SPANISH COMPANY FOREIGN MARKET ENTRY[*]

Felipe Ruiz and Francisco J. Mas[**]

WP-EC 2003-10

Correspondence to: Felipe Ruiz Moreno, Dpto. Economía Financiera, Contabilidad y Marketing, Universidad de Alicante, Campus San Vicente del Raspeig, E-03071 Spain, Tel.: +34 965 903621, Fax: + 34 965 903621, Felipe.ruiz@ua.es.

SPANISH COMPANY FOREIGN MARKET ENTRY

Felipe Ruiz and Francisco J. Mas

ABSTRACT

The aim of this paper is to analyse the determinants of diversification mode (acquisition versus greenfield) through foreign direct investment considering various theories, such as those of mergers and acquisitions, transaction costs, the learning organisation, the institutional context of the company and the cultural environment of the host country, and to analyse the determinants of entry mode combining diversification mode with ownership structure decision (greenfield wholly-owned subsidiaries, greenfield joint ventures, full acquisition and partial acquisition) and proposing various research hypotheses. The methodology used estimates various binomial and multinomial logit models, over a sample of 141 Spanish manufacturing companies between 1998 and 2000, finding that entry mode into a foreign country through direct investment is mainly explained by related diversification, international and local experience, advertising intensity, cultural distance, company size and ownership structure.

Keywords: international marketing, entry mode, foreign direct investment, joint-venture, acquisition.

RESUMEN

El propósito de este trabajo consiste en analizar, por un lado, los determinantes del modo de diversificación (adquisición versus desarrollo interno) de la inversión directa en el exterior considerando diversas aproximaciones teóricas, como las de fusiones y adquisiciones, costes de transacción, del aprendizaje organizativo, así como del contexto institucional de la empresa y del entorno cultural del país receptor. Por otro lado, se examinan los determinantes de la inversión directa exterior combinando el modo de diversificación con la estructura de la propiedad empresarial (adquisición total, adquisición parcial, filial de plena propiedad y filial de propiedad compartida) proponiendo diversas hipótesis de investigación. La metodología aplicada estima diversos modelos logit, binomial y multinomial, sobre 141 empresas españolas manufactureras entre 1998 y 2000, detectando que el modo de entrada mediante inversión directa exterior viene explicada por la diversificación relacionada, la experiencia internacional y local de la empresa, la intensidad publicitaria, la distancia cultural, así como por el tamaño y estructura de la propiedad de la empresa.

Palabras clave: marketing internacional, modo de entrada, inversión directa en el exterior, joint-venture, adquisición.

1.   Introduction

International expansion is a business decision triggered by, amongst other things, the saturation of current markets, opportunities in other markets that can be exploited through the company's resources or competitive reactions to similar movements by competitors (Ramsler, 1982). Also, entry into a foreign market entails important decisions on the country/countries involved and the sequence and mode of entry. In particular, the decision on the entry mode constitutes a fundamental aspect of international marketing (Bradley and Gannon, 2000) and implies a determination of the structural nature of a company's operations in the target country (Osland et al, 2001), insofar as entry modes differ with respect to the degree of company control over the foreign operation, the resources assigned and the potential profits to be taken (Caves, 1982; Bradley and Gannon, 2000). Entry modes such as exports and licensing are associated with lower levels of risk and of control over the marketing and operational strategies of the expansion. Conversely, entry modes which require foreign direct investment (FDI) allow greater control[1] but they bring with them additional risk (Taylor et al., 2000). As far as FDI is concerned, a company must consider two dimensions (Hennart and Park, 1993; Barkema and Vermeulen, 1998): the establishment mode of the FDI that is denominated as diversification mode by Brouthers and Brouthers (2000) and, the ownership structure of the investment.

i) The diversification mode[2] of the FDI, distinguish the pure strategies (Barkema and Vermeulen, 1998) of acquiring a local company (acquisition) and creating a new subsidiary (also being known as greenfield, de novo or internal development investment). In other words, companies should opt for purchasing at least part of the equity of an existing company with established resources in a foreign market[3] or setting up a subsidiary from scratch. In either case, authors like Hennart and Park (1993), Barkema and Vermeulen (1998) and Brouthers and Brouthers (2000), hold that there is no

---

[1] FDI gives a company stable and effective participation and influence over management (Durán, 1999), due to the fact that the process implies the management of production plants or distribution centres located in at least two countries which gives the company its multinational character (Caves, 1996).

[2] See Slangen and Hennart (2001) for a broader review of the literature on this decision.

[3] This aspect has also been studied in the context of national expansion, known as internal growth or acquisition. Its determinants are market structure and the characteristics of the company (Yip, 1982).

coherent theoretical development with respect to the determinants which affect the choice of diversification mode (acquisition versus greenfield investment) for foreign market entry.

The transaction costs theory, known as the theory of internalisation (Buckley and Casson, 1976; Caves, 1982), analyses the characteristics of a transaction in order to choose the most efficient entry method (high transaction costs favour internationalisation from within the company, i.e. through subsidiaries), thus benefiting from imperfections in the market[4] due to the presence of differences in national resources (Hennart and Park, 1993; Cho and Padmanabhan, 1995). However, Brouthers and Brouthers (2000), based on suggestions made by Robins (1987) and Kogut and Singh (1988), consider that the transaction costs theory is insufficient to fully explain the choice of diversification mode. Therefore, they propose a combination of the above theory and contributions from the institutional context of the company[5] and from the cultural context[6]

---

[4] Imperfections of the market constitute the fundamental element of the transaction costs theory, which originates from the work of Coase (1937) and Williamson (1975, 1981). Essentially, a multinational company has various advantages known as "excess resources" (Chatterjee, 1990), which come from intermediate markets (human resources, raw materials, information, etc.) and, especially, from intangible assets like know-how and experience. The motivation to enter foreign markets comes from the possibility of exploiting these advantages efficiently and benefiting from the differences between different national markets (Madhok, 1997). The specific nature of a company's advantages is a fundamental factor when determining whether it should enter a foreign market by means of acquisition or greenfield investment. A company is more likely to choose greenfield investment when the specific advantages it wishes to exploit abroad are difficult to separate from the company's organisation and are intrinsic to its workforce (Hennart and Park, 1993). In this way, it assures itself of exclusivity and control over its specific advantages. On the other hand, a company is more likely to opt for the acquisition of an existing company in the target market when its specific advantages are easily separable from the organisation or simply when it does not have the specific advantages or resources necessary to enter the market and they would be difficult or impossible to develop in the short term (Hennart and Park, 1993). In this way, the company gains access to resources which substitute their greenfield investment (Hitt et al., 1996), although it incurs the additional costs or premiums which come with acquisitions as well as management costs deriving from the integration of the new company into the company structure and the fact that it may acquire more assets than it needs . (López and García, 1998a).

[5] The institutional context of a company, also known as organisational capabilities (Madhok, 1997, 1998), is motivated, not only by the exploitation of the existing capabilities of each company, thus benefiting from market imperfections (upheld by the transaction costs theory), but also by the increment or development of capabilities (Brouthers and Brouthers, 2000); including both the intangible (capabilities) and the tangible (resources) of the company which become a source of competitive advantages or disadvantages. This means that, the institutional context broadens the focus of cost minimisation (of transaction) to also incorporate the management of the value of assets (Madhok, 1997). Basically, this theory considers a company as a basket of abilities and knowledge where skills, organisation, and technology are interrelated, so that its management represents a dynamic process or of routines in which information management is fundamental (company skills of acquiring, evaluating, assimilating, integrating, diffusing, deploying and exploiting knowledge) in order to extend its international activities (Madhok, 1998). The main consideration when determining the entry mode comes from the compatibility between existing company practices and those needed to succeed in a certain market. So, internationalisation through subsidiaries gives an advantage when the company has solid knowledge and the necessary practices for implementation costs to be low; whereas a company prefers to integrate its knowledge with that of others when it lacks the necessary abilities as learning in the new contexts would be discouraging in terms of costs and time.

of the target countries. The learning organisation theory[7] (Fiol and Lyles, 1985; Huber, 1991) also allows an analysis of the choice of diversification mode of a multinational based on the role of product and market diversity in the development of knowledge and technological capability through learning and experience (Barkema and Vermeulen, 1998). Finally, the theory of mergers and acquisitions has explored the preference for acquisitions over mergers (Ravenscraft and Scherer, 1987), making it transferable to choice of diversification mode (Hennart and Park, 1993).

ii) From the perspective of the ownership structure of the FDI, we can distinguish between full and partial control of subsidiaries (Stopford and Wells, 1972; Gatignon and Anderson, 1988; Kogut, 1988; Gomes-Casseres, 1989; Hennart, 1988, 1991; Agarwal and Ramaswami, 1992; Erramilli and Rao, 1993; Azofra and Martínez, 1999; Pla, 1999) according to whether a company expands alone (as a wholly-owned subsidiary) or with partners (joint venture[8]), respectively. The justification for joint ownership comes, from the point of view of transaction costs, from the possession of too few or inappropriate assets to enter a foreign country (Hennart and Park, 1993). This shortfall is often of tactical assets (knowledge of the market, distribution networks or the particular needs of local clients) and is, therefore, difficult to transfer or be generated within the company (López and García, 1998a). Recently, authors such as Mutinelli and Piscitello (1998), Delios and Beamish (1999) and Brouthers (2002) have also justified this focus of ownership structure, extending the transaction costs theory with the institutional context of the company and the culture of the country.

---

[6] The cultural context of a country (Brouthers and Brouthers, 2000; Robins, 1987; Kogut and Singh, 1988) helps to define the potential profits and/or risks associated with a specific entry mode. Cultural context has an effective influence on a multinational's entry mode due to the impact of the environment on assigned resources and strategic flexibility (Hill et al., 1990).

[7] The learning organisation theory considers that a company operating in diverse national settings and product settings can develop its technological capabilities, given that these new markets bring to the company new consumer needs and new possibilities for testing its technology. However, learning and the creation of capabilities, consequence of this variety of markets, is subject to organisational limits to the joint use of information. In this way, companies with superior technological capability are less inclined towards acquisitions instead of greenfield investments in the following situations (Barkema and Vermeulen, 1998): i) when existing companies have little to offer in terms of technological skills; ii) if the acquiring company has superior technological capability, it could be difficult or impossible to transfer this capability into the acquired companies because of organisational inertia (which impedes the adaptation to new technological practices as this requires the acquired company to learn new organisational rules, procedures, conventions and strategies -Levitt and March, 1988-)

[8] A joint venture is defined as an independent organisation created through financial and other contributions from the companies concerned and which carries out one or more of the activities of interest of these companies (Rialp and Rialp, 1996). Each entity shares the ownership, management, risks and profits of the newly formed entity (Osland et al, 2001).

However, only the studies of Barkema and Vermeulen (1998) and López and García (2002a) have considered the combination of both points of view (diversification mode and ownership structure), analysing the determinants of the four alternatives of FDI[9]: the full acquisition of an already existing company in the foreign market, the partial acquisition of a company, which is sufficient to confer control to the acquiring company, the wholly-owned subsidiary through greenfield investment, and the creation of a shared ownership new subsidiary through greenfield investment (the latter being known as joint venture) (Kogut and Singh, 1988). Basically, this line of research provides empirical evidence on the determinants of FDI (four entry options), but without an argumentation with a research hypothesis.

Unlike previous studies, the aim of this work is twofold; firstly an analysis of the determinants of diversification mode (acquisition versus greenfield investment) considering various theoretical approaches such as transaction costs, the learning organisation, mergers and acquisitions, the institutional context of the company and the cultural context of the countries involved. Secondly, we examine the determinants of FDI by combining diversification mode with the structure of business ownership (full acquisition, partial acquisition, wholly-owned subsidiary and joint venture subsidiary) and proposing various research hypotheses. The empirical analysis is made on a sample of 252 foreign entries through FDI by 141 Spanish companies. The remainder of this paper is organised in the following way: the second section proposes and discusses various research hypotheses on the determinants of the entry mode in international markets. Section three presents the structure of the study that justifies the sample, methodology and variables used. The results are given in the fourth section and finally, the conclusions are shown.

---

[9] Kogut and Singh (1988) and Chang and Rosenzweig (2001) analyse the joint-venture (which includes the ownership structure) as a third option to those of acquisition and subsidiary creation (Cho and Padmanabhan, 1995). Alternatively, López and García (2002b) distinguish between joint venture, partial and total acquisition. Finally, a third line of research considers that diversification mode and ownership structure are sequential decisions faced by a company that wishes to enter foreign markets (Cho and Padmanabhan, 1995); which has been analysed in our country by López and García (1998a) from the transaction costs theory, finding a first stage choice between a fully owned subsidiary and investment which combines the abilities of a company with the resources of others. Those companies that choose the latter option have the option, in a second stage, of choosing between a joint venture, total acquisition or partial acquisition of a company in the target market.

2.   Research hypotheses on the determinants of foreign entry mode

Literature on foreign entry mode examines its determinant factors based on a theoretical structure in which mergers and acquisitions, transaction costs, the learning organisation, the institutional context of the company and the cultural context of the country intervene. Amongst other factors, the following stand out, distinguishing its impact on diversification mode and on the four alternatives of combining diversification mode and ownership structure decision:

2.1.   *Hypotheses relative to diversification mode (acquisition versus greenfield).*

A) Company-level factors

i) Product diversification

Concerning to product diversification, Industrial Organization Economy uses the degree of diversification in terms of the number of products or different industries in which the company operates, while Strategic Management considers diversification type according to whether a company moves towards similar business (related) or not (unrelated).

ia) Degree of product diversification

From the transaction costs theory, Hennart and Park (1993) affirm that companies with a high degree of product diversification prefer expansion through acquisition as they have developed sophisticated management control systems (specific advantages of the investing company which are implicit in the high level decision makers, and therefore, compatible with locally managed quasi-independent subsidiaries) which can be exploited through foreign acquisitions and, in this way, provide organisational efficiency (Brouthers and Brouthers, 2000). Moreover, companies which have diversified by acquiring other companies could have developed abilities from acquisitions and, consequently prefer them (Yip, 1982; Zejan, 1990; Wilson, 1980) because they allow them to reduce the incremental cost of merger transactions (Caves and Mehra, 1986). Less diversified companies may not have developed these skills from acquisition or management control, so they would prefer greenfield investments. However, Rapp (1993) indicates that companies which mainly have intra-industry FDI's

(as opposed to inter-industry FDI's) tend to consider the need to acquire new technology less than modernising existing technology or establishing new markets for existing products. Along this line, Cho and Padmanabhan (1995) postulate that in these situations a relatively well diversified company prefers a greenfield entry to an acquisition, as this allows it to exploit existing technology. In other words, the parent company developed relevant technology before the FDI, so that it is more interested in transferring organisational routines to the new markets, which can be achieved at lower costs through greenfield investment.

In any case, this linear relationship (positive or negative) between product diversification and choice of diversification mode has not obtained conclusive results. Because of this, Barkema and Vermeulen (1998), from the learning organisation theory, suggest a curvilinear relationship between product diversification and propensity towards greenfield investment as opposed to acquisition. Basically, Barkema and Vermeulen (1998) suggest a curvilinear relationship (an inverted U-shape) between product diversification and technological capabilities, in such a way that technological capabilities initially grow to a certain level of diversification, to later decrease when they exceed the threshold. This is due to the fact that greater diversification is associated with organisational problems in the structure of the company that reduce shared information. These authors also affirm that a company's level of technological capability is related to its probability of expanding through greenfield investment. Bearing in mind these arguments, Barkema and Vermeulen (1998) conclude that we can expect a curvilinear relationship (an inverted U-shape) between product diversification and propensity towards expansion through greenfield investment. In any case, the ambiguity found in literature on evaluating the influence of the degree of product diversification on diversification mode, has led to three competitive hypotheses:

H1a: The greater the investing company's degree of product diversification, the greater the probability of entry through acquisition.

H1b: The greater the investing company's degree of product diversification, the greater the probability of entry through greenfield investment.

H1c: There is a curvilinear relationship (an inverted U-shape) between product diversification and its propensity towards expansion through greenfield investment.

8

ib) Product relatedness

The product relatedness refers to the degree to which the subsidiary's product line differs from the established activities of the parent company; in other words, whether the new subsidiary leads to similar business (related diversification) or not (unrelated diversification), with the object of showing the possibility of exploiting synergies between the businesses (Grant et al., 1988). However, there is no consensus on its impact on diversification mode. According to the transaction costs theory, greenfield investments are better for capturing synergies of related diversification in order to transfer knowledge or specific technologies (Andersson and Svensson, 1994); and, conversely, when a company diversifies in unrelated products it will have to obtain knowledge specific to the product (marketing or production know-how), which can be more efficiently gained through acquisitions (Caves and Mehra, 1986; Zejan, 1990; Hennart and Park, 1993; Cho and Padmanabhan, 1995). In this second case, the risk to the parent company is greater, which constitutes an incentive to pay the premium for acquisition and therefore reduce this risk. In the same way, learning organisation theory suggests that when a company makes a related expansion it has the possibility of transferring technological capabilities and its own routines through greenfield investment, whereas if the expansion is made into unfamiliar business areas, it must acquire the necessary technological capabilities of an already existing company and it would be difficult or impossible to use their current routines (Barkema and Vermeulen, 1998). Conversely, research of mergers and acquisitions, which debates the problems of the integration of the new entity by the investor (Ravenscraft and Scherer, 1981), shows that differences in business culture are larger when the acquiring and acquired companies are from different industries. Therefore, Hennart and Park (1993) propose that the post-acquisition problems of interaction increase, thus reducing the probability of entry through acquisition (and favouring the creation of subsidiaries) when the entry represents an unrelated diversification for the investor. Faced with this lack of consensus, we propose the two following competitive hypotheses:

H2a: The greater the investing company's product relatedness, the greater the probability of entry through greenfield investment.

H2b: The greater the investing company's product relatedness, the greater the probability of entry through acquisition.

ii) R&D intensity

Technological abilities are related to invention and innovatory ability with respect to investments made in R&D (Andersson and Svensson, 1994). This variable has been widely studied in empirical literature by various theories, reaching similar conclusions. The learning organisation theory holds that companies with a high level of R&D intensity are inclined towards greenfield investment instead of acquisition in the following two situations: i) companies in the host market have few technological skills; and ii) the acquiring company has superior technological capabilities, as it can be difficult or impossible to transfer them into the acquired company due to organisational inertia (Barkema and Vermeulen, 1998)[10]. Both the theories of transaction costs and institutional context consider that R&D intensity represents a specific advantage (obtained with sophisticated team management practices or with careful staff selection and training) for the investing company which, at the moment of the FDI, should be retained with investment through greenfield investment (Cho and Padmanabhan, 1995; Hennart and Park, 1993), due to the few opportunities to disseminate the company's specific advantages and to the ease of implanting organisational technologies in *greenfield* investments as opposed to their imposition on the existing personnel (Brouthers and Brouthers, 2000). Conversely, companies without R&D intensity prefer to enter a foreign market through the acquisition of an existing company that gives it technological capabilities which, according to Andersson and Svensson (1994), are not produced instantly but accumulate over long periods of time. Therefore, we propose the following hypothesis:

> *H3a: The greater the investing company's R&D intensity, the greater the probability of entry through greenfield investment.*

iii) Advertising intensity

The impact of advertising intensity on the choice of diversification mode has received little attention in literature and no conclusive proposal has been reached. Basically, advertising intensity can be considered as a proxy for the investing company's potential commercial assets and its knowledge of marketing in the market it operates in. Hennart and Park (1993), from the transaction costs theory, affirm that

---

[10] An alternative view suggests that R&D intensive companies which lack knowledge of the host market could acquire it through acquisition (Caves and Mehra, 1986; Kogut and Singh, 1988). However, this alternative has not been empirically supported to date (Brouthers and Brouthers, 2000).

marketing knowledge is a specific advantage of the investing company that can be separated from the organisation and incorporated, usually successfully, into another company. Moreover, acquisition allows the foreign entrant to acquire local brands and combine them with their specific marketing abilities. Because of this, advertising intensity is more easily associated with entry through acquisition (and less so with subsidiaries) especially at mature sectors where the possession of a commercial brand constitutes an important asset and if cultural and language differences reduce the benefits of using the original brand in the new market (Hennart and Park, 1993). However, Caves and Mehra (1986) and Kogut and Singh (1988) do not predict any sign in this causal relationship as acquisition in industries characterised by high promotional costs allows the exploitation of advantages of the available distribution system and host market knowledge, although Caves y Mehra (1986) affirm that acquisition could be unattractive when a multinational transfers its own product differentiation abilities (brand). Due to this lack of consensus, we propose the following competitive hypotheses:

H4a: The greater the investing company's advertising intensity, the greater the probability of entry through greenfield investment.

H4b: The greater the investing company's advertising intensity, the greater the probability of entry through acquisition.

iv) International experience

The impact of a company's international experience on the choice of diversification mode is not very clear (Cho and Padmanabhan, 1995). From the point of view of the learning organisation theory, Barkema and Vermeulen (1998) argue that experience is an important source of learning for organisations (Penrose, 1959) and that, in different circumstances, it increases the variety of ideas and incidents to which the company is exposed (Huber, 1991) leading to a more extensive knowledge base and more solid technological capabilities (March, 1991). In this way, the importance of geographical diversity comes from being exposed to a wide variety of environments, which increases available information with the consequent decrease in uncertainty, thus increasing incentives caused by existing imperfections in unfamiliar markets and generating a richer knowledge structure and superior technological capabilities than in purely national companies (Kim et al., 1993; Barkema and Vermeulen, 1998). This geographical diversity increases the profitability of innovations and reduces their risk, something that stimulates R&D and more innovation. Finally, these superior

technological capabilities are associated with a propensity towards greenfield investment as opposed to adding subsidiaries through acquisition when existing companies in the host market have few technological capabilities or when it is difficult or impossible to transfer them into the acquired company due to organisational inertia (Barkema and Vermeulen, 1998).

The institutional context approach coincides with the above in that it proposes that companies with superior levels of multinational experience prefer greenfield investment (Brouthers and Brouthers, 2000; Madhok, 1998), due to the fact that more internationally experienced companies develop clearly differentiated national organisational routines, which are easily transferable to other countries through greenfield investments (Cho and Padmanabhan, 1995). Conversely, less internationally experienced companies will be less likely to have these routines and, following their survival instincts, prefer acquisition as it allows them to counteract a potential loss of global market share with respect to the more experienced companies. It should not be forgotten that it is expected that the threat (and the costs) associated with a potential loss of global market share of less experienced companies will be greater than the additional costs of assimilating new routines in the general corporative system, in the case of an acquisition (Cho and Padmanabhan, 1995).

Along the same lines, from transaction costs theory, companies with greater multinational experience accumulate a large amount of knowledge on foreign market conditions and are, probably, more reluctant to pay the premium of acquisition as a way of reducing uncertainty and the risk associated with the foreign environment (Zejan, 1990). Therefore, less international experience encourages risk reduction through the acquisition of existing companies but discourages the greenfield investment. However, Caves and Mehra (1986) find the opposite, i.e. that companies with more international experience have greater preference for acquisitions than for the creation of wholly owned subsidiaries, which is explained because greater international experience allows a company to take on the risk associated with an acquisition and integrate the foreign acquired company, whose managers have different nationalities (Cho and Padmanabhan, 1995; Kogut and Singh, 1988). To be more precise, a greater predisposition towards acquisitions comes from a concurrence of factors that simplify the subsequent integration into companies with a greater multinational character (López and García, 1998a). These companies have accumulated experience of managing foreign units and have routines for transferring their distinctive abilities (Hennart and Reddy, 1997; Caves and Mehra, 1986), which allows the subsequent integration of the

acquired company (López and García, 1998a). To sum up, the lack of consensus leads us to propose the two following competitive hypotheses:

H5a: The greater the investing company's international experience, the greater the probability of entry through greenfield investment.

H5b: The greater the investing company's international experience, the greater the probability of entry through acquisition.

v) Host country experience

The research of mergers and acquisitions debates the problems of integrating the newly acquired unit (Ravenscraft and Scherer, 1987), and proposes that investors with less previous host country experience are afraid of post-acquisition management problems, given that the acquired unit will have its own management culture and could have difficulty integrating with the acquiring company. Therefore, Barkema et al. (1996), Barkema and Vermeulen (1998) and Hennart and Park (1993) propose a positive relationship between host country experience and probability of entry through acquisition (and negative with subsidiary creation), given that the company could learn to manage acquisition from its previous local experience. Conversely, the transaction costs theory proposes that a company with little host country experience can incur high costs from its lack of knowledge of the host market. This knowledge shortage can be rectified through acquisition (but not through subsidiary creation), as the investor company buys a team of local managers who know how to operate in the local economy and have valuable information (Hennart and Park, 1993), which, in the future, will reduce transaction costs. To sum up, due to the lack of consensus, we propose the following two competitive hypotheses:

H6a: The greater the investing company's host country experience, the greater the probability of entry through greenfield investment.

H6b: The greater the investing company's host country experience, the greater the probability of entry through acquisition.

vi) Company size

Economic theory shows that company size is a relevant characteristic of companies that invest abroad, as it makes them more able to assume the risks associated with the decision to move outside national borders, as well as allowing economies of

scale to come into play (Lall, 1980). Therefore, it can be expected that the choice of diversification mode is often determined by the skills or resources a company has for facilitating international expansion (Erramilli and Rao, 1993). However, literature shows serious discrepancies with respect to its influence on diversification mode. On the one hand, the theory of the growth of the company (Penrose, 1959) accepts that the availability of sufficient human resources on the part of the parent company favours entry through greenfield investment, while a lack of personnel restricts the capacity to make a greenfield investment and encourages expansion by acquisition because acquired companies supply their own decision makers (Hennart and Park, 1993). Along this line, and also bearing in mind the company's cultural context, Cho and Padmanabhan (1995) link parent company size with greenfield investment because: i) a large company is more likely to have the necessary resources to successfully carry out international expansion than a small one, which will be more interested in obtaining these resources through the acquisition of other companies; and ii) a large company, interested in maintaining a global market share, will prefer a greenfield investment, which would facilitate the application of nationally developed organisational routines.

On the other hand, Caves and Mehra (1986) and Kogut and Singh (1988) indicate that an acquisition requires more resources than a greenfield investment, so that a parent company with large assets is more likely to have the necessary financial resources to carry out an acquisition. In the same way, Andersson and Svensson (1994), from the transaction costs theory, relate company size with the accumulation of organisational ability (which can be separated from the organisation), and this ability with greater preference for entry through acquisition (and less for subsidiary creation). In any case, the ambiguity surrounding the influence of company size on diversification mode has led us to propose the two following competitive hypotheses:

H7a: The greater the investing company size, the greater the probability of entry through greenfield investment.

H7b: The greater the investing company size, the greater the probability of entry through acquisition.

B. Country-level factors

i) Cultural distance

Literature offers no consensus on the impact of the cultural distance between the investing company's home country and the host country. From the point of view of the culture of the host market, Brouthers and Brouthers (2000) explore the influence of this dimension on the choice of diversification mode concluding that national culture is an indicator of a country's level of risk and that cultural differences act by increasing/reducing effectiveness when employing the specific advantages of a company in a certain location (Dunning, 1993). In this way, a small cultural distance between the two countries means that companies perceive lower risk levels and opt for entry through greenfield investment (but not through acquisition) in order to maximise the specific advantages of the company (Yip, 1982; Chatterjee, 1990).

Cho and Padmanabhan (1995) assume the opposite, taking as a starting point the proposal of Kogut and Singh (1988) which combines the cultural approach with the institutional context of the company. Their basic approach is that cultural differences influence the perception of decision makers on the costs and uncertainties of foreign entry mode alternatives, thus creating different organisational policies, management routines and employee expectations. They propose that, when a company enters a foreign market with a very different cultural context, it is more likely to expand through greenfield investment (but not through acquisition), as, in this way, it can more easily apply organisational routines developed in the home country[11]. To sum up, given the lack of consensus, we propose the two following competitive hypotheses:

H8a: The greater the cultural distance between the host country and the home country, the greater the probability of entry through greenfield investment.

H8b: The greater the cultural distance between the host country and the home country, the greater the probability of entry through acquisition.

---

[11] This proposal supports that of Madhok (1998) in the field of business capabilities as competitive advantage in the institutional context theory.

ii) Level of development of host country

The level of development of the host country is a highly important factor in the choice of diversification mode because, as well as reflecting the economic level of a country, it can also constitute an indication of restrictions to foreign investment and of the perception that the investing company may have of the risk of the country (these last two possibilities are more common in countries with low levels of development). In this line, and following the transaction costs theory, the more developed the host country, the easier it will be to find companies which meet the necessary requirements for acquisition (Zejan, 1990), which was evidenced by Davidson (1982). This means that, in a developed country there will be more well run companies whose acquisition would imply lower costs of incorporation into the parent company's system and that it can, therefore, be a candidate for an acquisition (Cho and Padmanabhan, 1995). Alternatively, this preference could reflect the greater restrictions on foreign investment in less developed countries. Because of this, restrictive policies in less developed countries make the creation of subsidiaries more probable than acquisitions. Therefore, we propose:

H9: The more developed the host country, the greater the probability of entry through acquisition.

iii) Growth rate of host country

The cultural context considers the economic characteristics of the host country in terms of its growth in order to define the potential benefits and risks associated with a specific market entry mode (Dunning, 1993; Agarwal and Ramaswami; 1992). In particular, in the cultural context, Brouthers and Brouthers (2000) explain the link between diversification mode and host market growth through two aspects which are also considered by the research of mergers and acquisitions (Hennart and Park, 1993): i) the costs of opportunity deriving from investing either sooner or later in the target market; and ii) growth in the capacity of local production. From the point of view of growth in the capacity of local production, in markets with rapid growth there is room to increase production capacity through the creation of new subsidiaries (Zejan, 1990; Andersson and Svensson, 1994). In markets with slow growth (usually advanced economies) there is not enough room to expand capacity but opportunities could arise to acquire weaker competitors. In light of this, a company may opt for entry through acquiring a local company because this does not increase the capacity of the industry and reduces the likelihood of retaliations from competitors (Brouthers and Brouthers,

2000). However, the perspective of costs of opportunity assumes the opposite. In markets with rapid growth (more common in undeveloped countries) the costs of opportunity will be very high (Caves and Mehra, 1986; Hennart and Park, 1993), so that a company would prefer entry through acquisition because this would allow it to benefit from current opportunities as well as quickly obtain a market share (Andersson and Svensson, 1994; Cho and Padmanabhan, 1995). To sum up, the influence of growth rate of host country on diversification mode is ambiguous so we propose the two following competitive hypotheses:

H10a: The greater the growth rate of the host country, the greater the probability of entry through greenfield investment.

H10b: The greater the growth rate of the host country, the greater the probability of entry through acquisition.

2.2. Hypotheses relative to diversification mode and ownership structure (wholly-owned subsidiary, joint venture, full acquisition and partial acquisition)

A) Company-level factors

i) R&D intensity

The research line which combines diversification mode and ownership structure links, from the analysis of transaction costs, R&D intensity (high level of development of distinctive abilities) with the creation of wholly-owned subsidiaries (but not with acquisitions or joint-ventures), as the company does not need external resources for the FDI and controls the transfer of abilities from the parent company to the subsidiary (López and García, 1998a). Therefore, we propose the following hypothesis:

H3b: The greater the investing company's R&D intensity, the greater the probability of entry through wholly-owned subsidiary.

ii) Advertising intensity

The research line which combines diversification mode and ownership structure relates, in the area of transaction costs, advertising intensity (high development of distinctive abilities) with the creation of wholly owned subsidiaries (but not with acquisitions or joint ventures), as the company does not need external resources for the

FDI and controls the transfer of abilities from the parent company to the subsidiary (López and García, 1998a). Therefore, we propose the following hypothesis:

H4c: The greater the investing company's advertising intensity, the greater the probability of entry through wholly-owned subsidiary.

iii) Host country experience

The research line which combines diversification mode and ownership structure proposes, from the transaction costs theory, that lack of target market knowledge implies lower propensity towards the creation of wholly owned subsidiaries (and greater propensity towards acquisitions and joint ventures) as this knowledge is usually accessible through the acquisition of another company which does have it and through the creation of joint ventures where the company combines its distinctive abilities with those of its partners in a third entity in which both parties participate. In this way, a lack of host country experience justifies the additional costs of investment through cooperation with a partner (costs of not collecting 100% of the profits and the risk of diffusing its abilities) or through the acquisition of a company (management costs deriving from the integration of the new company into the structure of the acquiring company and from the fact that it can acquire more assets than is necessary) (López and García, 1998a). Therefore, we propose the following hypothesis:

H6c: The greater the investing company's host country experience, the greater the probability of entry through wholly-owned subsidiary.

B. Country-level factors

i) Cultural distance

The proposal of Kogut and Singh (1988) and Chang and Rosenzweig (2001) analyses both, the cultural context of the market and the institutional context of the company, through the line of research which combines diversification mode and ownership structure. In their opinion, faced with large cultural distance, greenfield investment allows a company to impose the management style of the home country and preserves the advantages of total ownership control. This avoids integration costs (which especially occur when adjusting the management practices and personnel characteristics of a locally acquired company) and conflicts deriving from shared ownership (manifested in joint-ventures with local companies). Therefore, we propose the following hypothesis:

H8c: The greater the cultural distance between the host country and the home country, the greater the probability of entry through wholly owned subsidiary.

3.   Research design

The methodology employed to reach our objectives is organised in the following stages: i) Test of the hypotheses relative to the determinants of the diversification mode (acquisition versus greenfield investment) by maximum likelihood of binomial logit models[12], following the proposals of Zejan (1990), Hennart and Park (1993), Cho and Padmanabhan (1995), Barkema and Vermeulen (1998), and Brouthers and Brouthers (2000), among others; and ii) Test of the hypotheses relative to the determinants of the four alternatives of the FDI (full acquisition, partial acquisition, wholly-owned subsidiary and joint venture) through the estimation of a multinomial logit, in line with Barkema and Vermeulen (1998) and López and García (2002a). These specifications allow us to find the probability of an entry mode as a function of a set of independent qualitative and quantitative variables.

This methodological process is developed for the case of Spanish FDIs between 1998 and 2000. At a worldwide level, this time period is characterised because multinational companies (63.000 parent companies with around 690.000 foreign subsidiaries and a large number of companies linked for various reasons) cover practically every country and economic activity in the world economy (UNCTAD, 2000). Moreover, this temporal horizon is part of a larger, 20 year, period that was marked by a large increase in multinationals. The gross product associated with international production and sales of foreign subsidiaries worldwide have increased more rapidly than the world GNP and exports respectively (UNCTAD, 2000). This expansion of international production has been facilitated by the introduction of important legislative changes. Of the 1035 law changes which apply, at a worldwide level, to FDI during the period 1991-1999, 94% created a more favourable situation (UNCTAD, 2000).

---

[12] A possible alternative would be to work with a probit model in which we assume normal distribution of the error term, as opposed to the logit model which supposes a logistical distribution for the error term. In any case, a previous empirical analysis arrives at very similar conclusions with both models.

On the other hand, Spanish companies have not been distanced from the globalisation process, although they started, in the 60s and 70s, from a position of scarce presence in international markets compared to other European countries (Campa y Guillen, 1999). In fact, the story of Spanish FDIs starts in the 1970s, with their most important objectives being the following: 1) to guarantee the supply of certain raw materials; 2) to create their own distribution channels for the commercialisation of certain products; 3) to carry out construction and engineering projects; and 4) to establish financial branches (Campa and Guillén, 1996). Their real consolidation did not arrive before Spain's entry into the European Union (EU) in 1986. This event accelerated the internationalisation of Spanish companies and produced a notable increase in commerce and two-way direct investment between Spain and the EU (Durán, 1999). However, 1993 saw the start of the period of greatest FDI expansion and the highest degree of multinationalisation of Spanish companies. In this period it is observed a different geographical configuration of the FDI, although still dominated by Spanish FDIs in Latin America as had been happening until Spain joined the EU (Durán, 1999). In any case, Spanish companies have been characterised by their reduced international presence due, among other reasons, to the late liberalisation of FDIs in Spain, which has contributed to Spain being thought of as a late investor or a nation whose volume of FDIs does not correspond to its level of economic development (López and García, 1998a).

As far as sample selection is concerned, it can be said that the distinct origin and destination of direct investments has been a subject of discussion among researchers. Some studies analyse entries into a single country (USA for Caves and Mehra, 1986, and Kogut and Singh, 1988) from companies with origins in various foreign countries; while other studies are centred on companies coming from only one country (Sweden for Zejan, 1990, and Andersson and Svensson, 1994; Japan for Cho and Padmanabhan, 1995, and for Brouthers and Brouthers, 2000; and the Netherlands for Barkema and Vermeulen, 1998) which enter into a multiple countries. However, Hennart and Park (1993) criticise both tendencies for the following reasons: i) the first tendency (companies from various countries entering one country) presents great difficulties in modelling parent company strategies as collecting comparable data on companies registered in different countries differs according to accounting rules and reporting requirements; ii) the second group of studies (investments with one origin and various destinations) models parent company strategies with data from the investor's industry or from the entry industry, which makes it difficult to separate the impact of parent company strategies from those of the host-industry. In order to avoid these problems,

Cho and Padmanabhan (1995) and Brouthers and Brouthers (2000) hold that investor companies' origins should be the same to avoid the different behavioural norms of each country, and to affirm that the multiplicity of destinations in the same sample can be controlled through the inclusion of certain variables referring to the characteristics of the different host-countries. Following this proposal, our study examines direct investments made by Spanish companies in various other countries, which also avoids a drastic reduction to the sample associated with the use of only one destination of Spanish foreign investment.

Obtaining the object population of the study involved the construction of a database from news items on Spanish FDIs published in two newspapers: Expansión and Cinco Días[13], which follows the approach of López and García (1998a,b). The lack of information on a large number of sectors led us to choose companies from the manufacturing industry. In other words, those whose activities are in divisions 15 to 37 of the CNAE-93[14], excluding 23 (industrial activities relating to oil refinement and fuel treatments). The final sample is composed of 252 FDIs made by 141 Spanish companies in 45 foreign countries during the three-year period 1998-2000. This is subdivided into 105 (41.66%) foreign entries through acquisition (of which 44 involve only one company and the remaining 61 involve shared ownership of the acquired company) and 147 (58.34%) entries through greenfield investment (of which 103 are wholly-owned subsidiaries and 44 joint ventures). Table 1 shows the temporal distribution of the FDIs by entry mode.

---

[13] The use of the Spanish economic press as an information source offers the following advantages (Suárez-Zuloaga, 1995): i) the strong competition between economic publications to provide news causes them to publish even small operations; ii) the small number of stock market quoted companies makes it important to follow non-quoted companies' investments, which represent a large proportion of the total; iii) the reduced international presence of Spanish companies allows publication of news of all significant international transactions; and iv) international databases which cover the Spanish market only make reference to the more important companies. The most important inconvenience is that the information given by companies can be incomplete or lack detail which may be reflected in newspapers.

[14] The industries analysed are: meat; food and tobacco; drinks; textiles; leather and shoes; timber; paper; publishing and graphic arts; chemicals; rubber and plastic products; non-metallic mineral products; metallurgy; metal products; machinery and metal equipment; office equipment, computer equipment, process equipment, optics and similar; electric and electronic machinery and material; motor vehicles; other transport materials; furniture and other manufacturing industries.

Table 1. Time distribution of the FDIs

	Greenfields				Acquisitions				Total
	Wholly-owned subsidiaries		Joint ventures		Full acquisitions		Partial acquisitions		
Year	No.	%	No.	%	No.	%	No.	%	No.
1998	36	35.0	17	38.6	9	20.5	21	34.4	83
1999	31	30.0	8	18.2	17	38.6	22	36.0	78
2000	36	35.0	19	43.2	18	40.9	18	29.6	91
Total	103	100	44	100	44	100	61	100	252

With regard to the definition of the determinant variables of entry mode, we include the following:

a) **Dependent variables.** i) Diversification mode in a foreign market. This is measured with a dummy variable which assigns 1 if the Spanish company makes an acquisition, and 0 if it is a greenfield investment (Barkema and Vermeulen, 1988; Hennart and Park, 1993; Caves and Mehra, 1986; Cho and Padmanabhan, 1995; Zejan, 1990; Andersson and Svensson, 1994; Brouthers and Brouthers, 2000); and ii) Diversification mode and ownership structure. This is measured with a dependent variable with four categories, which takes a value of 1 when the FDI is made through the wholly-owned subsidiary (omitted category), 2 in cases of creation of a joint venture, 3 in cases of full acquisition of a company previously located in the host market and, 4 for an investment through a partial acquisition of a local company's equity (Barkema and Vermeulen, 1998; López and García, 1998a)

b) **Independent variables.** i) Degree of Product Diversification. Measurement methods vary among studies. Cho and Padmanabhan (1995) use an entropy measure based on the percentage sales of each product line, while Zejan (1990) and Hennart and Park (1993) apply Herfindahl's index, based on sales quotas for each product line; Caves and Mehra (1986), Barkema and Vermeulen (1998), and Brouthers and Brouthers (2000) use the number of 2-digit SIC industries in which the parent company operates throughout the world. Our work follows the last proposal using the information available from the database of SABI (Sistema de Análisis de Balances Ibéricos), due to the lack of information on sales percentages broken down according to product lines.

ii) Product Relatedness. Most studies opt to compare the SIC classification of the subsidiary's industry and that of the parent company, in order to determine if the diversification is related or not (Zejan, 1990; Hennart and Park, 1993; Cho and Padmanabhan, 1995; Barkema and Vermeulen, 1998; Brouthers and Brouthers, 2000). Alternatively, Pantzalis (2001) proposes the ratio of "related diversification divided by the sum of related and unrelated diversification", defining related diversification as the number of 4-digit SIC industries within the company's main 2-digit SIC industry; and unrelated diversification as the number of 2-digit SIC industries outside the company's main 2-digit SIC industry. The lack of information on the industry identification codes of Spanish subsidiaries has led us to apply the approach of Pantzalis using information from the SABI database.

iii) R&D Intensity. The traditional measurement of this variable is the ratio of R&D expenditures over total company sales (Hennart and Park, 1993; Andersson and Svensson, 1994; Cho and Padmanabhan, 1995; Brouthers and Brouthers, 2000). However, lack of information on this led Rabanal (2001) to propose as a proxy[15] the ratio "R&D expenditures/sales" obtained as an average value of the industry of the company in the year of entry and distinguishing according to company size (companies with a workforce of more than 200, and companies with between 10 and 200 workers), as it constitutes a measurement of "technological differentiation" which can be extended to subsidiaries with insignificant costs. This gives the company certain technological advantages, which would be exploited internally. Our study considers the last option due to the lack of information on the R&D expenditures of each company. The data used to construct this variable was obtained from the "Encuesta sobre Estrategias Empresariales" carried out by Programa de Investigaciones Económicas of FUNEP and the Ministerio de Ciencia y Tecnología.

iv) Advertising Intensity. Hennart and Park (1993) use the ratio "advertising expenditures/total company sales". The lack of information on advertising

---

[15] In the case of Spain, there is also the dummy variable, a proxy used by López and García (1998a), which takes a value of 1 when the investing company is among the 125 Spanish companies which invested the most in R&D in any of the years of their study period (according to the magazine Futuro y Mercado); and 0 otherwise.

expenditures in our country has led Rabanal (2001) to propose as a proxy[16] the ratio of the average advertising expenditures over sales of the company's industry in the year of entry in the foreign market and distinguishing according to company size (companies with a workforce of more than 200, and companies with between 10 and 200 workers). Following this proposal, we have constructed this variable from the "Encuesta sobre Estrategias Empresariales".

v) International Experience. A proxy variable for international experience which has been used in empirical literature is the ratio "exports/total company sales" (Brouthers and Brouthers, 2000); however, Slangen and Hennart (2001) affirm that this measurement would not be appropriate as certain companies, with a high export ratio, may not have any experience in FDI. It has also been approximated by the number of years the parent company has been investing abroad (Zejan, 1990; Hennart and Park, 1993). Given that this information is not available; our work is based on the number of countries in which the parent company has subsidiaries (Caves and Mehra, 1986; Kogut and Singh, 1988; Barkema and Vermeulen, 1998); information taken from the selected companies' annual reports.

vi) Host country Experience. This dimension has been measured in various ways in empirical literature. One of the methods used is the number of years that the company has been investing in the host country (Cho and Padmanabhan, 1995). Another group of studies (Kogut and Singh, 1988; Barkema and Vermeulen, 1998; and López and García, 1998a) apply the number of previous entries the company has made into the host country. Finally, Andersson and Svensson (1994) measure this variable through a dummy variable that assigns 1 if the company has invested previously in the host country and 0 if it has not. Our study follows the last approach using information taken from the selected companies' annual reports.

vii) Company Size. In general, larger companies have more resources. In order to account for the availability of resources and economies of scale at a corporative level, studies use company size measured by volume of assets of

---

[16]In the case of Spain there is also the dummy variable, a proxy used by López and García (1998a), which takes a value of 1 when the investor company is among the 200 Spanish companies which invested most in advertising in any of the study years, (according to the magazine IPMARK) and 0 otherwise.

the investor company (Kogut and Singh, 1988; Cho and Padmanabhan, 1995; Barkema and Vermeulen, 1998), or by the company's total turnover (Andersson and Svensson, 1994). Our study applies the first of these, using information taken from the SABI database.

viii) Cultural Distance between the home country (Spain) and the different host-countries. The majority of studies (Cho and Padmanabhan, 1995; Barkema and Vermeulen, 1998; and Brouthers and Brouthers, 2000) have taken this variable from the index of Kogut and Singh (1988), which is based on the four cultural dimensions (power distance, uncertainty avoidance, masculinity/femininity and individualism)[17] of Hofstede (1980)[18]. Kogut and Singh's index (1988) is defined as the average of the deviations of each country with respect to that of Spain (SP) in each of the four Hofstede dimensions (1980) corrected by the variance of each index. In algebraic terms it is:

$$CD_j = \sum_{i=1}^{4} \left[\left(I_{ij} - I_{iSP} \right)^2 / V_i \right] / 4$$

Where *Iij* is the index of the cultural dimension *i* in country *j*, *Vi* is the variance of the index of the dimension *i*, and *CDj* is the cultural distance between country *j* and Spain. Following this proposal, our study applies the index data, obtained from Hofstede (1991), to the four cultural dimensions in each country[19].

---

[17] Power distance is defined as the extent to which differences in wealth and other privileges are accepted as legitimate or illegitimate. Uncertainty avoidance is the degree of discomfort felt about ambiguity and the unknown. Masculinity/femininity refers to values such as heroism, assertiveness, material success, modesty, care of the weak and interpersonal harmony. Finally, Individuality is the degree of social and interpersonal connection.

[18] An alternative measurement of cultural distance is found in the study of López and García (1998a), which defines three dummy variables to place countries into three internally homogeneous geographical areas from the cultural and/or economic point of view (OECD countries not in the EU, non-OECD countries except Latin America and Latin America).

[19] However, Hofstede's data is based on 66 countries which do not include countries which are very important for Spanish direct investment such as Morocco and Cuba, among others. As a proxy of these countries and following the procedure used by Erramilli (1991) and Ramón (2000), we use the indexes of the most culturally similar countries. For example, for Egypt, Tunisia and Morocco we use the Hofstede value (1991) for the Arabic countries. To prevent these assimilations from distorting our results we estimate another binomial logit model, reducing the number of observations by eliminating the FDIs in countries which do not have a Hofstede cultural variable. The obtained results essentially corroborate the conclusions reached.

ix) Level of Development of the Host country. This is often reflected by the per capita GNP of the host country in the investment year (Andersson and Svensson, 1994; Barkema and Vermeulen, 1998; Zejan, 1990) as this measurement can be indicative of the economic and technical situation in which local companies operate (Zejan, 1990). Conversely, authors such as Cho and Padmanabhan (1995) apply a proxy of a dummy variable according to the annual classification made by the World Bank. Our study uses the first alternative with information from the World Economic Outlook (2001).

x) Growth Rate of the Host country. This is taken from the increase in the GNP of the host country in the investment year (Zejan, 1990; Andersson and Svensson, 1994; Barkema and Vermeulen, 1998) or from the average industrial growth in five years (Brouthers and Brouthers, 2000). Our study uses the first alternative with information from the World Economic Outlook (2001).

Finally, as control variables, we consider the following: i) Leverage. This is measured by the ratio between long term debt and the market value of the parent company (Hennart and Park, 1993; Chatterjee, 1990); information obtained from the SABI database; ii) Returns on Equity of the parent company, as a proxy for firm profitability (Barkema and Vermeulen, 1998); information taken from the SABI database; iii) Ownership structure of the subsidiary, from a dummy variable where 1 implies that the parent company owns 95% or more, and 0 if it does not (Hennart and Park, 1993; Barkema and Vermeulen, 1998), information obtained from companies' annual reports.

4. Results obtained

4.1. *Determinant factors of the choice "acquisition versus greenfield"*

In order to test the hypotheses corresponding to this choice, we estimate various binomial logit models, which regress diversification mode (acquisition versus greenfield) with the variables discussed in section 3 (Table 3). The descriptive statistic of the dependent and independent variables for the sample of 252 news items on FDIs relating to 141 Spanish companies is found in Table 2.

Table 2. Descriptive Statistic

Variables	Mean	St. Dev	Correlation Coefficients											
			1	2	3	4	5	6	7	8	9	10	11	12
Acquisition	0.42	0.49												
1. Product Div	3.63	1.88												
2. Related Div	0.63	0.22	-0.44[a]											
3. R&D Intensity	1.21	1.38	0.10	-0.21[a]										
4. Advertising Int	2.61	2.37	-0.32[a]	0.11	-0.15[b]									
5. International Exper	5.13	4.07	0.30[a]	-0.14[b]	0.01	0.02								
6. Host country Exp	0.49	0.50	0.05	-0.03	0.07	-0.07	0.29[a]							
7. Company Size	48251.9	79064.2	0.34[a]	-0.17[a]	-0.10	-0.06	0.51[a]	0.25[a]						
8. Cultural Distance	0.94	0.62	0.03	-0.07	0.13[b]	0.00	0.05	-0.02	-0.06					
9. H-C Development	10492.1	10800.4	0.02	0.02	0.13[b]	-0.10	0.07	0.16[b]	-0.09	0.23[a]				
10. H-C Growth Rate	3.26	3.04	-0.12	0.04	-0.00	-0.01	-0.01	0.05	-0.05	0.35[a]	-0.01			
11. Leverage	52.89	17.53	-0.03	-0.06	0.15[b]	0.15[b]	-0.02	-0.05	-0.11	0.07	-0.07	0.00		
12. Returns on Equity	11.72	14.39	0.02	-0.07	0.00	-0.13[b]	0.03	-0.05	-0.10	0.09	-0.06	0.11	-0.02	
13. Ownership	0.41	0.49	-0.02	-0.02	-0.02	0.05	-0.02	-0.11	0.15[b]	-0.02	-0.28[a]	0.02	0.03	0.02

a= prob<0.01; b= prob<0.05; c= prob<0.1

An earlier analysis of the Condition Index and that of the matrix of correlations between the variables (Greene, 1999) shows the presence of certain multicollinearity, whose impact on the final results is limited by selecting non-linear independent dimensions. Thus, the equations shown (Table 3) constitute different combinations of the variables, designed to collectively solve the problem of multicollinearity.

In general, the equations of the binomial logit models present high levels of global significance, which seems to show that decision maker behaviour is found in the function specifications of this modelization. Likewise, more than 67 percent of sample observations are correctly classified for all equations. The significance tests of the individual parameters show that the variables of related diversification, international experience, cultural distance, size and ownership structure have the most influence over the choice of diversification mode (greenfield versus acquisition), being statistically significant in all the equations at a level below 5% (Table 3). However, advertising intensity, host country experience and level of development of host country are statistically significant in some of the equations, at a level below 10%, and are not significant in others. Consequently, the first five dimensions (related diversification, international experience, cultural distance, size and ownership structure) constitute the determinant variables of the modelization. Likewise, the high significance of the control

Table 3. Binomial logit of the determinant factors of diversification mode: acquisition versus greenfield (acquisition = 1) (Standard errors in brackets)

	Equation 1	Equation 2	Equation 3	Equation 4	Equation 5	Equation 6
Independent Variables						
Intercept	-0.651 (0.745)	-0.795 (0.737)	-0.343 (0.899)	-1.043 (0.859)	-2.080[b] (0.879)	-2.365[b] (0.962)
Product Diversification	-0.624 (0.096)	-1.630 (0.100)	-0.538 (0.301)	0.059 (0.296)		
Product Diversification ^{2}			0.341 (0.033)	-0.620 (0.033)		
Related Diversification					1.991[b] (0.742)	2.246[b] (0.766)
R&D Intensity	-0.425 (0.107)	0.357 (0.108)	-0.395 (0.108)	0.342 (0.107)	0.174 (0.133)	0.659 (0.132)
Advertising Intensity	-1.954[c] (0.070)	-1.644 (0.073)	-1.950[c] (0.071)	-1.642 (0.073)	-1.990[b] (0.076)	-0.967 (0.075)
International Experience	2.485[b] (0.048)		2.436[b] (0.048)		2.620[a] (0.050)	
Host country Experience	2.407[b] (0.313)	1.717[c] (0.323)	2.440[b] (0.313)	1.616 (0.326)	2.458[b] (0.328)	1.497 (0.335)
Company Size		3.480[a] (4.3E-06)		3.411[a] (4.6E-06)		3.464[a] (4.8E-06)
Cultural Distance	-1.985[b] (0.272)	-2.539[b] (0.304)	-1.981[b] (0.273)	-2.587[a] (0.303)	-1.907[c] (0.294)	-2.643[a] (0.314)
Host country Development	1.868[c] (1.6E-05)	2.580[a] (1.7E-05)	1.896[c] (1.5E-05)	2.578[a] (1.7E-05)	1.576 (1.7E-05)	1.997[b] (1.8E-05)
Host country Growth Rate	-1.193 (0.052)	-0.708 (0.060)	-1.203 (0.052)	-0.660 (0.061)	-1.279 (0.053)	-0.222 (0.062)
Control Variables						
Leverage	-1.161 (0.008)	-0.534 (0.009)	-1.166 (0.008)	-0.524 (0.009)	-1.001 (0.009)	-0.816 (0.009)
Returns on Equity	0.317 (0.009)	1.402 (0.010)	0.365 (0.010)	1.365 (0.010)	0.512 (0.010)	1.329 (0.010)
Ownership	5.034[a] (0.326)	4.435[a] (0.334)	5.052[a] (0.325)	4.399[a] (0.335)	4.812[a] (0.354)	4.307[a] (0.360)
Number of Observations[20]	238	238	238	238	218	218
Log Likelihood	-135.01	-126.77	-134.95	-126.58	-121.36	-113.55
Chi-Squared	53.81[a]	70.28[a]	53.94[a]	70.67[a]	54.16[a]	69.78[a]
% Correct Predictions	68.07	74.37	67.65	74.37	73.85	75.69

a= prob<0.01; b= prob<0.05; c= prob<0.1

---

[20] The reduction in the number of observations with respect to the sample taken for this study is due to the need to consider news items on FDIs which include information on all the variables considered.

variable "Ownership" shows the importance of a simultaneous analysis of the impact of company and host country factors on entry mode according to ownership structure, which is carried out at the section 4.2 with multinomial logit models (Table 4).

A detailed examination of the hypotheses shows, firstly, the lack of significance of the coefficients of product diversification squared, which shows the non-linear relationship between product diversification and diversification mode, which does not allow us to support this relationship, according to the learning organisation theory. In addition, product diversification is also not significant in any of the equations that test its linear relationship with diversification mode. Therefore, there is no sufficient statistical basis from which to make conclusions on hypotheses H1a, H1b and H1c. Despite this, its negative sign seems to show a negative linear tendency between product diversification and entry through acquisition, in line with Cho and Padmanabhan (1995). Related diversification shows a positive sign, statistically significant at a level below 5% (Table 3), which shows that diversification towards similar business is linked with entry through acquisition; which proves hypothesis H2b, in line with the proposal of Hennart and Park (1993), supporting the theory of mergers and acquisitions, and in agreement with the results obtained by Brouthers and Brouthers (2000).

The coefficient of the variable R&D intensity is not significant in any of the equations of Table 3, which means that we cannot make any conclusions on hypothesis H3. This could be explained by Caves and Mehra (1986) who do not predict a clear direction of influence: i) acquisition can represent an attractive entry route into an industry with a high level of R&D if the research capacity of the local company allows the parent company to adapt its technological assets to the local market, or if the parent company lacks the appropriate technology and expects to make great use of the acquired company's stock; ii) multinationals in high R&D industries often transfer their technology so they do not need to acquire the technological stock of a local company. In any case, this result differs from that obtained by López and García (1998a) in Spain between 1988 and 1994, where R&D is significant and is associated with fully owned subsidiaries. This difference in the results of the two studies could be because the variables used to measure technological intensity are based on different proxies (see section 3). Advertising intensity does not present robust results given the lack of significance in three equations and the fact that it is only significant at 10% in two other equations and at 5% in another (Table 3), showing that there is no conclusive evidence

for hypotheses H4a and H4b, in line with the proposal of Caves and Mehra (1986) of lack of consensus on this causal relationship.

The positive and significant sign at a level below 5% of the variable International Experience (Table 3) indicates that it is associated with the probability of entry through acquisition and therefore, proves hypothesis H5b in line with Caves and Mehra (1986) and Kogut and Singh (1988) from transaction costs. This result also coincides with that found by López and García (1998a) in Spain between 1988 and 1994. The previous host country experience of companies in FDI offer not very robust results as the coefficients are significant (Table 3) in four equations at levels below 10% and are not significant in another two equations, which prevents us from making conclusions on their influence. However, its positive sign seems to show a positive relationship between host country experience and entry through acquisition, in line with Barkema et al. (1996) and Hennart and Park (1993).

Company size presents a positive and significant sign at a level below 1%, which reflects its influence on the propensity to invest in foreign markets through acquisition (Table 3). This supports hypothesis H7b from the perspective of transaction costs put forward by Andersson and Svensson (1994), as well as Kogut and Singh (1988) and Caves and Mehra (1986).

The negative and significant sign of the variable cultural distance (Table 3) supports hypothesis H8b, in line with Kogut and Singh (1988) and Cho and Padmanabhan (1995) who combine the cultural context of the host market with the institutional context of the company (Madhok, 1998) that considers business abilities as a competitive advantage. In other words, a company prefers to expand through a subsidiary when cultural distance is great, as it allows them to easily apply their own country's organisational routines. Pla (1999) arrives at the same result in Spain.

Host country development does not present robust results given the lack of significance in one equation, being significant in the rest (Table 3), showing that there is no conclusive evidence for hypothesis H9. However, its positive sign is as expected, showing a positive relationship between the per capita GNP of the host country in the investment year and the probability of entry through the acquisition of a local company, in line with Cho and Padmanabhan (1995) from the transaction costs theory. It can be shown, in this respect, that Durán and Úbeda (2001) prove, in line with López and García (1997), that the principal cause of investment in non-OCDE countries by Spanish companies is the creation of productive subsidiaries. The coefficient of host

country growth rate is not statistically significant in any of the equations of Table 3, in line with Andersson and Svensson (1994). Therefore, we cannot make any conclusions on any of the arguments put forward by hypotheses H10a and H10b.

The control variable of leverage is not significant in any of the equations of Table 3, which means that we cannot conclude anything on its impact on diversification mode, as in the study of Hennart and Park (1993). These authors explain the result by the idiosyncrasies of the capital markets of the home and host countries (companies may have good and long lasting relationships with banks in some countries, which allows them to easily finance FDIs, while in other countries it could be that they do not have strong relationships with banks making it difficult to finance FDIs), which suggests that strategic variables have a greater impact on entry mode than financial dimensions. In any case, the negative sign (Table 3) could mean that companies with heavy debt could continue financing subsidiary creation through banks if they maintain a long relationship with them and exchange a large volume of information with them (Hennart and Park, 1993). In the same way, the control variable returns on equity is not significant in any of the equations of Table 3, but its positive sign could be an indication that decision makers in very profitable companies allocate their financial resources to acquiring other companies in order to increase their own power, prestige and salary, even when these acquisitions do not increase the value of the company (Barkema and Vermeulen, 1998).

4.2. Determinant factors of the choice between "wholly-owned subsidiary, joint venture, full acquisition and partial acquisition"

With the object of testing the hypotheses on the determinants of the options resulting from combining diversification mode and ownership structure, we estimate a multinomial logit model, which regresses the four FDI options shown in section 3. Likewise, among the independent variables that have been explained in section 2.2, we include the host country development, in line with Padmanabhan and Cho (1999), insofar as preliminary tests indicate that its consideration improves the significance of the multinomial logit and of the individual parameters.

In general, the equations of the multinomial logit models show high levels of global significance, which seems to show that decision-making behaviour is found in the functional specifications of this modelization. The significance tests for the individual parameters demonstrate that the variables of advertising intensity, host country experience, cultural distance and host country development have the most

influence on entry mode, being robust in the equations (Table 4). Conversely, technological intensity is not significant in any of the equations. Consequently, the dimensions of advertising intensity, host country experience, cultural distance and host country development are the determinant variables of the modelization.

The detailed examination of the research hypotheses shows, firstly, the lack of significance of the coefficients of R&D intensity, meaning that we cannot make conclusions on hypothesis H3b. It can be said that section 4.1 also detects the lack of significance of this dimension (Table 3), which is explained by Caves and Mehra (1986) in the same section. However, this result differs from that obtained by López and García (2002a) in Spain between 1988 and 1996, where R&D intensity is significant and associated with entry through acquisition (full or partial) as opposed to wholly-owned subsidiary. This difference between the results of the two studies could be due to the variables used to measure R&D intensity being based on two different proxies (see section 3).

Table 4. Multinomial logit of the determinant factors of entry mode and ownership structure decision (standard errors in brackets)

	Joint Venture	Full Acquisition	Partial Acquisition
Independent Variables			
Intercept	-2.537[b] (0.4847	-1.454 (0.729)	-1.061 (0.579)
R&D Intensity	0.904 (0.146)	0.063 (0.116)	-0.354 (0.115)
Advertising Intensity	2.584[a] (0.076)	-0.348 (0.088)	-2.231[b] (0.066)
Host country Experience	-3.284[a] (0.410)	1.371 (0.369)	2.130[b] (0.341)
Cultural Distance	1.599 (0.282)	-2.220[b] (0.335)	-0.674 (0.243)
Host country Development	-3.550[a] (2.3E-05)	3.445[a] (1.7E-05)	-2.689[a] (1.7E-05)
Control Variables			
Leverage	-0.754 (0.011)	-1.248 (0.010)	1.331 (0.009)
Returns on Equity	0.952 (0.012)	-1.248 (0.010)	-0.314 (0.009)
Number of Observations	240		
Log Likelihood	-281.11		
Chi-Squared	72.06[a]		
% Correct Predictions	44.0		

a= prob<0.01; b= prob<0.05; c= prob<0.1
Note: the omitted category is "wholly-owned subsidiary"

For its part, the detailed analysis of advertising intensity, bearing in mind the combination of diversification mode and ownership structure, shows a significant positive sign at a level below 1% in the joint venture model and a negative sign at 5% in the partial acquisition model. Therefore, advertising intensity is associated with a greater probability of joint ventures (as opposed to wholly-owned subsidiary) and with wholly-owned subsidiary (as opposed to partial acquisition). In particular, these results do not support hypothesis H4c of a positive association between advertising intensity and wholly-owned subsidiary. In this way, López and García (1998a) indicate that unexpected behaviour is often more frequent in studies of non-USA companies (Hennart, 1991; Kogut and Singh, 1988).

The examination of host country experience shows a negative sign significant at a level below 1% in the joint venture model, and a positive sign significant at 5% in the partial acquisition model. Therefore, host country experience is associated with greater probability of wholly-owned subsidiary (as opposed to joint venture) and with partial acquisition (as opposed to wholly-owned subsidiary). To be precise, these results do not allow us to support hypothesis H6c of a positive association between host country experience and wholly-owned subsidiary. These results complement those found in section 4.1 of lack of robustness because the negative sign of the joint venture model is in line with the transaction costs theory (Hennart and Park, 1993; López and García, 1998a) of hypothesis H6b of association between greater host country experience and greenfield investment and, in addition, the positive sign of the partial acquisition model is in line with the theory of mergers and acquisitions (Barkema et al., 1996; Barkema and Vermeulen, 1998; Hennart and Park, 1993) of hypothesis H6a of a positive association between host country experience and acquisition.

The variable of cultural distance between the home and host countries has a negative sign, significant at 5% in the total acquisition model. This allows us to conclude that greater cultural distance between the home and host countries is associated with a greater probability of entry through wholly-owned subsidiary (as opposed to full acquisition), which would support hypothesis H8c, in line with Kogut and Singh (1988) and Chang and Ronsezweig (2001).

The host country development shows a positive sign in the full acquisition model and a negative sign in the others. This leads to the conclusion that a greater host country development is associated with a greater probability of entry through full acquisition (and lesser probability through wholly-owned subsidiary) and with lesser probability with the options of joint venture and partial acquisition which imply sharing

resources (and greater with wholly-owned subsidiary). This does not allow support for hypothesis H9, which associates the level of development with entry through acquisition.

Finally, neither of the control variables of returns on equity and leverage are significant, as found in section 4.1.

5. Conclusions

The implication that the choice of foreign entry mode through FDI is explained by certain company and host country factors has allowed us to analyse this phenomena in a sample of 141 Spanish manufacturing companies between 1998 and 2000. For the first time, we examine firstly, the determinant factors of diversification mode (acquisition versus greenfield investment) considering various theories such as mergers and acquisitions, transaction costs, the learning organisation, the institutional context of the company and the cultural context of the host country; and secondly, the explanatory dimensions of four foreign expansion which result from combining diversification mode with ownership structure (full acquisition, partial acquisition, wholly-owned subsidiary and joint venture subsidiary).

The methodology is based on various logit models, binomial and multinomial, to find out the determinant factors in the choice of foreign entry mode. The empirical application carried out in our country led us to conclude that, for the sample companies, "acquisition versus greenfield investment" choice depends mainly on related diversification, international experience, size and ownership structure and, to a lesser extent on the cultural distance between the home and host countries. Likewise, the choice between total acquisition, partial acquisition, wholly-owned subsidiary and joint venture is explained by advertising intensity, host country experience, cultural distance and the host country development.

These results, taken together, confirm that the argumentations of the theories of transaction costs, mergers and acquisitions, and the institutional context of the company and the cultural context of the host market exert influence on foreign entry decisions. To be precise, from the transaction costs theory, we justify, firstly, acquisition as a form of foreign investment found as company size grows, given the implicit accumulation of organisational capabilities which can be separated from the organization; and secondly,

acquisition as a form of foreign investment found as international experience grows, as this allows a company to face the risk associated with an acquisition and integrate into the acquired foreign company whose managers have different nationalities.

Considering the theory of mergers and acquisitions argues for the association of acquisition with related diversification, as the problems of post-acquisition interaction diminish with similarity of origin and destination. Finally, the institutional context of the company and the cultural context of the host country support the relationship found between subsidiary creation and cultural distance, arguing that creating subsidiaries in a country with a very different cultural context facilitates the application of the home country's organisational routines.

As future lines of research we would highlight the analysis of entry modes distinguishing different aspects, such as corporative strategy (Harzing, 2002), the existence of business networks (Pla, 1999), as well as a comparison between entry options such as joint venture and complete acquisition (Hennart and Reddy, 2000).

References

Agarwal, S. and S. N. Ramaswami (1992), "Choice of Foreign Markets Entry Mode: Impact of Ownership, Location, and Internalization Factors", Journal of International Business Studies, First Quarter, 1-27

Andersson, T. and R. Svensson (1994), "Entry Modes for Direct Investment Determined by the Composition of Firm-Specific Skills", Scandinavian Journal of Economics, 96 (4), 551-60.

Azofra, V. and A. Martínez (1999), "Transaction Costs and Bargaining Power: Entry Mode Choice in Foreign Markets", Multinational Business Review, 7 (1), 62-75.

Barkema, H.G. and F. Vermeulen (1998), "International Expansion Through Start-Up or Acquisition: A Learning Perspective", Academy of Management Journal, 41 (1), 7-26.

Barkema, H.G., J.H.J. Bell and J.M. Pennings (1996), "Foreign Entry, Cultural Barriers, and Learning", Strategic Management Journal, 17, 151-66.

Bradley, F. and M. Gannon (2000), "Does the Firm's Technology and Marketing Profile Affect Foreign Market Entry?", Journal of International Marketing, Chicago, 8 (4),12-27.

Brouthers, K.D. (2002), "Institutional, Cultural and Transactional Cost Influences on Entry Mode Choice and Performance", Journal of International Business Studies, 33(2), 203-21.

Brouthers, K.D. and L.E. Brouthers (2000), "Acquisition or Greenfield Start-Up? Institutional, Cultural and Transaction Cost Influences", Strategic Management Journal, 21, 89-97.

Buckley, P. and M. Casson (1976), The Future of Multinational Enterprise. MacMillan, London

Campa, J.M. and M.F. Guillén (1996), "Evolución y Determinantes de la Inversión Directa en el Extranjero por Empresas Españolas", Papeles de Economía Española, 66, 235-47.

Campa, J.M. and M.F. Guillén (1999), "The Internationalisation of Exports: Firm- and Location-Specific Factors in a Middle-Income Country", Management Science, 45 (11), 1463-78.

Caves, R.E. (1982), Multinational Enterprise and Economic Analysis, Cambridge University Press, New York.

Caves, R.E. (1996), Multinational Enterprise and Economic Analysis, Cambridge University Press, New York.

Caves, R.E., and S. Mehra (1986), "Entry of Foreign Multinational into US Manufacturing Industries", M. Porter (Ed.), Competition in Global Industries, Harvard Business School Press, Boston, MA.

Chang, S.J. and P.M. Rosenzweig (2001), "The Choice of Entry Mode in Sequential Foreign Direct Investment", Strategic Management Journal, 22, 747-76.

Chatterjee, S. (1990), "Excess Resources, Utilization Costs, and Mode of Entry", Academy of Management Journal, 33, 780-800.

Cho, K.R. and P. Padmanabhan (1995), "Acquisition versus New Venture: The Choice of Foreign Establishment Mode by Japanese Firms", Journal of International Management, 1 (3), 255-85.

Coase, R.H. (1937), "The Nature of the Firm", Economica, November, 386-405.

Davidson, W.H. (1982), Global Strategic Management. John Wiley & Sons: New York.

Delios, A. and P. Beamish (1999), "Ownership Strategy of Japanese Firms: Transactional, Institutional, and Experience Influences", Strategic Management Journal, 20, 915-33.

Dunning, J.H. (1993), Multinational Enterprises and the Global Economy. Addison-Wesley, New York.

Durán J.J. and F. Úbeda (2001), "Fuente de Ventaja Competitiva y Análisis Geográfico de Inversión Directa en el Exterior de las Empresas Españolas 1979-1985", ICADE, 54, 77-100.

Durán, J.J. (1999), Multinacionales Españolas en Iberoamérica. Valor Estratégico. Pirámide. Madrid.

Erramilli, M.K. (1991), "The Experience Factor in Foreign Markets Entry Behaviour of Services Firms". Journal of International Business Studies, 22 (3), 479-502.

Erramilli, M.K. and C.P. Rao (1993), "Service Firms' International Entry-Mode Choice: A Modified Transaction-Cost Analysis Approach", Journal of Marketing, 57, 19-38.

Fiol, C. and M. Lyles (1985), "Organizational Learning", Academy of Management Review, 10, 803-13.

Gatignon, H. and E. Anderson (1988), "The Multinational Corporation Degree of Control over Subsidiaries: An Empirical Test of a Transaction Cost Explanation", Journal of Law, Economies and Organization, 4, 305-36.

Gomes-Casseres, B. (1989), "Ownership Structures of Foreign Subsidiaries: Theory and Evidence", Journal of Economics Behaviour and Organization, 11, 1-25.

Grant, R., J. Jasmine and H. Thomas (1988), "Diversity, Diversification, and Profitability among British Manufacturing Companies, 1972-84", Academy of Management Journal, 31, 771-801.

Greene, W.H. (1999), Análisis Econométrico, Prentice Hall Iberia, Madrid.

Harzing, A.W. (2002), "Acquisitions versus Greenfield Investments: International Strategy and Management of Entry Modes", Strategic Management Journal, 23, 211-27.

Hennart, J.F. (1988), "A Transaction Costs Theory of Equity Joint Venture", Strategic Management Journal, 9, 361-74.

Hennart, J.F. (1991), "The Transaction Costs Theory of Joint Venture: An Empirical Study of Japanese Subsidiaries in the United States", Management Science, 37, 483-97.

Hennart, J.F. and R. Park (1993), "Greenfield vs Acquisition: The Strategy of Japanese Investors in the United States", Management Science 39, 1054-1070.

Hennart, J.F. and S. Reddy (1997), "The Choice between Mergers/Acquisitions and Joint Venture: The Case of Japanese Investors in the United States", Strategic Management Journal, 18, 1-12.

Hennart. J.F. and S. Reddy (2000), "Digestibility and Asymmetric Information in the Choice between Acquisitions and Joint Ventures: Where's the Beef", Strategic Management Journal, 21 (2), 191-194.

Hill, C., P. Hwang and W. Kim (1990), "An Eclectic Theory of the Choice of International Entry Mode", Strategic Management Journal, 11, 117-28.

Hitt, M.A., R.E. Hoskinsson, R.A. Johnson and D.D. Moesel (1996) "The Market for Corporate Control and Firm Innovation, "Academy of Management Journal, 39, 1084-1119

Hofstede, G. (1980), Culture's Consequences. International Differences in Work-Related Values. Beverly Hills, CA: Sage.

Hofstede, G. (1991), Cultures and Organizations: Software of the Mind. Berkshire, England: McGraw-Hill.

Huber, G. (1991), "Organizational Learning. The Contributing Processes and Literatures", Organization Science, 2 (Special Issue), 88-115.

Kim, W., P. Hwang and W. Burgers (1993), "Multinationals' Diversification and the Risk-Return Tradeoff", Strategic Management Journal, 14, 275-86.

Kogut, B. (1988), "Country Patterns in International Competition: Appropiability and Oligopolistic Agreement", en N. Hood and J. Vahlne (Ed.), Strategies in Global Competition, John Wiley, New York, 314-40.

Kogut, B. and H. Singh (1988), "The Effect of National Culture on the Choice of Entry Mode", Journal of International Business Studies, 19, 411-32.

Lall, S. (1980), "Monopolistic Advantages and Foreign Involvement by US Manufacturing Industry", Oxford Economic Papers nº 32, 102-22.

Levitt, B. and J. March (1988), "Organizational Learning", en W. Scott (Ed.), Annual Review of Sociology, 14, 319-40, Palo Alto.

López, C. and E. García (1997), "Internacionalización de la Empresa Española Mediante Inversión Directa: Principales Rasgos Distintivos", Información Comercial Española, 761, 17-31.

López, C. and E. García (1998a), "La Estructura de Propiedad de la Inversión Directa en el Exterior", Investigaciones Económicas, 22 (1), 19-42.

López, C. and E. García (1998b), "La Inversión Directa Realizada por Empresas Españolas: Análisis a la Luz de la Teoría del Ciclo de Desarrollo de la Inversión Directa en el Exterior", Revista Europea de Dirección y Economía de la Empresa, 7 (3), 161-78.

López, C. and E. García (2002a), "The Effect of Firm and Host Country Characteristics on the Choice of Entry Mode: Empirical Evidence from Spanish Firms", Journal of Management and Governance, 6, 153-68.

López, C. and E. García (2002b), "Adverse Selection and the Choice between Joint Ventures and Acquisitions: Evidence from Spanish Firms", Journal of Institutional and Theoretical Economics, 158, 304-24.

Madhok, A. (1997), "Cost, Value and Foreign Market Entry Mode: The Transaction and the Firm", Strategic Management Journal, 18, 39-61.

Madhok, A. (1998), "The Nature of Multinational Firm Boundaries: Transaction Costs, Firm Capabilities and Foreign Market Entry Mode", International Business Review, 7, 259-90.

March, J. (1991), "Exploration and Exploitation in Organizational Learning", Organization Science, 2 (Special Issue), 71-87.

Mutinelli, M. and L. Piscitello (1998), "The Entry Mode Choice of MNEs: An Evolutionary Approach", Research Policy, 27, 491-506.

Osland, G.E., C.R. Taylor and Z. Shaoming (2001), "Selecting International Modes of Entry and Expansion", Marketing Intelligence & Planning, 19 (3), 153-61.

Padmanabhan P. and K.R. Cho (1999), "Decision Specific Experience in Foreign Ownership and Establishment Strategies: Evidence from Japanese Firms", Journal of International Business Studies, 30 (1), 25-44.

Pantzalis, C. (2001), "Does Location Matter?. An Empirical Analysis of Geographic Scope and MNC Market Valuation", Journal of International Business Studies, 23 (1), 133-55.

Penrose, E. (1959), The Theory of the Growth of the Firm, London, Basil Blackwell.

Pla, J. (1999), "Filiales y Entrada en los Mercados Internacionales. Factores Determinantes", Revista de Economía Aplicada, 20 (3), 29-51.

Rabanal, P. (2001), "Economies of Scale, Trade Barriers and Foreign Direct Investment in Spain", Investigaciones Económicas, 25 (1), 31-61.

Ramón, A. (2000), La Internacionalización de la Industria Hotelera Española, Dissertation Thesis, Universidad de Alicante.

Ramsler, M. (1982), Strategic Groups and Foreign Market Entry in Global Banking Competition, Dissertation Thesis, Harvard University.

Rapp, W. (1993), "Japanese Foreign Direct Investment in the Product Cycle", in A. Bird and S. Beechler (Eds.), Proceedings of the Sixth Annual Meeting on the Association of Japanese Business Studies, Association of Japanese Business Studies, New York.

Ravenscraft, D. and F. Scherer (1987), Mergers, Sell-Offs, and Economic Efficiency, Brookings, Washington, 1987.

Rialp, A. and J. Rialp (1996), "El Papel de los Acuerdos de Cooperación en los Procesos de Internacionalización de la Empresa Española: Un Análisis Empírico". Papeles de Economía Española, 66, 248-258.

Robins, J.A. (1987), "Organizational Economics: Notes on the Use of Transaction-Cost Theory in the Study of Organizations", Administrative Science Quarterly, 32, 68-86.

Slangen, A. and J.F. Hennart (2001), "Greenfield versus Acquisition: A Critical Assessment of the Foreign Establishment Mode Literature", 27th Annual Meeting of the European International Business Academy.

Stopford, J.M. and L.T. Wells (1972), Managing the Multinational Enterprise: Organization of the Firm and Ownership of the Subsidiaries, Basic Books: New York.

Suárez-Zuloaga, I. (1995), "La Internacionalización Productiva de las Empresas Españolas, 1991-1994", Información Comercial Española, 746, 89-103.

Taylor, C.R., Z. Shaoming and G.E. Osland (2000), "Foreign Market Entry Strategies of Japanese MNCs", International Marketing Review, 17 (2), 146-163.

UNCTAD (2000), Informe sobre las Inversiones en el Mundo. Las Fusiones y Adquisiciones Transfronterizas y el Desarrollo. Panorama General. United Nations, New York and Ginebra.

Williamson, O. (1975), Market and Hierarchies: Analysis and Antitrust Implications. The Free Press, New York.

Williamson, O. (1981), "The Economic of Organization: The Transaction Cost Approach", American Journal of Sociology, 87, 548-77.

Wilson, B. (1980), "The Propensity of Multinational Companies to Expand through Acquisition", Journal of International Business Studies, 11, 59-65.

World Economic Outlook (2001), International Monetary Fund, Publications Services (U.S.A.).

Yip, G.S. (1982), "Diversification Entry: Internal Development versus Acquisition", Strategic Management Journal, 3, 331-45.

Zejan, M. (1990), "New Ventures or Acquisitions: The Choice of Swedish Multinational Enterprises", Journal of Industrial Economics, 38, 349-55.