do individuals have to adapt to a new environment, but also the company's structure and routines (Hutzschenreuter and Voll, 2008). First, cultural distance may enhance the *liability of outsidership* (Johanson and Vahlne, 2009). The differences in values between the

multinational and the main agents in the host country (customers, suppliers, distributors, institutions, and others) can hamper the entrance of the company in those relevant networks. Furthermore, it may intensify the *liability of foreignness* (Hymer, 1976; Zaheer, 1995) and the *liability of inter-regional foreignness* (Rugman and Verbeke, 2007) since competitive advantages and knowledge are harder to transfer across culturally distant locations (Chang and Park, 2005; Cho and Lee, 2004; Palich and Gómez-Mejía, 1999).

In the case of multinationals following a rapid foreign expansion, cultural distance limits the speed of internationalization a company can successfully undertake. Decision-making becomes more complex so managers need more time to outline and adjust the strategy of the company (Shane *et al.*, 1995; Hutzschenreuter *et al.*, 2011; Adler, 2002). Besides, as the pace of expansion increases, it becomes more difficult for the company to create new knowledge based on former experiences (Arregle *et al.*, 2013). Indeed, firms can even misinterpret the outcomes of past operations and thus damage their performance (Zeng *et al.*, 2013). This might be mainly due to the enhancement of time compression diseconomies and a bounded rationality of the managers of the company (Vermeulen and Barkema, 2002). Therefore, we expect that:

H4: The level of cultural distance between the home country of the company and the host countries it enters negatively moderates the relationship between its speed of foreign expansion and value creation.

Adapting to a different culture is not the only difficulty multinationals find when they enter a foreign country. Companies which follow a product diversification strategy deal with more challenges as they expand abroad, especially if they diversify into unrelated products. Even though early researchers on the subject defended a positive

impact of unrelated diversification strategies on value creation, since Rumelt (1974) most studies have argued that related diversification is more profitable for companies (Benito-Osorio *et al.*, 2012; Palich *et al.*, 2000; Peng *et al.*, 2005).

The negative effect on performance for unrelated diversified firms is mainly due to the lack of synergies among their business units, the need for more resources and capabilities in order to be competitive in each industry, and the greater costs of adjustment and complexity they face, especially if they are also undertaking an internationalization strategy. When products are related among them, companies can use their resources more efficiently by sharing them across segments and thus achieve economies of scale and scope (Barney, 1997; Hitt *et al.*, 1994; Neffke and Henning, 2013; Wan *et al.*, 2011). This is particularly important in the case of knowledge. However, unrelated diversification does not only complicate the learning process but it also hampers the transfer of know-how (Chang and Wang, 2007). Lack of synergies makes it also difficult to overcome the *liability of outsidership* (Johanson and Vahlne, 2009). As previously stated, in order to achieve a superior performance companies have to be involved in the relevant networks of the host countries they enter. However, this is not easy since they have to overcome previously the initial disadvantageous position they hold compared to local firms (Hymer, 1976; Zaheer, 1995). This process becomes even harder when the company operates in multiple business segments (Chang and Wang, 2007).

Higher governance costs and added complexity also burden the performance of unrelated diversified firms (Grant *et al.*, 1988; Jones and Hill, 1988; Hitt *et al.*, 1997; Chang, 2007; Wan *et al.*, 2011). We argue that in the case of multinationals expanding abroad at a fast pace, the negative effect of unrelated product diversification on performance is enhanced. Apart from lacking operational synergies and having a lower

competitiveness, adapting to host countries entails a higher level of difficulty. Therefore, the process is more time-consuming and when companies try to speed it up, time compression diseconomies are more likely to appear. Therefore, we predict that:

H5: Unrelated product diversification negatively moderates the relationship between the firms' speed of foreign expansion and value creation.

3.2.1.3. Speed of internationalization and limited growth opportunities

Firms can also experience restrictions to their growth opportunities due to limitations in the strategies they are able to follow. In this regard, several studies have suggested that foreign-owned firms may be subject to the decisions taken by their parent companies. According to previous research (Bower, 1970; Buckley and Casson, 1976; Dunning, 1981; Johanson and Vahlne, 2012; Prahalad, 1976), top management teams determine the strategies of their subsidiaries so that they are consistent with the goals of the entire organization. Even though subsidiaries tend to have a proactive attitude towards growth consistent with the objectives of the whole firm, headquarters' view often differs regarding the degree of this consistency (Johanson and Vahlne, 2012; Schotter and Beamish, 2011; Williams, 2009). To some extent, foreign ownership can be seen as a control mechanism of the managers' discretion. The parent company fears a potential opportunistic behavior from the directors of its subsidiaries and thus tends to remain control of the strategy within the headquarters (Baliga and Jaeger, 1984; Birkinshaw *et al.*, 1998). However, prior works have also mentioned the entrepreneurial role of headquarters (Doz and Prahalad, 1981; Chandler, 1991). The potential problems arise when the parent company leaves valuable opportunities unexploited due to the difficulties in handling both the loss-preventing and the value-creating activities (Ciabuschi *et al.*, 2012).

Furthermore, the parent company is in charge of allocating resources among the different subsidiaries (Dellestrand and Kappen, 2011; Forsgren *et al.*, 2005; Foss and Pedersen, 2002). When the speed of foreign expansion increases, subsidiaries can eventually lack support from the headquarters due to the stretch in the resources that entails a rapid foreign expansion (Jiang *et al.*, 2014). Taking the above discussion into account, we predict that:

H6: Foreign ownership negatively moderates the relationship between the firms' speed of foreign expansion and value creation.

Apart from being tied to the strategy developed by the headquarters, another source of growth constraints can be the slack available to the multinational. In this sense, financial resources can be considered tangible assets which behave as organizational slack (Chang and Rhee, 2011). Since Cyert and March introduced the term *slack* in 1963, several works have described the possibilities which it offers to companies. Among other alternatives, these financial resources enable firms to explore and exploit new opportunities (Lavie *et al.*, 2010; Voss et al, 2008), innovate (Nohria and Gulati, 1996), venture into new markets (Haveman, 1993), take more risks (Singh, 1986), and be more aggressive in the strategies and respond more effectively to changes in the environment (Cheng and Kesner, 1997; Lin et al, 2009; Sharfman et al, 1988). Acting on these opportunities makes it possible for companies to improve their performance (Bromiley, 1991; Chang and Singh, 1999; Daniel et al., 2004; Hitt *et al.*, 1997; Peng *et al.*, 2010).

Both the liquidity of the company and its borrowing power or *potential slack* (as defined by Bourgeois and Singh in 1983) turn out to be of extreme importance when expanding to other countries. Having access to enough financial resources not only

enables venturing abroad but also determines the speed at which this can be done, especially in the case of wholly-owned subsidiaries, which require greater outlays of capital than other modes of entry (Johanson and Wiedersheim-Paul, 1975). However, as the share of debt used to fund the growth of the company increases, this borrowing power diminishes due to the higher debt-service risk (Bromiley, 1991; George, 2005). As Jensen and Meckling (1976) stated, the risk of bankruptcy prompts creditors either to ask for higher interest rates or to limit the amount of funds given to the firm, reducing performance and/or growth opportunities.

Nevertheless, whether the use of debt is beneficial or detrimental for companies is still a controversial topic. Whereas some papers show evidence of the gains in efficiency and value creation which stem from higher debt ratios (Berger and Bonaccorsi di Patti, 2006; Grossman and Hart, 1982; Jensen, 1989; Margaritis and Psillaki, 2010), the results of others support that higher levels of leverage imply a greater risk and a lower performance due to the increase in the cost of debt (Anderson et al., 2003; Chen and Yu, 2011; Myers, 1977; Opler and Titman, 1994). In the case of *latecomer multinationals* trying to catch up with their competitors at fast pace, empirical evidence has often shown support for this negative relationship (The Economist, 1999; Chang and Rhee, 2011). Therefore, we hypothesize that:

H7: The leverage of the firms negatively moderates the relationship between their speed of foreign expansion and value creation.

3.3. RESEARCH SETTING, DATA AND METHODS

3.3.1. Research Setting and Data

Empirical evidence on the relationship between the speed of internationalization of firms and their subsequent performance has traditionally been focused on

multinationals coming from developed countries. However, the number of *latecomer multinationals* from upper-middle economies and emerging countries has increased greatly during the last decades. Spanish multinationals resemble these multinationals' foreign expansion in various aspects (Guillén, 2005; Guillén and García-Canal, 2010). One of the most important ones is its speed. Even though they are latecomers to the international scene, thanks to their accelerated internationalization process they are quickly catching up with established multinationals.

The sample of this study comprises 120 Spanish firms which were listed in 1990 and the analysis covers a 25-year time span (1986-2010). This research setting is especially well-suited for the analysis we performed. Spanish multinationals can be defined as latecomers since prior to the entrance of Spain in the European Economic Community (EEC) in 1986 its outward FDI was very scarce and it was not until this year that the number of operations carried abroad experienced a significant growth (as previously shown in Chapter 1).

Although most papers which examine the speed of foreign expansion consider exporting as a means of internationalization, we have delimited the definition of multinational firm to those having at least 10% of their foreign subsidiaries' stock and which are actively involved in their management (US Bureau of Economic Analysis, 2004). Data from these FDI operations was obtained from the *Systematic Database on International Operations of Spanish Companies*, developed under the sponsorship of the Spanish Institute for Foreign Trade, ICEX (see Guillén and García-Canal, 2007). As complementary resources for building the other variables, we consulted other information sources such as *COMPUSTAT*, *DATASTREAM*, and/or the Spanish Securities Market Commission and firms' own websites. In the following sub-section

we describe in more detail the method of analysis we implemented as well as the measures we used and how they were built.

3.3.2. Method and Measures

This chapter analyzes the impact of an accelerated internationalization on performance. In order to control for self-selection, we implemented Heckman's two-step estimation method (1979) using STATA 12. In the first step, we estimated a panel-data probit model to examine the probability of firm *i* to have operations in foreign countries in year *t*. After running it, and consistent with previous works correcting for this potential bias (Campa and Kedia, 2002; Dastidar, 2009; Villalonga, 2004), we calculated the inverted Mills ratio and introduced it as a control for self-selection in the second stage (fixed-effects panel-data OLS regression). As we aimed to study the effect of the geographic diversification decision on performance, this second stage only comprised observations from companies operating abroad and, more specifically, for the years in which they were internationalized. Therefore, the first stage includes 1,524 firm-year observations whereas the second one comprises 1,039. Following Wan and Hoskisson (2003), we lagged all the independent and control variables. However, we did not lag the speed of internationalization since the calculation of this variable in the first year led to an indetermination. In the paragraphs below we explain more thoroughly the variables we used in each stage.

3.3.2.1. First stage: the internationalization decision

The dependent variable in the first stage aimed to capture whether a firm *i* had foreign subsidiaries or not within a certain year *t*. It was proxied by a dummy which took the value of one if the company had carried out any operations abroad from the year of its establishment until the end of year *t*, and zero otherwise. Regarding

independent variables, we followed the studies of Dastidar (2009) and Villalonga (2004). Therefore, we took into account the characteristics of the firm as well as those from their industry and their home-country environment. Furthermore, we controlled for specific year of the observation since we are implementing a panel-data technique.

Following studies which have controlled for the endogeneity of the diversification strategies (Campa and Kedia, 2002; Dastidar, 2009; Villalonga, 2004), we introduced the following measures to account for the characteristics of the firm: technological resources, proxied by the number of patents accumulated by a company since the year of its establishment; size, measured as the logarithm of total sales; financial structure (ratio of long-term debt to total assets); and the logarithm of firm age (difference between the year of establishment of a company and the year of the observation). We also introduced two additional variables that we suggest can prompt the internationalization of a firm: a sales growth ratio and a product diversification instrument. Even though we focus on the endogeneity of the internationalization decision, former papers have demonstrated that product diversification is also endogenous (Campa and Kedia, 2002; Villalonga, 2004). Thus, we created an instrumental variable by running a fixed-effects panel-data OLS regression whose dependent variable was the measure of product diversification proposed by Haleblian and Finkelstein (1993). This variable considers the unrelated product diversification undertaken by the firm. It was defined as the percentage of unrelated industries where a company developed its activity. Since it is a measure of unrelated diversification, we only took into account the two-digit Standard Industrial Classification codes in which the company was operating (Palepu, 1985). Taking into account prior studies on this field (Campa and Kedia, 2002; Villalonga, 2004), we introduced the following independent variables: number of months the Spanish economy was in recession during

a given year; the firm's profitability (EBIT/Sales) and liquidity (cash and cash equivalents to current liabilities); as well as the company's ownership structure, proxied by the percentage of stock held by the founder and/or his family, and the ownership concentration of the three major shareholders, calculated by using Herfindahl's index (1950). In addition, we included firm, industry, and year dummies as controls.

The ownership and control of the company may also affect its degree of internationalization (Liu *et al.*, 2011; Sanders and Carpenter, 1998). We thus introduce in our model three variables regarding the percentage of stock owned by the Spanish government, foreign investors, and the firm's Board of directors, respectively; the tenure of the CEO (log of the number of years an individual has served as the CEO of the company); and a dummy indicating whether the CEO acted also as the Chairman of the Board of Directors.

Apart from checking *COMPUSTAT*, *DATASTREAM*, the Spanish Securities Market Commission and firms' own websites, we accessed other sources of information for building certain variables. We extracted patent data from *ESPACENET*, a database developed by the European Patent Office (EPO) and the member states of the European Patent Organization which contains worldwide information on patents from 1836 to today. Regarding the product diversification instrument, we searched the *SDC Thomson Database* to build the dependent variable and the World Bank website to develop the measure on the number of months the Spanish economy was in recession. In the case of the companies' establishment year, we completed the information with information found on corporate reports and news databases. In the case of the ownership and managerial structure, we also searched for information in press, several directories (*DICODI*, *DUNS*, *The Maxwell Espinosa Shareholders Directory*) and the papers of Joaquím Vergés (1999, 2010) regarding Spanish privatizations.

In order to account for the characteristics of the industry, we introduced the percentage of firms which were geographically diversified within an industry in a certain year. Dastidar (2009) and Villalonga (2004) have also used this measure to analyze whether the amount of firms diversifying their activity within an industry enhances an imitative behavior form other competitors within the same industry. We used the foreign operations contained in the *Systematic Database on International Operations of Spanish Companies* to create this variable. We also introduced a dummy variable to account for the primary industry of the firm.

Finally, at home-country level we followed Dastidar (2009) and included a 3-year moving average of the Spanish GDP growth. The data used to build this variable was extracted from the World Bank webpage.

3.3.2.2. Second stage: the effect of an accelerated internationalization on performance

In the second stage we examined the effect an accelerated foreign expansion has on market performance, proxied by the firm's Tobin's q, which was calculated using Chung and Pruitt's (1994) method. We suggest that in this case market performance is a more accurate measure to capture the long-term performance consequences of accelerated internationalization than ROA, as it is expected that the latter is biased due to the large amount of resources that must be committed and the higher coordination and adjustment costs that entail accelerated internationalization in the short term. Compared to accounting-based performance measures, Tobin's q is not only able to capture present but also future profitability (Lang and Stulz, 1994).

In this stage, the independent variable is the speed of internationalization. We measured it as the number of countries entered by the multinationals since the year of its

first foreign expansion. Since we expect the relationship between speed and market performance to be non-linear, we also took this variable in its quadratic form.

Our moderating variables assess the level of resources and capabilities of the firm, as well as its need for adaptation and potential growth. The level of resources and capabilities was proxied by the technological resources of the multinational (number of accumulated patents) and its international experience (number of accumulated operations in foreign countries). The need for adaptation was calculated using the same product diversification instrument introduced in the first stage and the cultural dispersion of the countries the firm had invested in. To build this variable, we relied on Ronen and Shenkar's (1985) cultural blocs, which are based on a synthesis of eight previous studies on cultural distance. However, to consider all the countries the companies in our sample had invested in, we had to include additional countries in the clusters they had already defined as well as specify three supplementary ones[6]. The potential growth of the multinational was assessed through the percentage of its stock held by foreign companies and through its capital structure (long-term debt to total assets).

Brouthers *et al.* (2013) have emphasized the importance of the mode of entry used by the company on its performance. Therefore, we followed Chang and Rhee (2011) and controlled for it by introducing the percentage of operations carried out using a wholly-owned subsidiary. We chose wholly-owned subsidiaries since it is the mode of entry which shows a higher commitment to the host country (Johanson and Vahlne, 1977). Furthermore, we included as controls some of the variables previously

[6] The clusters defined by Ronen and Shenkar (1985) are: Latin European, Latin American, Far Eastern, Arab, Near Eastern, Nordic, Germanic, Anglo, and independent blocs (Japan, Brazil, India, and Israel). Besides, we introduced three additional ones: Eastern Europe, Sub-Saharan Africa, and rest of Pacific Islands not included in other cultural blocs.

introduced in the first stage, since they may also have an effect on the performance of the multinational. Foreign expansions following the strategic behavior of other firms in the industry have also been acknowledged to affect performance, either by improving (Forsgren, 2002) or by lowering it (Barretto and Baden-Fuller, 2006). Thus, we controlled for the level of imitation within the industry. Because the GDP in the home country may also influence the performance of the company (Miller and Eden, 2006), we controlled for the growth of the Spanish GDP using a 3-year moving average. In addition, following prior studies on the impact of the speed of internationalization on firm performance (Chang and Rhee, 2011; Jiang *et al.*, 2014), we introduced size and firm age as controls.

In this second stage, financial data was obtained from *COMPUSTAT*, *DATASTREAM*, the Spanish Securities Market Commission and the own websites of companies, whereas information regarding the investments made by Spanish multinationals abroad was extracted from the *Systematic Database on International Operations of Spanish Companies*.

3.4. RESULTS

Table 3.1 displays the correlations and descriptive statistics for the main variables included in the second stage of the Heckman model. The remaining correlation matrixes are not displayed but are available upon request. We mean-centered the main effects and moderating variables before building the interaction terms to avoid high correlations between them (Jaccard and Turrisi, 2003). As can be seen in the table, correlations are relatively low and therefore multicollinearity does not seem to be a problem.

Table 3.1. Heckman's second stage descriptive statistics and correlation matrix (fixed-effects OLS regression)

		Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	Tobin's q	1.35	0.64	1.00														
2	Speed	0.00	0.47	0.05	1.00													
3	Technological resources	0.00	67.91	-0.00	0.23	1.00												
4	International experience	0.01	35.85	-0.03	0.55	0.23	1.00											
5	Cultural distance	0.02	0.28	-0.01	0.44	0.21	0.37	1.00										
6	Product diversification	0.03	0.04	0.11	0.08	0.15	0.30	0.21	1.00									
7	Foreign ownership	0.04	20.43	0.04	-0.06	-0.01	-0.07	-0.00	-0.23	1.00								
8	Leverage	0.05	0.12	-0.11	0.32	0.11	0.25	0.05	0.20	-0.03	1.00							
9	Speed x Technological resources	7.19	44.83	0.04	0.23	0.54	0.28	0.01	0.07	-0.08	0.19	1.00						
10	Speed x International experience	9.20	34.87	0.01	0.54	0.19	0.59	0.11	0.17	-0.04	0.19	0.28	1.00					
11	Speed x Cultural distance	0.06	0.11	0.01	0.42	0.02	0.27	-0.31	0.04	-0.16	0.13	0.22	0.56	1.00				
12	Speed x Product diversification	0.00	0.02	-0.05	0.35	0.10	0.38	0.03	-0.02	0.07	0.09	0.12	0.59	0.40	1.00			
13	Speed x Foreign ownership	-0.58	7.58	-0.02	-0.17	-0.13	-0.12	-0.17	0.09	-0.27	0.05	-0.11	-0.20	-0.17	-0.33	1.00		
14	Speed x Leverage	0.02	0.07	-0.02	0.44	0.22	0.33	0.09	0.07	0.03	0.22	0.33	0.43	0.32	0.36	-0.15	1.00	
15	Lambda	0.30	1.04	-0.03	-0.12	-0.12	-0.13	-0.20	-0.24	-0.04	-0.06	-0.01	-0.05	0.01	0.05	0.05	-0.06	1.00

Table 3.2 shows the panel-data fixed-effects OLS we ran in order to obtain the instrumental variable of product diversification. Meanwhile, Table 3.3 exhibits the probit model of the decision of internationalization. Both analyses are based on the ones included in Chapter 1.

As the main goal of this study is the analysis of the shape that the relationship between internationalization and performance displays, and these stages are only instrumental, for the sake of brevity we only report the estimates.

Table 3.2. Product diversification instrument (fixed-effects OLS model)

VARIABLES	
Family ownership	-0.000508
	(0.000522)
Ownership concentration	-0.0711***
	(0.0198)
EBIT/Sales	-0.000751
	(0.00330)
Cash	-0.000452
	(0.000780)
No. recession months	-0.000407
	(0.00929)
Year dummies	Included
Industry dummies	Included
Firm dummies	Included
Constant	0.548***
	(0.111)
Observations	1,657
R-squared	0.067
Number of grupon	120

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 3.3. Heckman's first stage (probit model)

VARIABLES	
Size	2.302***
	(6.934)
Technological resources	0.210***
	(2.885)
Board ownership	-0.0199
	(-1.197)
State ownership	-0.00586
	(-0.174)
Foreign ownership	-0.000608
	(-0.0131)
Sales growth	-0.150**
	(-2.347)
Imitation	6.600
	(1.472)
Spanish GDP growth (3 years)	-0.125
	(-0.566)
Leverage	-1.845
	(-0.769)
Firm age	-0.182
	(-0.0805)
Product diversification	5.479
	(0.295)
CEO tenure	-0.291
	(-0.668)
CEO duality	-0.106
	(-0.162)
Year control	0.352**
	(2.454)
Industry dummies	Included
Constant	-23.54***
	(-3.732)
Observations	1,524
Number of grupon	119

z-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 4 displays the results from the fixed-effects OLS regressions in the second stage using three different models: the first one only includes the control variables, the

second one adds the main effects, and the third also comprises the interaction effects for the speed of internationalization.

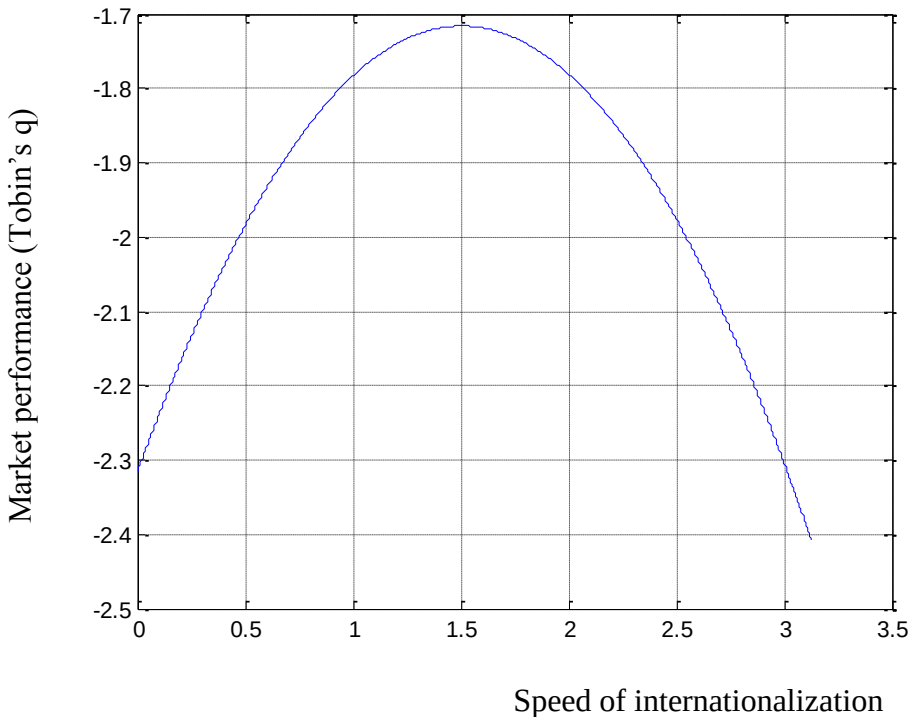
Table 3.4. Heckman's second stage (fixed-effects OLS model)

VARIABLES	Model 1 Control variables	Model 2 Independent variables	Model 3 Full model
Speed of internationalization		0.611***	0.796***
		(3.664)	(3.645)
Speed of internationalization^2		-0.193***	-0.264***
		(-3.328)	(-2.739)
Technological resources		-0.000196	-0.00268**
		(-0.189)	(-2.293)
International experience		-0.000460	-0.000954
		(-0.497)	(-0.773)
Cultural distance		-0.0614	-0.218*
		(-0.582)	(-1.740)
Product diversification		0.0348	0.103
		(0.0254)	(0.0753)
Foreign ownership		0.00132	0.00112
		(0.944)	(0.773)
Leverage		-0.540***	-0.569***
		(-3.404)	(-3.568)
Speed x Technological resources			0.00391***
			(2.875)
Speed x International experience			0.00249**
			(2.021)
Speed x Cultural distance			-0.478*
			(-1.687)
Speed x Product diversification			-2.536*
			(-1.771)
Speed x Foreign ownership			-0.00526*
			(-1.740)
Speed x Leverage			-0.486*
			(-1.678)
Size	-0.0343	-0.0300	-0.0255
	(-1.029)	(-0.823)	(-0.700)
Firm age	0.772***	0.828***	0.799***
	(2.759)	(2.871)	(2.744)
Imitation	-0.0281	-0.0620	0.114
	(-0.216)	(-0.442)	(0.761)
% wholly-owned subsidiaries	0.255***	0.271***	0.287***
	(2.812)	(2.984)	(3.129)
Spanish GDP growth (past 3 years)	0.0275	0.0147	0.0190
	(0.813)	(0.381)	(0.466)
Lambda	0.0230	0.0218	0.0293
	(1.201)	(1.108)	(1.479)
Constant	-2.050	-2.253*	-2.316*
	(-1.620)	(-1.746)	(-1.763)
Observations	1,039	1,039	1,039
R-squared	0.204	0.229	0.248
Number of grupon	78	78	78

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Consistent with Hypothesis 1, we observed that the relationship between the companies' speed of internationalization and their performance displays an inverted-U shaped pattern. Whereas low and moderate levels of speed have a positive influence on value creation, there is a threshold beyond which a rapid internationalization destroys value for the companies. Figure 3.2 shows that the maximum of the curve appears at 2 countries per year[7] ($\frac{\partial\, Tobin's\ q}{\partial\, X}$ = -0.2639227X^2+0.7959394X-2.31597 = 0).

Figure 3.2. Impact of the speed of internationalization on value creation



Our results also back Hypothesis 2 since the interaction term between the speed of foreign expansion of firms and their technological resources is positive and significant. In addition, evidence shows that the value creation of the firms is enhanced as the companies accumulate international experience, consistent with Hypothesis 3. Our estimates show support for Hypotheses 4 and 5 as well. Thus, the higher the need

[7] It should be acknowledged that speed is a continuous variable

for adaptation in the host country, the greater the value destruction for firms expanding at a fast pace. We also obtain support for Hypothesis 6, given the negative and significant coefficient of the interaction between the companies' speed of expansion and their level of foreign ownership. Regarding capital structure, our estimates back Hypothesis 7. Therefore, debt burdens the profitability of multinationals which rely heavily on this type of financing while undertaking an accelerated internationalization.

The figures displayed below show the combined impact of the main effect of speed and the interaction terms. As Figure 3.3 displays, firms which possess technological resources tend to perform better in the markets as their speed of internationalization increases. Furthermore, Figure 3.4 shows that even though international experience makes multinationals more profitable no matter what their speed, it specially boosts the performance of companies following a rapid internationalization.

Figure 3.3. Speed of internationalization effect on a firm's performance for different levels of technological resources

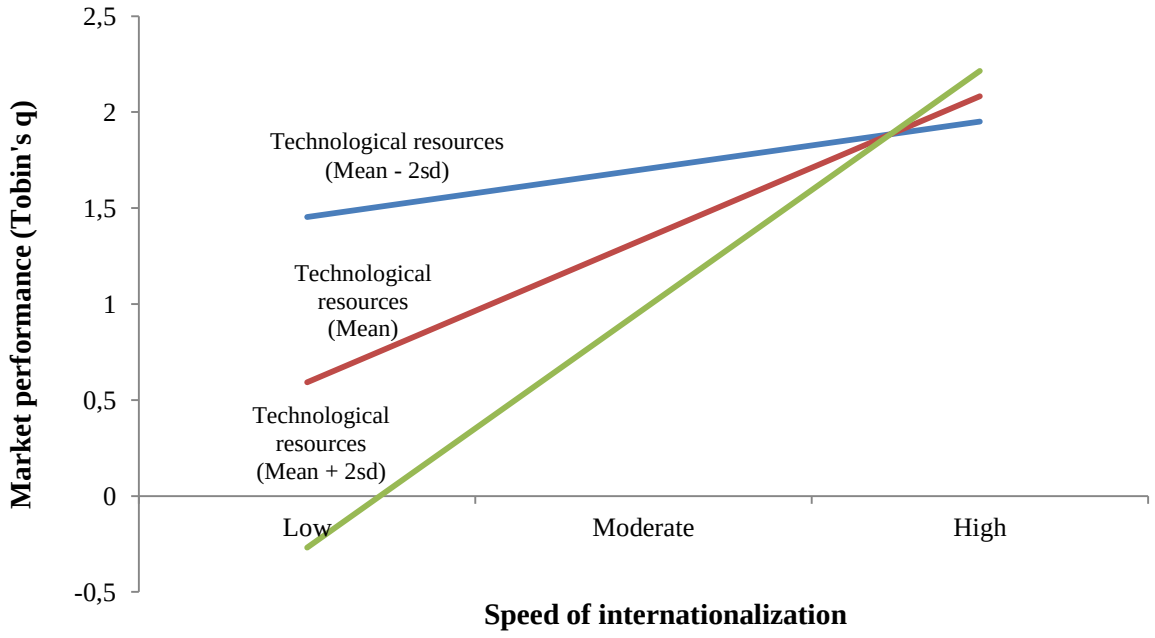
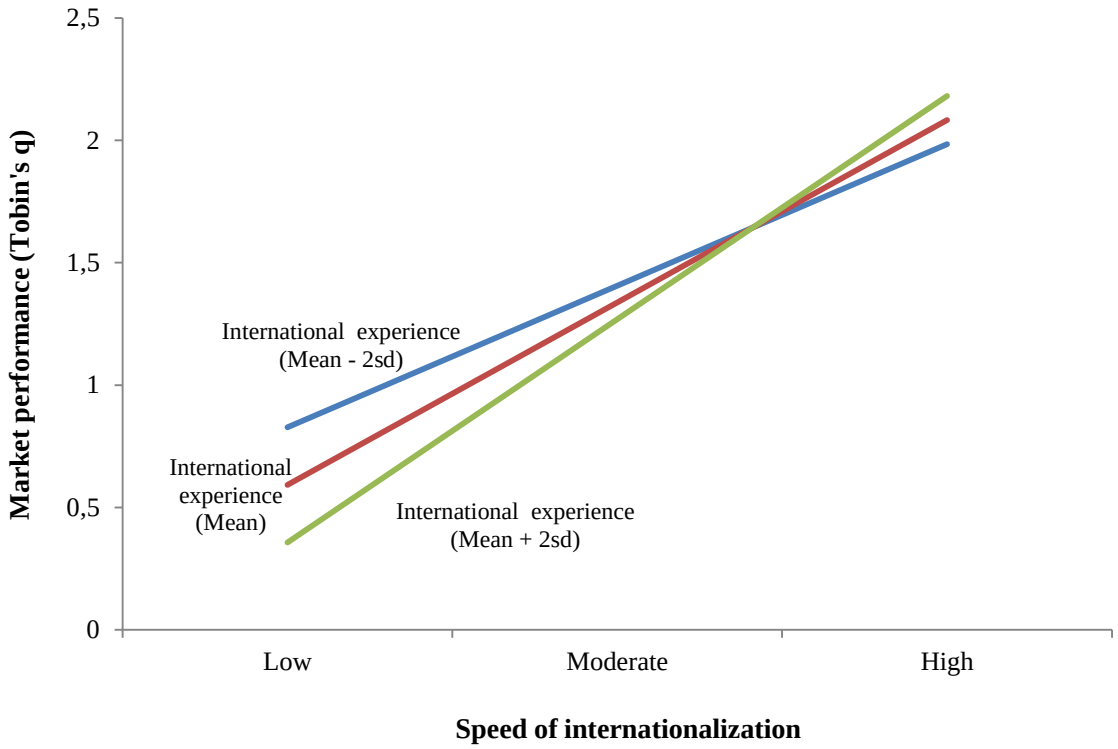


Figure 3.4. Speed of internationalization effect on a firm's performance for different levels of international experience



On the contrary, Figure 3.5 exhibits that multinationals which need to make major adaptations to operate because they enter culturally distant countries tend to create less value if they expand at a fast pace. This is also the case for companies which have undertaken unrelated product diversification since the more they accelerate the speed of their internationalization, the lower their market performance (Figure 3.6).

Figure 3.5. Speed of internationalization effect on a firm's performance for different levels of cultural distance

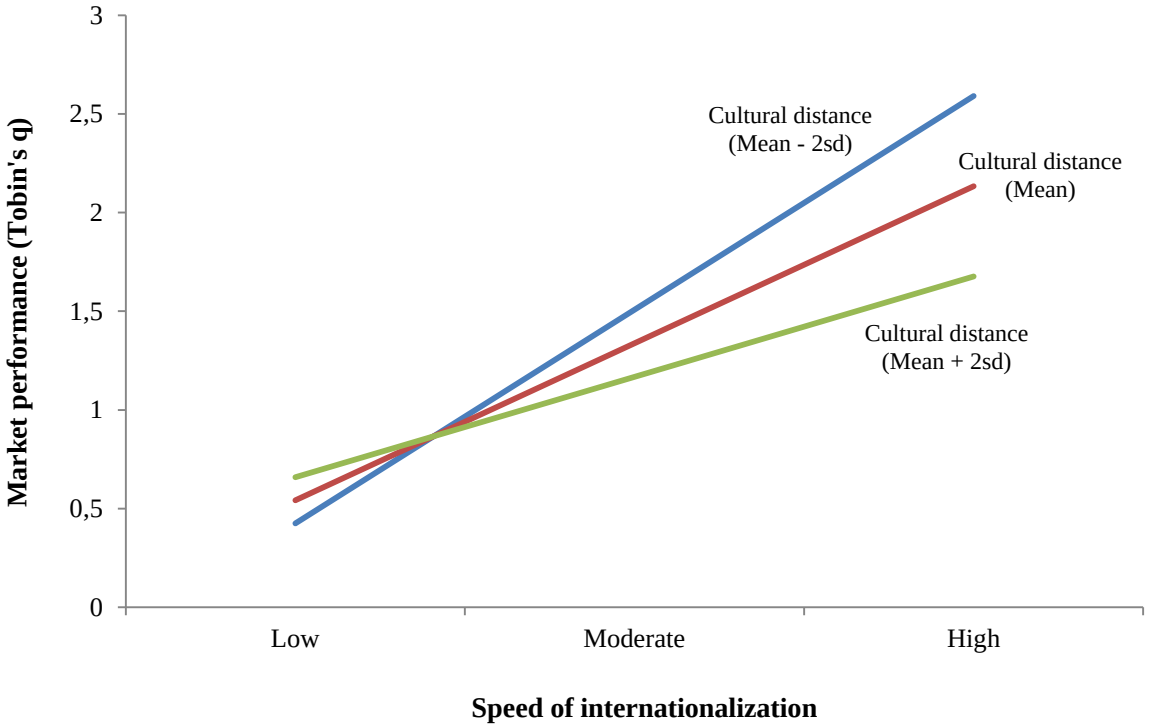
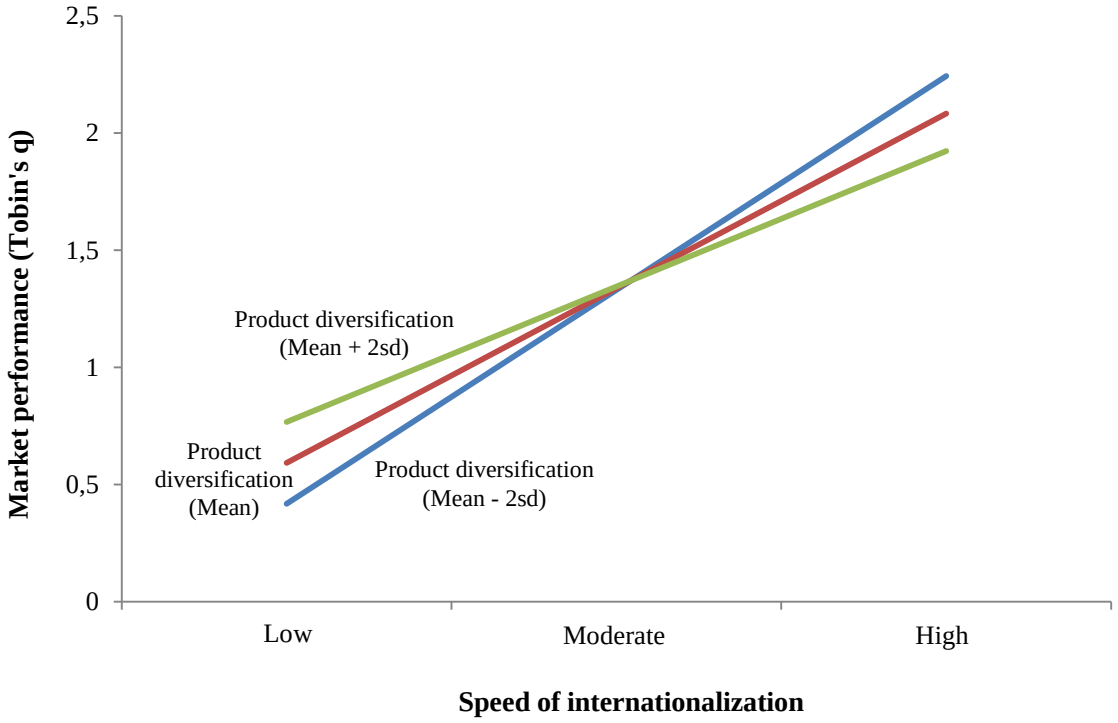


Figure 3.6. Speed of internationalization effect on a firm's performance for different levels of unrelated product diversification



Moreover, multinationals with limited growth expectations tend to create less value when following a rapid internationalization. Compared to those where foreign companies do not possess a large extent of the shares, firms with high levels of foreign ownership have a lower market performance when they speed up their international expansion (Figure 3.7). In the case of firms with high levels of leverage, they tend to underperform along their whole internationalization process but this negative effect is intensified as the speed of internationalization increases (Figure 3.8).

Figure 3.7. Speed of internationalization effect on a firm's performance for different levels of foreign ownership

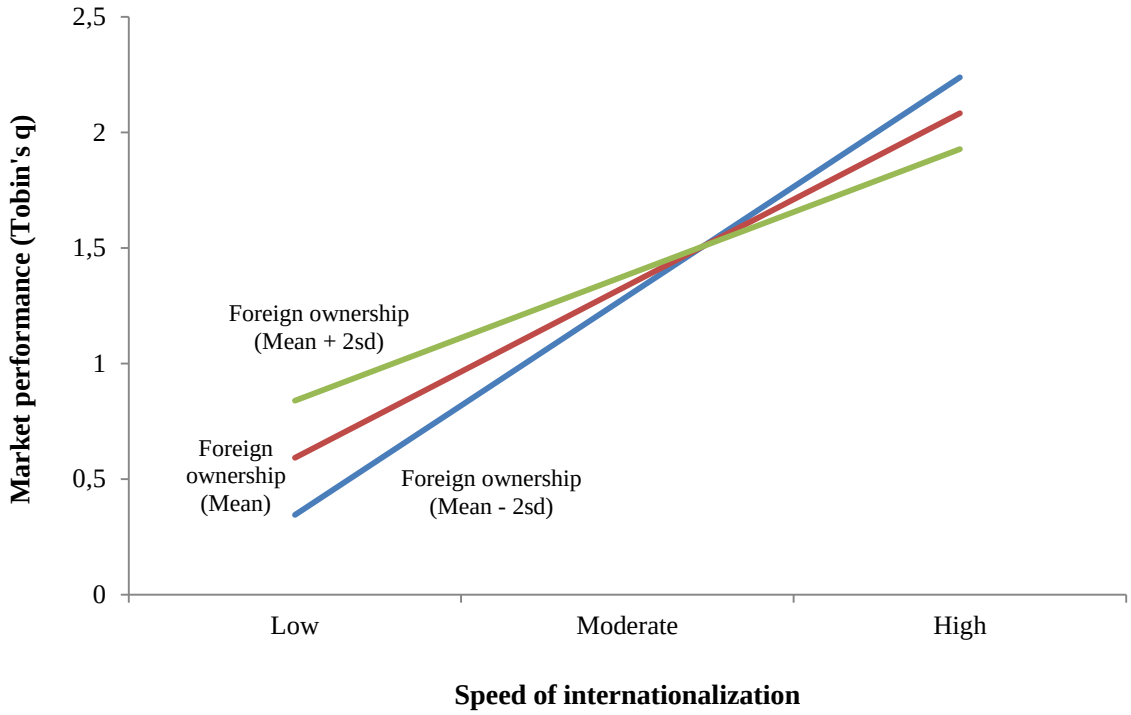
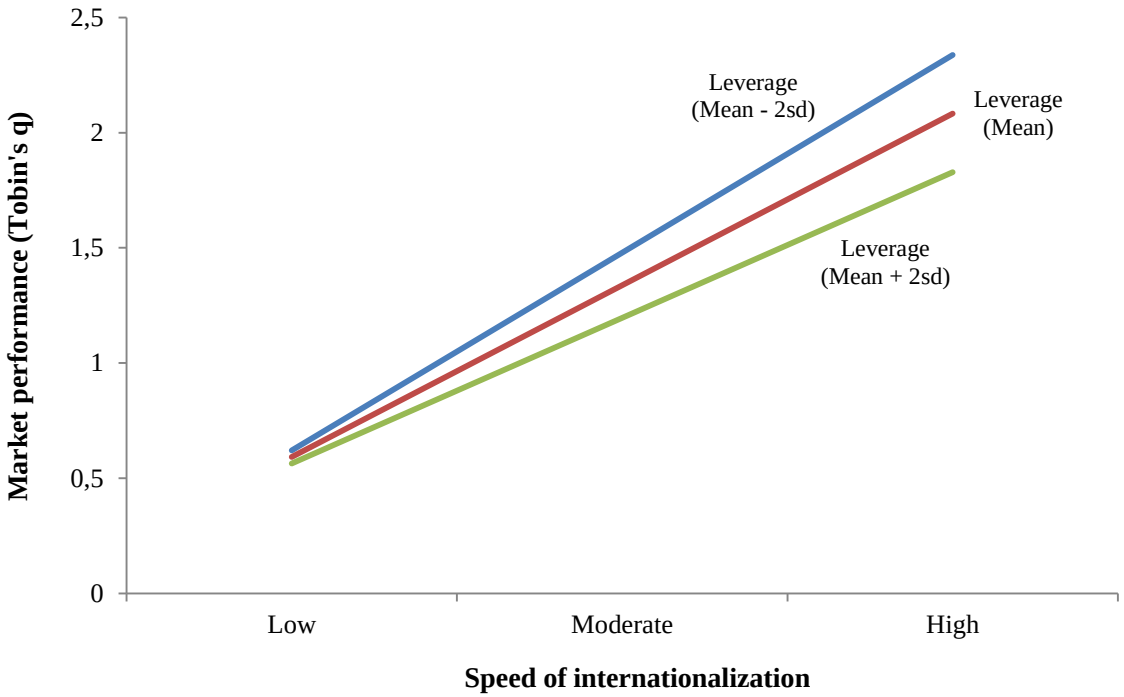


Figure 3.8. Speed of internationalization effect on a firm's performance for different levels of leverage



3.5. DISCUSSION AND CONCLUSION

Building on the resource-based view of the firm, our study aims to explain the impact that a rapid foreign expansion has on value creation as well as the boundary conditions for a profitable accelerated internationalization. We specifically argued that *latecomer firms* trying to catch up with established multinationals in the international markets may benefit from a rapid foreign expansion thanks to their ability to learn from past successes and mistakes of global leaders. However, there may be a threshold in the speed they can successfully achieve. Beyond this point, a higher pace of internationalization would destroy value for the multinationals due to the enhancement of time compression diseconomies. We expected that this maximum speed would vary depending on the resources and capabilities possessed by the firms as well as their need for adaptation in the countries they enter and future growth opportunities. The empirical

evidence we obtained after implementing a two-step Heckman technique (1979) to control for a potential endogeneity issue gave support to our hypotheses.

To a certain extent, our results advance previous research by reconciling the two opposing streams in the literature regarding speed of internationalization and performance. Instead of finding a positive or negative linear relationship, our estimates support an inverted U-shaped relationship between the two variables. Consistent with Chang and Rhee (2011) and Kumar *et al.* (2013) we find that certain kinds of firms can profit from a rapid foreign expansion. Obviously, our results are referred to a latecomer country, so our conclusions apply specially to latecomer multinationals, which have expanded abroad aggressively to catch up with world leaders (Mathews, 2006). Despite the fact that first-mover advantages have traditionally been argued to pose a barrier for potential followers (Lieberman and Montgomery, 1988, 1998), latecomers have proved that these barriers can be undermined and that waiting to move also has many advantages, as firms can learn from the mistakes of their predecessors (Forsgren, 2002). This has enabled them to successfully follow an accelerated foreign expansion. However, as they continue to speed up their internationalization process, time compression diseconomies are enhanced. This leads to a poorer performance, in line with empirical evidence supporting a gradual foreign expansion (Jiang *et al.*, 2014; Vermeulen and Barkema, 2002). Therefore, we can extract that there are limits to the effectiveness of the vicarious learning of the multinationals.

Although our results support that there comes a certain point beyond which a higher pace of foreign expansion destroys value for the firm, they also back that the negative slope of the relationship between speed of internationalization and market performance can be attenuated by the possession of valuable intangible assets and capabilities. Several studies have pointed out that companies which own a higher level

of technological resources perform better in the markets (Bae *et al.*, 2008; Morck and Yeung, 1991; Fernández, 1996). In this regard, some authors have emphasized that most *latecomer companies* seem to lack this kind of competitive advantage (Guillén and García-Canal, 2009; Ramamurti, 2012). For this reason, one of the main causes of the rapid internationalization of *latecomer multinationals* is the need to catch up with their more developed counterparts (Li, 2007; Mathews, 2002). In order to do this, they tend to invest in more developed countries (Guillén and García-Canal, 2010; Madhok and Keyhani, 2012). This may entail dealing with the *liability of inter-regional foreignness* since *latecomer multinationals* must often expand beyond their home region and thus could have problems transferring the firm-specific advantages they had already developed. Furthermore, the *liability of inter-regional foreignness* might be heightened if the firm carries out operations in foreign countries at a fast pace without the necessary time to properly overcome the difficulties it is facing. Therefore, our estimates complement the existing theory by showing that the lower the need of the multinational to complement and update its set of technological resources, the more value it creates when following a rapid FDI expansion.

International experience also helps diminish the negative impact a rapid foreign expansion can have on performance. However, unlike technological resources, its effect is smaller because the larger the foreign presence of the multinational, the less locations it has available to continue expanding and accumulating experiential learning. Nonetheless, firms which have gathered market knowledge through their operations in foreign countries tend to have better results because they are more capable of successfully overcoming the liabilities they find when entering a new country, either within or outside their home region (Mohr *et al.*, 2014). Furthermore, as multinationals expand abroad, they develop knowledge management capabilities which allow them to

process new information more efficiently and transfer it across the whole organization (Fernandes Crespo *et al.*, 2014).

Even though the set of resources and capabilities possessed by the firm can help increase the value it creates while following a rapid foreign expansion, there are certain factors which must be taken into account as potential enhancers of time compression diseconomies. Consistent with previous works which emphasize that as the level of complexity increases firms need more time to adapt their strategies (Adler, 2002; Hutzschenreuter and Horstkotte, 2013), we found that multinationals venturing into culturally distant markets or those which are also involved in unrelated product diversification create less value as the pace of foreign expansion increases. Although some authors have found that cultural distance may have a positive impact on performance due to the heterogeneity of resources that a firm can have access to (Kawai and Strange, 2014; Morosini *et al.*, 1998), they do not take explicitly into account the speed at which new entries are carried out. Considering the pace of foreign expansion, our results support the studies which link cultural distance to a poorer performance (Beugelsdijk *et al.*, 2014; Li and Guisinger, 1991; Luo and Park, 2001; Luo and Peng, 1999). Overcoming the *liability of foreignness* (Hymer, 1976) and the *liability of outsidership* (Johanson and Vahlne, 2009) every time a firm enters a new country takes time, especially if those countries are dissimilar to the home country of the multinational. Therefore, trying to speed up the internationalization process burdens the profitability of the company. The same happens with firms which operate in unrelated business segments. Despite having access to larger economies of scale and scope (Chang and Wang, 2007), the disadvantages they face when expanding abroad, especially if it is at a fast pace, surpass the benefits they can achieve. In this case, the main source of time compression diseconomies is the fact that they must find a fit

between their strategy and their external environment for a variety of products which possess little synergies among them. Taking these arguments into account, our study contributes to the existing literature by empirically proving that the success of a rapid foreign expansion is constrained by the need for adaptation which multinationals have when they enter a new country.

However, the need for adaptation to the conditions in the host country is not the only constraint multinationals face. Another important finding in this study is that companies which have limited growth opportunities also tend to underperform in the capital markets. We considered that there are two main limitations to the strategy a firm is able to follow: foreign ownership and leverage. Despite the fact that several studies have found that the parents of foreign-owned firms provide their subsidiaries with more freedom to develop their strategies (Ambos *et al.*, 2011; Birkinshaw, 1997), there are studies which challenge this argument (Buckley and Casson, 1976; Harzing, 1999; Johanson and Vahlne, 2012). According to them, companies might not carry out profitable foreign operations if they are not in the best interest of the company. This might especially happen when foreign-owned firms follow a rapid foreign expansion, since the headquarters may assume that their subsidiaries are trying to build an empire at the expense of the whole organization. Moreover, maybe even if they wanted to pursue these operations, they might be unable due to the large deployment of resources a rapid foreign expansion entails (Jiang et al, 2014). Apart from foreign-owned firms, highly leveraged multinationals can also lack the necessary financial resources that an accelerated foreign expansion requires. Besides having a restricted access to more debt, they must also pay higher interests (Bourgeois and Singh, 1983; Cheng and Kesner, 1997; Lin *et al.*, 2009). To sum the findings we obtained regarding foreign ownership and leverage, we can point that both can act as control mechanisms against potential

opportunistic behaviors. However, they might also both restrict a profitable growth of multinationals.

Taken our results as a whole, we can extract some relevant managerial implications from them. Our findings show that *latecomer firms* can profit from following an accelerated internationalization. However, managers should take into account that value creation achieved form speeding up the internationalization process has a limit, which would likely depend on the level of resources and capabilities of the firm, its need for adaptation, and its future growth prospects.

It must be acknowledged that we accounted for endogeneity in order to make our results robust to a potential self-selection bias by implementing Heckman's two-step estimation method (1979). However, our study does not lack limitations. First of all, we have used only secondary data, and thus we did not have access to primary data which could have been useful in having better measures of the variables studied. Furthermore, in our analysis we have only included publicly listed Spanish firms, so it could be interesting trying to replicate our results using a multi-country sample. Finally, we only analyzed the impact that the speed of entry in new countries has on value creation. However, we did not take into account the relationship between market performance and the speed at which operations were carried out in the countries the multinational had established its presence. Further research could also consider this variable to have a more complete picture of the impact of the firms' speed of internationalization on their performance in the markets.

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RESUMEN Y CONCLUSIONES

La presente tesis se centra en analizar las causas del establecimiento de filiales en el extranjero por parte de las empresas y sus consecuencias sobre los resultados empresariales. Específicamente, pretende dar respuesta a las siguientes preguntas de investigación: ¿cuáles son los determinantes de las estrategias de diversificación internacional?; ¿afecta el grado de expansión internacional a los resultados de todas las empresas por igual?; y, ¿qué efecto tiene la velocidad de internacionalización sobre las expectativas de beneficios empresariales que se forman en los mercados de capitales? A continuación se hace una síntesis de los objetivos, metodología y principales resultados de los estudios empíricos realizados en cada capítulo.

Resumen Capítulo 1

El primer capítulo tiene como objetivo analizar los desencadenantes de la internacionalización atendiendo a que las empresas operen en sectores regulados o no regulados. Aunque la regulación puede afectar a todos los sectores en cierta medida, consideramos sectores regulados aquellos en los que el gobierno puede decidir condiciones de entrada y precio, entre otros aspectos de la actividad empresarial (Henisz, 2000; Henisz y Williamson, 1999).

Tras revisar la literatura sobre el tema, los factores determinantes de la estrategia de diversificación geográfica encontrados en trabajos previos se sistematizan en tres categorías: posesión de ventajas competitivas (Barney, 1991, 2001; Buckley, 2014; Buckley y Casson, 1976; Dunning, 1993; Kogut y Zander, 1993), existencia de discrecionalidad directiva (Jensen y Meckling, 1976; Oesterle *et al.*, 2013; Sanders y Carpenter, 1998) y mantenimiento o refuerzo de la posición competitiva (Caves, 1971; Chen and Martin, 2001; Fuentelsaz *et al.*, 2002; Hymer, 1976; Kindleberger, 1969; Knickerbocker, 1973; Oesterle y Wolf, 2011; Wang *et al.*, 2012).

A partir de estos factores se desarrolla un marco teórico para analizar posibles diferencias entre sectores regulados y no regulados en cuanto al impacto de dichos factores. Tal y como propone la Teoría de Recursos y Capacidades, tener activos intangibles valiosos es un elemento clave para una internacionalización exitosa. Por esta razón se argumenta que, aunque la naturaleza de las ventajas competitivas pueda diferir entre las empresas reguladas y no reguladas, los recursos y capacidades que poseen influye positivamente en ambos casos en su decisión de salir al exterior.

Asimismo, se propone que el distinto grado de control por parte de los mercados también afecta a los incentivos que los dos tipos de empresas tienen para establecer filiales en el extranjero. Se considera que las empresas no reguladas están más sujetas a la disciplina de mercado, por lo que un aumento de la competencia o una deficiente situación económica en su país de origen que afectase al crecimiento de sus ventas propiciaría su salida al exterior con el objetivo de mantener su *statu quo* y no enviar señales negativas a los mercados.

En el caso de empresas reguladas, el apoyo por parte de los entes reguladores amortiguaría o neutralizaría esas amenazas a su posición competitiva. Debido a ello, se sugiere que para este tipo de empresas el principal desencadenante de su internacionalización es la discrecionalidad directiva. No obstante, también se argumenta que si el mercado en el que operan se liberalizase, el aumento de la competencia también incrementaría sus probabilidades de establecerse en el extranjero. Por tanto, podría decirse que si bien las empresas de sectores no regulados sufren amenazas competitivas, las amenazas de las compañías de sectores regulados son de carácter regulatorio, es decir, de desregulación o liberalización de sus mercados.

El análisis empírico llevado a cabo utilizando una muestra de 120 empresas españolas admitidas a cotización oficial en la Bolsa de Madrid en 1990, con datos de panel para el periodo 1986-2010, confirma las hipótesis planteadas en el capítulo. Los resultados demuestran que poseer una ventaja competitiva afecta a la decisión de establecer filiales en el extranjero con independencia del sector en el que operan las empresas. Asimismo, nos permiten afirmar que la existencia de amenazas competitivas solo afecta a la internacionalización de empresas no reguladas, debido a su sujeción a la disciplina de mercado. Los resultados sugieren que para las empresas de sectores regulados las amenazas son de carácter regulatorio. Por tanto, a falta de una liberalización de sus mercados, la discrecionalidad directiva es el principal determinante de su internacionalización.

Resumen Capítulo 2

Una vez analizados los determinantes de la internacionalización de empresas reguladas y no reguladas, el Capítulo 2 se dedica al estudio del efecto que tiene el grado de internacionalización en la rentabilidad empresarial. Tal y como ocurría en el Capítulo 1, los resultados de estudios previos tampoco son concluyentes en este ámbito. Por este motivo, se pretende examinar si la industria en que operan las empresas influye en la relación. En concreto, al igual que en el Capítulo 1, se distingue entre sectores regulados y no regulados, manteniendo la definición de sector regulado previamente utilizada.

En el modelo teórico propuesto se argumenta que tanto empresas reguladas como no reguladas pueden sufrir dificultades al inicio de su expansión que afectan negativamente a su rentabilidad, bien por carecer de experiencia internacional, bien por carecer de experiencia y contactos en el país de destino. No obstante, conforme operan en el extranjero adquieren experiencia internacional y consiguen integrarse en las redes

relevantes de proveedores, distribuidores o consumidores, entre otras, lo cual repercute de manera positiva en sus resultados.

Si bien se sugiere que lo descrito en el párrafo anterior puede aplicarse tanto a empresas de sectores regulados como no regulados, también se propone que el diferente potencial de economías de agregación de sus actividades internacionales provoca que elevados niveles de presencia en el extranjero tengan diferente impacto sobre sus resultados.

Aplicando el enfoque del *Triángulo AAA* propuesto por Ghemawat en 2008, las compañías de sectores no regulados tienen más posibilidades de agregación que las de sectores regulados, las cuales tienden a verse obligadas a adaptarse a las distintas regulaciones de los países en los que invierten. Aunque un mayor grado de agregación permite disfrutar más rápidamente de economías de escala y gama, también aumenta la complejidad en el diseño e implantación de la estrategia de la empresa e incrementa los costes de control. Por esta razón, se propone que en la relación entre el grado de diversificación de las empresas no reguladas y sus resultados existe un umbral tras el cual un aumento de su presencia internacional reduce su rentabilidad.

De este modo, en el capítulo 2 se plantean dos hipótesis. En la primera se propone que en industrias reguladas la relación entre el grado de internacionalización de una compañía y su rentabilidad sigue una forma de U, con un descenso en la rentabilidad cuando la empresa tiene una presencia internacional reducida y un incremento para niveles elevados de expansión en el extranjero. La segunda se refiere a las compañías de industrias no reguladas, donde se argumenta que la relación entre internacionalización y resultados sigue una forma de S horizontal, siendo niveles

moderados de presencia en el extranjero los que aportan una mayor rentabilidad a las empresas.

Estas hipótesis se contrastan y confirman utilizando un modelo de Heckman en dos etapas (1979) sobre una muestra de empresas españolas admitidas a cotización oficial en la Bolsa de Madrid en 1990, con datos de panel para el periodo 1986-2010. Además, se realizan diversas pruebas adicionales que avalan la robustez de los resultados. Por tanto, la evidencia empírica obtenida permite afirmar que la relación entre diversificación geográfica y resultados es más lineal en sectores regulados y que existen límites a las estrategias de agregación que las empresas de sectores no regulados pueden seguir.

Resumen Capítulo 3

En el Capítulo 3 se pretende analizar el efecto de la velocidad de internacionalización sobre la rentabilidad. Al igual que ocurría en los anteriores capítulos, los resultados en este ámbito también distan de ser concluyentes. Mientras que algunos trabajos defienden que las empresas se benefician de la internacionalización únicamente cuando esta se realiza de manera gradual (Jiang *et al.*, 2014; Johanson y Vahlne, 1977; Johanson y Wiedersheim-Paul, 1975; Vermeulen y Barkema, 2002), nuevos estudios demuestran que empresas que se expanden en el exterior de manera acelerada también son capaces de mantener e, incluso, mejorar su rentabilidad (Chang y Rhee, 2011; Kumar *et al.*, 2013).

Partiendo de la Teoría de Recursos y Capacidades, este estudio busca conciliar estos dos tipos de relaciones lineales, dando lugar a una relación curvilínea en forma de U invertida. Se propone que una internacionalización acelerada crea valor para los accionistas pero solo hasta que se alcanza un determinado umbral, tras el cual los

efectos negativos de las deseconomías de compresión del tiempo (Dierickx y Cool, 1989) superan a las ventajas de una mayor velocidad de expansión internacional, provocando así una reducción en la rentabilidad de mercado.

Adicionalmente, en este capítulo se proponen tres tipos de límites a la velocidad de internacionalización: carencia de recursos y capacidades, elevada necesidad de adaptación al país de destino y restricciones a las oportunidades de crecimiento de la empresa.

De este modo, se argumenta que las empresas que cuentan con un mayor nivel de recursos intangibles, especialmente de carácter tecnológico, tienen una menor necesidad de actualizarlos y complementarlos durante su expansión internacional. Asimismo, no son tan propensas a sufrir deseconomías de compresión del tiempo y pueden alcanzar una mayor velocidad sin que ello repercuta negativamente en sus resultados. Lo mismo ocurre con las multinacionales que poseen experiencia internacional: además de contar con conocimientos acerca de cómo operar en el extranjero, también tienen desarrollada una mayor capacidad para captar y asimilar nueva información. Esto influye de manera positiva en su rentabilidad, especialmente cuando se sigue una internacionalización acelerada.

Asimismo, se propone que una mayor necesidad de adaptación al país de destino tiende a reducir e, incluso, a destruir valor para los accionistas, en especial cuando la velocidad de internacionalización es elevada. Cuanto mayor es la distancia cultural entre el país de origen y el de destino y cuanto mayor es el grado de diversificación de producto de la empresa, más tiempo necesitan sus directivos para desarrollar una estrategia que les permita beneficiarse de su presencia en el extranjero. Tratar de acortar

este proceso conduciría a la amplificación de las deseconomías de compresión del tiempo y, con ello, a una reducción en la rentabilidad.

Finalmente, se argumenta que las restricciones a las posibilidades de crecimiento futuro también afectan de manera negativa a la rentabilidad, especialmente cuando se está siguiendo una expansión internacional acelerada. En este sentido, se sugiere que las limitaciones se relacionan con una falta de libertad en la elaboración de la estrategia, bien por estar sometido a las decisiones de una sede central (en el caso de empresas de propiedad extranjera), bien por la existencia de restricciones financieras (en el caso de compañías altamente apalancadas).

Tras el desarrollo de un modelo teórico y el planteamiento de las hipótesis a contrastar, se lleva a cabo el análisis empírico. Al igual que en el Capítulo 2, se utiliza un modelo de Heckman en dos etapas (1979) sobre una muestra compuesta por las empresas españolas admitidas a cotización oficial en la Bolsa de Madrid en 1990, con datos de panel para el periodo 1986-2010. Los resultados obtenidos confirman las hipótesis planteadas, permitiéndonos afirmar que la relación entre la velocidad de internacionalización y la rentabilidad de mercado sigue una forma de U invertida, la cual se ve moderada por el nivel de recursos y capacidades que la empresa posee, su necesidad de adaptación al país de destino y sus expectativas de crecimiento futuro.

CONCLUSIONES

En los siguientes párrafos se recogen las principales conclusiones extraídas de los estudios realizados. Con el objetivo de evitar redundancias, no se exponen ni las limitaciones ni las líneas futuras de investigación, pues ya aparecen detalladas en cada capítulo.

Conclusiones del Capítulo 1

El Capítulo 1 contribuye a avanzar en el estudio de los motivos de la internacionalización al analizar si existen diferencias entre las razones por las que las empresas de sectores regulados y no regulados establecen filiales en el extranjero.

Nuestros resultados, en línea con la Teoría de Recursos y Capacidades (Barney, 1991, 2001; Penrose, 1959; Peteraf, 1993; Wernerfelt, 1984), demuestran que la posesión de una ventaja competitiva es un factor determinante en la decisión de diversificación geográfica en ambos tipos de sectores.

Asimismo, complementan trabajos previos relacionados con la Teoría de la Agencia (Jensen y Meckling, 1976; Oesterle *et al.*, 2013; Sanders y Carpenter, 1998) y la Teoría de la Organización Industrial (Buckley, 2006; Dunning y Pitelis, 2008; Hymer, 1976; Kindleberger, 1969; Knickerbocker, 1973; Oesterle y Wolf, 2011). La evidencia empírica obtenida apunta a que la menor protección regulatoria, y por lo tanto la mayor exposición a amenazas competitivas, motiva a las empresas de sectores no regulados a internacionalizarse. Por el contrario, la menor exposición a este tipo de amenazas en el caso de las empresas reguladas incentiva en menor medida a sus directivos a expandirse internacionalmente. Nuestros resultados muestran que la principal amenaza que fuerza a las empresas reguladas a internacionalizarse son los

procesos de liberalización o desregulación de estos mercados, que impulsarían a sus empresas a salir al exterior al suprimir la protección regulatoria.

Al mismo tiempo, este capítulo respalda los resultados de estudios previos que argumentan que la diversificación geográfica es una variable endógena (Dastidar, 2009; Oh y Contractor, 2014), al evidenciarse que la internacionalización no es un atributo empresarial aleatoriamente distribuido, sino una decisión deliberada tomada por las empresas en respuesta a factores internos y externos. Por último el capítulo confirma el papel de los procesos de desregulación como elemento desencadenante de los procesos de internacionalización de las empresas de sectores regulados.

Conclusiones del Capítulo 2

El Capítulo 2 contribuye a la literatura que analiza la relación entre el grado de internacionalización y los resultados empresariales. La evidencia empírica obtenida demuestra que el nivel de presencia en el extranjero no tiene las mismas consecuencias en la rentabilidad de empresas reguladas y no reguladas.

La relación entre estas dos variables es más lineal para empresas reguladas, pues elevados niveles de presencia internacional no repercuten de manera negativa en su rentabilidad, como ocurre en el caso de empresas no reguladas. Su adaptación a las distintas regulaciones de los países de destino de sus inversiones y la consiguiente estrategia multidoméstica que impone dicha adaptación son los principales factores responsables de esta mayor linealidad.

En efecto, las empresas que operan en sectores no regulados tienden a agregar sus operaciones en el extranjero con el objetivo de alcanzar economías de escala y gama más rápidamente. Sin embargo, los resultados del análisis realizado permiten afirmar que existen límites a esta estrategia de agregación. En primer lugar, mayores niveles de

integración de las actividades crean un mayor número de nexos entre las operaciones, lo cual incrementa la complejidad y los costes de coordinación. Además, cuanto mayor es la distancia cultural con el país de destino de las inversiones, mayor debe ser el grado de adaptación de sus productos, mucho menos homogéneos que los ofrecidos por empresas reguladas.

El elevado grado de integración que las multinacionales de sectores no regulados pueden llegar a alcanzar no solo penaliza su rentabilidad económica cuando cuentan con una extensa presencia en el extranjero, sino también sus expectativas de creación de valor en los mercados. Los resultados apuntan a que los inversores asumen que los obstáculos que suelen aparecer al inicio de la internacionalización son transitorios, pues la empresa puede solucionarlos mediante la acumulación de experiencia internacional. Sin embargo, consideran que los problemas derivados de traspasar un determinado umbral de diversificación tienen un carácter más permanente.

Conclusiones del Capítulo 3

Los resultados obtenidos en el Capítulo 3 contribuyen a conciliar resultados previos relacionados con el efecto de la velocidad de expansión internacional en los resultados empresariales. Se demuestra que una internacionalización acelerada crea valor hasta que los efectos negativos de las deseconomías de compresión del tiempo neutralizan los beneficios de una mayor velocidad de expansión, lo cual da lugar a una relación entre las dos variables en forma de U invertida. Esta contribución está especialmente referida al caso de multinacionales consideradas como *latecomers* en el ámbito internacional. Estas empresas pueden aprender de los errores de sus predecesores, consiguiendo minimizar el impacto negativo de una internacionalización

acelerada. No obstante, tal y como apunta la parte negativa de esta relación, existen límites a la efectividad de este tipo de conocimiento.

El marco teórico desarrollado permite profundizar en el estudio de las condiciones que determinan el éxito de una internacionalización acelerada. En primer lugar, la posesión de recursos y capacidades permite alcanzar una mayor velocidad de expansión en el extranjero. Específicamente, las multinacionales que cuentan con recursos tecnológicos y experiencia operando en mercados internacionales tienden a crear más valor cuando aumentan su velocidad de internacionalización. Estos resultados, por tanto, complementan a los obtenidos en el Capítulo 1: contar con una amplia base de recursos no solo determina la salida al exterior de las empresas, sino también la rentabilidad que obtienen de ella.

No obstante, no todos los factores atenúan la relación negativa entre velocidad de internacionalización y creación de valor. El análisis realizado pone de manifiesto que una mayor necesidad de adaptación al país de destino, bien por la existencia de diferencias culturales, bien porque la empresa también cuenta con una cartera de productos diversificada, requiere tiempo para el desarrollo de una estrategia apropiada. Debido a ello, cuando las compañías llevan a cabo numerosas entradas en distintos países en un breve espacio temporal, las deseconomías de compresión del tiempo aumentan y, como consecuencia, acentúan la pendiente negativa de la relación.

Adicionalmente, los resultados muestran cómo las restricciones a las posibilidades de crecimiento futuro también constituyen un obstáculo a una expansión acelerada exitosa. Los límites a la libertad en la elaboración de una estrategia, a causa de ser una filial que depende de una sede central o de tener dificultades en el acceso a

financiación, también provocan que se destruya más valor cuando se sigue una internacionalización acelerada.

En resumen, este trabajo avanza en el estudio del impacto que tiene la velocidad de internacionalización en los resultados de las empresas. Específicamente, los resultados confirman que esta relación no es lineal, sino que existe una velocidad de expansión internacional óptima, la cual viene moderada por el nivel recursos y capacidades que posea la empresa, su necesidad de adaptación al país en el que invierte y sus expectativas de crecimiento futuro.

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A modo de resumen final, las principales contribuciones que pueden extraerse de esta tesis doctoral son las siguientes:

- La evidencia empírica recogida en este estudio permite afirmar que la decisión de internacionalización, al igual que la de diversificación de producto, tiene un carácter endógeno. Las empresas se autoseleccionan cuando deciden invertir en el extranjero, lo cual debe ser tenido en cuenta a la hora de analizar el impacto de la internacionalización sobre sus resultados.

- Las evidencias presentadas permiten avanzar en el estudio de los motivos de la diversificación geográfica. Se ha comprobado que existen diferencias en los motivos que conducen a las empresas a invertir en el extranjero, principalmente por la existencia de distintos tipos de amenazas sobre la posición competitiva que ostentan en el mercado.

- Asimismo, se contribuye a arrojar más luz sobre el efecto que tiene un determinado grado de internacionalización sobre la rentabilidad, tanto

económica como de mercado, de las multinacionales de sectores regulados y no regulados. Los resultados obtenidos sugieren que la mayor complejidad que conlleva supervisar las operaciones internacionales de las empresas no reguladas hace que exista un límite en el grado de presencia internacional que pueden mantener de manera rentable.

- Este trabajo también hace una importante aportación relacionada con el impacto de la velocidad de internacionalización en la rentabilidad de las empresas, pues la evidencia empírica obtenida concilia los resultados de trabajos previos. De este modo, la relación entre las dos variables muestra una forma no lineal de U invertida. Por tanto, puede afirmarse que existe una velocidad de internacionalización óptima.

- Finalmente, los resultados obtenidos apuntan a los siguientes factores como límites al éxito de una internacionalización acelerada: escasez de recursos y capacidades, necesidad de adaptación al país de destino y restricciones a las expectativas de crecimiento futuro.

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