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Iberian diaspora and internationalization processes

Editors:
Susana Costa e Silva (Coordinator)
Leonor Sopas
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1. Antecedents and consequences of stakeholder orientation in Spanish public universities

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Abstract

This study, based on institutional theory, dynamic capabilities and stakeholder theory, investigates the antecedents and the consequences of responsive and proactive stakeholder orientation (RSO and PSO) in the public university context. No previous research has empirically investigated the key antecedents of RSO and PSO in public universities. Also, the influence of RSO and PSO on the performance of higher education institutions (HEI) has not been investigated, so no previous research has studied the relationship between stakeholder orientation and public universities' performance. Additionally, although the concept of HEIs' latent needs has received some theoretical comments, no empirical proposal exists regarding PSO behaviour in the HEI context. Thus, in the present research we attempt to fill all these important research gaps.

The research is based on a survey among public university managers (as rectors, vice-rectors, deans, heads of departments, managing directors, etc.) as a unit of analysis, because they are responsible for the university strategies related to their main missions: teach, research and transfer of knowledge. The target population is made up of all managers of the 48 Spanish public universities, totaling 7,130 individuals. Data were collected using an online questionnaire sent to all these population. 795 valid questionnaires were returned, which means an 11.15% valid response rate.

We test then the hypotheses using covariance-based structural equation modelling (SEM). The results obtained mainly stresses that the mimetic effect on copy successful university actions, university top manager's emphasis on both stakeholder orientations and a better communication among managers from different university structures have positive effects on a RSO and PSO. Moreover, the results suggest that more responsive or/and proactive stakeholder oriented universities obtain a better organizational performance in terms of beneficiary satisfaction, acquisition of resources and reputation. Furthermore, the findings show that, to achieve some important university performance

goals as reputation, a responsive stakeholder orientation is not sufficient, thus a proactive stakeholder orientation is also needed.

Additionally, our study contributes to the literature by validating the construct scales of a RSO and/or a PSO of public universities, and the key constructs of their main antecedents and consequences. Our findings confirm the claim that RSO and PSO, although related, are theoretical distinct constructs.

From a practical perspective, this study suggests that, in order to enhance the RSO and PSO of their institutions, university managers should be acting especially on the emphasis shown to SO, on fostering the cohesion among the different university structures, on reducing as much as possible the level of complexity of the university organization and on trying to imitate the proper stakeholder oriented behaviours of other public universities.

Furthermore, our results should encourage policy-makers to transform these institutions bearing in mind that both, RSO and PSO, could become important sources of competitive advantage. In this line of reasoning we suggest governments the need to establish policies that encourage the implementation of university strategies oriented to their stakeholders, in order to break the current scenario of their public universities. Also, in sight of these results, we encourage governments to promote the implementation of proactive strategies among public universities as a way to improve the reputation of such institutions.

2. The relevance of entrepreneurs' personality characteristics for new ventures' internationalization

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Abstract

International Entrepreneurship (IE) has its origins from international business and entrepreneurship research. Nevertheless, in the last decades, it has been addressed within a more specific scope due to its complexity. Several studies contributed to a greater understanding of the IE concept, however the literature demands the need for a more integrated framework distinguishing domestic and international new ventures (DNVs vs. INVs). The present study analyzes the influence of the entrepreneur's personality and entrepreneurial characteristics on the firm characteristics and the influence of the latter on internationalization. Therefore, this research attempts to accomplish the following objectives: i) to develop a well-structured framework for the internationalization process of new ventures; ii) to identify entrepreneurial characteristics at the individual and firm level relevant to internationalization; and iii) to distinguish INVs from DNVs regarding the entrepreneurial mindset. The hypotheses were tested through a survey data (using 4.193 responses) combined with secondary data provided by eInforma Dun & Bradstreet database for Portuguese INVs and DNVs founded between 2004 and 2013. The results provided empirical support for the relationships between several entrepreneur's personality characteristics (such as conscientiousness, openness to experience, extraversion, need for achievement and risk perception) and entrepreneurial characteristics (individual entrepreneurial intent, individual entrepreneurial orientation and entrepreneurial alertness). Additionally, an association was found between individual entrepreneurial orientation and individual entrepreneurial intent. There was also empirical support for relationships between individual entrepreneurial characteristics and the firm's entrepreneurial orientation and international orientation. Furthermore, international orientation was positively related to the type of venture (international *vs* domestic) and the firm's export percentage. The present research provided a different level approach highlighting the role of the entrepreneur whose personality and entrepreneurial characteristics are determinant to the firm's identity and its internationalization.

Keywords: international entrepreneurship; domestic new ventures; international new ventures; entrepreneurs' characteristics; personality characteristics; internationalization.

3. The relationship between perceived political risk, cultural distance, and firm international experience: A study with Brazilian firms

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Abstract

Political risk, cultural distance, and firm international experience are three popular constructs in the International Business literature, appearing in several theories and empirical studies. They are believed to be closely related to how MNEs take decisions concerning market selection, market commitment, entry modes, exit decisions, and many others. Nevertheless, the extant literature covering these subjects presents conflicting and ambiguous results. In addition, some studies have shown that these constructs may have an interactive impact on foreign investment decisions. This paper examines the interrelationships of these constructs in a sample of 165 subsidiaries of Brazilian MNEs, or 40% of the target population. The data was collected using a structured, self-administered questionnaire send to the total population of Brazilian MNEs. The questionnaire was posted in the internet or sent by email. The model was tested using structural equations modelling. Although the model presented good fit, two of the research hypotheses were rejected. The hypothesis of an impact of cultural distance on the perception of political risk of a given country was empirically supported in the study. The sign of the relationship was negative, suggesting that a higher perception of cultural distance was associated to a lower perception of political risk.

4. The impact of remittances on households' well-being: Evidence from Albania

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Abstract

This study analyzes the determinants of remittances and the impact the behavior of Albanian migrants toward remittances from a microeconomic perspective. Remittances expressed as percentage value of Albania`s GDP have decreased through the last years but they have never been lower than 8.3%. This fact makes Albania one of the most potential receivers of remittances in Europe. The paper uses a large nationally-representative household survey from Albania to analyze how the receipt of international remittances affects the well-being level of the households. The welfare level is measured by the extent of the subjective self-assessment of the same households. The propensity score matching approach is applied for this research.

The results indicate that the Albanian households involved in different economic activities are more likely to be economically independent. Additionally, families with higher number of females are focused on the presence of remittances as they are considered strong protective instruments of their well-being. We also conclude that households with the presence of remittances perceive having a better life in comparison with households that do not receive remittances. The same group reflects the conviction that has been able to experience more improvement in their well-being level when compared to the households that did not receive remittances.

Keywords: migration, remittances, propensity score matching, well-being, Albania.

Introduction

International migration is a prominent feature of globalization and one of the defining issues of this century. The world has witnessed mass exodus of people from one country to the other, driven by a search towards better lives and most of these migrations present movements from developing countries to developed ones. Economic conditions are the main factors influencing migration and remittances are the most widespread and important migrant economic activity.

International remittance is defined as the money and goods that are transferred by migrant workers working outside of their origin countries to their households (families and friends in the home country). During the last decades, especially with the start of the 21st century, the economic analysis of remittances has experienced a dramatic renewal, becoming one of the key issues in economic development. Its relevance has increased during this time and it will continue to grow in the future. That is one of the main reasons the issue of remittances has increasingly captured the attention of policymakers from both developed and developing countries. In 2004 official international remittances were estimated at $93 billion per year (Ratha, 2004). Analysis made during 2010 indicates that were more than 215 million international migrants in the world. In other words, 3 percent of the world population was living outside their country of birth. Recorded remittances received by developing countries were estimated to be $325 billion, far exceeding the volume of official aid flows and constitute more than 10 percent of gross domestic product (GDP) in many developing countries. Moreover, in 2013, international migrants sent home to families and friends a total amount of remittances which was three times more than the total of global foreign aid.

The absolute values of remittances indicate their economic importance to many countries, but their volume relative to income flows and other indicator variables establish this result in a clearer manner.

The microeconomics of remittances has been the focus of many scholars since the mid of the 20th century, but a deep change surfaced in the early 1980s when the role of information and social interactions where included in explaining transfer behavior. The topic of migration, remittances and their development has always been accompanied with controversial analysis and results between researches and policy makers. Johnson and Whitelaw (1974), Stark (1981) and later again Bloom, Lucas and Stark (1985) are known as the pioneers that analyzed the determinants of remittances. Lucas and Stark (1985) were the first to formulate a formal model for analyzing the remittances of migrant workers. Remittances present a very complex area of study with many clues and according to Lucas and Stark, migrant workers would remit for a variety of reasons, ranging from pure altruism to pure self-interest. The decision to send money was conditioned by income, the motivation to share the income with the family of origin. Under the study of remittance' motivations, migrant workers could be classified as altruistic if their remittances increase with declines in family income at home, while remittances with self-interest motives would be considered dominant if they were positively related with family income at home. Driven by the first motivation, the transfer of wealth due to altruism, the migrant intends to deal with those he left behind. The second motivation, self-interest, is considered the aspiration of the migrant, for example, to inherit or the desire to invest in their country of origin and then to ensure that such investments are treated in a satisfactory manner by the family of their home country.

Taylor (1999) also continued developing the theory and sustained the noticeable role of remittances for the enterprise risk diversification of the family, as the labor income of the migrant is not correlated with the revenue derived from the income of the family residing in the country of origin. This analysis attempted to discover the migrant's goals in his/her migration project (as an important aspect of the New Economics of Labor Migration – NELM). Another facet of emigration consisted in the behavior of the migrant once he arrives at the destination country and his continued relationship with the family of the origin country. It should also be admitted that the effect of remittances (and migration) at the local level of migrant's home country is conditioned not only from the amount, distribution and weight of such remittances on the income of the family of origin. Sometimes, it is the indirect impact of remittances on the local community that is more effective than the previously listed factors. This kind of impact depends on the behavior of the family of the migrant -the context in which they live (Taylor 1999).

Why study Albania?

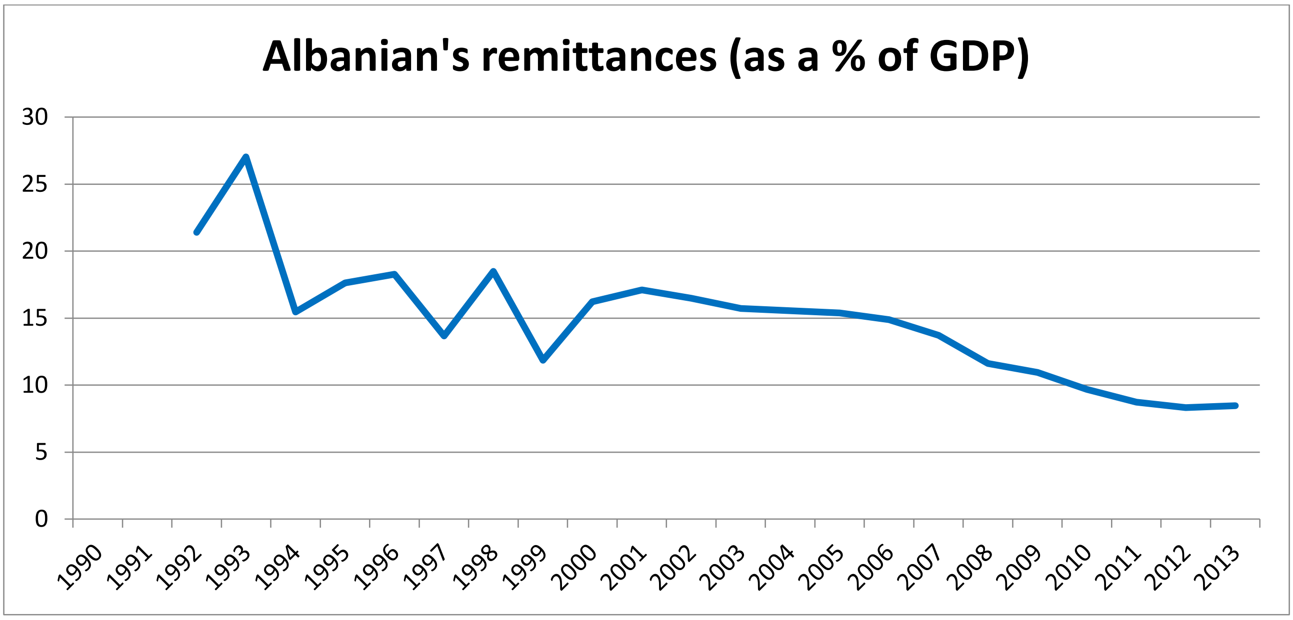
As many cross-country analysis and evidence from household surveys suggest that migration and remittances have some potential to reduce poverty in the origin communities, their increasing volume and potential impact on the development of remittance receiving countries has become an important topic of concern for policy makers at national and international level.

This study analyzes the determinants of Albanian remittances from a microeconomic perspective. Albania is one of the top destination countries for remittances inflow.

The dissolution of Albania's communist regime in 1991 marked the end of an isolated period during which, for more than 45 years, international migration was radically prohibited. The vision of Albania in 1990 was that of a country with low income levels facing several internal and external problems of great importance. Over the past two decades, Albania has continued to defy the problems and it is a notable fact that the country has made progress in creating conditions to facilitate the economic growth and to reduce the poverty level.

Data compiled by Migration and Remittances Factbook 2011, indicates that during the year 2010, Albania was characterized with nearly 1,438.3 thousands Stock of emigrants and its value as a percentage of population was 45.4%. Furthermore, the Factbook suggests that the top destination countries for Albanian migrants are Greece, Italy, the former Yugoslav Republic of Macedonia, the United States of America, Germany, Canada, Turkey, the United Kingdom, France, Australia, respectively (Migration and Remittances Factbook, 2011). High values of migration outflows that have been unfolded during these decades, since the collapse of the totalitarian system, have been accompanied also with records in remittance inflows. The year 1993 registered the highest level of remittances expressed as a percentage of GDP (27% of GDP). Although remittances have fluctuated over time, they have been a major source of income for the major part of Albanian households and for the national economy as well. In 2005, total international remittances inflow to Albania reached a little over US$1 billion. According to International Monetary Fund (IMF 2006) such transfers constituted nearly 14 percent of Albanian GDP.

The last data available from the World Bank is for the year 2013. During 2013 the level of remittances inflows as a percentage of GDP was just 8.46%. And again, although it is one of the lowest values during the last two decades, it still presents a considerable level that classifies Albania into the group of top Remittance-Receiving Countries.



Source: World Bank of Albania

Descriptive statistics and model implementation

The data used in this study is derived from the last LSMS (Living Standard Measurement Survey) that has been carried out in Albania. It has been implemented in the framework of the National Strategy for Development and Integration with the purpose to create a policy evaluation system. As explained from the World's Bank staff, the first Albania LSMS was conducted in 2002, followed by 2003, 2004, 2005, 2008 and 2012 surveys. The survey we are focused on is based on a sample of 6,671 households. The techniques used in the survey of 2012 are similar to those of the previous year, however it might be noted the expansion of the sample size from the past surveys to the last one.

The sample of 6,671 households is randomly selected. In a first round, 834 Primary Selection Units (PSUs) have been selected from the country. In the next selection, 8 households were chosen (again in a random way) for every Primary Selection Unit to be the protagonist of the interview prepared from the staff. At the end, the survey was completed with a total of 6,671 questionnaires filled out by the households. Although it presents the core center of our study, the 2012 Living Standard Measurement Survey of Albania was not designed as a migration or remittances survey. In fact, the survey seems to be exhaustive since the collected information covers topics related to demographic characteristics, expenditure, education, health employment, labor, communication and so on, without neglecting migration and remittances. This is the reason that the final dataset used during the research was obtained not only from components related with the topics of remittance and migration but also with reference to the available information from the other modules.

The information extracted from the module of international migration was related to the actual presence of the phenomenon of migration in the surveyed family. The acknowledgment that at least one of the household members is living abroad was intended to confirm the presence of migration in that specific household, otherwise no. Referring to table 1, the binary variable that was created indicates that 1,727 households have members involved in the migration (25.89 % of the total sample) and 4,944 have not.

Table 1

Emigration	Frequency	Percentage
Not Present	4.944	74.11
Present	1.727	25.89
Total Observations	6.671	100.00

With respect to remittances, there are two basic questions asked in the survey that have been used to implement a dummy variable which accounts for the presence or absence of remittances: (1) Has your family received remittances in cash during the last year from your family members living abroad?; (2) Has your family received remittances in kind during the last year?

Table 2

Remittance	Frequency	Percentage
Not present	5.971	89.51
Present	700	10.49
Total Observations	6.671	100.00

As noted in table 2, only 700 families have received remittances (in kind, in cash or both of them). In fact, from the whole sample of the survey under discussion, 675 families (10.1% of the sample) received remittances in cash form and 190 families (2.9% of the sample) received remittances in kind.

There is basic information of interest for the sample into analysis that should be treated in order to implement a comprehensive framework of the model we are going to build. From the random selection of the 6,671 households, the geographical distribution of the sample is divided between four regions: central region, mountain region, coastal region and Tirana (the capital).

Table 3

Regions	Frequency	Percentage
Central	2959	44.4
Coastal	1936	29.0
Mountains	1128	16.9
Tirana	648	9.7
Total Observations	6671	100.00

Referring to table 3, 44,4% of the households are located in the Central region of Albania, 1936 families (29% of the sample) live in the Coastal zone, 1128 interviewers live in the Mountains (16.9% of the sample) and the remaining part, only 9.7% lives in Tirana, the capital of Albania (648 families).

With regard to the information made available from the section of Migration, the table below (table 4) explains that from 1727 families that have experienced the migration phenomenon, the total number of members living abroad is 1998. 44.4% of the reduced sample is presented from 887 households living in Greece, followed by 37.7% living in Italy at the moment of the interview and the remaining percentage (17.9% or 357 individuals) was living in different other countries. The high percentage of Albanian households living in Greece and Italy is an acceptable and a logic situation since these countries are not so distant from Albania and because of historical and economical background of the country.

Table 4

Country Destination	Frequency	Percentage
Greece	887	44.39
Italy	754	37.74
Kosovo	4	0.20
Macedonia	5	0.25
Other	348	17.42
Total Observations	1.998	100.00

In order to take a further look into this filtrated sample, it is important to take into consideration some aspects of our emigrants (table 5):

Table 5

Emigrants' characteristics	Observations	Means	Standard Deviation
Age	1998	34.14	9.028
Gender	1998	1.34	0.474
Highest grade completed –Level	1998	2.11	1.692
Language Knowledge -English	1998	2.52	0.757
Language Knowledge –Italian	1998	2.08	0.929
Language Knowledge –Greek	1998	2.11	0.960
Language Knowledge - Macedonian	1998	2.98	0.174
Language Knowledge –French	1998	2.95	0.299
Language Knowledge –German	1998	2.95	0.310
Language Knowledge –Other	1998	2.98	0.194
Currently Working	1998	1.34	0.474
Remit to Household during the last year	1998	1.560	0.496
Remit in Kind	1998	1.88	0.323

From the entire sample of individuals living abroad, male remains the predominant group involved into this experience. In fact, from the dataset, it can be easily determined that 1316 (65.9%) are males and 682 (34.1%) are females. The mean age of the households seems to be a young age (34.14 years old) and the competencies on new languages are less than adequate (1 representing "fluent at speaking the language", 2 representing "somehow competent" and 3 "no knowledge of it"). Another characteristic that our table demonstrates is that the majority of the individuals involved in migration (actually 66% or 1318 individuals) were actually working in the country where they were located (1 signifying "Currently working", otherwise 2).

In the same way, 1 applies if individuals have sent remittances in cash/kind during the last year and 2 if not. There were 875 (43.8%) individuals who confirmed the transfer of remittances in cash during last year and in the meantime 236 (11.8%) individuals had sent remittances in kind.

Implementation of the Model

Many scholars have rendered the topic of remittances one of the main focuses of their studies. The results they obtained seem to differ depending on the country/region that was taken into observation and the temporal axis the study was performed in. Also, the method used to investigate this important phenomenon varies from one group of authors to the other.

As we are going to understand the possible variables that can explain the probability of the receiving remittances or not, the probit regression was considered essential to the analysis. Also, it is important to first develop a further analysis of the variables that are used in the implementation of the model.

There is a list of independent variables which we considered as the most feasible characteristics of the individuals in our sample. The independent variables that were used for the probit regression, are presented in the table below.

__Table 7__ The table is a summarized description of the independent variables used into the probit regression model.

Variable	Total Sample Mean	Households with Remittances Mean	Households without Remittances Mean
Urban	0.460 (0.498)	0.501 (0.500)	0.455 (0.498)
Head_household_Read	0.859 (0.347)	0.771 (0.420)	0.870 (0.336)
Head_household_Write	0.862 (0.344)	0.777 (0.416)	0.872 (0.333)
Under_6	0.213 (0.409)	0.085 (0.280)	0.228 (0.419)
Over_65	0.311 (0.463)	0.477 (0.499)	0.292 (0.454)
Work_Public_Sector	0.153 (0.360)	0.063 (0.243)	0.164 (0.370)
Over_18_under_65	0.913 0.(281)	0.757 (0.428)	0.931 (0.252)
Household_owns_agricultur_Land	0.548 (0.497)	0.477 (0.499)	0.557 (0.496)
Work_Private_Sector	0.356 (0.765)	0.144 (0.518)	0.381 (0.785)
Work_Private_Individual	0.055 (0.228)	0.030 (0.171)	0.058 (0.233)
Primary_School	0.557 (0.496)	0.661 (0.473)	0.545 (0.497)
High_School	0.327 (0.469)	0.278 (0.448)	0.333 (0.471)
University_Degree	0.111 (0.315)	0.058 (0.235)	0.118 (0.322)
Post_Master_Degree	0.002 (0.051)	0.001 (0.038)	0.002 (0.053)
Central_Regions	0.437 (0.496)	0.393 (0.488)	0.443 (0.496)
Coastal_Region	0.292 (0.455)	0.453 (0.498)	0.273 (0.445)
Mountain_Region	0.171 (0.378)	0.081 (0.273)	0.183 (0.387)
Tirana	0.096 (0.295)	0.072 (0.259)	0.099 (0.299)
Ratio Female/Male	1.170 (0.824)	1.207 (0.708)	1.165 (0.837)
Total Observations	6280	664	5616

Note: In parenthesis is given the value of standard deviation for each variable.

The variables included into the regression are created to explain the characteristics of our sample. Sometimes, these variables are explanatory at the household level and in some other cases at the individual level (referring to the characteristics of the head of the household). The list of the variables used for this regression consists on “urban” which is a dummy variable that explains if the household is living in a rural area (code=0) or in an urban area (code=1) and from the original variable “region” which was a categorical variable, were created four new dummy variables: “Coastal Region”, “Tirana”, “Mountain” and “Central Region”. “head_household_read” and “head_household_write” are two dummy variables which take value of one in the case the head household has at least an average capability to read a newspaper/ to write a letter and zero otherwise. Apart from these two variables, there are also four additional dummy variables related to the educational level of the head household. These variables are described as: “Primary School” which took a value of 1 if the head household had achieved a maximum of 8-years of education and zero otherwise, “High School” with value equal to 1 if the head household had achieved an educational level equal to the gymnasium (and 0 otherwise), “University Degree” with value signed equal to 1 if the head household had achieved a degree equivalent to the bachelor/master title and “Post Master Degree” with value equal to 1 if the head household had achieved an additional degree after the university formation. The other variables; “under_6” presents a dummy variable with value of one if there is present in the family at least a household member with age under 6 years old, “over_18_under_65” is another variable with value of one if there is present in the family at least a household member with age over 18 and under 65 years old and “over_65” is also a dummy variable with value of one if any of the members is at least 65 years old and zero otherwise. There are also variables explaining the occupation positions of the household members. The variables: “work_public_Sector”, “work_private_sector”, “work_private_individual”, take value of one if at least one of the household members is involved into the occupation category and zero otherwise. The last variables are: “own_agricultur_land” takes value one if the household owns a piece an agricultural land and “ratio_female/male” was a variable created from the ratio of the number of females and males at a household level.

The following table presents the results achieved from the probit regression.

Table 8

Remittance_presence	(PROBIT REGRESSION) Coef.
Urban	-0.003 (0.064)
Head_household_read	-0.121 (0.115)
Head_household_write	0.083 (0.118)
under_6	-0.486*** (0.069)
over_65	0.100* (0.056)
work_public_sector	-0.378*** (0.084)
over_18_under_65	-0.510*** (0.077)
household_owns_agricultur_land	-0.168*** (0.063)
work_private_sector	-0.490*** (0.076)
work_private_individual	-0.328*** (0.115)
University_Degree	-0.143 (0.096)
High_School	-0.048 (0.054)
Post_Master_Degree	0.116 (0.510)
Central_Region	-0.127 (0.092)
Coastal_Region	0.264*** (0.091)
Mountain_Region	-0.427*** (0.110)
Ratio_female/male	0.102*** (0.028)

-Second column: Probit model used to analyze the probability of receiving remittances as a function of the characteristics at the individual and household level.

-In parenthesis is given the value of standard deviation for each variable.

-Note: ***, ** and * indicate significance of parameters at 0.01, 0.05 and 0.1 respectively.

Not all the variables are significant determinants of receiving remittances. The presence of households with members less than 6 years old, show a negative impact on the dependent variable. The coefficient of the variable "under_6" is -0.486 and even if we set our alpha level to 0.01 it is statistically significant given the other explanatory variables that are in the model. The other variables with relevance for the presence or not of the remittances are: "over_18_under_65" and "over_65", which have a different impact on the presence of the remittances. Families with older age components are sustained from their members involved into migration. In fact, this is a quite logical explanation which can be argued through the connection that migrants have with their home country during the time they live abroad. The mean age of the migrants in our dataset is 34 years old which can be interpreted as a young age but at the same time it means that the old age members staying home represent a responsibility for their relatives living abroad.

For variables: “work_public_Sector”, “work_private_sector”, “work_private_individual”, and “own_agricultur_land, there is a clear evidence of their statistical significance level with a negative effect on the probability of receiving remittances. “Coastal Region” and “ratio_female/male” are two other potential determinants of remittances’ presence with positive impact. A reasonable explanation of the former variable result is supported from the inviting distance between this region of the country and the other countries which are the main destinations for the Albanian migrants. Regarding the other variable, “ratio_female/male”, the result is a confirmation of the help received in remittance forms especially for families comprised with a higher number of female members with respect to male members. As migration is undertaken from a percentage of males which is greater than the percentage of females, it is reasonable that remittances serve as protective pads for the families living in Albania. The last significant variable “Mountain” is a regressor with a negative impact on the presence of remittances. Explanatory variables related to the academic formation of the head household such as “head_household_read”, “head_household_write”, “Primary School”, “High School”, and “Post Master Degree”, differently from other research studies made for other countries, apparently turn to be irrelevant for the determination of receiving remittances or not. Anyway, this examination is a confirmation of the study Cattaneo applied in Albania during 2010.

The remaining variables applied into the regression; “urban” and “Central Region”, present an inconsistent level of relevance in the explanation of remittances.

Conclusions

Migration is a phenomenon strongly related to the Albanian population and the reality of the country during its last 25 years mirrors a dynamic development of this phenomenon. Referring to the world development indicators of the World Bank remittances have been regarded during all these years as a protective instrument for the Albanian` economy. Even if remittances expressed as percentage value of Albania`s GDP have decreased through the last years, its stream has never been lower than 8.3%. This fact makes Albania one of the most potential receivers of remittances in Europe.

Education formation of the head households, differently from other case studies, is not a statistical significant characteristic which can condition the presence of remittances. A crucial result is that the Albanian households involved in different economic activities are more likely to be economically independent and do not have higher necessity of being sustained with assistances such as remittances help. Additionally, families with higher number of females are focused on the presence of remittances as they are considered strong protective weapons of their well-being. Household's members of different ages have a different impact on the presence of the remittances. As households with young members, between 18 and 65 years old, present an active participation force in the economic life, they have a negative impact on receiving remittances. On the contrary, families with old age members, over 65 years old, seem to be very dependent on receiving potential remittances.

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5. Internet impact on “family” SME’s process of Internationalization

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Abstract

The scope of this study is to focus on World Wide Web (Internet) impact on SME’s process of internationalization, described as the “outward movement in a firm international operation” (Welch & Luostarien, 1988, p.36). More specifically, the objective is to analyse this movement at several levels on “Family SME´s” and the usage of the Internet to promote international business.

Definitely accepted by all, Internet it is a strong engine for internationalization (Bell & Loane, 2010), reinforced by geopolitical changes such as the creation of the European Union, and the emerging economies of Eastern Europe and Asia that burst the scene with tremendous energy and determination to become a force in international business.

All these events were determinant factors for the creation of the current Global Market, (Gilpin, 2010), where firms competes, 24 hours a day, 7 days a week, 365 days a year.

This process of internationalization is referred by many authors as the “internetization” (Moskovkin & Savchenko 2008, Abouzeedan, 2013) to the process of increasing adoption, diffusion, and deployment of internet-based technologies and processes that increasingly serve as the back bone of internationalization (Etermad, H. et al. 2010).

How did the Family firms used the Internet potential to increase or launch the internationalization process, and coped with these new challenges, knowing that market settings are different, there are new rules and laws (Marsden, 2007), requirements and approaches are specific?

The methodology that is being used at this stage for researching is a qualitative exploratory approach (Stebbins, 2001), supported by a “Multi case study”, and the process of building theory from case study research, (Eisenhardt, 1989).

“In-depth interview” are being done to managers and other persons involved with Family firms and also “survey questionnaires” to enlarge the sample and get some quantitative data.

At this point of the study there is no final conslusions, the research is on going, and is part of PHD thesis to be presented at the Faculty of Economics, University of Porto.

On this document it will be presented the literature review that is being done, and some discussions about the topic.

6. Exchange rate and foreign direct investment: A review of the recent theoretical empirical contributions (2001-2015)

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Abstract
Since the collapse of Bretton Woods currency arrangements (1971-1976), the coexistence of large and sudden movements in the exchange rates (ER) and great and intense surges of foreign direct investment (FDI) at the same time in different economies have motivated the development of a literature about the linkage between both variables. The objective of this paper is to present, in a critic way, the current state of the research concerning the influence of the exchange rate variability on the foreign direct investment flows, reviewing shortly the main theoretical-empirical models (with ambiguous predictions and few conclusive results) and paying special attention to the latest contributions that have considered the need to introduce new elements that condition this effect. The methodological approach is based on the classification of the ways to measure the exchange rate: levels, expectations and volatility and, with this base, we deepen into the latest contributions around three new lines of research: investment opportunities in third countries, heterogeneity in FDI motive and synthesis and unification of models, as an answer to the new elements incorporated into the research agenda. The main results of traditional literature suggest that host currency depreciations, appreciations expectations and lesser volatility have positive impact on host FDI inflows, but the strong heterogeneity of empirical research has reflected the distance with theoretical models, showing the theoretical ambiguity. During the two last decades a new empirical impulse has emerged through the incorporation of new operational features of the multinational corporation (MNC) allowing to improve the results and to get a greater degree of reconciliation between theory and evidence. Furthermore, the last applied studies have changed the geographic setting from developed countries to developing countries, reflecting the new stylized facts and developments in this field.

Keywords: exchange rate, foreign direct investment, theoretical and empirical review of exchange rate on foreign direct investment.

1.Introduction

Since the move to floating exchange rate systems in the aftermath of the collapse of the Bretton Woods currency arrangements, numerous studies have shown that the level, the expectations and the volatility of exchange rate (ER), can have significant influences on the timing, the volume and the location of foreign direct investment (FDI). Unfortunately, there seem to be few robust conclusions from the literature and the puzzle of disentangling the linkages between ER behaviour and FDI remains.

The more orthodox in economics approaches, however, have not paid much attention to the analysis of the influence of exchange rate changes on such capital flows and this has been reflected, on the one hand, that the theoretical research exploring this relationship present ambiguous predictions and, secondly, that the empirical evidence has obtained results inconclusive in both the international context -more developed- and in Spain -in emerging state. Descending in the field of research, from studies aggregated by countries, through sectoral analyzes, reaching investigations at company level, the results are increasingly significant.

The objective of this work is to realize a critical review of the empirical theoretical literature to determine the degree of influence of the exchange rate on FDI, distinguishing traditional approaches based on the effect of levels, expectations and exchange rate uncertainty about these flows investment and deepening on the most recent contributions that incorporate to the analysis owner features of the multinational corporation (MNC) in order to reconcile theory and empirical evidence. Furthermore, including in the new research agenda the new empirical evidence which has moved the geographical setting from advanced countries to emerging and developing economies, not only receivers but also issuers of FDI in recent years (UNCTAD, 2015).

The paper is organized as follows. After this introduction, in section 2, the background of this literature is established, since the 70s of last century to the present, combining the stylized facts of each stage with the existing theoretical framework that has given support. In Section 3 new contributions incorporated to literature are reviewed in depth, which are based on three characteristic operational aspects of MNCs: investment opportunities in third countries, heterogeneity in the reason for the FDI and synthesis and unification of previous models. In section 4, we extract the most important conclusions of the research agenda on ER-FDI, noting the limitations identified and proposing future research. The work closes with a reference section and three annexes dedicated to collect the most representative traditional theoretical and empirical literature (Annex 1), the state of art of Spanish research in this field (Annex 2) and the results of new contributions reviewed in detail in this paper (Annex 3).

The main results of traditional stream suggest that host currency depreciations, appreciations expectations and lesser volatility have positive impact on host FDI inflows, but the strong heterogeneity of empirical research has reflected the distance with theoretical models, showing the theoretical ambiguity. During the two last decades a new empirical impulse has emerged through the incorporation of new operational features of the MNC allowing to improve the results and to get a greater degree of reconciliation between theory and evidence. Furthermore, the last applied studies have changed the geographic setting from developed countries to developing countries, reflecting the new stylized facts and developments in this field.

2.Origin of Literature: background theoretical-empirical ER-FDI connections

More than forty years ago, the state of art in relation to the impact of the exchange variation on foreign direct investment reflected a series of events that led to their further development. First, evidence of large and strong waves of foreign direct investment and abrupt and large exchange rate fluctuations simultaneously and basically in developed economies. Second, the other orthodoxy emphasized other different determinants of FDI (OLI advantages according the eclectic paradigm of Dunning, 1971). Third, the financial aspects of the FDI begin to be relevant. Fourth, the ambiguity of the macro-financial theory generates high number of empirical studies, leading to inconclusive results1.

The exchange rate can not be considered a determinant variable of FDI per se, in the sense of being a trigger element for the decision to undertake a productive activity abroad. However, as McCullogh (1989, p. 188) notes, for direct investment, where the planning horizon generally comprises years or even decades, exchange rate fluctuations are unlikely to affect the decision to invest, but ER can be a variable to take into account in the timing of planned FDI as well as

[11] The main and most referenced works that review the FDI determinants and include in their agenda the exchange rate are the following, chronologically: Ragazzi (1973), Agarwal (1980), Calvet (1981), Lizondo (1991), Ortega (1992), UNCTC (1992), Graham (1992), Bayoumi *et al.* (1996), Kosteletou and Liargovas (2000), Lafrance and Tessier (2001), Chakrabarti and Scholnick (2002), Pain and Van Welsum (2003), Blonigen (2005), Phillips and Ahmadi-Esfahani (2008), Goldberg (2009) and Aminiam and Calderon (2010).

in FDI surges that have occurred over the last forty years. Its ability to anticipate changes and deal with currency volatility can be seen as a competitive advantage of the company.

Indeed, the ranking Caves (1971, p. 3) has special relevance when the impact of changes in the exchange rate on the behavior of the FDI is assessed, because for most types of FDI it can be formulated reasonable assumptions on monetary or foreign exchange composition of operating cash flows of the subsidiary (Capel, 1993, pp 24 and 25.). The sensitivity of direct investment flows of a business to changes in the exchange rate depends largely on the degree of competition in its markets, the components of the supply side and the origin of their funding sources (Cushman, 1985; Caves, 1989). Thus, the level of influence will depend on whether the cash flows of the production plants are characterized by an excess of foreign exchange income or costs, conditioning thus their profitability and hence the value of the company.

In this point we note that the traditional theoretical-empirical arguments have been grouped around the measurement used to capture the exchange rate influence, that is, levels, expectations and exchange rate volatility according the Figure 1.

Figure 1. Traditional theoretical-empirical arguments

1. ER level and FDI
   - Relative wealth channel and imperfect capital markets approach
     (Aliber, 1970, 1971; Agmon and Lessard, 1977; Rugman, 1975, 1976, 1979, 1980a,b, 1981; Lessard, 1982; Froot and Stein, 1991)
   - Relative labour costs channel
     (Cushman, 1985, 1988; Culem, 1988; Klein and Rosengren, 1994)
   - Monetary Balance of Payments approach and tariff-jumping policies
     (Corbo, 1985; Horst, 1971; Hirsch, 1976)
   - Goods market segmentation and imperfect real markets approach
     (Blonigen, 1997; Guo and Trivedi, 2002)

2. ER expectations and FDI
   - Risk aversion arguments and speculative portfolio perspective
     (Itagaki, 1981; Mann, 1993; Chakrabarti and Scholnick, 2002)

3. ER volatility and FDI
   - Risk aversion arguments
     (Cushman, 1985; Goldberg and Kolstad, 1995)
   - Real options and operating flexibility approach
     (Campa, 1993; Dixit, 1989b; Dixit and Pindyck, 1994; Kogut and Kulatilaka, 1994, Rivoli and Salorio, 1996; Aizenman, 1992, 1994; Rangan, 1998; Sung and Lapan, 2000)

Source: Own elaboration based on Davila Vargas-Machuca (2013)

2.1. ER levels on FDI[2]

The origin of the research comes through from two hypotheses, framed on the macroeconomic side, about the imperfections of capital markets and currencies. On the one hand, the hypothesis of the risk premium from Aliber (1970, 1971), according to which those companies belong to hard currency areas enjoy an advantage in terms of cost of capital for direct investment abroad in weak currency areas, since they can capitalize on their stream of income in foreign currency to a higher rate than potential domestic investors and get cheaper sources of funding than domestic companies. On the other hand, the hypothesis of risk diversification and portfolio selection theory, attributed to Agmon and Lessard (1977), Rugman (1975, 1976, 1979, 1980a, b, 1981) and Lessard (1982) explains that multinational companies can hedge against exchange rate risk by having productive assets in different geographical areas with low or negative correlations among their reference currency.

Both hypotheses gave answer to the stylized facts of the seventies in which the financial possibilities of the FDI is contemplated as a means to disperse the exchange rate risk to be able to internalize failures and the fact that the United States was the main source direct investment with a dollar appreciated. However, they have been obsolete with over time since the evidence showed the theoretical weakness of these approaches as FDI determinants (Duran Herrera, 2005, p. 18).

Later, the models arising in the finance field, such as the relative wealth effect attributed to Froot and Stein (1991), postulated that host country depreciation makes assets less expensive relative to assets in a home country and the relative labour costs effect (Cushman, 1985; Culem, 1988; Klein and Rosengren, 1994) identifies the competitiveness of an economy. Both of them, it allows to approach to a greater extent to an explanation of the behaviour of inflows of foreign direct capital during the eighties to a current depreciation of the host country currency, in this case, basically United States (positive relationship between FDI inflow and lower host currency value).

[2] In the Annex 1 we have presented the main studies theoretical-empirical on exchange rate and foreign direct investment connections explaining the following elements: field, sample, host and home countries, sample, hipotheses, methodology, ER measure, FDI measure and results. For a detailed analysis of traditional contributions of this stream of research, see Davila Vargas-Machuca (2013), chapters 1 and 2.

Other contrary theoretical arguments about the effect of ER levels on FDI are based on monetary approach of the balance of payments (Corbo, 1985) and tariff-jumping policies (Horts, 1971; Hirsch, 1976), built on trust and stability that radiates the host country on investment (negative relationship between FDI inflow and lower host currency value).

In this sense, McCullough (1989) points out that perhaps the contradictory results and little bit generalizable to other countries during the 70s and 80s are due to intense direct investment flows from and to United States during this period is a unique phenomenon in this nation, motivated by significant and unexpected changes in the currency values[3]. In addition, with the new realities during the nineties, the work of Blonigen (1997) emerges -subsequently reviewed by Guo and Trivedi (2002)- based in "firm specific asset" argument to show a direct effect ER-FDI on the base of segmented good markets approach.

In the analysis of the influence of ER levels on FDI the majority of works addresses the study of the link between the depreciation or appreciation of the host country currencies on the entry of direct capital in their economy and lesser extent are carried out from the perspective of source country of investment. These studies combine aggregated and disaggregated analysis, suggesting that the first mask significant differences between sectors and most of them confirm the previous proposition, although it is found that in some studies this relationship is not significant or that the results are mixed.

2.2. ER expectations and ER volatility on FDI

The expectations of a higher value of foreign currency encourages FDI inflow supposed risk-aversion. This hypothesis is supported by speculative aims of the portfolio selection theory (Itagaki, 1981; Mann, 1993; Chakrabarti and Scholnick, 2002). The reasoning underlying this theory is as follows: the anticipation of appreciation of the host economy currency encourages FDI inflows on it, driven by higher capital gains expected in the future. This argument has not been explored in so much profusion as incidence of the levels or volatility on FDI, currently meeting in early stage of research, but most studies that has applied the above argument is

[3] As noted Bayoumi *et al.* (1996), the great attraction of productive capital in the American economy, from greenfield to acquisitions, was accompanied by pronounced exchange rate fluctuations. Therefore, it is need to be considered cyclical factors such as exchange rates, which affect the costs and the return on investment in the short term.

fulfilled basically among developed countries and, almost exclusively, using information from United States, both with respect to the emission and the reception of investment flows.

The volatility has been introduced on last theoretical advances on exchange change risk disposal or exploitation by MNCs with positions differentiated according to risk aversion approach (Cushman, 1985; Goldberg and Kolstad, 1995), real options theory (Campa, 1993; Dixit, 1989b; Dixit and Pindyck, 1994; Kogut and Kulatilaka, 1994; Rivoli and Salorio, 1996) or operating flexibility hypothesis (Aizenman, 1992; Rangan, 1998; Sung y Lapan, 2000). Theoretical work in this field has been more extensive than that applied, but with ambiguous predictions just like empirical evidence and has made, especially in contexts aggregate and sectoral, although modeling is addressed in the enterprise frame. There is a greater inclination in the literature to have a significant negative impact of exchange rate variability on FDI inflow in host economy; a lesser number of works is found a positive and strong influence and some other are obtained non-significance or ambiguous results.

The arguments underlying the approaches of the effect of exchange rate volatility on FDI are as follows: a positive impact will occur when the decision to carry out FDI is a means of circumventing the adverse effects of uncertainty in the currency values. In this case the FDI will be trade-substitutive and a negative impact will happen when the strategy adopted is macroeconomic stability's seeking in the investment destination. In other words, companies have little willingness to engage long-term commitments to expand capacity in areas with extremely volatile currencies and they will only participate in a foreign market if the exchange rate is stable enough to obtain a reasonable and consistent level of benefits (risk aversion arguments).

In fact, can be considered as a competitive advantage of the company its ability to anticipate changes and deal with the economic volatility. That is, have the flexibility to move resources and capabilities for different uses and/or locations, as well as having the ability to adapt quickly to new technologies and to implement management strategies and organization procedures are most appropriate (Oxelheim and Wihlborg, 1997; p. 184). Therefore, the exchange rate expectations and the volatility will affect the decisions of multinational companies, especially in the programming of their FDI flows (timing).

Furthermore, Spanish applied works that have incorporated the exchange rate as an explanatory variable in the FDI have been very limited and have found, in general, no significance (Bajo Rubio and Lopez Pueyo, 1996, 2002; Muñoz Guarasa, 1999; Mold, 2001; Ortega, 1992; Fernandez-Otheo Ruiz, 1998a,b; Ramon Rodriguez, 2000). The theoretical approaches that support them are usually focused on the effects of the ER levels (relative wealth and relative labour costs channels) and the ER volatility to measure the influence of the currency value and ER expectations channel has been used in a lesser extent (see Annex II)

It has been recognized from the previous review that empirical theoretical literature that links exchange rate to foreign direct investment has been controversial until the end of the nineties, which is attributed to the large differences in perspectives and methodologies applied in the selection of the sample, in the analytical tools used, in the definition of variables and in the field of countries, making it difficult to realize comparisons of results among different studies (Phillips and Ahmadi-Esfahani, 2008; Blonigen, 2005). This lack of consensus has encouraged a stream of research from 2000 to closer the theoretical arguments to applied studies, incorporating elements of the first into the second, basically from the field of the firm, thereby achieving greater explanatory power of theories and more conclusive empirical results.

1. *Recent theoretical-empirical contributions*

Recent theoretical-empirical contributions about the influence of exchange rate on foreign direct investment present the following distinctive features. On the one hand, incorporation into traditional models of new components previously unrecognized which influence the international operations of MNCs, such as investment opportunities in third countries, the heterogeneity in FDI motive and, on the other hand, the synthesis and unification of previous models in order to conciliate formal modeling with the stylized facts. These three elements will guide the development of the most current contributions examining jointly theoretical arguments and empirical evidence.

It has presented in Annex III the main results of papers considered as more representative of this emerging literature, distinguishing if the exchange rate variable is expressed in levels, expectations or volatility. Now we analyze in depth each one of them which are organized in their three respective categories and, finally, we review the last empirical researches in this context, stressing the importance of emerging economies and developing countries in the new international scenario not only as recipients but also as issuers of direct investment in relation to the link between FDI and ER (UNCTAD, 2015).

3.1. *Investment opportunities in third countries*

A large number of previous studies ignores the extent to which MNCs make choices based on investment opportunities in third countries, called this phenomenon as "multilateral resistance" (Phillips and Ahmadi-Esfahani, 2008). Such choices are likely to be particularly relevant to companies seeking commodity export base from which to serve a broader supranational market. In this context, it will be very relevant to the investment decision, to consider exchange rate levels and uncertainty about the possible degree of volatility among the currencies of the countries of emission and reception of investment and the final market currency.

Theoretical models that focus on bilateral FDI flows assume that the decision of investment abroad between two specific countries is independent of investment decisions in other countries. This restrictive assumption gives rise to a set of studies that takes into account the interdependence of the host market based on Bénassy-Quéré *et al.* (2001), who propose a formal specification in which it is claimed that these decisions are not independent of the conditions in alternative locations. They assume the case of risk adverse firms that intend to perform productive investment for re-export to other places, in order to reduce the effect of uncertainty on the benefits by exploiting real exchange rates correlations among different investment destinations[4].

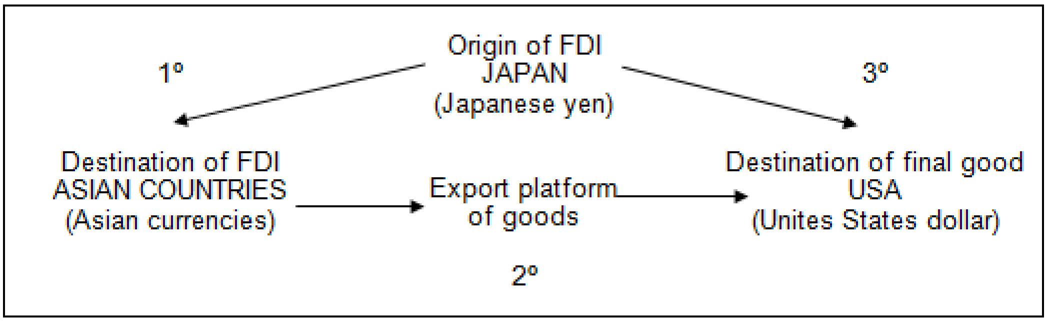
Among these studies, devoted to analyze the outflow of FDI from Japan to other Asian countries as export platforms of goods to serve the US economy, the global market or back to the Japanese economy (reverse imports), we can cite Baek and Okawa (2001), Xing (2004a,b) and Xing and Zhao (2008), respectively, or Xing and Wang (2004) in which exchange rate impact on the relative competitiveness of several rivals countries in receiving FDI from the same home country is discussed.

[4] In addition, Sung and Lapan (2000) argue that if the MNC faces a competitor in the international market, the foreign exchange risk that would induce the opening of subsidiaries in both markets, can prevent entry of local competitors.

In the context of the European Union, Barrel et al. (2004) and Petroulas (2007) works also incorporate elements of multilateral resistance and, finally, the study of Egger et al. (2010) offers a different explanation of investment opportunities in third countries, noting that the response of firm's FDI activity to exchange rates is determined by factor endowment, transport and FDI costs. Let us see in further detail each of these studies.

Baek and Okawa (2001) examine the determinants of Japanese FDI in the Asian manufacturing sector as export platform of goods to the American destination market, stressing the role played by wage rates, labour productivity differential, import tariffs and bilateral exchange rates involved in the triangular diagram proposed, namely Japanese yen/Asian currencies, Japanese yen/United States dollar and Asian currencies/United States dollar (Figure 2). They also distinguish for each type of exchange rate, nominal rate, purchasing power parity rate (PPP) and alteration in real exchange rate (equivalent to deviation of the PPP rate, as an approximate measure of exchange rate uncertainty).

Figure 2. Triangular diagram of Japanese FDI in Asia as export platform of goods to USA and currencies involved



Source: Own elaboration based on Baek and Okawa (2001).

The signs of the exchange rates coefficients are all consistent with the author predictions, indicating that appreciation of Japanese yen against Asian currencies and Japanese yen against the United States dollar are significant factors in FDI inflows in the manufacturing sector of Asian countries. This implies that the higher value of Japanese currency gets worse Japanese manufacturing competitiveness, making overseas production more attractive to Japanese companies that investing across borders. These results of aggregate manufacturing sector also are obtained for each individual sector. Besides, when the nominal exchange rates are broken down into the PPP rates and in real exchange rates deviation, both components generally have a strong effect on FDI, confirming the previous prediction.

By contrast, the exchange rate of Asian currencies against the US dollar does not affect significantly the Japanese FDI in Asia, suggesting that depreciation of the first against the second, which enhances international competitiveness of production in host countries, not induce investment inflows from Japan to manufacturing sector globally considered, unless it results a lower value of Asian currencies against the Japanese yen. However, differentiating by activity branches, the depreciation of Asian currencies against the US dollar have a strong impact in some sectors such as chemical and electrical machinery, most notably in the latter because it is the most export-oriented of goods (not to the production and sale in the investment destination).

The results of this study suggest that it is essential a proper management of exchange rates to attract Japanese productive capital in Asia, in the sense that when the Japanese yen becomes substantially weaker against the United States dollar, staying Asian currencies anchored to the last and, therefore, indirectly appreciated regarding to the first, this would make harder entry of FDI from Japan in these countries. Conversely, strong Japanese yen against both US dollar and Asian currencies would boost installation of Japanese subsidiaries to Asian destinations with negative impact on the trade balance, production and employment in Japan.

The works of Xing (2004a,b) analyze the attractiveness of Japanese FDI in China in a period of depreciation of Chinese yuan against Japanese yen (1980-2001), the first from a sectoral perspective and the second also with firm level data. So, Xing (2004a) examines nine manufacturing branches and finds that bilateral exchange rate influences on direct investment, especially, in export-oriented sectors of goods, since MNCs benefit from a lower foreign currency value. This is due to three reasons. First, their production costs are reduced (relative labour costs effect). Second, their purchasing power of foreign assets are increased (relative wealth effect) and third, there is not negative impact on their revenues because these are expressed in external market currency and not in FDI destination currency. This conclusion is consistent with the one obtained by Baek and Okawa (2001) based on segmentation between localization of production and markets to which it is intended to serve.

Xing (2004b), apart from corroborating previous findings, provides new evidence using micro-data base in a double sense. On the one hand, it claims that the appreciation of the Japanese yen against the Chinese yuan, the Japanese economy stagnation and its weak purchasing power have boosted the entry of Japanese FDI in China by vertical integration, very different from the entry of US FDI in China by horizontal integration to satisfy final demand. Thus, China has become an important export platform of goods to Japan which has contributed substantially to its high international sales (most of them made by these Japanese structures in intensive labour sectors and destined to global market). At the same time, thanks to these production affiliates, China has benefited from a higher technological level and sophisticated international negotiation channels. On the other hand, this author introduces two novelties in its work, first, considering delocalization of Japanese FDI from ASEAN-4[5] to China and conducting reverse imports which are representative of one of the main activities of Japanese manufacturing plants during the late nineties. These last two contributions make up the basic argument of the two following works.

Xing and Wan (2004), using data of Japanese FDI in China and ASEAN-4, examine how exchange rate affects the relative comparative advantage of host FDI countries from the same source economy. Analyzing crossed influences of Asian currencies, Chinese yuan and Japanese yen, they show that if a host FDI country currency regarding a home country currency appreciates more than that of rival host FDI country, FDI inflow increases in the latter declining in the first place, ie, the direct capital will be diverted to the rival country.

Xing and Zhao (2008) complement the literature incorporating reverse imports as a means by which exchange rates affect FDI. They investigate the systemic links between reverse imports, direct investment and exchange rate, proposing a two-country model with oligopolistic markets. They conclude that due to product differentiation and barriers in brand name recognition, the MNCs that perform such reverse imports, generally, benefit from the devaluation of destination area more than local companies and this encourages multinationals to expand their operations with additional FDI. So, through productive capital flow, a source country company -Japan- seeks relatively cheap inputs on the host FDI country -China- after an appreciation of the source currency -Japanese yen-. The higher value of currency also increases imports reverse of this economy -Japan- and causes a reduction of exports of domestic companies of host country -China.

Other studies in the area of European Union reach similar conclusions to the previous work, but in this case not only they analyze the effects of exchange rate levels but also the influence of exchange rate uncertainty. So, Barrell et al. (2004) investigate the relationship between

[5] Indonesia, Malaysia, Philippines and Thailand.

volatility and bilateral exchange rate correlation on the location of North American FDI in Europe in the period 1982-1998, distinguishing two alternative locations, United Kingdom and continental Europe. They suppose firms have risk aversion and they carry out the analysis in seven industrial sectors with high market power. It is found significant evidence that the British economy is the preferred place for US investors, used as export platform of goods to serve European market with its production, because of the correlation between US dollar/sterling pound and US dollar/European currencies exchange rates tends to relocate United States investment from continental market to UK. On the other hand, when US dollar/sterling pound exchange rate uncertainty increases, the level of FDI in UK market is reduced regarding to what happens in European area, while a more intense volatility of the US dollar/European currencies increases FDI share in British economy. Therefore, relationship between currency values' variability and FDI inflow is negative and the market power does not seem to reduce the effects of this connection in their empirical contrasts.

Petroulas (2007) examines the effect of euro introduction on FDI activity in euro zone, by means of a panel data approach, using aggregate information of Balance of Payments' FDI flows from eighteen countries during the period 1992-2001. His results confirm that the single currency has a positive and robust impact of 16 per cent on inward FDI within of euro zone, approximately of 11 per cent for the outflow from countries belonging to European Economic and Monetary Union (EEMU) to third countries and of 8 per cent, but in this case weakly significative, from these latter to euro zone. Moreover, if the central locations in Germany, Belgium and Luxembourg are excluded, simultaneously, from sample both as receiving countries as well as issuing countries of investment, the effects of the euro disappear, while if they are excluded either as receivers or as issuers, the impact of the single currency reappears indicating that these countries act as a central hub for FDI flows in EEMU. One of the important conclusions of this work is that the location decisions of productive capital are characterized by considerations of investment opportunities in third countries, so they should pay more attention to alternative models of general equilibrium on foreign direct investment flows as export platforms of goods to check with greater reliability empirical evidence.

Finally, the work of Egger *et al.* (2010) includes the multilateral resistance from a totally different and innovative approach which gives rise to this literature[6]. These authors present a

[6] Bénassy-Quéré *et al.* (2001) argue that the effects of exchange rate from third countries are produced through the correlations affecting the choice of location of risk adverse firms that decide to invest in economies whose exchange rates are negatively related to other currencies as a means of FDI's diversification. We also see in the next section that this work

three-country theoretical model in which coexists product exporters and direct investors in a context of imperfect competition, using two channels to capture exchange rate effects, with opposing influence each other, which govern the bilateral and third country impact from an increase in exchange rate on multinational enterprise activity. These channels are, first, a positive revenue effect following an appreciation of host currency that increases MNCs profits from affiliates and, second, a negative competition effect following the same exchange rate alteration that increases production costs from FDI activity respect to that of other economies that serve the host market with exports. Obviously, the exchange rate effects on a third country are opposed to bilateral effects. That is, the host country will have a clear negative revenue effect and a positive competition effect. The fact that revenue effect or competition effect dominates will depend on skilled labour endowments, transport and FDI costs. For example, in those locations where the first two determinants are high, the model predicts that the third country exchange rate influence will be positive (higher intensity of competition effect).

3.2. Heterogeneity in FDI motive

The interconnection of the behaviour of foreign trade flows and FDI along with the main motive to carry it out complicates the examination of the influence of exchange rate levels and exchange rate variability on the activity of foreign direct investment. Following Bénassy-Quéré et al. (2001), the link between exchange rate level and global FDI is basically established through two channels according to relationship between trade and FDI, as it can be seen in Figure 3.

So, on the one hand, if investors aim to serve local market (market-seeking) where commercial or non-commercial barriers create obstacles for entry into the same, FDI and trade would be substitutive and real host currency depreciation would decrease FDI inflow, as the consumer purchasing power would be reduced and trade barriers tend to be diminished in this context. On the other hand, if the objective of the FDI is re-export to other destinations, FDI and trade would be complementary and the same currency movement would encourage inflow of investment to seek greater efficiency due to increase of competitiveness and higher relative wealth of foreign investors (competitiveness effect)[7].

represents the germ of the new contributions which take into account the heterogeneity of the motivation to undertake productive investment abroad.

[7] The contributions analyzed in stream of investment opportunities in third countries would be identified with this kind of FDI motive (vertical integration as export platform of goods). Furthermore, the competitiveness effect of Bénassy-Quere *et al.* (2001) would be corresponded to net positive effect of revenues over costs (competition) channels, proposed by Egger *et al.* (2010).

Bénassy-Quéré et al. (2001) also study the relationship of attractiveness for carrying out FDI and exchange rate volatility, indicating that impact of the latter over the former is again ambiguous. In this sense, if exchange rate volatility is pronounced, to produce in the host country will be a good substitutive for the export, but this benefit disappears if the production is aimed at re-export of the product. Therefore, these authors conclude by noting the existence of a positive effect of exchange rate variability on FDI if this is trade-substitutive and a negative impact if both activities are complementaries (volatility effect).

Figure 3. Influence of exchange rate on foreign direct investment. Heterogeneity in FDI motive

FDI MOTIVE / ER MEASURE	SUBSTITUTIVE OF TRADE Market-Seeking (horizontal integration to serve local market)	COMPLEMENTARY OF TRADE Efficiency-Seeking (vertical integration to re export production)
LEVELS (host currency depreciation)	NEGATIVE	POSITIVE
VOLATILITY (of host currency)	POSITIVE	NEGATIVE

Source: Own elaboration based on Bénassy-Quéré *et al.* (2001).

Bearing in mind the strategies undertaken by MNCs in their location decisions, it is recognized that they do not have purely horizontal or vertical motivations to carry out direct investment, but the strategies are usually complex. However, from a theoretical perspective, based on the "new economic geography" models (Fujita *et al*., 1999; Baldwin *et al*., 2003), it is expected that location decision of FDI in major economies should be dominated by horizontal influences, according to which companies seek access to new markets generating positive agglomeration effects, while the choice of small economies should be guided, mainly, by vertical motivations, where lower trading and production costs are the basic objectives of investing behaviour. If this assumption is true, as Petroulas (2007) points out, it should be observed that the effect of the euro introduction for horizontal trade-substitutive FDI would be more significative in large economies, while the single currency impact for vertical trade-complementary FDI would be more pronounced in small economies.

In this sense, Petroulas (2007), through an analysis about economic geography of euro zone in which he estimate not only productive capital inflows but also goods export activities, concludes that increase in FDI are concentrated in large countries, while increase in exports is greater in lesser economies. These spatial influences of the euro indicate partial trends of agglomeration effects in EEMU as well as a growing importance of vertical specialization in their sample. Indeed, the major economies attract a larger share of the total increase in FDI inflows, therefore a higher intensity is observed in the production concentration showing spillover trends. However, exports typically raise more in smaller economies, a fact that may be indicative of an increase in production and in the dispersion. Analyzing jointly FDI and exports, the author confirms that single currency introduction has boosted the importance of intra-firm trade and vertically integrated FDI.

In the same line, Aizenman and Marion (2004) examine the impact of exchange rate uncertainty on direct investment suggesting that it might vary according to how it is conducted. They point out that horizontal FDI, where similar activities are carried out in independent plants in different locations, could positively respond to exchange rate volatility, while vertical FDI, which involves the division of the MNC value chain in different countries, can be discouraged by this exchange rate shock given the need to participate in intra-firm trade exchanges.

Using micro level data from subsidiaries and conditioned by the characteristics of the investment's host country, they provide evidence that exchange rate volatility has a more negative impact on vertical FDI than on horizontal FDI. In addition, their results confirm that exchange rate variability has a differential effect on FDI inflows in mature markets and in emerging markets where the former seem mainly to attract trade-substitutive investment flows while the latter receive, in relative terms, higher trade-complementary FDI inflows. Based on these findings, they suggest that a lower exchange rate uncertainty in the major industrialized economies (mature markets) might reduce levels of bilateral investment among countries that choose to participate in the EEMU, while it is more likely that small economies are used as export platforms of goods (emerging markets), the less dispersion in the currency's value would improve the outlooks for productive capital reception.

One of the issues addressed in Buch et al. (2005) is whether the business and sector factors influence the behaviour of MNCs when they decide to make direct investment. Specifically, using a database of German companies' international activities in the period 1989-2001, confirming that vertically integrated FDI is more likely to happen in intensive labour sectors, while horizontally integrated one to take place in activity branches with high transport costs and/or lower fixed costs of entry into foreign markets. They point out that in the first case, the motivation is the savings on the cost side and generally it is addressed to countries with different costs and factor endowments, while the second type, which serves as a substitute for real exports, will occur between countries in which these determinants are similar. Finally, they suggest that the motivation to undertake horizontal FDI dominates in service sector and vertical integration seems to be more important in manufacturing sectors.

The work of Lin *et al.* (2006) introduces a feature largely ignored in the literature on the value of the option of being flexible and it is the possibility that the exposure of the firm investment's benefits to the exchange rate risk varies depending on the motive for undertaking direct investment. These authors extend the real options model of Dixit and Pindyck (1994), both theoretically and empirically, and propose two extreme cases of MNCs considering possible changes of the FDI exposure -once made FDI- to currency fluctuations: export-substitutive and market-seeking companies.

The predictions of these authors differ the most extended approach of Bénassy-Quéré *et al.* (2001) schematized in Figure 3. The motive lies in, first, the FDI type that is substitutive of exports refers to a situation in which an exporter firm of goods, which originally produces in its home country and serves the global market via trade, delocalizes its entire production abroad to supply this market with the aim of reducing its production costs. In this case, if the company is adverse to the risk would continue the approaches of Itagaki (1981), Cushman (1985) and Goldberg and Kolstad (1995) in their decision to invest now or never being stimulated FDI, while if it is neutral to the risk would respond by option real approach being delayed investment to an uncertain future and irreversible investment until he gets additional information. On the other hand, the second situation that pose of market-seeking FDI refers to a domestic company that initially does not serve the market through export of goods and that chooses to establish a subsidiary abroad to produce and sell on this place, and its aim is to create a new market for its product, with exactly contrary effects to those statements in the previous case. Therefore, the effect of volatility on the FDI's timing is ambiguous, depending on the extent of risk aversion and the kind of motive to carry out the investment.

They obtain the following results in their empirical testing using firm level data from the FDI outflow from Taiwan to China in the period 1987-2002: the market-seeking companies respond to exchange rate variability delaying these investment operations and export-substitutive enterprises act more quickly to exchange rate uncertainty if investors are very risk adverse.

The underlying idea behind such an approach is that the first behaviour might increase exposure of benefits to currency risk, while the second case reduces it.

These authors prove the importance to consider the diversity of reasons to undertake FDI, noting that models of real options and risk aversion are special cases of their theoretical proposition. While the previous and following works that it is being reviewed belong to the most widespread stream of risk aversion, this may be one of the most innovative works in this study field. Although their predictions are less generalizable by the very particular nature of the kind of motives posed, they get more conclusive results than previous studies.

Del Bo (2009) investigates theoretically and empirically the effect of exchange rate volatility on horizontal FDI flows from developed countries to developing economies, presenting a panel data model on US direct investment outflows addressed to fifty-three nations in the period 1982-2005. Using a partial equilibrium approach, his results shed light on the negative effect of exchange rate volatility on investment destinations to attract foreign capital (as opposed to the expected sign). Similarly, he analyzes this relationship at sectoral level to explore whether industry-specific factors have some influence. For this he chooses an oligopolistic framework where n identical foreign companies have to decide whether will accede to a sector characterized by currency volatility, confirming that this disturbance negatively affects inflows and finding evidence of a greater sensitivity to average value in the service sector. First evidence found for this author is that the estimated coefficient for exchange rate variability, in general, is smaller in the most recent time period reflecting, possibly, that new financial instruments -that allow MNCs to hedge against movements in the currency's value- begin to be the main explanation for this result in the nineties.

Thus, we mention some of statistically significant differential effects at sectoral level. Prediction relating to FDI in the manufacturing sector should be relatively less affected by exchange rate uncertainty is confirmed, as globalization encourages the international delocalization of production plants basically for reasons of savings in terms of labour costs. These costs also tend to be lower in less developed countries where the dispersion in the currency values is generally higher. As a result, this industry should show ex ante small coefficients, if not insignificant, while robust coefficients are expected in wholesale trade sector and service sector (including financial). Therefore, exchange rate variability does not appear to have statistically significant effect on the industrial sector with respect to the average of all sectors, possibly indicating the use of foreign exchange hedging mechanisms. In the financial sector it is found that exchange rate volatility has a negative global influence not robust, but considering the tertiary sector (excluding the above) it is concluded that the coefficient is negative and significant.

In a paper about the possible regional economic cooperation in East Asia, with the need to implement it in the three main countries of Northeast Asia (Japan, China and South Korea) for the integration with its main trading partners of Southeast Asia, Aminian and Calderon (2010) examine the links between trade and FDI in this region during the period 1990-2004, choosing and estimating the exchange rate as one of the major determinants of source country FDI outflows. In particular, the issue of such investment flows will increase with a reduction in the level of nominal bilateral exchange rates and a decrease of exchange rate risk. Three contributions are derived from this study: bilateral FDI data are used against the most common in this type of aggregate cross section analysis, the study area are the nations of Northeast Asia, which had been ignored in the empirical literature focused mainly on East Asian economies, excluding Japan, and paying special attention to the exchange rate as an explanatory variable of direct investment, in its aspects of levels and volatility.

Empirical results' Aminian and Calderon (2010) coincide with those obtained by Bénassy-Quéré et al. (2001). After estimating a panel data model with random effects, they conclude that FDI outflows from Northeast Asian countries increase with an appreciation of their currencies -depreciation of the target area currency of investment- and reduce with an increase in exchange rate volatility. Expressed in other words, direct capital outflows from the issuing economy increase with an appreciation of its currency, due to companies become richer in terms of purchasing power parity; therefore, their ability to finance this kind of investment increases. In the terminology of Bénassy-Quéré et al. (2001) this would be the competitiveness effect and in the terminology of Froot and Stein (1991) this would be the relative wealth approach. On the other hand, the volatility effect refers to that an increase of the same has a negative impact on FDI, indicating that source country's investors are risk adverse, so that an increase of home currency depreciation's risk reduces productive investment outflows from this country.

In conclusion, the empirical results of Aminian and Calderon (2010) show that the exchange rate fluctuations' risk and exchange rate levels affect negatively to bilateral direct capital flows, called “volatility effect” and “competitiveness effect”, respectively. Finally, they find that FDI and trade are inversely related although there is no statistical significance, that is, net exports of source country and direct investment outflows should be substitutive operations. This conclusion is contrary to the results of Kojima (1973) argument, that is, the FDI whose origin country is Japan should have an influence for the promotion of complementary trade, rather than substitutive. They point out that perhaps this contradictory finding is due to the limited length of the time period of analysis, since the commercial connections among these economies are very recent and, also, that had produced a significant negative shock -the Asian currency crisis-, or the establishment bilateral agreements that could have affected adversely the trade-FDI linkage.

3.3. Synthesis and unification of previous model

Among the most outstanding works that get unify and synthesize the previous modelizations, we can highlight Lin *et al.* (2006), Buch and Kleynert (2008), Shrikhande (2002) and Russ (2007). However, we could consider as good examples of this research two models regarding the effect of exchange rate expectations on FDI. So, Mann (1993) provides a synthesis of the theories of portfolio (capital acquisitions) and of industrial organization (greenfield), presenting a unified specification. Meanwhile, Chakrabarti and Scholnick (2002) discuss a model of spatial determinants of FDI in order to supply an expanded theoretical framework in which integrates the exchange influence in their three measures -levels, expectations and volatility- stressing on the second one because it is which has received less attention from the literature.

The work of Lin et al. (2006), discussed in the previous section, compiles into a unified and empirically tested model the theoretical explanations of risk aversion and real options models to exchange rate uncertainty, combining several kinds of motivations to undertake FDI.

Buch and Kleynert (2008) use a partial equilibrium model where firms produce domestically and abroad, noting that exchange rate effects operate via friction in the capital market, through its effect on the investors’ relative wealth (Froot and Stein, 1991) and, via imbalances in the goods market, taking into account the existence of firm-specific assets (Blonigen, 1997). They offer a holistic framework of the two explanations and make an estimate of model using sectoral data of Germany FDI outflows, derived from statistics obtained at enterprise level. Their results provide greater support to the second position, confirming that a home country currency appreciation will increase investment due to imbalances in the real market.

The majority of traditional papers in this line of research uses partial equilibrium predictions of the FDI decisions and examines the extent to exogenous factors, such as exchange rates; affect them from a microeconomic point of view, ignoring widely interconnection between trade flows and behaviour that drives the MNC to make such decisions. However, a more recent literature stream has attempted to solve this issue by integrating the company motivations in a general equilibrium model to make predictions of how basic country level factors affect the aggregate FDI behaviour.

On this basis, Shrikhande (2002) develops a general equilibrium model of maximization of the investors' wealth in which is analyzed the interaction between FDI and real exchange rate. It is represented a world of two countries with perfect capital mobility. The exchange rate is considered as an endogenous variable and the representative firm is characterized by having abilities for technological innovation (R&D intensive). The results show that the optimal timing of FDI entry or exit is determined by the production processes' innovative intensity of the company and by the amount of the FDI fixed costs. FDI and real exchange rate are also measures interrelated with exogenous capital stock imbalances between the two countries.

Finally, the work of Russ (2007) can be identified as the clearest exponent of this stream which synthesizes and unifies most theoretical standpoints developed in this area. It presents a general equilibrium model that takes into account endogeneity of exchange rate. Their analysis indicates that the answer of an MNE to exchange rate uncertainty will differ depending on the shocks' source. In particular, he notes that macroeconomic volatility of monetary origin increases the volatility of the exchange rate. However, the response of the firm will depend on whether these shocks arise in the FDI source country or in the FDI host country. He suggests that exchange rate variability can mitigate the effects of uncertainty in the money supply of the host country, encouraging the inflow of direct investment (positive effect) and that in the native investor firm's market introduces foreign exchange risk without effects on sales to offset that risk, thereby discouraging the FDI reception (negative effect).

Therefore, it comes an extension of those studies that have suggested that the effect of dispersion in the currency value on direct investment should depend on the correlation of exchange rate shocks with demand shocks (Goldberg and Kolstad, 1995; Aizenman, 1992). Besides, this work incorporates the real options literature (Dixit and Pindyck, 1994; Campa, 1993) and international trade models that integrate MNCs with fixed costs at plant level and sunk costs. It also considers that the exchange rate influence can be conditioned by the heterogeneity of productivity levels between companies, claiming that smaller and less productive firms may be discouraged to undertake FDI by macroeconomic instability, while those greater and more productive act in opposite way. The main implication of this work to the empirical evidence is that it can not make any predictions about the correlation between FDI and ER unless the volatility source is taken into account.

3.4. Last contributions in emerging and developing economies

The adaptation of traditional models to new trends in investment flows requires to incorporate new concepts and elements to them (Narula, 2012; Cuervo-Cazurra, 2012). The new MNCs from developing countries are embedded in contexts of significant disadvantages in their countries of origin (weak institutions, poor infrastructure, etc.) which makes them more tolerant to risk that justifies, in turn the use more widespread riskier ways to access attractive destinations through mergers and acquisitions, in search of knowledge and in turn learning. Indeed, the use of mergers and acquisitions is justified by the current global context in which investment flows have changed by the need to compensate for weaknesses in the country of origin (Ramamurti, 2012; Luo and Wang, 2012).

During the last forty years it have generated an emerging literature on the effects of large and sudden movements in exchange rates over a range of economic variables, including FDI. The direct investment flows are much more stable in times of crisis that portfolio flows. However, the currency volatility has coexisted with sudden surges of FDI, which can't be explained by the traditional determinants (OLI eclectic paradigm of Dunning, 1971). Finally, it has been generated a new impulse in the theoretical and empirical contributions after the emergence of the international financial crisis in the decade 2000, resulting in a change of geographic setting from developed countries to developing countries in the study of the extent of influence of exchange rate on FDI.

Over this base, we have chosen a representative and complete empirical work about this framework, Walsh and Yu (2010) assess whether it exists different factors across macro level FDI flows between advanced and emerging economies. In addition, it is evaluated the difference between determinants of FDI into different sectors. So, while a weaker real effective exchange rate appears to draw more manufacturing FDI into an economy, it can reduce the amount of tertiary FDI. So, a weaker real exchange rate might be expected to increase vertical

FDI as firms take advantage of relatively low prices in host markets to purchase facilities or, if production is re exported, to increase home country profits on goods sent to a third market. But, a stronger real exchange rate might be expected to strengthen the incentive of foreign companies to produce domestically: the exchange rate is in this sense a barrier to entry in the market that could lead to more horizontal FDI. However, these hypotheses don't appear to have attracted much support in the empirical literature.

A set of studies examining the determinants of FDI inflows in recent economies replicate the work that has been done in developed countries at earlier stages. But it is not clear that the factors that attract FDI at developed countries would be the same at those that attract FDI to emerging countries. These economies tend to have relatively higher inflation, poorer institutions and lower development indicators than rich countries. However, they start to worry about the wave of investments that have occurred in recent decades. Among these studies conducted a selection of ten works published in 2015, that we are going to review shortly, reflecting a common feature: most of them occur in developing and emerging economies (Taiwan, China, Korea, ASEAN, SAARC, Sub Saharan Africa Countries, etc.) but one of them lies to a set of OECD countries.

Chen et al. (2015) pose a analytical model in which introduces heterogeneity in FDI motive (entry mode choice) and theoretically show that when an economy faces an appreciation of home currency and rising domestic labour costs, a local firm with lower productivity in production or R&D activity, will choose FDI outflows, whereas the local firms with higher productivity will stay at home and export. This research is a complementary than other work from Chen et al. (2006), in which examine theoretically and empirically the influence of exchange rate changes on FDI activity. They use real options (Dixit, 1989b) framework to compare this effect on market-oriented firms versus cost-oriented firms. Over the period 1991-2002 they test an industry panel data on Taiwan's outflow of FDI in China. The results show that, given the irreversibility of investment, exchange rate uncertainty has a negative impact on a firm's outflow of FDI regardless the FDI motive. Besides, while the host country's currency depreciation stimulates the outflow direct capital of cost-oriented firms, it deters the outflow FDI of market-oriented firms, results consistent with the prediction of the theory. Considering empirically the link between exchange rates and FDI is conditioned on the motives of the investing firm and it is relevant that the aggregations bias could be present.

It has recognized that FDI flows tend to be much less volatile than equity flows. So, unlike other kinds of capital flows, FDI tends to “lean against the wind” and the inflows can rush in during a financial crisis when other capitals are flighting or “fleeing the scene”. In this sense, Stoddard and Noy (2015) analyze the fire-sale FDI hypothesis (Krugman, 2000) and describe the inward FDI’s pattern into developing and emerging countries surrounding financial crises from 1987-2009. Firstly, they explain the different types of financial crisis (currency crises of the 1970s turmoil, banking crises, high inflation periods, debt crises of the 1980s, crises of capital flow reversals -sudden stops- of the 1990s). They also distinguish different types of FDI (M&A, greenfield, horizontal -tariff jumping-, and vertical -integrating production stages- FDI) and their effects in different kinds of financial crises from eighties decade until now. The results show that there is a negative and strong impact from financial crises over inward FDI in a sample of developing and emerging countries, there isn’t empirical evidence of fire-sale FDI, but financial crises affect to M&A and horizontal and vertical FDI flows negatively. These results support the evidence about the FDI reversal that have happened in the aftermath of the 2008-2010 global financial crises. While the long-run effects of these crises still remain to be seen, the current downturn has been accompanied by rushed drops in FDI flows worldwide, with his character global and credit contracted over the world.

Ahmad et al. (2015) test the effect of several factors, influential on outward investment focused on selective developing ASEAN countries (Singapore, Malaysia, Philippines and Thailand) and in four major Asian economies (China, India, Japan and Korea) during three decades from 1981 to 2013 on annual basis. They compare results of both countries’ groups and this is a novelty because most the previous works focused on developed and relatively large economies. The results verify that exchange rate is a relevant factor in the first group and not significant in the second one.

SAARC countries (Pakistan, India and Sri Lanka) constitute the geographical scope of Azhar et al. (2015) work. The main concern of this research it to inspect the effect of exchange rate volatility and level on FDI in these countries, using time series data from 1981-2013. The result shows that there is a negative relationship between exchange rate volatility and FDI, but it is robust in Pakistan and India. The exchange rate level has a positive influence in FDI in these both economies, because an appreciation increases the return on investment for foreign investor so that real exchange rate can attract FDI in the Pakistan and India. This effect is opposite in the case of Sri Lanka. The governments of these countries need to make policies such as monetary policy to maintain the stable exchange rates.

Lee (2015) examines the short-run and long-rum dynamic relationships between FDI and exchange rates in Korea, with monthly data from January 1999 to March 2012 and he finds: first, there is reciprocal feedback between the two variables. a causation and second, consistent with most of findings reported in the literature: a depreciation of an FDI recipient country's currency (e.g., depreciation of the Korean won against the Japanese yen) significantly increases FDI inflows. Also, it is found evidence a structural break from global financial crisis of 2007-2009 shock to FDI flows in Korea.

In this line, Umaru et al. (2015) use an econometric technical similar and apply it in Nigerian economy.

Sofilda et al. (2015) aimed to analyze the factors that affect capital inflows of FDI into the 6 ASEAN countries (Indonesia, Malaysia, Singapore, Thailand, Philippines, and Vietnam) in period 2004-2012, through panel data analysis and they find that exchange rate is not an influent variable in this region (exchange rate stability)

Based in FDI inflows in low-income countries of Sub-Saharan Africa, Suliman et al. (2015) study the relationship of this wealth source for this economies and real exchange rate in traditional sense, analyzing the levels and the volatility. The results show that while the depreciation of the real ER draws more FDI to these countries, the real ER volatility causes greater instability in FDI inflows. Besides, the use of the pegged exchange rate as an incentive to attract inward flows of FDI, in the presence of increasing real ER instability, generates greater price instability; as a result, direct capital is negatively affected by the real ER.

Tripathi et al. (2015) apply in Indian economy the analysis of FDI macroeconomic factors, with monthly and quarterly data for the period from July 1997 to December 2011. Using several econometric technical, find out the existence of relationship between FDI and six macroeconomic factor, one of them is exchange rate in India, but the correlation is not significative.

By contrast, Rodriguez and Bustillo (2015) is the only study whose spatial area is not emerging or developing countries. In this work, using the cyclical behaviour of FDI flows, it is analyzed the determinants of outward flows of FDI (OFDI) on the short-run, trying to find out if the effects of the business cycle on OFDI are a significant issue, especially during the ongoing recession that is affecting major investor countries. The panel data applied covers OFDI flows from 22 OECD countries with annual data from 1970 to 2011. The authors reveal that fluctuations in the financial cost in the source country for acquisition of foreign capital (exchange rates and interest rates) are an important determinant of changes in FDI outflows when foreign operations are financed on the home capital markets, in local currency and require external sources of funding. Using real exchange rate in terms of local currency against US dollar, this paper find that ER exert influence on OFDI.

4.Concluding comments

Exploring the background about the connection between the exchange rate and foreign direct investment, both from a theoretical and empirical perspective, distinguishing the influence depending on the type of exchange rate measure chosen (levels, expectations or uncertainty) brings us to the following conclusions.

Over the past four decades, this set of theories, but have not dominated in the literature on the determinants of FDI, show two salient features. On the one hand, they have had particular relevance to explain the waves of flows of international direct investment in the short term and, secondly, there has been a great theoretical ambiguity that has manifested in the strong heterogeneity of empirical research, attributed to the large differences in the methodological process adopted and in the geographic scope of the study.

Considering the connection between exchange rate levels and foreign direct investment, the approaches of relative wealth and relative labor costs suggest a direct effect of the depreciation of the host economies currencies on the entry of direct investment in them in studies that combine aggregate and disaggregated analysis to verify that the first mask significant differences between sectors. Most empirical evidence supports this proposition, although it is shown that this relationship is not significant in some researches or the results are mixed in others.

The literature on the effect of the expectations of exchange rates in the FDI, although has not been explored in so much profusion like the previous or on exchange rate volatility, is currently in process of development. In many studies is fulfilled the argument based on the anticipation of currency appreciation of the host economy is positively associated with receiving FDI in it, due to higher returns on capital that are expected to generate in the future and they have been applied almost exclusively in US economy, as source and as destination, and between developed countries. During the last decade the empirical evidence appears both developed and developing economies.

From the perspective of exchange rate volatility, modeling is much larger than the empirical evidence and few applications of these hypotheses fall in the specific area of the company, despite theoretical framework is microeconomic. Basically, they have performed at the aggregate and sectoral levels steeper in the literature to have a significant negative effect, based on the approach of risk aversion, reflecting the seeking of macroeconomic stability in the host investment area. In a smaller number of works it is produced positive influence, especially when the FDI strategy is to be a trade-substitutive as a means of avoiding the adverse effects of exchange rate uncertainty and in some others the results are ambiguous or not robust.

In addition, the careful study of the most recent contributions that bring us into the MNC context and those geographically focused on the reception and emission of FDI in developing and emerging countries in the last decade allows us conclude that:

It is recognized that investment decisions are not independent of the conditions in alternative locations, taking into account exchange rate levels and volatility of the emission and reception FDI countries and final product market. Works are focused in triangular schemes: Japan is source, Asian countries are host as export platforms and the United States, global market or back to Japanese economy as final markets. The impact of the exchange rate on the relative competition from several rival countries as a destination for FDI from the same origin country is also contemplated. In the context of the European Union elements of multilateral resistance as well as factors such as factor endowment, transport costs and the costs of the FDI are also included, which determine the response of the FDI face to exchange rates disaggregating revenue and competition effect, opposite each other, and with opposite sign respectively in the rival host economy.

The need to consider the link between trade and FDI to incorporate to the study of the influence of the exchange rate on FDI especially regarding levels and volatility is a reality. In the first case, a depreciation of the currency of the host country negatively affects a horizontal FDI (substitutive of trade) and positively to vertical FDI (complementary of trade). The influence in both types of FDI is contrary when ER volatility is analyzed. It also claims that large economies must be dominated by the effects of horizontal integration and smaller one by vertical integration suggesting that in the first case there is more propensity to making FDI and in the second one to export. Sectoral and firm-specific factors support the positive influence of volatility in mature markets in attracting trade-substitutive FDI and negative impact of uncertainty in emerging markets in receiving trade-complementary FDI.

Furthermore, in this case the MNCs have an incentive to offshore the production choosing in developing countries more stable as direct capital receptors. We show that when the origin of volatility is incorporated, horizontal FDI dominates in the service sector and vertical FDI in the manufacturing sector, with greater possibilities of risk diversification in the latter case. In relation to the volatility, the stream more extended is reluctance to risk, confirming conclusive results of a negative effect of exchange rate volatility on horizontal FDI from developed to developing countries and increased sensitivity in service sector, reducing the effect in periods of crescent implementation of hedging instruments. The FDI is less influenced by exchange rate uncertainty in the manufacturing sectors, due to globalization encourages the international delocalization and lower costs in developing countries. This literature is contextualized between advanced and less advanced economies such as eurozone, Germany, Taiwan, China, Northeast Asia (Japan, China and South Korea), the latter more overlooked in the analysis than countries in Southeast Asia.

In this analysis the objective is to integrate all the streams and elements previously analyzed in a general equilibrium model, for example, incorporating risk aversion and real options models with FDI motive or integrate the relative wealth and segmentation of good markets channels in an holistic frame or synthesize in a general equilibrium model previous positions considering that the exchange rate is endogenous and entering the heterogeneity of entry mode choice of investor MNCs. Also, the crisis of the nineties has generated a emerging literature on the influence of sudden and large fluctuations in ER on FDI and during this period the least effect of exchange rate variability could be due to the widespread use of hedged instruments against exchange rate (internal or through the market) by MNCs from then until now.

In the decades of 2000 a new impulse takes place in the state of the art producing the incorporation of new elements and distinctive features of the operation of the EMN. This has allowed a greater degree of conciliation between theory and empirical evidence approaching to the firm level with a better adjustment to the phenomenon under study, as indicated theoretical works of Caves (1971, 1989) Capel (1993) and Cushman (1985). Besides, the analysis is moved to a new geographical stage from developed countries to developing and emerging nations as the revised papers and published in 2015 reflect. These last researches replicate the works of the nineties with little influence of the new contributions.

In sum, it is necessary to resort to micro level in that the review of the previous literature has proven to be the ideal environment in which to clear ambiguities previous both theoretical and empirical. And the empirical evidence becomes more conclusive as the study field of FDI is restricted. Therefore, this leads us to interpret that the ER fluctuations effect is intimately linked to the strategy adopted by the corporation in its internationalization process, in the sense that the results are more significant in firm-specific studies. This reflection takes us to a multidisciplinary research line, called the economic exposure to currency risk of the MNC, which is a future line of work.

At this point, we indicate two initial limitations present in this research. On the one hand, it has focused the review process on a segmented and particular subgroup in the literature concerning ER and FDI than it has developed in the last times, without discriminating the kind of journal analyzed. We propose for a future paper to distinguish the level of the reviewed documents and to establish a classification about selected articles. On the other hand, the criterion applied to choose, sort and examine the papers has been subjective, taking into account the knowledge and judgment of the authors. We suggest including an objective analysis based on bibliometric methodological process to complement the present research and to extend it to upcoming works.

Finally, we conclude noting that this work has pretended to clarify the current state of art of this research line, presenting the present international scenario in which a new direction takes place in FDI flows as well as strong currency uncertainties in the context global. This has caused an alteration in the research agenda emerging new elements that have been incorporated into the traditional theories and that have been adjusted better to the phenomenon under study. Therefore, this research can be considered by further applied analysis as a theoretical support to carry them out.

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Annex I: Main studies theoretical-empirical on exchange rate and foreign direct investment connections

STUDY	FIELD	SAMPLE HOME	SAMPLE HOST	SAMPLE	HIPOTHESES	METHODOLOGY	ER MEASURE	FDI MEASURE	RESULTS
Froot and Stein (1991)	Macro, sectoral and types of FDI (theoretical and empirical)	4 industrialized countries: - UK - Canada - Japan - West Germany 15 countries for the types of FDI	USA	1973-1988	Imperfections in capital market: - Relative wealth (information imperfections)	Multiple regression of time series	Log of the real effective exchange rate of US dollar IMF (increase represents appreciation of US dollar)	Types of foreign assets in USA (quarterly and annual BP data): - Totals - Publics - Privates - FDI - Treasury - Shares and corporate bonds Sectoral FDI Types of FDI	Significative negative correlation between US dollar exchange rate level and the FDI entry (in West Germany only)
Klein and Rosengren (1994)	Macro (theoretical and empirical)	7 industrialized countries: - Canada - France - Germany - Netherlands - UK - Switzerland - Japan	USA	1979-1990	- Relative wealth - Relative labour costs	Multiple regression of time series and cross sections	Ln real bilateral exchange rate of US dollar against the 7 currencies (increase represents appreciation of US dollar)	Ln annual bilateral FDI inflows in USA divided by USA GDP. 3 Categories: - Total investment - Mergers and acquisitions - Real property	Depreciation of US dollar correlated with an increase in FDI entry in USA: - Relative wealth significative - Relative costs no significative
Blonigen (1997)	Macro and sectoral (theoretical and empirical)	- Japan - West Germany (to test the robustness of model)	USA	1975-1992	Imperfections in real market: - Profitability of the firm-specific assets of the target company to acquire in foreign markets	Panel data of discrete choice (negative binomial model and negative binomial model with random effects)	Real sectoral-specific Exchange rate of US dollar / Japanese yen (increase represents depreciation of US dollar)	Annual frequency nº Acquisitions at sectoral level (SIC 3 digits) - Total sectors - Manufacturing - No manufacturing - Manufacturing of R&D high level - Manufacturing of R&D low level	Real appreciation of the Japanese yen (real depreciation of the US dollar) was strongly associated with greater likelihood of Japanese acquisitions in the USA, specifically in sectors with firm-specific assets.

continues…

Annex I: Main studies theoretical-empirical on exchange rate and foreign direct investment connections (continuation)

STUDY	FIELD	SAMPLE		PERIOD	HIPOTHESES	METHODOLOGY	ER MEASURE	FDI MEASURE	RESULTS
		HOME	HOST						
Rangan (1998)	Macro and sectoral (theoretical and empirical)	USA 7 Developed countries: - Canada - France - Germany - Netherlands - Switzerland - UK - Japan	9 Developed countries: - Canada - France - Germany - Italy - Netherlands - Switzerland - UK - Japan - Australia USA	1977-1993	Operating Flexibility: - Optimistic Flexibility - Pessimistic Flexibility - Realistic Flexibility	Multiple regression of time series at various intervals with currency depreciation and currency appreciation	Percentage variation in real bilateral exchange rates sectorally weighted (annual data)	Variation in levels of domestic inputs in sales abroad by foreign affiliates as a measure of operating flexibility (annual data) (first differences)	- MNCs operate flexibly abroad and respond to the alterations of real exchange rates by moving inputs to localizations favoured for this alterations (except Canada and Switzerland, no signific.) - They remain stable over time - The majority of sector are significatives - Consistent with the Realistic flexibility approach: not affected by the country in which MNCs are headquartered - Modest changes in inputs to abrupt exchange rate alterations
Chakrabarti and Scholnick (2002)	Macro and sectoral (theoretical and empirical)	USA	20 OECD countries	1982-1995	Future exchange rate expectations: Large exchange rate movements generate long-term expectations of reversion to the mean value (*"overshooting"* component)	Panel Data: - Fixed effects OLS model - Random effects OLS model - GLS models (3 specifications) (20 countries-14 years) 280 observations 5 specifications	- <u>Levels</u>: Average devaluation (1^{er} Moment): $d = \log \frac{e_t}{e_{t-1}}$ - <u>Volatility</u>: Expectations (2^{o} Moment) - <u>Asymmetry</u>: size of the devaluation (3^{er} Moment) $d > 0$ Depreciation of FDI host currency (monthly data)	Annual FDI outflows from USA to 20 OECD countries	-<u>Levels</u>: expected sign (+) and not robust - <u>Volatility</u> expected sign (-) and robust in 2 specifications - <u>Asymmetry</u>: expected sign (+) and robust in all specifications

Note: The articles cited in this Annex are given in full in the references section.

Annex II: Results from empirical evidence on exchange rate and foreign direct investment connections: Spanish articles

STUDY	EXCHANGE RATE INFLUENCE			MAIN RESULTS
	LEVELS	EXPECTATIONS	VOLATILITY	
Muñoz Guarasa (1999)	YES	NOT	NOT	Host currency depreciation increase inward FDI, but the coefficient is not significant.
Mold (2001)	YES	NOT	YES	Host currency depreciation increase inward FDI, but the coefficient is not significant. Exchange rate volatility encourages FDI inflows (favourable influences of investment's host economy).
Bajo-Rubio and Lopez-Pueyo (2002)	YES	YES	NOT	Host currency depreciation and appreciation expectations encourage inward FDI (relative wealth and favourable influences of investment's host economy).

Note: The articles cited in this Annex are given in full in the references section.

Annex III: Results from empirical evidence on exchange rate and foreign direct investment connections: recent contributions

STUDY	EXCHANGE RATE INFLUENCE			MAIN RESULTS
	LEVELS	EXPECTATIONS	VOLATILITY	
Bénassy-Quéré *et al.* (2001)	YES	NOT	YES	Host currency depreciation increases inward FDI in host country **(competition effect)**, exchange rate volatility discourages inward FDI **(volatility effect)**. Significant effects from exchange rate according to type of FDI undertaken **(heterogeneity in FDI motive and investment opportunities in third countries)**.
Baek y Okawa (2001)	YES	NOT	YES	Home currency appreciation increases inward FDI in host country. Triangular diagram of Japanese FDI in Asia as an export platform for goods to USA destination market, involved yen, Asian currencies and the US dollar. Sectoral analysis. Significant effects on export-oriented sectors of goods **(investment opportunities in third countries)**.
Shrikhande (2002)	YES	NOT	NOT	Exchange rate endogeneity on a general equilibrium model with perfect capital mobility between two countries in which the optimal timing for FDI depends on the fixed costs of investment and innovation in production processes. ER and FDI are endogenous variables relatedto exogenous capital stock imbalances between two countries **(synthesis and unification of previous models)**.
Aizenman y Marion (2004)	NOT	NOT	YES	Exchange rate volatility has more negative impact on the vertical FDI than horizontal FDI. Vertical FDI usually takes place in emerging markets, while the horizontal FDI is more likely in mature markets **(heterogeneity in FDI motive)**.
Barrel *et al.* (2004)	YES	NOT	YES	If host country currency appreciates with regard to home country currency more than rival host country currency, inward FDI will increase in rival host country. Greater exchange rate volatility of host country with regard to other rival country discourages inward FDI in the first and it drives in the second. USA inward FDI in Europe with two alternative locations: UK and continental Europe. Imperfect markets and risk aversion **(investment opportunities in third countries)**.
Xing (2004a)	YES	NOT	NOT	The results of Baek y Okawa (2001) are confirmed. The appreciation of home country currency increases inward FDI in host country. Triangular diagram of Japanese FDI in China as an export platform for goods to global destination market, involved yen and yuan. Sectoral analysis. Significant effects on export-oriented sectors of goods **(investment opportunities in third countries)**.
Xing (2004b)	YES	NOT	NOT	The results of Baek and Okawa (2001), Xing (2004a) and Xing and Wan (2004) are confirmed. The appreciation of home country currency increases inward FDI in host country. Triangular diagram of Japanese FDI in China as an export platform for goods to global destination market, involvedyen and yuan. If host country currency appreciates with regard to home country currency more than rival host country currency, inward FDI will increase in rival host country. The devaluation of host country currency encourages reverse imports from home country increasing inward FDI in host country. Firm level analysis. Significant effects on export-oriented sectors of goods. The effects of the exchange rate on FDI are reinforced by introducing reverse imports **(investment opportunities in third countries)**.
Xing y Wan (2004)	YES	NOT	NOT	If host country currency appreciates with regard to home country currency more than rival host country currency, inward FDI will increase in rival host country **(investment opportunities in third countries)**.

continues...

Annex III: Results from empirical evidence on exchange rate and foreign direct investment connections: recent contributions (continuation)

STUDY	EXCHANGE RATE INFLUENCE			MAIN RESULTS
	LEVELS	EXPECTATIONS	VOLATILITY	
Lin *et al.* (2006)	YES	YES	YES	Exchange rate level effect is positive for market-seeking FDI and negative for export-substituting FDI. Exchange rate expectations effect is positive and the results depend on firm motive. Exchange rate volatility delays market-seeking FDI and accelerates export-substituting FDI. Different approach from channels proposed by Bénassy-Quéré (2001), unifying real options and risk aversion models regarding the uncertainty **(heterogeneity in FDI motive and synthesis and unification of previous models).**
Petroulas (2007)	YES	NOT	NOT	Analysis of economic geography, pointing to a positive effect of the euro on inward FDI within the eurozone: the large economies attract a greater share of horizontal FDI (agglomeration effect) while small economies attract a more intense intra-firm trade volume and vertical FDI. **(heterogeneity in FDI motive and investment opportunities in third countries)**.
Russ (2007)	YES	NOT	YES	The exchange rate effects on FDI depend on source of exchange rate volatility. Exchange rate endogeneity. Real options and trade models that integrate MNCs. Heterogeneous influence of business productivity **(synthesis and unification of previous models).**
Xing y Zhao (2008)	YES	NOT	NOT	The results of Xing (2004b) are confirmed. Positive connection between reverse imports, exchange and FDI. Two-country model with oligopolistic markets. The devaluation of host country currency encourages reverse imports from home country increasing the inward FDI in host country **(investment opportunities in third countries)**.
Buch y Kleinert (2008)	YES	NOT	NOT	Exchange rate effects operate via capital market frictions (Froot y Stein, 1991) and via goods market frictions (Blonigen, 1997). Empirical support for the second via. Home currency appreciation will increase inward FDI in host country **(synthesis and unification of previous models).**
Del Bo (2009)	NOT	NOT	YES	Exchange rate volatility negatively affects horizontal FDI (opposite sign than expected by application of hedging mechanisms). Study horizontal FDI from developed countries to developing countries, at aggregate and sectoral levels. Manufacturing sectors are less affected than the service sector **(heterogeneity in FDI motive).**
Egger *et al.* (2010)	YES	NOT	NOT	Theoretical model of three countries in which coexists goods exporters and MNCs that perform FDI in a framework of imperfect competition. Bilateral effects of host currency appreciation on FDI break down in a positive revenue effect (MNC profits from affiliates raised) and a negative competition effect (production cost increased), being opposed to those happened in rival host country. The net response of both effects for each alternative location depends on the endowment of skilled labor, transportation costs and investing abroad costs **(investment opportunities in third countries).**
Aminian y Calderon (2010)	YES	NOT	YES	Host currency depreciation increase inward FDI (competition effect), exchange rate volatility discourages inward FDI (volatility effect). Significant effects from exchange rate according to type of FID undertaken **(heterogeneity in FDI motive).**

Note: The articles cited in this Annex are given in full in the references section.

7. Sub-national institutions as determinants of the MNE's location decision: Understanding the geography of Spanish FDI in USA

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Abstract
Based on the Institutional Theory, this research proposal aims at examining the influence of subnational institutions on MNEs' decisions relative to subsidiaries' location within the host country. In particular, we aim at analyzing location decisions by Spanish MNEs in the USA. This proposal presents the theoretical framework, as well as descriptive information relative to the dataset gathered by the authors comprising 551 Spanish subsidiaries located in 36 different states, 134 counties, and 298 locations at zip code level in the USA. Intra-country differences in normative institutions are approached by differences in distribution of ethnicity, language, and race; cognitive institutions are approached by the agglomeration in a given location of compatriot MNEs and compatriot MNEs competing in the same industry; and regulative institutions by the existence of favorable frameworks aimed at increasing firms' competitiveness and/or markets' attractiveness for foreign investors. Through a cluster analysis 4 different groups of zip codes are identified showing distinctive features in terms of normative, cognitive, and regulative institutions.

Keywords: Institutions, FDI location, subnational institutions, ethnic, agglomeration.

2. Introduction

The Eclectic Paradigm framework (Dunning, 1980) allows a broad analysis of FDI decisions. The necessary condition to undertake a FDI in a given country is that the firm has to have certain specific competitive advantages that can be mobilized internationally within the organization (transfer to the subsidiary abroad) and be combined efficiently with specific location factor of the host country; external complementary assets to the internal assets of the firm. With this entry strategy the firm search for markets, resources and efficiency.

Literature on international business (IB) focus on two key aspects of such entry: the location decision (e.g., Vanhonacker and Pan, 1997; Chang and Park, 2005; Meyer and Nguyen, 2005) and the entry mode choice (e.g., Brouthers and Hennart, 2007; Roth and Kostova, 2003). However, multinational enterprises's (MNEs) decision of where to locate FDI project in a given country site has been less researched than the entry mode choice (Chadee, Qiu and Rose, 2003; Meyer and Ngyuen, 2005). This less attention contrast with the evidence that location affects overall business operation and performance (Vanhonacker and Pan, 1997). In addition, the existing previous studies have mainly considered location decision at the national level, rather than within the boundaries of a single country (Mariotti and Piscitello, 1995; Zhu et al., 2012). Still subnational differences exist with respect to physical, economic, and political attributes (Chadee et al., 2003). According to Chang and Park (2005), as MNEs will choose locations that fit best with their strategic goals, the location decision within a country may be more important than the country choice. Consequently, these authors argue that IB scholars should explore antecedents of regional location decisions much more extensively, as these decisions shed light on MNEs' foreign entry strategies.

To study the antecedents of the MNEs' location choice authors have used different theoretical foundations based on the economic rationality criteria –e.g., location theory by Dunning (1998). But the traditional factors and criteria considered by these theories cannot fully explain entry strategies (Peng, Wang and Jiang, 2008). Indeed, managers' decisions may be supported on alternative criteria related to the search for legitimacy in the eyes of their internal and external constituents (Brouthers and Hennart, 2007), such as Institutional theory suggest (Lu, 2002; Martínez and Dacin, 1999; Pan, 2002), so researchers should consider other variables of an institutional nature (Peng et al., 2008). In particular, institutions are considered to be stable external conditions (Peng et al., 2008) that encompass regulative –e.g., laws–, normative –e.g., cultural values–, and cognitive –e.g., socially acceptable business practices– dimensions (e.g., Meyer et al., 2009). These institutional conditions vary not only between countries, but also within a country (Meyer and Nguyen, 2005).

In the particular case of emerging and developing markets where attitudes, policies and other institutions vary at the provincial or even local level, subnational differences has shown their influence on the attraction of inward FDI (Chadee et al., 2003; Chang and Park, 2005; Meyer and Nguyen, 2005). We extend this argument and consider that in the case of developed economies sub-national differences also exist and are relevant to IB. For example, the coexistence of ethnicities and races unequalled distributed among regions within a country may generate differences in normative institutions between such regions (e.g., different cultural values, several spoken languages). Also, previous and repeated decisions by MNEs that choose a certain location within the host country will generate cognitive institutions that will vary between such regions (e.g., firms for the same home country established in a certain locations within the host country). Finally, in cases of administrative decentralization where local authorities are empowered to legislate will generate differences in regulative institutions within a country (e.g., programs to attract foreign investors, different level of infrastructures development).

Thus, and taking into consideration the likely existence of these institutional subnational differences within a country, the current work aims to examine the institutional factors that condition the location decision for the subsidiaries of Spanish firms in the USA. As previous studies have provided evidence that foreign firms tend to pay more attention to the behavior of other firms from the same home country than to the behavior of those from other countries (Chen et al., 2009), we follow Déniz-Déniz and García-Cabrera's (2014) recommendation and we take MNEs from a same home country to be the reference group for a MNE in making a location decision within another country.

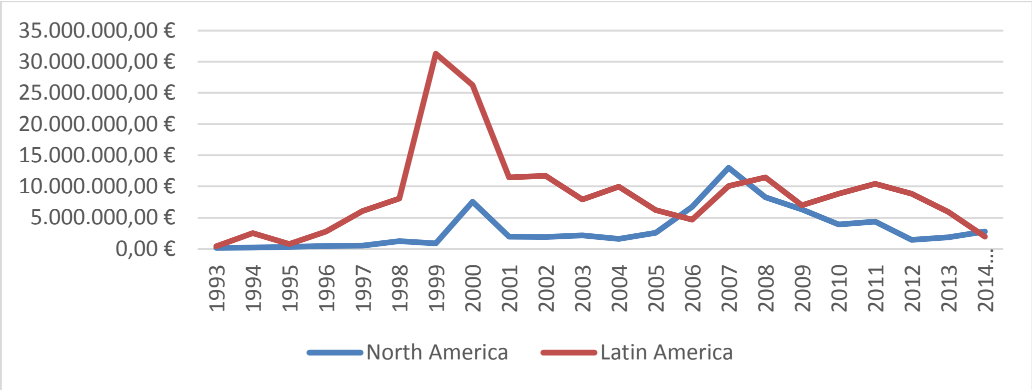
Spain and USA are an ideal context for the current research in view of the social and economic connection between these two countries. First, the USA is a multi-ethnic society with a high representation of Spanish and Latin American people (16.7% of the United States population) that constitute the largest minority business community in the United States. They own 6.6 percent of all U.S. firms (DPC report, 2008) and will represent $1.5 trillion in purchasing power by 2015 (Nielsen Target Track, October 2014). There are 1.6 million Hispanic-owned firms in the United States, supporting 1,536,795 employees (DPC, 2008). It deserves to consider that Hispanics in this country represent a unified and single market.

Second, the volume and diversity of commercial operations involving firms from the two countries are also relevant. The USA has always been a destination of the Spanish FDI, whose relevance for Spain is observed when comparing that flows with Spanish FDI toward Latin America. Spain is one out of the most important investor in Latin America (in some cases the first or second after USA) likely due to the common colonial past and cultural links. Except for the period between 1996 and 2004, Gross Spanish FDI are similar in these two areas (Figure 1). The commitment of the Spaniards by investing in the USA is justified by the size and world position of the US economy. Also, the cultural proximity and common language with several US areas contribute to this interest of the Spanish MNEs in this market. As result of this FDI, a total of 594 subsidiaries owned by 452 different Spanish MNEs are located in 37 different states in USA at 2015. The Spanish firms' investment in the USA has been supported by the Economic and Trade promotion agency of the Spanish Government through different programs, for example five Spanish Economic and Trade Offices have been established in that country, i.e., Chicago, Miami, Los Angeles, New York and Washington (Ministerio de Economía y Competitividad, 2015).

In addition, intra-regional diversity in the USA with respect to social, economic and policy frameworks is rather apparent, hence it deserves to study how subnational differences can affect location decision of investors MNEs. In particular, Peppas (2001) stresses that the USA is a multicultural society. Also, Bee (2012) shows that levels of inequality of US household vary across the country. The South has an excessively large number of counties with high income inequality (it includes the states of Alabama, Arkansas, Delaware, the District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia), while counties in the Midwest had lower levels of income inequality (i.e., Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin); also, within each region in the USA (i.e., South, Midwest, West and Northeast), the counties in the most unequal fifth accounted for a disproportionately large part of that region's population (Bee, 2012). The list of household-specific diversities across counties and across Zip codes, as smaller territorial areas, can be expanded to other characteristics such as size, languages spoken by people, races, ethnics, unemployment rate, hosing occupancy or level of education, among others. With respect to races, differences are significant. Native Americans in the United States suffer poverty at a rate three times higher than that of the non-Hispanic white population (United Nations, 2010). The unemployment rate rose more than 2.0 per cent from 2007 to 2008 among Mexican immigrants, and other Central American immigrants, while it only increased from 4.8 to 5.3 per cent among all workers (Kochhar, 2008).

Hence, subnational differences exist in the USA and so offer the opportunity to examine them through the institutional lens.

Figure 1. Gross Spanish FDI (thousands €)



3. Literature Review And Hypotheses

2.1 Institutional framework: A first approach

Institutions represent the rules of the game of the organizational field and determine the viability of participating in an economic activity and its associated transaction costs (North, 1990, 2005). According to Institutional approach, the MNEs take on the role of players (North, 1990) which must play taking into account these rules when making decisions about foreign investments (Déniz-Déniz and García-Cabrera, 2014). In particular, the entry strategy they adopt will be determined by the opportunities generated by the institutional framework (Meyer and Nguyen, 2005).

Scott (1995) classifies institutions in three dimensions. The regulative dimension includes the laws and policies that the government formulates to encourage some types of behavior and discourage others (Scott, 1995), for example openness to international trade, incentives for foreign firm's investment in the country. The normative dimension includes the social values about acceptable human behavior. These institutions not only define socially acceptable objectives –e.g., to earn profits– but also the right ways of achieving them (Huang and Sternquist, 2007) –e.g., acceptance of black economy, corruption, innovation, customer's satisfaction, etc. Finally, the cognitive dimension reflects the cumulative business and economic knowledge the organizations of the country/region share and includes the decisions successfully taken and structures successfully designed by other organizations (Lu, 2002).

Scott's regulative, normative, and cognitive dimensions are based on three mechanisms that condition the firms' decisions (coercive, normative and mimetic, respectively) (Huang and Sternquist, 2007). Regulative institutions legally force or incentive firms to adopt specific decisions on the base of instrumental criteria –i.e., coercive pressures. Normative institutions morally request that social values are respected and that organizations act according to them –i.e., normative pressures. Indeed, Scott (1995) argues that the firms' behavior is guided not only by their own interest but also by their social conscience. Finally, cognitive institutions are based on the accumulative knowledge coming from previous decisions adopted by other organizations in a particular location (Huang and Sternquist, 2007) and so provide other firms frequent and successful models that can be imitated. As organizations face common challenges in the countries where they are established and in order to reduce the uncertainty caused by such challenges (Scott, 1995), they may apply standard solutions (Lu, 2002), thus mimicking these successful actions implemented by other organizations –i.e., cognitive pressures. According to DiMaggio and Powell (1983), these three mechanisms give rise to three equivalent forms of isomorphism through which a firm acquires legitimacy in the eyes of internal and external constituents (Brouthers and Hennart, 2007).

Thus, institutions help the decision-maker to choose between acceptable options in the face of a certain level of uncertainty (Manolova, Eunny and Gyoshev, 2008). In particular, every firm's choice will be conditioned by the desire to carry out efficient transactions that enable the firm to achieve its goals while minimizing costs and risks (Meyer et al., 2009). Specifically, because people suffer from cognitive limitations that affect their decision-making, individuals will devise and implement those institutions allowing them to economize on their need to obtain, process and use information in their organizational field (Dunning and Lundan, 2008). For example, whereas a firm may support the location decisions within a host country on the existing regulative institutions –e.g., the location is chosen to take advantages from the local programs to attract foreign investors, which should be the instrumental criteria–, other firm may support its decision to a certain extent on the cognitive institutions, so mimicking previous firms that have successfully chosen a certain location within the host country. Under this institutional approach, the institutions are social structures that limit and permit but not entirely condition the actors' final choice (Hoffman and Ventresca, 2002).

Institutional theorists claim that firms are simultaneously immersed in different environments that firms share with other organizations (Davis et al., 2000). In particular, literature on IB has mainly studied the MNE's home and host institutional environments (e.g., Chan and Makino, 2007; Huang and Sternquist, 2007). Also, the MNE shares a close institutional environment with other firms that operate in the same industry (Lu, 2002). Because institutions determine the incentives for and constraints on economic actions, all these environments can affect the MNE's location decision.

So the external institutional environment is said to be a driving force for firms that try to adjust to it and/or to benefit from it (Lu, 2002; Déniz-Déniz and García-Cabrera, 2014). We examine the potential influence of these different institutional environments on MNE's location decision below.

2.2 Normative institutions and MNE's location decision

Scott (1995) argues that the firm's behavior is guided not only by their own interest but also by their social conscience, which is conditioned by existing social values about acceptable human behavior in their environment, i.e., the normative institutions. MNE –or its subsidiaries– is externally exchanging resources with other organizations both in the home country and in each host country where it operates. As each country has its own historical trajectory (North, 2005; Cantwell et al., 2010) which causes different ideas and values to take root in the minds of individuals and social groups (Hofstede, 1980) and leads to specific behaviors (Granovetter, 1985), the MNE must face different normative institutions in each country where it operates. These normative institutions may result in different pressures over the MNE to use fitted organizational forms in every country (Cantwell et al., 2010). So, successful operations in a given host country will require that firms consider the host country normative institutions when choosing the strategies to operate there (Brouthers, 2002; Meyer et al., 2009). As MNE operate in several countries, these differences in social values will generate uncertainty in the decision-making process (Brouthers and Brouthers, 2000) –e.g. the existence of conflicting pressures from different environments over the same MNE, the convenience of implementing forms and structures in the host country different from the ones commonly used by the firm (Déniz-Déniz and García-Cabrera, 2014). So, literature on IB has highly examined as one out of most researched country institutional factors the cultural distance (Quer, Claver and Rienda, 2012), that is, the degree to which the cultural norms in one country differ from those in another (Kogut y Singh, 1988).

Cultural distance between home and host countries will condition the MNE's costs and risks of operating in a given host country. Strange et al. (2009) state that relate to alternative FDI locations, the risks are greater for firms entering more distant cultural markets. For example, while lower cultural distance between home and host countries facilitate the transfer of resources and organizational capabilities from the parent company to the subsidiaries (Erramilli and Rao, 1993), higher cultural distance increases the barriers to knowledge acquisition from local incumbents by the subsidiary (Anand y Delios, 1997) and the costs of establishing through an overseas subsidiary (Kogut and Singh, 1988) –e.g., costs of integrating and managing local employees, cost of learning about how to relate with the administration, market behavior, etc. (Déniz-Déniz and García-Cabrera, 2014). So, cultural distance will condition the MNE’s decisions about the internationalization, the entry mode strategy and the structure and managing of the multinational firm (e.g., López-Duarte et al., 2015). In particular, previous literature show that the MNE’s country of origin influences its choices regarding investment location (Chadee et al., 2003) as firms will prefer entering host countries culturally similar (Brouthers, 2002). In a more deeply analysis, López Duarte et al. (2015) found that cultural distance interacts with economic development of the home and host countries involved. In a context of similar economic development, the cultural distance between these countries is a relevant factor in the choice of the latter as a host for the internationalization process, whereas cultural differences between them become irrelevant in cases where firms coming from developed countries value less-developed countries to invest abroad.

Although these previous studies has highly contributed to understand the impact of normative institutions on IB, intra-national differences exist in social values and they can have explanatory power over and above the national social values (Au and Cheung, 2004). Local traditions may generate disparity of normative values across regions within countries (Meyer and Nguyen, 2005). Also, the presence of minorities (Peppas, 2001) and social groups of different ethnicity, race or language are major sources of within country variation (Puia and Ofori-Dankwa, 2013; Terpstra-Tong, Terpstra and Tee, 2014). Linguistic diversity is also related with the existence of intra-country cultural differences (Hofstede, 1980; Puia and Ofori-Dankwa, 2013). So, and after founding significant intra-cultural distances capable of explaining the differences in entrepreneurial behavior, García-Cabrera and García-Soto (2008) recommended the need to overcome the ecological fallacy linked to the nation=culture approach, and consider subnational differences in cross-cultural research (pp. 479). In concordance, Beugelsdijk, et al., (2015) assert that comparison between countries, as a proxy for cultural distance and liability of foreignness, may not reflect the reality faced by internationalizing firms when locate in a given region within a country. According to these authors, the relevant distance is that between the targeted segment of the host-country population and the population in the home-country the MNE comes from.

Shorter cultural distance due to the existence of ethnic minorities sharing language, culture, and history with the population of the investor's country, make the entry easier (Mariotti and Piscitello, 1995) and so can be related with the FDI location choice (Jean, Tan and Sinkovics, 2011). Thus, ethnic ties may represent a location factor to attract FDI as well as a strategic variable for business decisions. Also, foreign market entry requires the bundling of firm specific advantages and complementary local assets (Hennart, 2009). Complementary assets needed to make FDI productive are location factors of countries endowed with such assets. However, the availability of establishing network linkages based on ethnic commonality are shown to be a significant determinant in the locational choice of FDI independent of firm-specific assets and other locational characteristics of the host country (Chen and Chen, 1998). Literature on institutional theory offers the grounds to justify this effect. New institutional economists see institutions as critical in determining the performance of economies (North, 1990; Williamson, 2000), since they influence transaction costs; being a member of the same ethnic group when entering a given country reduces transaction costs and facilitate the overcoming of liabilities of foreignness, as ethnic ties improve market efficiency of group performance and facilitate the transmission of non-market information (non-economic factors such as social networks).

The strength of the ethnic community has to be correlated with its size, its geographical concentration and the international importance of its ethnic language. This is because a language is a type of "club" public good: the consumption by an individual does not imply to have less quantity available to be used by others. The value of a language increases with the number of people and organizations that use it. A language that is used by a relevant number of people and has a high potential of expansion will also contribute to an increase of the demand of products with high idiomatic contents, which at the same time may reinforce the value of the language. In the knowledge society a language is the basic storage of what is known and the basic instrument to transfer it to others members of the "club". An international language, such as is the case of the Spanish and English, can be seeing as a complementary specialize intangible asset in foreign market expansion. Language as a complementary asset that can be shared by many users without reducing the amount available to each. In a MNE framework, language is an input in the internal company information flows, knowledge transfer and formal and informal communications.

As the language, culture and history are related to ethnicity (Mariotti and Piscitello, 1995), internationalizing firms find ethnics ties a help to create the basis for informal, social and personal networks (Zaheer, Lamin and Subramani, 2009); band may facilitate business activities and interactions among group members (of the "club") and with external entities (suppliers, customers', competitors, governments). First, the common language facilitates the hiring of local managers, which is a more efficient way to control the operations in the host countries than the use of a second and learned language as a vehicle to interact. Second, common ground promotes interpersonal understanding, attraction and concern for the other party's welfare, hence contributing to develop affective bonds with partners of the same cultural ethnicity (Jiang et al., 2011). So, ethnic ties make easier to access to local sources of information due to favorable logistics (Mariotti and Piscitello, 1995; Jean et al., 2011) and because local executives have higher affect-based and cognition-based trust in overseas partners of the same cultural ethnicity as themselves (Jiang et al., 2011).

As a result of all this benefits of ethnic ties, Miller, Thomas, Eden and Hitt (2008) argued that ethnic identity is a valuable, costly-to-imitate resource, which can help firms achieve competitive parity with local firms in the host country. Hence, ethnic ties help mitigate the risks associated to entering markets culturally distant (Strange et al., 2009) and overcome liabilities of foreignness and newness in firm internationalization processes (Jean et al., 2011). So, we state:

H1. The higher the density of an ethnic community in a given location within the host country that shares language (H1a), race (H1b) or nationality (H1c) with the MNE's home country population, the higher the tendency to locate a subsidiary in this particular location.

2.3 Cognitive institutions and MNE's location decision

Cognitive institutions refer to the business and economic knowledge the organizations of the country/region share and include the decisions successfully taken and structures successfully designed by other organizations (Lu 2002). These elements help the decision-maker to choose between acceptable options in the face of a certain level of uncertainty (Manolova et al., 2008) and so they are particularly useful for foreign investors who have a high degree of outsidership in the local context (Tan and Meyer, 2011). Thus, from a cognitive perspective, the decisions made by firms are conditioned by other firms' actions (Huang and Sternquist, 2007). Coherently, previous studies have found that one firm's location decision within a country can be influenced by the presence of other firms in a region (e.g., Chang and Park, 2005), so giving rise a pattern of agglomeration. Agglomeration offers some benefits to firms, as it improves complementarities and facilitates cooperation among them; it allows the access to specialized resources such as technology and labor work; it increases access to information about market and technology trends (Porter, 1998). Also, agglomeration allows firms to learn from earlier entrants' experiences and avoid making similar mistakes (Chang and Park, 2005). For instance, new entrance can replicate good practices used by previous foreign investors (Terlak and Gong, 2008). According to Tan and Meyer (2011), the knowledge sought by foreign investors in agglomerations often concerns sensitive cultural and institutional aspects of the host economy, that is, tacit knowledge that can best be acquired in relationships of mutual trust with compatriots. So, foreign MNEs can benefit from co-locating with other firms within the host country (Zhu et al., 2012).

Most of the agglomeration benefits highlighted above originate from experience-based knowledge that diffuse among firms (Chang and Park, 2005). In IB, international experience of firms can be considered a determinant factor of further (future) FDI (e.g., Johanson and Vahlne, 1977). In this respect, it is possible that companies learn not only from their own experience but also from the experience of other firms, specially from those of the same nationality (Chen et al., 2009). Learning from others' experience is considered a way of vicarious experience (Bruneel, Yli-Renko and Clarysse, 2010). Vicarious experience may help to anticipate potential difficulties and mistakes and learn best practices. This learning may come both from firms operating in the same industry of activity of the investing MNE as well as from firms of different industries (Tan and Meyer, 2011; Zhu et al., 2012). Firms from the same industry use similar resources and technologies and face comparable challenges and opportunities, so they provide a more fitted reference than firms in general from the same home country. Also, and compared to co-located firms from the same industry, Tan and Meyer (2011) state that co-located firms from the same country-of-origin provides a suitable channel for the sharing of tacit knowledge about local business environments. Sharing a same national culture and a same language facilitate the transfer of knowledge among compatriot firms within the host country. As a result of all the transfer of knowledge that take place in agglomerations, vicarious experience may have a positive influence on investment flows in a host country (Henisz and Delios, 2001).

According to the principles of the Institutional theory, to study the reasons for firms' agglomeration must go beyond the economic criteria (Chang and Park, 2005) because firms' decisions do not always follow exclusively these criteria (Lu, 2002; Martínez and Dacin, 1999; Pan, 2002). Instead, other reasons related to the need for facing uncertainty in the environment and gain legitimacy can be more relevant. First, vicarious experience from subsidiaries of compatriot MNEs co-located in a given host country can mitigate the uncertainty associated to cultural distance for FDI location (Kim and Miner, 2007). Different and same sector vicarious experience may generate this effect (Jiang, Holburn and Beamish, 2014). MNE from the same home country investing in the same host country, albeit belonging to different sectors, share common features, such as national origin. According to Hofstede (1980), because each country has its own culture, national origin may affect the ways to face the cultural distance –e.g, use of expatriates, mode of entry choice, embeddedness in local networks, etc. Thus, the types of experiential knowledge that firms from each national origin create in a particular region within a country will be different (Chang and Park, 2005). Thus compatriot firms represent a more useful reference to face uncertainty in the host country than firms from other foreign countries. This shared native characteristic may be reinforced if firms operate in the same sector and belong to similar professional associations (Hennart and Park, 1994).

Second, foreign investments, especially in countries where the culture and language are distinct from that of a MNEs home country, carry risks that are captured by the term liabilities of foreignness. In order to take decisions and act in conditions of such liabilities, Institutional theory states that firms can imitate other firms in order to gain legitimacy for their decisions (DiMaggio and Powell, 1983). According to Lu (2002), these mimetic behavior is particularly relevant when the firm lacks experience in a particular market (Lu, 2002). This author distinguishes general mimetism (imitating other firms) from sector mimetism (imitating only firms operating in the same sector). For example, firms might decide to locate in a place simply because so many other firms have located there already (Chan and Park, 2005) or because other firms operating in the same sector have chosen such location (Tan and Meyer, 2011). This general and sector mimetic behavior has been observed in different contexts in the IB studies (e.g., Lu, 2002; Tan and Meyer, 2011). For example, Déniz-Déniz and García-Cabrera (2014) found that German MNEs are more likely to adopt a certain level of management and ownership control when entering Spanish market the larger the number of compatriot MNEs providing a point of reference to legitimize that decision. So, we can state:

H2a. The higher the number of subsidiaries owned by compatriot MNEs in a given location within the host country, the higher the tendency to choose this location for placing a subsidiary.

H2b. The higher the number of subsidiaries owned by compatriot MNEs that compete in the same industry present in a given location within the host country, the higher the tendency to choose this location for placing a subsidiary.

2.4 Regulative institutions and MNE's location decision

Regulative institutions encompass the economic, political and social institutions in a host country (Chan, Isobe and Makino, 2008; Demirbag et al., 2008). In those cases in which these institutions are favorable and offer firms reduced opportunity costs and activity risk, and high potential business returns, they will attract foreign investment (Déniz-Déniz and García-Cabrera, 2014). Previous studies have mainly examined this institutional dimension through economic and political-legal stimuli (Chen, et al., 2009) for foreign investment, such as fiscal pressure, the interest rate, investment assistance, and the availability of human capital (e.g., Demirbag et al., 2008). So, national governments are expected to act on regulative institutions to generate a favorable framework for doing business in their territories (Hessels and Terjesen, 2010). For example, the elimination of legal restrictions for foreign organizations will facilitate the entry of external firms.

Yet countries consist of many regions, which may differ greatly from each other in terms of prevailing wages, populations, technology bases, and infrastructures, among other variables (Chang and Park, 2005). Indeed, at a regional level, local authorities may contribute to establish a legal framework that enhance firms' competitiveness and attract foreign firms, so emerging differences in regulative institutions within the countries. The final investors' decisions about the location of a FDI project may be then conditioned by local public aid and incentives for internationalization (Meyer and Nguyen, 2005), the availability of training allowing the firms to keep updated workforce according to the needs of their sectors (Domadenik, Prasnikar and Svejnar, 2008), the fiscal pressure (Gaur et al., 2007) or the legal formalities (Trevino et al., 2008). For example, Meyer and Nguyen (2005) state that municipalities with a one-stop agency to deal with foreign investors and offer industrial zones with equipped infrastructure can tip the balance between two alternative locations.

In addition, more general market-oriented institutions, such as the characteristics of target markets (Trevino et al., 2008) that attract foreign investment are also relevant regulative institutions considered by previous literature (Meyer and Nguyen, 2005). For example, regional differences, such as population density, living conditions, rent per capita, market size or distance to markets, among others, may influence MNEs' location decisions (Chadee et al., 2003). So we state:

H3. The more favorable the regulative institutions to attract FDI in a region within the host country are in terms of legal framework for increasing firms' competitiveness (H3a) and market' attractiveness (H3b), the higher the tendency to choose this region for placing a subsidiary.

3. Empirical Test

3.1 Database and data sources

To test the hypotheses, firm-level data is combined with social, economic and political data at a territorial level. We focus on some aspects of Spanish firms having developed equity investments in the USA, and the setting of subnational framework that characterize the environment in which these subsidiaries operate. In particular, for each Spanish MNE with a FDI project in the USA, territorial data at the local level is aggregated in order to analyze whether or not institutions in the subnational level do relate to the MNEs' location decision.

The first identification of the Spanish firms having developed equity investments in the USA came from The Spanish Trade and Investment Institute (ICEX). This is a state owned corporation part of the Economic and Competitiveness Spanish National Department. ICEX's mission involves promoting and supporting the internationalization of Spanish companies through different entry modes, among them, equity entry modes, as well as gathering information about target countries and Spanish internationalized firms. In particular, we used the last update relative to Spanish subsidiaries in the USA published by ICEX in 2012. This allowed us identifying the Spanish MNE having a subsidiary in the USA, as well as some basic information relative to these subsidiaries (i.e.: identification, main activity, and complete address). A total of 594 different subsidiaries were initially identified. Up to 8% of identified subsidiaries were removed from the database due to incomplete information relative to some of the variables referred to in the following paragraphs. Hence, our final sample comprises 551 subsidiaries.

We then acceded to information relative to each host location's population features and business activity by using the information published by the United States Census Bureau. Specifically we gathered information from both the Population and Economic Census, as well as from the American Community Survey. This information was gathered at zip code level.

In addition, we gathered information at State level relative to institutional programs aimed at attracting investment and/or increasing firms' competitiveness through the Select USA site. This is a service by the USA's Department of Commerce aimed at gathering information at federal and state level about the different advantages the United States offers as a location for business and investment. It offers information relative to the incentive programs offered in each state in order to attract investments, identifying program type (e.g.: tax exemption, tax deduction, tax credit, loan, equity participation, grant, etc.), industries addressed to in the program, type of companies that can benefit from each particular program, and so on.

Information relative to the Spanish investing companies was gathered through different sources, among them, the companies' web pages and reports by CESCE Group, a leading Spanish financial and insurance corporation that acts as the Spanish Export Credit Agency managing Export Credit Insurance and Country Risk Insurance related to internationalization processes on behalf of Spanish State.

3.2. Independent variables

Host zip code population's ethnic features were gathered in terms of race, origin, and language.

We considered the zip code's population distribution by race (H1a), origin (H1b), and language spoken at home (H1c). When dealing with origin, we focused on the Hispano or Latino general origin (considering all Hispano/Latino countries of origin), but also the specific Spanish origin. When dealing with language, we collected information about the population speaking Spanish at home considering two different cut offs (5 years old and over and 18 years old and over).

To test H2a and H2b we calculated the total number of Spanish subsidiaries located in the same zip code, as well as the number of subsidiaries located in the same zip code carried out by Spanish MNEs competing in the same industry (Standard Industrial Classification 2-code level).

The number of programs at the State level aimed at attracting investments is used as a proxy for the existence of favorable regulative institutions in terms of legal framework (H3a). Market attractiveness (H3b) was measured in terms of market size, purchasing power, and business activity at the zip code level. The zip code's population is used as a proxy for the market size, while the zip code's annual payroll[8] and the number of establishments at which business is conducted and/or services are provided located in the zip code act as proxy for purchasing power and business activity, respectively.

3.3. Descriptive analysis

As before said, the final database comprises 551 subsidiaries owned by more than 400 different Spanish firms and located in 36 different states, 134 counties, and 298 local areas or zip codes. Up to 50% of these subsidiaries are located in the Southeast region and almost 28% in the Northeast one, while the remaining investments distribute almost equally among the West, Mid-

8 The zip code annual payroll includes all forms of compensation (i.e.: salaries, wages, commissions, dismissal pay, bonuses, vacation allowances, sick-leave pay, and employee contributions to qualified pension plans paid during the year to all employees. It is reported before deductions for social security, income tax, insurance, union dues, etc.

West, and Mid-Atlantic regions. Table 1 displays the breakdown of subsidiaries by state[9], as well as the number of different counties within the state, and local areas (zip codes) within the county in which these subsidiaries are located. As shown in the table, more than one third of these subsidiaries concentrate in just one state —Florida (37.6%)—, four different states together gather another third —New York (16.2%), Texas (8.2%), California (5.4%), and New Jersey (4.2%), while the remaining third is widely distributed among the remaining 31 states.

9 Although the District of Columbia (Washington DC) is a federal district (not a state), we have included it in this breakdown due to its particular and differentiated legal status. The United States Census Bureau currently considers the District of Columbia to consist of a single county equivalent.

Table 1. Breakdown of Spanish subsidiaries' location

State	Subsidiaries		Counties		Zip codes	
	Number	%	Number[1]	Average[2]	Zip codes[3]	Average[4]
Alabama	4	0,7	3	1,3	4	1,0
Arizona	6	1,1	1	6,0	5	1,2
Arkansas	1	0,2	1	1,0	1	1,0
California	30	5,4	13	2,3	19	1,6
Connecticut	1	0,2	1	1,0	1	1,0
District of Columbia	13	2,4	1	13,0	8	1,6
Florida	207	37,6	9	23,0	57	3,6
Georgia	8	1,5	3	2,7	7	1,1
Illinois	22	4,0	14	1,6	20	1,1
Indiana	2	0,4	2	1,0	2	1,0
Kansas	1	0,2	1	1,0	1	1,0
Kentucky	1	0,2	1	1,0	1	1,0
Louisiana	3	0,5	2	1,5	3	1,0
Maine	2	0,4	1	2,0	2	1,0
Maryland	8	1,5	7	1,1	7	1,1
Massachusetts	14	2,5	5	2,8	10	1,4
Michigan	11	2,0	9	1,2	10	1,1
Minnesota	3	0,5	2	1,5	3	1,0
Mississippi	1	0,2	1	1,0	1	1,0
Missouri	1	0,2	1	1,0	1	1,0
Nevada	1	0,2	1	1,0	1	1,0
New Hampshire	1	0,2	1	1,0	1	1,0
New Jersey	23	4,2	7	3.3	21	1,1
New Mexico	1	0,2	1	1,0	1	1,0
New York	89	16,2	10	8,9	32	2,8
North Carolina	4	0,7	2	2,0	3	1,3
Oklahoma	2	0,4	2	1,0	2	1,0
Oregon	2	0,4	1	2,0	2	1,0
Pennsylvania	18	3,2	7	2.6	18	1,0
Rhode Island	2	0,4	1	2,0	2	1,0
South Carolina	3	0,5	3	1,0	3	1,0
Tennessee	5	0,9	2	2.5	5	1,0
Texas	45	8,2	8	5,6	32	1,4
Vermont	1	0,2	1	1,0	1	1,0
Virginia	12	2,2	6	2,0	8	1,5
Wisconsin	3	0,5	3	1,0	3	1,0
Total	**551**	**100**	**148**		**298**	

1. Number of different counties within the states hosting Spanish subsidiaries. 2. Average number of subsidiaries per hosting county. 3. Number of different local areas (zip codes) within the state hosting Spanish subsidiaries. 4. Average number of subsidiaries per hosting zip code.

When dealing with localization dispersion degree within states, Table 1 shows that Florida, and New York are the states that show a higher average number of subsidiaries both at county and zip code level —specifically, Miami-Dade in Florida and New York County in New York (181 and 70 subsidiaries, respectively) are the two counties hosting the highest amount of Spanish subsidiaries. Harris (Texas), Broward (Florida), San Francisco (California), and Washington DC, (District of Columbia) also play a key role as hosting counties for Spanish multinationals.

Our database shows high diversity in terms of intra country normative and regulative institutions. Just as an example, when dealing with populations' ethnic features, it gathers locations in which more than 90% of the population has a Hispano/Latino origin and/or speaks Spanish (i.e.: 5 different zip codes located in Miami-Dade, Florida) and locations in which this population hardly reaches 1% (14 different zip codes in 13 counties along 12 different states). Actually, the database gathers up to 39 hosting zip codes (located in 13 different counties and 9 different states) in which at least 50% of the population has a Hispano or Latino origin, as well as 35 hosting zip codes (located in 10 counties and 7 states) in which at least 50% of the population speaks Spanish. In a similar way, up to 95% of the zip code's population is white-race in 17 different zip codes located in 11 states, while this population is under 20% in 5 zip codes located in 5 different states.

The number and diversity of institutional programs aimed at attracting investments to the state shows a wide range from Maryland (74 different programs including tax exemption and tax credit, loans , equity investment, grants, etc.) to District of Columbia (8 programs mainly focused on tax refunds).

Spanish MNEs investing in the USA come from a particularly wide range of industries, although the Textile and Apparel, Technical Services (i.e.: engineering services), Energy, and Food and Beverage industries gather the highest amount of subsidiaries, any of them reaches a 10% of the total amount.

A first descriptive approach based on bivariate correlations —see Table 2— shows a high and statistically significant correlation between the number of subsidiaries located in a particular zip code and this location's ethnic features in terms origin (percentage of population that shows a Hispano or Latino origin) and language (percentage of population that speaks Spanish), but not in terms of race. The correlation is also positive and significant for some particular variables acting as proxy for a favorable environment (i.e.: annual payroll, number of establishments), but not for all of them. There is a particularly high (and expected) correlation between the two variables gathering information about origin and language (i.e.: Hispano/latino origin and Spanish speaking population). Although very high, it is not perfect; hence, we have decided to keep both in our analysis.

Table 2. Correlation matrix.

	1	2	3	4	5	6	7	8	9
1 % white race	1	-0,069	0,029	0,094	-0,05	0,108	-0,126	-0,064	-0,018
2, % Hispano/latino population			0,950**	0,267**	0,067	-0,061	0,363**	-0,154**	0,04
3, % Spanish speaking population			1	0,327**	0,09	0,003	0,315**	-0,134*	0,056
4, Number of subsidiaries in the zip code				1	0,185**	0,07	-0,009	0,252**	0,381**
5, Number of subsidiaries zip code/ same industry					1	0,046	0,029	0,112	0,116*
6, Total programs						1	0,026	0,074	0,082
7, Population							1	-0,098	0,208**
8, Annual payroll								1	0,771**
9, Number of establishments									1

* p< 0,05; ** p<0,01

3.4 Cluster analysis

In order to test our hypotheses a cluster analysis has been performed on the sample gathering 298 different zip codes collected in our database. This kind of analysis allows identifying groups of cases (i.e.: zip codes) that are similar to each other based on their characteristics, but different from those in other groups. Considering our database's size and features the K-means clustering algorithm was selected. The algorithm iteratively estimates the cluster means and assigns each case to the cluster for which its distance to the cluster mean is the smallest. It provides a single set of clusters with no particular organization or structure within them (i.e.: no hierarchical or ordered clustering). The variable relative to population's ethnic features in terms of race (% of white population in the zip code) did not arise as statistically significant for clustering the zip codes. Hence it has been removed from the analysis. 4 different clusters were identified gathering 4, 69, 209, and 16 cases respectively10 —see Tables 3 and 4 showing clusters' features. Clusters 1 and 3 are the most distant ones in terms of total distance from each other, whiles clusters 2 and 3 are the most similar ones.

Cluster I gathers just 4 zip codes —all of them located in the North East, particularly in the New York State, and concentrated in the New York County. It does not show clearly distinctive features in terms of normative institutions, as both the percentages of Hispano/Latino-origin and Spanish speaking population keep at a medium level. Just on the contrary, this is the cluster that shows the highest mean by zip code of Spanish subsidiaries both at a general level and an industry level, as well as the highest amount of State programs aimed at attracting investment and/or increasing

10 As Cluster 1 gathers a particularly low amount of cases, the analysis was performed trying to identify a lower number of clusters; however, the 4 zip codes in Cluster 1 keep as a different and independent group pointing to a small set of zip codes that clearly differ from the remaining cases.

firms' competitiveness. In other words, this cluster gathers zip codes that show clear distinctive characteristics in terms of cognitive and regulative institutions pointing to mimetic behaviors when choosing location within the country and highlighting the relevance of economic and political-legal stimuli aimed at generating a favorable framework on that choice. This cluster also shows the largest population, the highest number of establishments, and the largest annual payroll, pointing to market size, purchasing power, and business activity as drivers of location choice. So, this group can be called geographic areas mainly offering coercive and mimetic legitimacy to Spanish MNEs' location decision. A total of 27 Spanish subsidiaries are set in this cluster. Hence the concentration ratio is the highest (more than 6 subsidiaries by zip code).

Cluster III gathers 209 zip codes mainly located along the East part of the country —more than 40% of the zip codes clustered in this group are located in the Southeast, while up to 30% are in the Northeast; Florida and Miami Dade county are the state and county that show the highest weight. It shows quite clearly distinctive features both in terms of normative and cognitive institutions, but not in terms of regulative institutions: this cluster gathers the zip codes showing the highest percentage of Hispano-Latino and Spanish-speaking population, but the lowest amount of Spanish subsidiaries; however, it is the second cluster in terms of subsidiaries coming from MNEs competing in the same industry. While the number of state programs and the zip code's population keep at a medium level, both the number of establishments and the annual payroll keep at the lowest level. This group can be called geographic areas mainly offering normative legitimacy to Spanish MNEs' location decision. All together a total of 297 Spanish subsidiaries are settled in the 209 zip codes gathered in this cluster, pointing to a wide dispersion.

Cluster IV gathers 16 different zip codes. Although most of them are located in the North East —New York gathers almost 40% of them, while Massachusetts, and Pennsylvania together gather another 20%—, also the West area of the country, particularly the State of California, show a relevant weight within this cluster. It is sharply characterized in terms of normative institutions as it shows the lowest percentages of Hispano/Latino and Spanish speaking population (the zip codes' population is also the smallest one pointing to a smaller market size). It keeps in a medium-up position in terms of number of Spanish subsidiaries (cognitive institutions) by zip code and number of state programs aimed at providing a favorable framework for investment and firms' competitiveness. It shows a similar position in terms of economic activity (number of establishments) and annual payroll (purchasing power). This group can be called geographic areas depriving normative legitimacy to Spanish MNEs' location decision. 55 Spanish subsidiaries are placed in this group.

Finally, Cluster II is the one showing the least distinctive profile, as shows a medium-low position in almost all considered variables except in that related to the legal regulative institutions —this cluster shows the lowest amount of state programs aimed at developing a favorable framework for investment. The only additional remarkable feature in this group is its positioning in terms of normative institutions, as it is ranked as the second in terms of Hispano and Spanish speaking population just behind cluster 3. Although the 69 zip codes within this cluster are widely distributed along different areas in the country, the Southeast is the region that shows the highest weight (up to 30% of the zip codes gathered in the cluster), being Texas the single state that provides the highest amount of zip codes to this cluster. Thus group encompass geographic areas attempting to offer normative legitimacy to Spanish MNEs' location decision. 172 Spanish subsidiaries are situated in this group of zip codes.

4. Conclusions and reflections

This study aims at analyzing the role of sub-national institutions on the location choice of foreign investments. Based on the framework provided by the Institutional Theory it analyzes the impact of normative, cognitive, and regulative institutions. Normative institutions are approached through the host locations' ethnic features in terms of population's race, origin, and language spoken. Cognitive institutions are approached through mimetic behaviors and agglomerations of compatriot subsidiaries, while regulative institutions are approached through the existence of favorable frameworks to attract investments.

The empirical analysis is carried out on a sample of 551 Spanish subsidiaries located in the United States, along 36 different states and almost 300 different locations at zip code level. The performance of a K-means cluster analysis allows the identification of 4 different groups of locations (i.e.: zip codes) showing distinctive features in terms of normative, cognitive, and regulative institutions. This analysis allows us to identify the relevance of each institutional dimension to attract Spanish FDI to a given Zip code. Although normative institutions in terms of population's origin and language seem to play a relevant role, results clearly point to market attractiveness in terms of size, purchasing power, and favorable legal framework as key drivers of location decisions. Mimetic behaviors do also arise as a relevant factor conditioning these decisions.

In addition, this analysis allows us to identify the types of legitimacy that Spanish MNEs seek when choosing a location for their investment in USA. Most of them search for normative legitimacy, which is mainly provided by zip codes in cluster III (297 subsidiaries —that is, 53.9% of the total set—are settled in these zip codes) and to a lesser extent by zip codes in cluster II (31.2%, 172 subsidiaries). Indeed, only 9.9% (55 subsidiaries) are located in cluster IV that aggregates those zip codes that deprive normative legitimacy to the Spanish MNEs' location decision. Finally, a small group of Spanish firms search for coercive and mimetic legitimacy, which is offered by zip codes in cluster I where 27 subsidiaries are set (4,9%).

Among this study's limitations is its focus on regulative, normative and cognitive institutions as individual dimensions. Although this is the focus mainly followed in existing literature (e.g. Meyer et al., 2009), these three types of institutions are interconnected (Szyliowicz and Galvin, 2010), reciprocally reinforcing each other (Gries and Naude, 2011), and taking the form of configurations of institutions. As MNEs are exposed to different institutional environments within a country (Henisz & Swaminathan, 2008) where operate different bundles of regulative, normative and cognitive institutions, MNEs will find different institutional alternatives to choose and to gain legitimacy for their location decisions. According to it, MNEs will use their ability to select from among alternatives and will adopt those decisions that allow them to meet their objectives and reduce uncertainty and risks in the decision-making process (Meyer et al., 2009). As a consequence, it can be expected that different MNEs will choose those configuration of regulative, normative and cognitive institutions that better fit their objectives and allows them to reduce transaction costs when adopting location decisions within a country. Therefore, a future line of research should include an analysis focused on institutional configurations rather than in individual dimensionsPerforming a conditional model that allows to hierarchically organize location decisions is an additional extension of the present work, as it would allow to analyze location choice decisions at state, county, and zip code level in a comprehensive framework.

Table 3: Cluster analysis

Variable	Final cluster centers				
	Cluster I	Cluster II	Cluster III	Cluster IV	F[1]
	N=4	N=69	N=209	N=16	
% hispano/latino population	11,15	17,88	23,38	8,49	2,97**
% Spanish speaking population	9,1	11,4	16,4	5,4	2,4*
Number subsidiaries	6,8	2,5	1,4	3,4	7,13***
Number subsidiaries same industry	0,3	0	0	0	2,44*
Number of State programs	58	39,8	42,9	45,4	2,61**
Population	29020	25574,3	28873,2	15000,9	3,89***
Number of establishments	5642,3	1740,8	900,6	3167,1	114,37***
Annual payroll	16991267,8	2452854,39	555207,74	6786080,81	1363,68***

[1]F-Test for statistical significance in differences of means. *P<0.1; ** p<0.05; *** p<0.01

Table 4 : Characteristics of clusters

Variable	Cluter 1			Cluster 2			Cluster 3			Cluster4		
	N= 4			N=69			N=209			N=16		
	Mean	S.D.	C.V.	Mean	S.D.	C.V.	Mean	S.D.	C.V.	Mean	S.D.	C.V.
% white population	73,71	9,73	0,13	69,57	13,99	0,20	73,08	20,11	0,28	65,79	17,14	0,26
% hispano/latino population	11,15	6,04	0,54	17,88	19,66	1,10	23,38	25,01	1,07	8,48	4,63	0,55
% Spanish speaking population	9,05	4,47	0,49	11,39	16,41	1,44	16,41	21,81	1,33	2,38	3,59	1,51
Number subsidiaries	6,75	2,21	0,33	2,49	5,69	2,29	1,42	1,54	1,08	3,44	2,37	0,69
Number subsidiaries same industry	0,25	0,5	2,00	0,01	0,12	12,00	0,04	0,19	4,75	0	0	
Number of State programs	58	0	0,00	39,77	16,57	0,42	42,87	13,67	0,32	45,44	16,44	0,36
Population	29020	11160,96	0,38	25574,27	15758,2	0,62	28873,21	16829,69	0,58	15000,93	14624,66	0,97
Number of establishments	5642,25	791,23	0,14	1740,78	686,326	0,39	900,617	556,6758	0,62	3167,13	1897,59	0,60
Annual payroll	16991268	1277627	0,08	2452854	773152	0,32	555207,7	394041,6	0,71	6786081	1655867	0,24
		n			n			n			n	
Total number of subsidiaries		27			172			297			55	
Total number of subsidiaries in the same industry		1			1			8			0	
Number of subsidiaries / zip code		6.75			2.49			1.4			3.44	

S.D.: Standard Deviation; C.V.: Coefficient of Variation

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8. The role of satisfaction on labor diaspora dynamics: An analysis of entry and exit of Portuguese nurses

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Abstract

Psychology and management has acknowledged the effect of satisfaction, but in diaspora research the role that satisfaction plays in international mobility is understood mainly on economic macro-level. However, when labor diasporas, economic clusters and other hot spots emerge, they are not following only economic indicators but also individual level drivers. International migration consists of mobile individuals who decide when and where to enter and why to leave while the infrastructure and institutional framework provide the settings for their decision making and comparison. Pull and push forces have been identified, but their explanatory power is more dominant during the pre- and nascent phases of migration. A good example of this movement is Portugal, a peripheral European country, recently intervened by IMF that suffered the deepest effects of Great Financial Crisis (GFC), namely in a specific professional group: nurses. What makes Portuguese nurses to leave their country and become labor diaspora and stay labor diaspora? This explorative qualitative study is among the first that focuses on the role of satisfaction and its effects on labor diaspora mobility and stability. The findings illustrate that satisfaction relates to good working conditions and wages, but also to the possibilities to communicate with locals and other diasporans, and to the family situation. When this perceived satisfaction is lower than the expected satisfaction after migration the probability of migration is high, but when the difference is inexistent or negative migration will not take place.

The study contributes to the discussion on contemporary labor diaspora and brain circulation. It provides in-depth understanding to the dynamics of this form of labor diaspora from empirical research and provides propositions and suggestions for future research.

Keywords

Satisfaction, labor diaspora, expatriates, pull factor, push factor, entry, exit, Portugal, nurses

1.Introduction

Labor diaspora has played an important role in the history. Many economies have utilized labor diaspora resources for their economic growth, The German Economic miracle after the second World War and the United Arab Emirates today being good examples. However, the forms of labor diaspora have transformed from so called low-skilled workers to various even highly-skilled and -educated workers who migrate for work reasons. In migration studies scholars investigate issues of agency, friction, families and capital through a multi-level analysis, for example, the book “The Human Face of Global Mobility” by Michael P Smith and Adrian Favell (2006) illustrates these aspects. In human resource literature the highly-skilled are often referred to as expatriates, but this concept has an underlying connotation of corporate involvement in their migration, i.e. being sent by the company and not employing their own agency. Thus, labor diaspora dynamics may not apply similarly in the cases of expatriates building international career. Expatriates are also considered to be temporally more limited or more task-focused (Inkson et al. 1998). On the other hand, temporal and circular diasporas to cover local needs are particularly important in seasonal businesses such as agriculture. Diasporans are also welcome to fill in jobs that are either not wanted by the native population or cannot be covered by the natives due to resource shortage.

Contemporary labor diasporans are not a homogenous group of workers, instead, they are diverse formations influenced by various context-specific pull and push factors that influence their emergence and dynamics. Additionally, laws, regulations, policies and institutions form the overall structure for migration and respective policies. In Europe, the European Union created a common market for labor, which now enables cross-border workforce mobility. In this context, several service sector and industry resources –issues have been solved by attracting labor diasporans to exploit work opportunities. Especially skilled labor diaspora relates to the discussion on brain drain, as the countries of origin lose their investments in talent and the receiving countries benefit from their resources and gain talent (Tung, 2008). This brain drain may be turned into a virtuous circle (Kuznetsov, 2008, 2006) or what Tung (2008) calls “triangular human talent flow” that allows all participating countries to benefit from the diaspora talent and its effects. Also McLaughlin et al. (2011, p. 54) point out the positive effects of “triple win scenario” and circularity, both temporal and more permanent. Such circular path and repatriation have been proved to have positive effects, but the problem is that labor diaspora is not necessarily internationally very mobile, i.e. after the first entry the exit to return to COO may not take place. This phenomenon has been identified in the context of labor diasporans who entered Germany building the economic miracle- despite their status as Gastarbeiter many of them settled with their families in Germany. Therefore, the analysis needs to combine the satisfaction and the view of the diasporans as it explores the dynamics of entry and exit.

This study focuses on one of the key areas of concern, the well trained, skilled contemporary health sector workers who migrate especially from the crisis-affected countries of the European South to exploit work opportunities in the European North leaving a talent gap behind. Thus, we selected Portugal as the sending country due to its theoretical relevance and nurses as representatives of one of the key labor types affected. The UK has been selected as the receiving country being one of the key host countries.

The study is structured as follows: first, we review extant literature and present our theoretical framework introducing a model of dynamics and forces influencing the diaspora decisions. Second, we describe the context and analyze the Portuguese nurses' cases. Third, we discuss and present the conclusions of the study.

2.Theoretical framework

The current economic lens on diaspora theory and direction of flows is strongly focusing on macro-level aspects and economic drivers, often concentrating on flows from developing countries to developed countries (e.g. Wescott & Brinkerhoff, 2006; Tung, 2008; Kuznetsov, 2006, 2008; Kuznetsov & Charles, 2006). However, the explanatory forces for these flows may also stem from micro-level context, for example, Zikic, Bonache & Cerdin (2010) studied migrant career orientation in cross-border context and formed a typology of orietations of qualified migrants. In similar vein, the migration and expatriate research has illustrated the meaning of individual agency and motivation.

The term diaspora is applied as it captures the dynamics and embeddedness of the migrants and addresses sentiments and the idea of potential return also theoretically (see more in Brinkerhoff, 2009). Diasporans are migrants who settle in some places, move on, and regroup; they may also be dispersed, but in any case as a group they "are in a continuous state of formation and reformation" (Cohen, 2008, p. 141). Cohen's (2008) labor diaspora term stems more from historical context pointing out its differences to other types of diasporas such as victim or trade diasporas. On the other hand, it is important to notice that the various concepts around migration and diaspora differ ontologically and practically and very often the meaning refers to a collective or a cohort and not just to an individual diasporan. There are several definitions and discussions going-on (cf. Safran, 1991; Brubaker, 2005). Dutia (2012, p. 4) notes, diaspora networks are evolving entities: "In today's context, the size of Diaspora networks and the global reach that they extend due to inexpensive air travel and communications channels are re-defining their potential. At one point, Diasporas were internationally dispersed networks, but now they have evolved and have become structured and more interdependent than ever before". This is partially enabled by digital means as diasporans organize themselves also digitally (Brinkerhoff, 2009).

In economic discussions diaspora concept is discussed as "transnational populations living in a country other than their country of origin, but with ties to the country of origin" (Usher, 2005, p. 47). The evolving and heterogeneous nature of diaspora relates to the idea of Brubaker on diaspora as "project, claim or a stance" (2005, p. 12). According to Brubaker "we should seek to bring the [diaspora] struggles themselves into focus, without presupposing that they will eventuate into bounded groups" (2005, p. 13), which supports the reasoning of this study to understand the satisfaction and dynamics of diasporans struggling and coping with the crisis outcomes.

Diaspora connections and networks are important actors organizing diaspora resources and transferring knowledge and information (Wong & Salaff, 1998; Dutia, 2012; Kuznetsov, 2008; Talib et al., 2012). These networks cover home and host country contexts but also provide access to third diaspora country information as people may access professional digital diaspora networks, for example, based on occupation or location, thus enabling a novel comparison of situations and market specific information. The pool of talent living overseas is playing an increasing role in developing business opportunities and public services in a large number of countries (see Usher, 2005). For example, Aliaga-Isla & Rialp (2012) described how diaspora connections influence the entrepreneurship as antecedents conveying information and knowledge. In similar vein the influence of diaspora may constitute an important factor to consider beyond the individual.

The context in which diaspora decision making happens is relevant as the institutions and regulations govern international mobility and in this case the membership in the EU has opened the borders for mobility of nurses and medical personnel.

Diaspora resources are mainly conceptualized as "transferrable brains", either as brain drain or gain (Wescott & Brinkerhoff, 2006) depending on the perspective, and recently also as circulating resources (McLaughlin et al., 2011). Implicitly this discussion seems to have a connotation of ownership on the brain on the country level as the focal point is much of this research is in the cross-border flow of human resources. However, other scholars such as Rosalie Tung (e.g. Tung, 2008), have emphasized the talent aspect of these resources. McLaughlin et al. (2011, p. 54) point out that the one-directional approach is too limited. They provide considerations for other models of approaching diaspora resources to better integrate the positive effects of the “triple win scenario” and circularity, both temporal and more permanent.

Globalization, the lowering of immigration and emigration barriers to the movement of people, and the emerging concept of boundaryless careers have all contributed to the phenomenon of brain circulation, also called ‘‘triangular human talent flow’’ (Tung, 2008). The broadening of understanding of the multiple directions of flows also takes a stance that is no longer seen from a single country perspective.

Therefore, the entry and exit behavior of individuals becomes central to understand as the talent flow effects are influencing countries alongside the individual mobility trajectories (cf. Kuznetsov, 2008). The creation of diasporas that consists not of short term expatriates but professionals settling in a new host country -as Cohen’s (2008) labor diaspora- is important to understand as theory has offered very little explanations on these dynamics of staying and remobilizing diasporas.

There are four factors that influence the brain circulation and refer to respective policies (Talib et al., 2012, pp. 240-241):

1. industrial arrangement in home and host countries
2. trust, learning, and entrepreneurship
3. the status of financial infrastructure for start-ups
4. the role of the state

Country of origin (COO) can be less attractive due to push forces such as economic crisis and unemployment, however, Portugal is a developed EU country. Country of residence (COR), like the UK, may pull skilled individuals with its employment advantages and historical diversity. In comparison to third countries like Norway or Germany, the UK benefits also from its language fit as English is taught in the school system. Beyond economic pull and push factors the role of policies is central in formation of migration and diasporas.

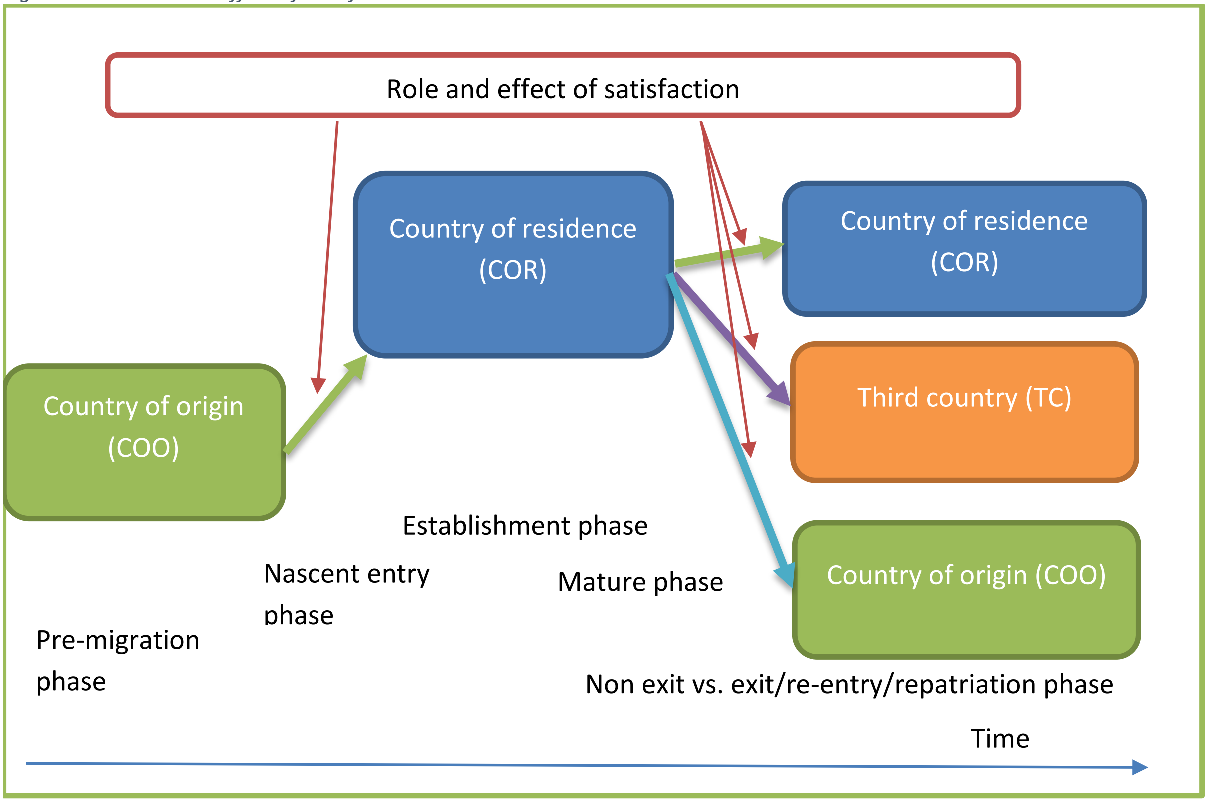
Thus, regarding professional groups such as medical professionals and nurses the individual and family level provides the suitable level of analysis as individuals are embedded in a lifecycle that consists of particularly intensive professional development after studying and before pension. Understanding the dynamics of labor diaspora requires analysis of the forces that make this period international.

Labor diaspora dynamics and forces have been significantly influenced as the internet and the digitalization has transformed the ways diasporas share and use information and organize themselves (Hepp et al. 2011). Professional networks, skills matching initiatives, community initiatives, FDI, and lobbying and advocacy represent new methods of diaspora engagement and use of their resources (cf. Usher, 2005, Dutia, 2012; Wong & Salaff, 1998). Novel types of organizations have emerged that link the COR employment opportunities and the COO resources in multiple ways creating an international recruiting system (see more in http://www.intlnursemigration.org/ retrieved 10.7.2015). Moreover, the decision to exit the COO and enter a new COR is now facilitated by formal and informal sources of information that transmit also perceptions and views of the extant labor diasporas. For example, virtual platforms such as Linkedin and Facebook provide direct, non-commercial information. This makes analysis and comparison of alternatives easier and enables an interested individual to build expectations on external sources as well, and thus influence their post-migration satisfaction.

While coping strategies of labor diasporans, their networks and social ties have attracted notable interest the satisfaction guiding their decision making on entry and exit has received less attention (cf. Chung & Tung, 2013; Elo & Jokela, 2014; Gill & Bialski, 2011; Leinonen, 2012; Marschan-Piekkari, Welch & Welch, 1999; Zikic et al., 2010, Author 14874, 2015). We claim that the overall satisfaction of labor diasporans is the key element to their behavior regulating their entry and exit behavior and thus the individual level dynamics of brain circulation.

Therefore, we suggest a theoretical framework (Figure 1) for analysis that assists in explaining the satisfaction effect on the first exit from the origin to the new host country (see COO arrow on the left side) and the respective staying, remigration to a third country, and repatriation to the country of origin (see respective arrows on the right side).

Figure 1. The role and effect of satisfaction



3.Research approach

This explorative study attempts to increase understanding on the labor diaspora entry and exist dynamics through the role of satisfaction. As satisfaction is an evolving state, a stance and claim like diaspora itself (Brubaker, 2005) it is necessary to incorporate its processual nature over time as its effect and role potentially varies on the individual level and regarding the context. For example, Leinonen (2012) has pointed out the diverse origins of satisfaction related to migration that may not stem only from economic benefit but instead from family ties and partnership, which is in line with Granovetter's (1973) views on social ties. Thus, she considers satisfaction not being a rational, measurable or easily quantifiable influence factor due to its emotional dimensions as "money is not everything". Contextualization of satisfaction and the entry-exit behavior in the life cycle of diasporans (Elo & Leinonen, 2014) assist in increasing the relevance and reliability of the findings.

Because the phenomenon is complex, dynamic and embedded in various contexts, we employ qualitative research methods and analysis on secondary quantitative studies (cf. Jick, 1979; Ghauri, 2004; Piekkari & Welch, 2004). The purpose is to theorize using satisfaction as an explanatory factor on entry and exit behavior using multiple data and extant cases providing grounding for theorizing (cf. Eisenhardt, 1989; Stake, 1995). Moreover, there is no tested scale available that could enable any quantitative research approach (Golafshani, 2003). The study is constructed as an explorative study which builds on numerous types of data collection methods and data (Denzin, 1978; Alasuutari, 1995). Secondary data, especially statistical information, is collected and analysed. This data is mainly aggregated and represent country and group (nurses) level data.

4. Discussion and findings on the effect of satisfaction on Portuguese entry and exit behavior

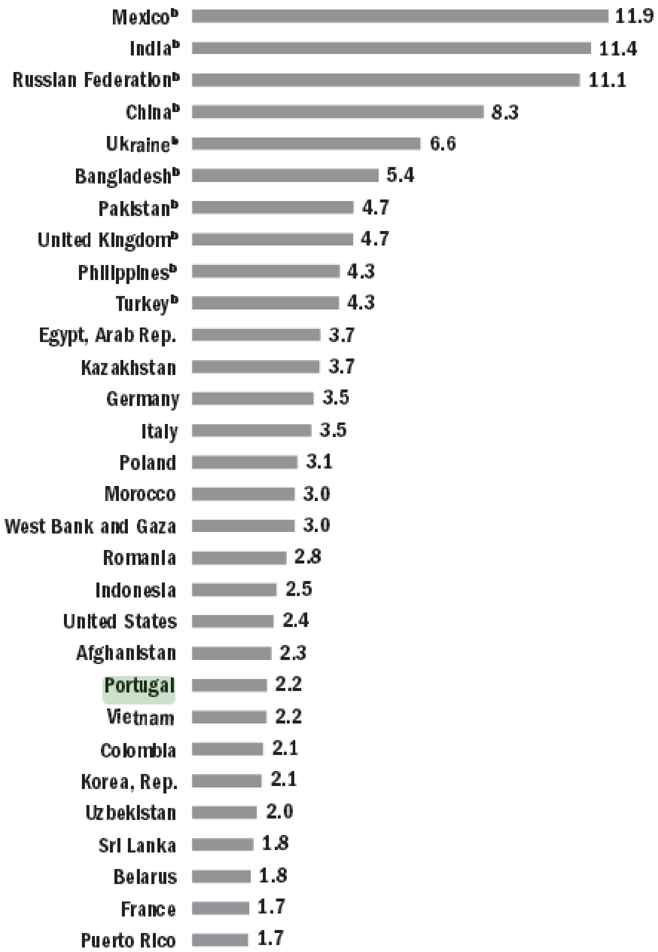
4.1. Contemporary Portuguese diaspora

Talent circulation is within the principle idea of the European Union and thus absolutely crucial for Europe. This became relevant for Portugal in 1986 as Portugal became an EU member but only after the 00s the Portuguese started to fully exploit the full potential of the membership. The circulation of talent increased significantly with initiatives as the Erasmus program fostered by the effect of Ryanair. The equal rights and opportunities of the single market going beyond receiving subsidies stimulated further mobility. Historically, it is worth to notice that there is a connection between Portugal and the UK: Portugal and the UK have the oldest international treaty ever signed between two countries: the Methuen Agreement signed in 1703 and that had to do with exchanges of wine and textiles (as used in the famous example of David Ricardo, the father of comparative advantage theory, which indeed inspired in this agreement). Since then Portugal and the UK have always been trade allies. This particularity of relations made Portugal to follow the UK’s example in shifting from EFTA to the EU and not act proactively in applying for the EU membership.

Interestingly, the role of the UK as country of residence for Portuguese seems to have a particularly stabilizing effect on the entry and exit behavior as the analysis of the statistics illustrate in the following section. In fact, it seems that the UK has become a benchmark destination and a location for Portuguese labor diaspora as the majority of the nurse will stay in the UK until they retire or do not plan at all to return. This illustrates the long-term temporal orientation emphasizing the diaspora character of them over any temporally limited expatriate engagements.

There are approximately 2,2 million of Portuguese emigrants worldwide, making this the 22th country with more migrants in 2010, according to The World Bank, Migration and Remittances Factbook 2011 (see Figure 2).

Figure 2 – Top Emigration Countries in 2010.



Source: The World Bank, 2011 (millions of emigrants).

According to Pires et al. (2014), there are three distinct sets of destination countries for Portugal: the ones with older people, in the American continent (Brazil, Canada, USA and Venezuela); the ones facing a return of Portuguese emigration (Germany, France, and Luxembourg), and finally, the new countries, where the young Portuguese population the considered “new destination countries” by younger generations (UK, Switzerland, and Spain). This latter group is characterized by a tendency, initiated after the GFC of 2008, of young and better educated population to look for job opportunities abroad that cannot be found in Portugal.

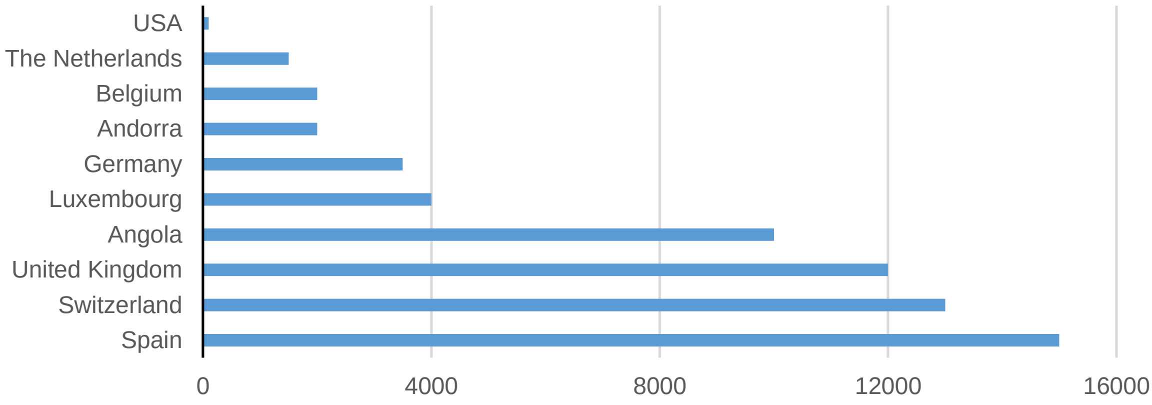
Indeed, a rise in Portuguese self-initiated expatriates is highly noted after 2011, i.e., during the global crisis of 2008-2010. As such, it was estimated that, in 2013, 110 thousand Portuguese people have left Portugal to live in countries like UK, Switzerland, Germany, and also Belgium, the Netherlands and Scandinavian countries (see Figure

2), which are countries that have been receiving the bulk of Portuguese residents that left the country (Pires et al., 2014). One of the professional groups that suffered most with the effects of crisis is nurses. This group had indeed very poor working conditions before the crisis, which went down after that event. Therefore, nurses constitute one of the most affected segment of professionals that had even stronger reasons to look for new opportunities abroad. Indeed, by 2012, 150 nurses were hired by health centers of Lisbon and Tejo Valley and were paid 4 euros per hour. The problem was that, facing a situation in which no jobs were found in the field, many highly qualified nurses accepted the salary, as the alternative was remaining with no job, and, therefore, no experience. According to newspapers11, ARS-LVT (Health Regional Administration of Lisbon and Tejo Valley), salaries were contracted with recruitment agencies at a value ranging from 4.77 to 5.19 euros per hour. This value was agreed even though the initial base value proposed by regional health authority was of 8.5 euros per hour. But several agencies proposed lower values so that the nurses they were representing could indeed have a job, even though this job was just agreed for a period of 3 months. This is just an example of how low the conditions touched in the acute phase of the crisis.

In 2011, according to Ordem dos Enfermeiros (the institution that regulates the nurses in Portugal), the top destinations for nurses were: Spain, the UK, France, Switzerland and Angola (Fernandes et al., 2011) (see Figure 3).

11 Retrived from Correio da Manhã newspaper: http://www.cmjornal.xl.pt/nacional/sociedade/detalhe/150-enfermeiros-a-4-euros-a-hora.html in 08 June 2015.

Figure 3– Main destinations of Portuguese emigration, 2001-2008 (Average number of annual entries)

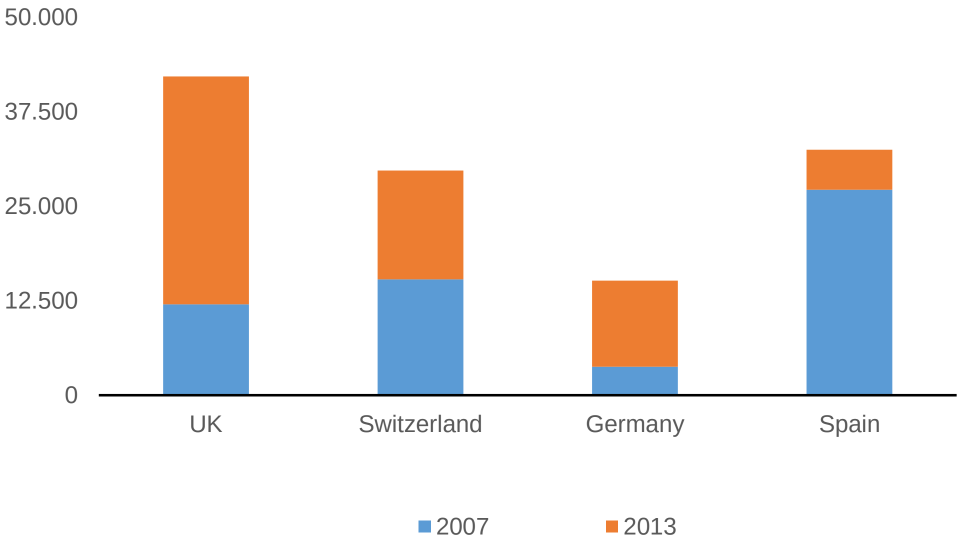


Note: values rounded off to the thousand.

Source: Table elaborated by the Observatório de Emigração, in Pires et al. (2010).

Since 2010, the number of Portuguese migrants has grown at an increased pace, and its destinations have met some changes. For instance, as defined by Pires et al. (2014) the UK has become one of the main destinations, Spain has, despite the massive numbers, decreased, and Germany has raised as destination. These fluctuations were mainly to the Portuguese and the global financial crisis. In the next figure (see Figure 4) we can verify the gigantic growth in the UK Portuguese nurses.

Figure 4 - Top countries of Portuguese emigration: comparison 2007-2013



Note: Switzerland's data refers to the year of 2012.

Source: figure elaborated by the Observatório de Emigração, values gathered from the national statistics institutes.

4.2 Sociodemographic characteristics

Nowadays the distribution of Portuguese emigrants in terms of gender is 52% men and 48% women (see Figure 4). Relatively to the age of the emigrated population, in 2010/11 there are 15% of elder people, 79% of active adults, and 6,5% of people aged between 15-24 years old (see Figures 5 and 6).

Figure 5 – Portuguese emigrants residing in ODCE, by gender, 2010/11

Source: figure elaborated by the Observatório de Emigração, values gathered by ODCE Database on Immigrants in OECD Countries, DIOC 2010-2011, provisional data obtained upon request.

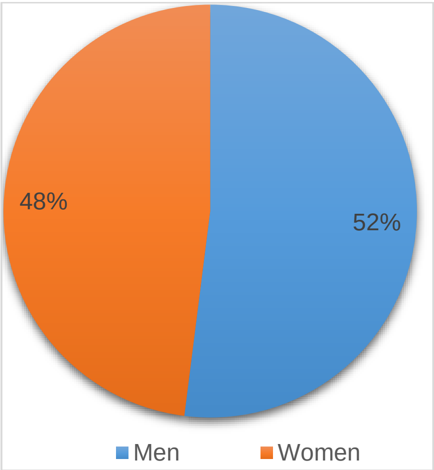
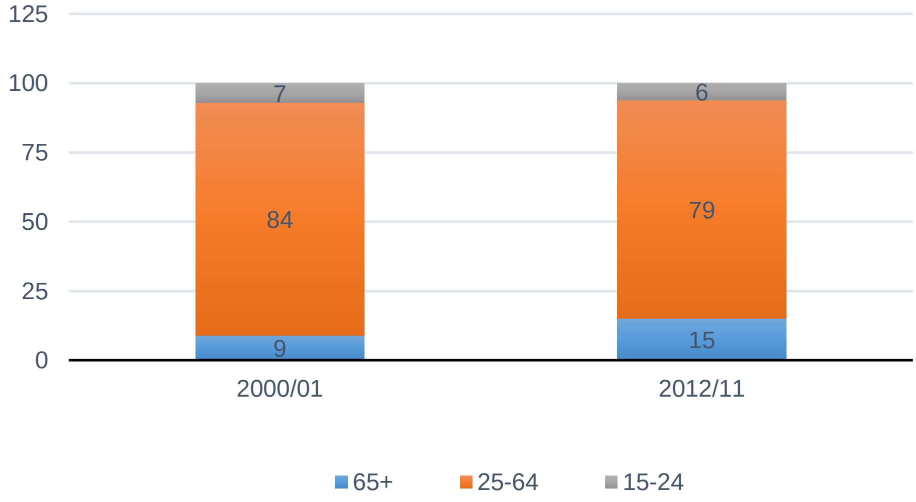


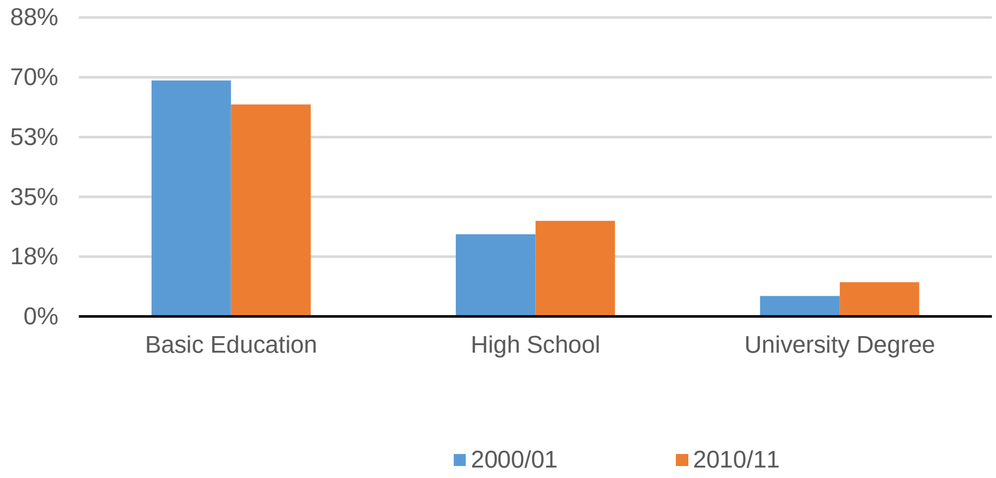
Figure 6 – Portuguese emigrants aged 15 or more, residing in the OCDE, by age groups, 2000/01 and 2010/11, in percentage



Source: figure elaborated by the Observatório de Emigração, values gathered by Database on Immigrants in OECD Countries, DIOC 2010-2011, provisional data obtained upon request.

In terms of education, this new Portuguese diaspora is constituted, mainly, by highly qualified people (with university degrees and good levels of foreign languages spoken). The Portuguese expatriates, in 2010/11 were constituted by 61% of people with primary school, 28% has finished the high school, and 10% of these group had a university degree (see Figure 7).

Figure 7 - School qualifications of Portuguese immigrants aged 15 and older, living in the OCDE, 2000/01 and 2010/11, in percentage

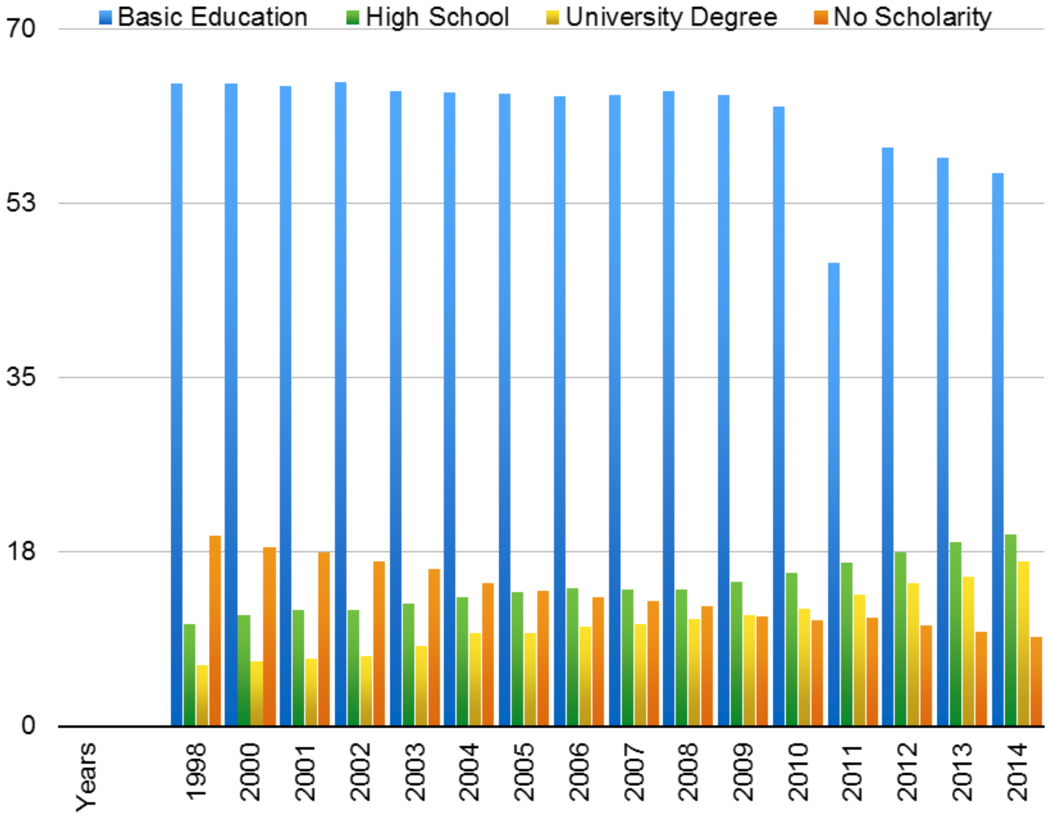


Note: the percentages were calculated excluding the level of education 'unknown'.

Source: figure elaborated by the Observatório de Emigração, values gathered by Database on Immigrants in OECD Countries, DIOC 2010-2011, provisional data obtained upon request.

The growth of graduated expatriates, according to Observatório da Emigração (2015), is highly related with the increased schooling of the Portuguese population in recent decades (see Figure 8).

Figure 8 - School qualifications of Portuguese population aged 15 and older, living in Portugal, 1998-2014, in percentage.

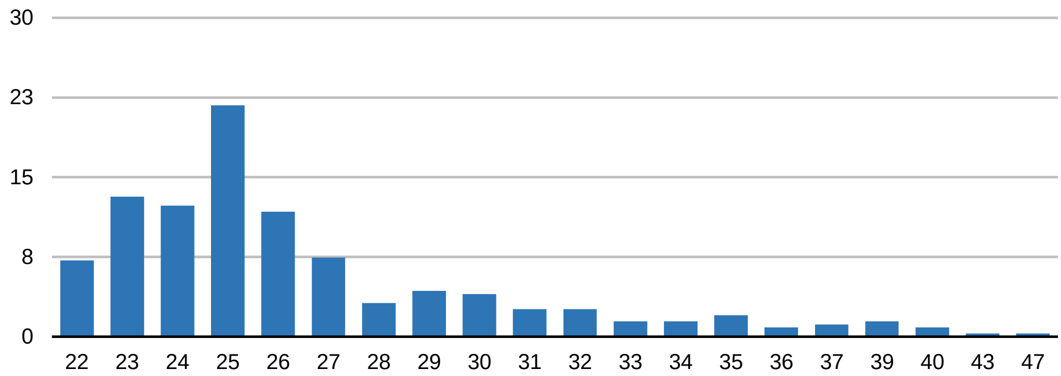


Source: INE; PORDATA.

This aspect of the emigration of skilled and highly trained people, i.e. Portuguese brain drain, has attracted rising the attention of the Portuguese society. From politicians, to sociologists, and so forth, this issue has raised a lot of awareness. As a result of the importance of this phenomenon, in May 2015 Pereira et al. released a report about Portuguese nurses in the UK. In Pereira et al. report, and as result of the report done by Pires et al. (2014), Pereira et al. try to understand the situation of Portuguese expatriates who are highly qualified, and that live in the country that hosts the majority of Portuguese nurses (as registered in the Nursing and Midwifery Council – NMC -, the equivalent of the Ordem dos Enfermeiros of the United Kingdom, in 2014, there were 3,155 Portuguese nurses registered). The number of Portuguese nurses in the UK grew almost 40 times in the last six years (Santos, 2013). This development illustrates strong centrifugal and centripetal forces that generate a contemporary Portuguese labor diaspora of medical professionals in a particular country-context of Portugal and UK- that does not circulate further as brain circulation as could be expected. The forces influencing the Portuguese entry to the UK are the need of professionals for jobs that are less attractive or not covered by the local nurses, the high level of education for Portuguese nurses consisting of one more year of studies, and practical experience in a hospital environment gained during this year, which is highly appreciated by the recruiting institutions and organizations.

Pereira et al. (2015), traced a profile of the 'typical' Portuguese nurse who decides to self-expatriate to the UK. On average, the typical Portuguese nurse that leaves the country is 25 years old (see Figure 9). The main reasons for this migration are the lack of job placements, the fact that Portuguese nurses are undervalued by their employees: in Portugal, the salary offered is almost three times smaller than the salary paid in the UK. Furthermore, in Portugal, many employees required at least two years of previous experience (Borja-Santos, 2014).

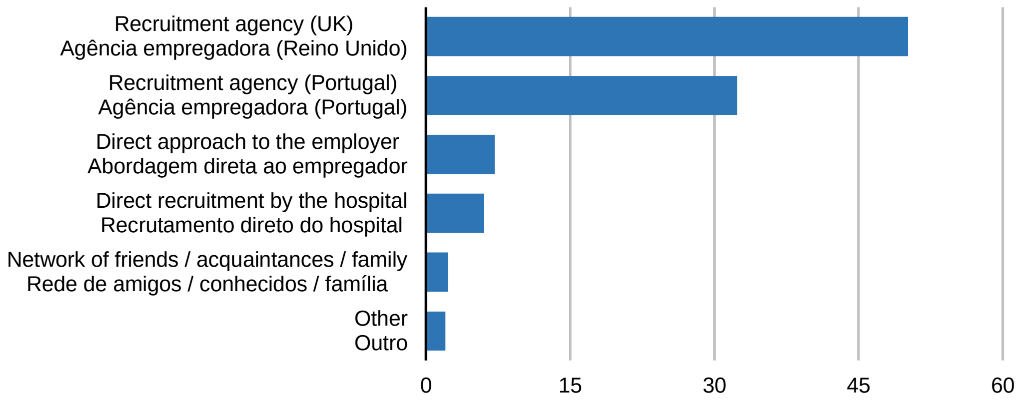
Figure 9 - Portuguese nurses in the UK by age



Source - Chart by OEm, data from the Portuguese Nurses in UK Survey 2014.

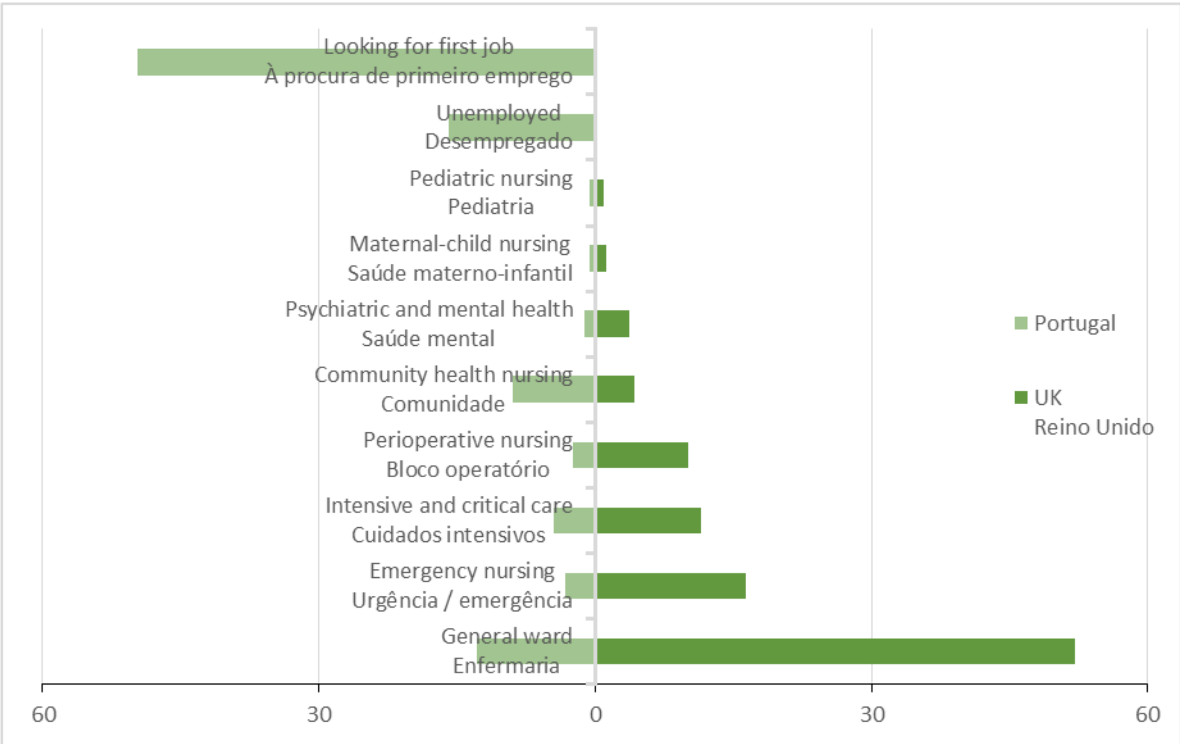
In Figure 10, we can attest the means normally used by Portuguese nurses to find a job in the UK. Pereira et al. observed that 82% of the nurses were employed through employment agencies. Portugal is a paradoxal market of health professionals, because of the high reputation of the Portuguese universities, on one hand; and due to their lack of positions to receive these graduates, on another hand. So, there are problems in adjusting supply of graduates to the demand of the domestic market, which pushes graduates to self-expatriate (Amaral & Marques, 2014). Portuguese nurses are recruited to serve in a diversity of areas within the hospital. However, as we can see in Figure 11, general ward receive the bulk of nurses, followed by emergency nursing and intensive and critical care.

***Figure 10 -** Portuguese nurses in the UK by job placement*



Source - Chart by OEm, data from the Portuguese Nurses in UK Survey 2014.

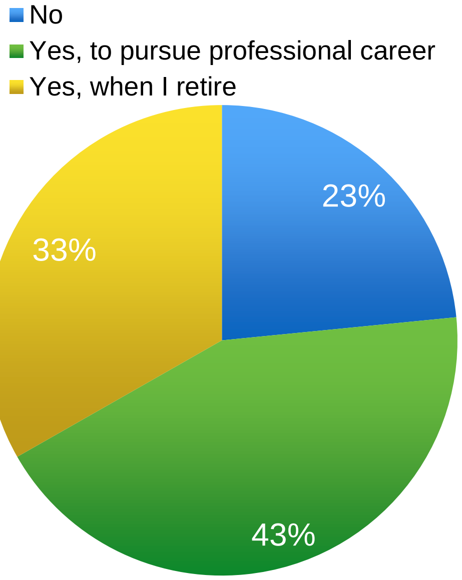
Figure 11 *- Portuguese nurses in the UK by labour force status and nursing specialties (trajectories)*



Source - Chart by OEm, data from the Portuguese Nurses in UK Survey 2014.

Another interesting fact about Portuguese nurses abroad is that they do not intend to return to Portugal before retirement (see Figure 12). In fact, less than half – only 43% - admit to return in case of finding at their home country a compatible job. 57% do not have plans to return, which makes this expatriation experience more long-lasting than it could be expected.

Figure 12 - *Portuguese nurses in the UK by intention of returning to Portugal*



Source - Chart by OEm, data from the Portuguese Nurses in UK Survey 2014.

5. Discussion and conclusions

5.1. Theoretical implications

Brain gain and circulation is limited from the perspective of Portugal, while brain drain dominates the situation. This behavior of staying in the UK is theoretically interesting as other alternatives (re-entry) exist within the EU-level. In addition to the individual level behavior the phenomenon of diaspora nurses is deeply linked to a formation of a professional labor diaspora community, therefore, it is not explainable only by theories of self-initiated expatriation. The main assumption that labor diaspora is driven by economic gain and benefit is complemented with novel insights, which suggest that on individual level the gain and benefit is reflected through the overall satisfaction consisting of work and private life satisfaction. Stability, good working conditions and respect of professional qualifications were important, not just higher wages. Moreover, the satisfaction generated by the circumstances that included good communication possibilities, social environment and other Portuguese colleagues was a potential issue providing reasons to continue diasporic work life. Indications of group based exit behavior after studying illustrated notions of collective characteristics in behavior and emerging of collective labor diaspora (e.g. Ali, Tagi, Krishman, 1997).

On the other hand, the socially embedded character of individual diasporans reduce the individualism in decision making and insert “external” i.e. family and COO originating forces that influence the decision making regardless of the situation in COR and the diasporan’s personal satisfaction over work and circumstances. Serious illness, disability and other such radically negative developments may influence the effect of satisfaction by reducing if from distance. Thus, the decisions to repatriate had collective influence factors that could be also labelled negative COO pull factors.

5.2. Methodological implications

Methodologically such labor diaspora and satisfaction are complicated. First, the definitions are often static while the life of diaspora evolves over time. For example, a single nurse may have left as a SIE and entered into the new community as a labor diasporan among other countrymen. Second, the methodology needs a better conceptualization of the pull and push forces as they are not just country-originated, but also depend on the perspective and have different levels of analysis. Third, the dynamics of labor diaspora are linked to various levels (i.e. micro-meso-macro) too, and each of these levels act independently of each other. Particularly the mirco-level family issues matter greatly even if they do not stem from the actual work. Fourth, methodological issues on data collection and analysis require additional discussion and empirical support. Since satisfaction is a concept that is perceived and reflected individually and also constructed in the socio-cultural and temporal setting, it is highly important to collect data qualitatively with open-ended questions and more emic-style approach, so that the responses are not limited in scope or pre-directed. There are considerations limiting the reliability especially when unsatisfied and problem loaded labor migrants are interviewed as success stories are more acceptable and even expected, while problems and return may be socially less acceptable or considered as failure. Thus, it is vital to ensure a non-discriminating atmosphere and secure high standards of research ethics.

5.3.Managerial implications

Organizations dealing with labor diaspora and their employers need to understand the holistic life-cycle of the diasporans and attempt to increase flexibility in family and COO issues that may develop into critical events of individual lives. They already have organized solutions that provide a collective style labor diaspora allowing social ties to be “imported” with the employees, and there are attempts to match well the professional level of expertise with the tasks and the professional development plans. This supplements the discussion on expatriate ties and their usage (Harvey, 2008). However, the focus needs to be broader and include the maintenance of family and social ties in the COO. The largest concern of these diasporans was the wellbeing of their family members who stay in the country of origin. This is particularly vivid if the crisis-hit society is unable to cover their needs. The findings illustrated that although good conditions and wages were a significant stimuli for COO exit it might be more limited in its effect concerning the re-entry or repatriation as then the satisfaction is reflected from a more holistic point of view.

5.4.Policy making implications

There are two arenas of policy making that are involved here, COO and COR that could enable triple win scenario. COO is expected to provide easy access for its foreign-based diasporans who wish to repatriate, even incentives for repatriation. If families are established in diaspora they need special instruments to encounter no barriers or impediments when returning as various family-systems differ. In particular, social security, pension, taxation and other systems influencing the life-cycle and professional career are often complicated and not clear in implementation or interpretation. This creates uncertainty and planning difficulties. Moreover, it has been evident in expatriate research that since diasporans have families, the family members (spouses) need employment opportunities too and the children respective educational services. Potentially, the school system needs to offer repatriation-solutions also when Portuguese is not the primary language. This family embeddedness and its complexity is often not included in receiving country institutions and policies, thus creating individual and family problems inhibiting both entry and returning. Mixed marriages, regional gaps of skilled professionals and lost generations are issues that policies need to address in terms of diaspora management.

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9. Internationalization dynamics of individual lives - Entry and exit behavior of highly skilled migrants

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Abstract

An increasing number of highly skilled individuals are leading internationally mobile lives. The decision to become a “diasporan” is expected to be driven by potential for career development and economic opportunities. While scholars have focused on their individual career paths they have left the family context of the highly skilled individuals mainly unexplored. Moreover, research has focused on migration flows from the Global South to the Global North representing high economic asymmetry. This paper explores the dynamic processes through which elite male diasporans enter and exit diaspora life within the Global North sphere and, more specifically, what kind of a role family ties play in different life phases of the mobile individuals. This is a qualitative case study based on personal interviews and it has an exploratory design. We analyze migratory and employment/entrepreneurship decisions of highly skilled men residing in Finland and their personal life-cycle trajectories. Through life-stories of five individual men we highlight the importance of researching highly-skilled men as part of their family networks. The male diasporans chose occupational uncertainty and adventure instead of a more secure career path because of their relationship to a Finn. Also other family considerations, such as children’s education, played a crucial role in decisions to migrate or stay put. The findings imply that the logics of rich-to-rich diaspora are different from diasporas stimulated by economic inequalities as here the economic drivers are less significant than expected. The results imply that companies and governments need to pay attention to family situations of potential employees and foreign resources, if they wish to attract highly-skilled migrants and employ their resources efficiently. This dynamism also requires flexible institutions to support prosperity and resource employment and allow planning of career building as highly skilled individuals whether employed or as entrepreneurs. The findings illustrate that the life cycle planning is of relevance to this planning and that the role of family ties may be particularly strong during the time when marriage plans are made and when childrens’ schooling is relevant. The paper is the first one to discuss male rich-to-rich diaspora and its dynamics and it points out the importance of non-economic drivers in decision making.

Keywords: Highly skilled migrants, male migrants, diasporic life, entry, exit, family ties, entrepreneurs

10. The influence of corruption on foreign direct investment: The Portuguese case

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Abstract

The following paper analyzes the Foreign Direct Investment (FDI), made and received by Portugal, in the 2009-2012 period. The main focus of this study is the relationship between the Corruption and the FDI, having in consideration the influence of other variables identified in the literature as determinants of FDI. The variables that represent the Bureaucracy and the Economic Freedom are analyzed as well as determinants of Corruption.

The analysis is focused on FDI flows made and received by Portugal with 55 countries. The hypotheses were tested using secondary information sources. Structural equation modelling (SEM) was used in the software PLS (Partial Least Squares).

The results showed that the Corruption had a significant and negative effect on the FDI received by Portugal, in the period of study, but i7t had no effect on the FDI made by Portugal. The Population and the Physical Distance also affected significantly the FDI that was made and received by Portugal, in the period of 2009-2012. The variables Power Distance, Individualism vs Colectivism, Masculinity vs Femininity, Level of Bureaucracy, Long-Term Orientation vs Short-Term Orientation and Economic Freedom also affected significantly the FDI, although not in the four years under study. Regarding the determinants of corruption, it was concluded that the Economic Freedom had a significant effect on this.

Key-Words: FDI, Corruption, Portugal

11. The footprint of two decades of research on emerging economies: A citation and co- citation review

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Abstract

Recent years have witnessed an unprecedented increase in scholars' interest in emerging economies, with an increasing number of papers published and new journals being created. We reviewed the extant research on emerging economies published over the past two decades, 1992 to 2013. This study investigates the core of the literature and the intellectual structure of the knowledge base that has served as the foundation for research on emerging economies. We conducted a bibliometric study of the articles published on emerging economies over the past two decades and in a wide range of business/management journals. In a sample of 564 articles, co-authored by 1,371 scholars, collected from Thomson-Reuters' ISI Web of Knowledge, we employed bibliometric techniques based on citation and co-citation analyses. We identified the most influential works over the period (a structural view) and how their relative influence varied over time (a longitudinal view). We also examined the intellectual structure binding the theories and the authors researching emerging economies, and characterized the knowledge base and evolution of the traditions by conducting longitudinal analyses. This study aims to gain a global rear view of the field, to organize, classify and systematize the stock of accumulated knowledge, and is a primary base to spawn future research endeavors. We complement Xu and Meyer's (2013) brief review of the core theories employed in emerging markets' research in top journals in the years 2001-2010. To the best of our knowledge, this is the first large sample bibliometric study on emerging economies using an extensive number of journals and over an extended period of time that is able to capture the majority of the research on the field. We thus help to build a "rear view" understanding of what have been the conceptual foundations governing emerging economies' research. This understanding is important for newcomers to the

field, doctoral students and even experienced researchers, aiding them to build their research agendas. By identifying, organizing and classifying the stock of accumulated knowledge published on emerging economies, we do not aim to establish the most current research trends or infer what future research holds.

Keywords: emerging economies, bibliometry, co-citation analysis, citation analysis, literature review

12. The control of foreign operations: Reassessing Coase's influence on Hymer's thesis

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Abstract

This paper aims to explain the degree of control of international operations within the core theories of economics and management, though adding the industry and national level of analysis. In this regard, drawing on Stephen Hymer's (1960/76) fundamental dilemma on the degree of control, our conceptual framework recovers the Coasian view of his seminal thesis, and discusses the firm's decision of owning or not foreign operations within Transaction Costs Economics (TCE) and Internalization conceptualizations. The set of hypothesis applies Williamson's TCE, emphasizing the uncertainty factor on the transaction integration rather than the commonly studied asset specificity. In the same rationale as referred in Hymer's thesis, the uncertainty variable in our perspective seeks the determinants for transaction control rather than efficiency. Preliminary conclusions on the comparison between control and efficiency suggest that Multinationals optimize endogenous with exogenous 'efficiencies'. Moreover, Multinationals may exercise an inefficient control of foreign operations for the sake of society benefit.

13. The influence of corporate social responsibility actions on consumers' perceptions towards global brands

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Abstract

Corporate Social Responsibility (CSR) has been occupying a vast space in the academic and managerial domains. The widespread media are bringing to the surface issues regarding multinational corporations that can damage their image by making customers avoid their brands. Therefore, in the last decade, many global brands have decided to humanize their image by putting in practice Corporate Social Responsibility initiatives from diverse nature.

This investigation aims to analyze how consumers perceive CSR actions and how these actions may actually bring benefits to the brands. Therefore, we analyze the influence of CSR associations and Corporate Ability associations on Brand Loyalty, Consumer-Company Identification and Social Responsible Purchase Intention, comparing how these different associations may provide different results or complement themselves.

The hypotheses were tested using Structural Equation Modelling (SEM) in the software PLS (Partial Least Squares). A survey with 344 respondents provided evidence that there is a positive link between Social Responsible Purchase Intention, Consumer-Company Identification and Corporate Ability associations with CSR associations from Global Brands. Based on the results we propose further research in the area and we give recommendations for multinational companies to invest in their CSR strategies.

Keywords: Corporate Social Responsibility (CSR); Corporate Ability (CA); Brand Loyalty; Consumer- Company Identification (C-C Identification); Social Responsible Purchase Intention

14. Entrepreneurship and leadership skills within diasporas: Romanian versus Portuguese diasporas

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Abstract

In a globalized world the migration of the workforce became a normal phenomenon, implying large number of people leaving behind their families and friends in search of a better life standard. Eastern European countries have the highest rate of migration in the European Union and among them Romania has more than three million citizens living and working abroad. The biggest Romanian communities are in Italy and Spain (almost 2 million Romanians), but countries like Germany, UK, Austria, Hungary and Belgium host many Romanians. This study focuses on the Romanian Diaspora evolution in time from the entrepreneurship point of view, looking if the persons that live abroad long enough, gain sufficient knowledge and wish at the same time to open their own business in the country they live or in their home country.

The paper considers also the leadership skills that people living in the Diaspora gain in time and on how they chose to use these skills considering their entrepreneurial spirit. This exploratory research showed that living abroad forced most of the people in this situation to get out of their comfort zone, learn new things and most important gain confidence that they can succeed on their own. The similarities and differences on how Romanian and Portuguese people act within Diasporas, or after returning to their home countries are presented in details in the paper together with some recommendations from the most successful Diasporas' representatives.

Keywords: Diasporas, leadership skills, entrepreneu

15. A firm-level analysis of investment preference, geographic diversification and ownership combination

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Abstract
The correlation between the firm's ownership and its investment behavior has been studied by many scholars. However, does geographic location matter? This paper provides the evidence with firm - level data of Chinese listing companies at the Shanghai Stock Exchange and Shenzhen Stock Exchange. We draw on the data of the China Stock Market & Accounting Research (CSMAR) and the Center for Chinese Economic Research (CCER) from 2003 to 2013. Through building the regression model between firm performance and ownership, geography and other control variables, we found that those firms in Pearl River Delta (PD), Yangzi River Delta (YD) and Round Bohai Region (RB) are more active in investment than their counterparts from other regions (OT). Furthermore, based on our classification of ownerships - the state-owned enterprise (SOE), private-owned enterprise (POE) and foreign owned enterprise (FOE), we found that firms in the targeting areas involved more frequently in investment activities. Finally, we draw upon the practice of Chinese firms in Benelux in term of their home location and ownership structure to prove that geographic factor does greatly influence the firm's investment behavior and its ownership as well.

1 Introduction

From the view of time axis, China has witnessed an accelerating process of integration into global economy since 2002, when it became one of members of WTO. China has become the second largest economy around the world and more and more Chinese firms driven by investment appear in overseas markets. Based on empirical firm-level data, this paper addresses a crucial question of Chinse multinational enterprises (CMNEs) in which many researchers are interested - the character of investment preference and ownership, geography and industry. In particular, does geography influence the firm's investment decision-making? There are many studies based on ownership and industrial analysis (Cho, 1998; Graves, 1998; Buckley et al. 2007). However, in view of the fact that geographic diversity of Chinese regional economy – inland and eastern coastal regions confront individual economic endowment, in particular firm-level output. As a result, both the scholar and manager might be very interested in the question what these features are and how they influence Chinese firms operation overseas. In order to address these questions, this paper investigates the diverse correlation between listing company investment and their ownership and geographic location based on the data from 2003 to 2013.

2 Factors

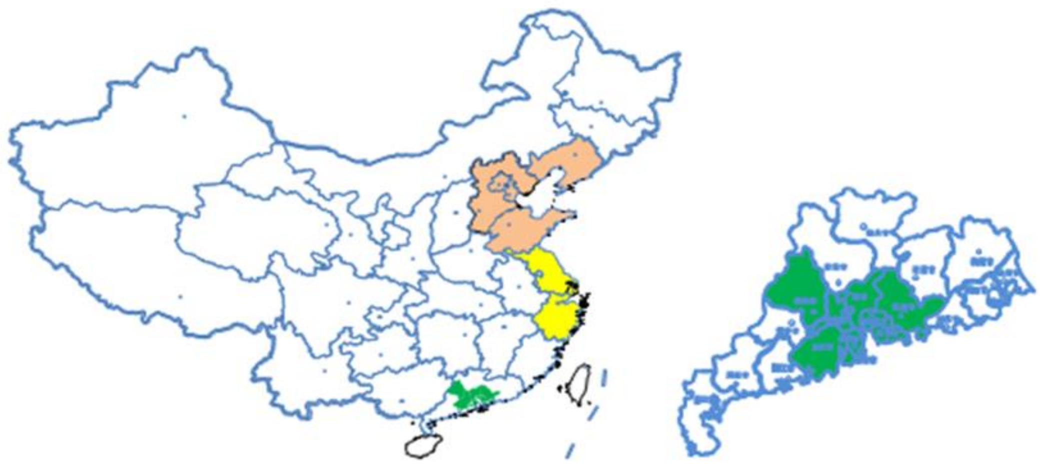
2.1 Investment

Subjecting to the shortage of data, we don't know what degree do firms in various regions invest overseas more than those in other regions. However, there is an alternative solution that is to prove firms in these regions have more investment activities than peers in other areas. There is conspicuous difference between domestic and overseas investment. The internationalization process of the firm should be more cautious (Johanson & Vahlne, 1977). The size of the firm is also an key factor to influence it decision-making behaviour (Ekanem & Smallbone, 2007). But we can still use investment factor as the dependent variable to investigate the firm's preference.

2.2 Geographic factor

To make our typology a rigid and clear geographic conception, we categorize listing firms into four groups by drawing on the definition of National Bureau Statistics (NBS). The first one is Yangzi River Delta (YD) including firms from Shanghai, Jiangsu and Zhejiang. The second one is Pearl River Delta (PD) including 9 cities such as Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Dongguan, Zhongshan, Huizhou and Zhaoqing. The third one is Round Bohai Region (RB) including Beijing, Tianjin, Hebei, Liaoning and Shandong. The three economic growth poles (EGP) comprise a unique growth-pole strategy (Ke & Feser, 2010). The conditional convergence among regions proves that regional spillovers exist significantly during the process of growth (Zhang, 2006). Beyond the classification of three economic growth poles mentioned above, we classify those firms from the other regions as the fourth group. Fig. 1 shows the geographic distribution.

Fig. 1 Geographic distribution of Chinese economic poles



Hypothesis1 Firms in EGP are more active in investment than the peers from other regions

The three EGPs can almost represent the coastal regions of China where has witnessed the earliest economic reform and openness since 1978. Relatively, firms in these regions possess more knowledge and sensitivity of business opportunity because they possess more mature economic context. As a result, these firms have more reasons to operate more project involving investment.

Hypothesis2 Geographic location has the crucial effect on the firm's investment behavior as well as its nature of ownership

Thanks to their more favorable geographic strengths than other domestic firms, those from PD have utilized Hong Kong as a Window to link to overseas market for a long time, in particular in the early period of reform and openness. This history makes them become the first mover than others. With the continuous openness, enterprises in YD follow those PD. In contrast, although RB has a special advantage - national capital and the broader contiguous zone, local government policy tends to be more cautious.

2.3 Ownership type

The nature of the object is determined by its ultimate owner's character rather than its direct shareholder'. This ultimate owner is also the actual controller and possesses the real authority on the firm's key decision-making.

Hypothesis 3 POEs involved more frequently in investment activities than SOEs

Under supervision of government or special asset management institutes, SOEs face more constraints. They often need much more time to make a strategic investment decision than POEs or FOEs because they are subject to from longer decision-making procedure.

3 Dataset and methodology

The history of stock exchange in China can be retrieved to 1990s when the first listing company launched its IPO. From then to 2002, China had witnessed its accounting reform and macro-economy conditions. To make the data more consistent and comparative, we identify the research period between 2003 and 2013. The main data source for our analysis of firm performance, ownership and geography is CSMAR and CCER from 2003 to 2013. CSMAR gathers comprehensive financial information of all listing companies. We obtain their financial performance from CSMAR. However, the data of ownership and geographic information of IPO are based on Chinese instead of the number. To simply the process of data development, we utilize the data of ownership and geography from CCER. In this paper, we use ultimate controller's character to define the listing company's nature. We identify three types of owners: SOE, POE and FOE. SOE includes central and local government-owned ones, collective ones, public institution-owned ones. POE denote its ultimate owner is a person or a private company. FOE define those are invested by feigners and Chinese Taibei, Hong Kang and Macao. Some controllers are deleted if we can't identify their actual controller' status.

There are diverse factors which impact the firm's investment behavior. We introduced Reg as the geographic dummy and Ctrlr as the actual controller dummy in the model. To study the interactive influence among independent variable, physical location and the firm's ownership type, we also integrate the interactive terms.

This paper drew on the basic econometric model:

$$\frac{I_t}{S_{t-1}} = \beta_0 + \beta_1\left(\frac{CF_t}{S_{t-1}}\right) + \beta_2 Reg + \beta_3 Ctrlr + \beta_4\left(\frac{CF_t}{S_{t-1}}\right) \times Reg + \beta_5 Reg \times Ctrlr + \beta_6\left(\frac{CF_t}{S_{t-1}}\right) \times Ctrlr + \beta_7\left(\frac{CF_t}{S_{t-1}}\right) \times Reg \times Ctrlr + Industry\ Fixed\ Effect + \varepsilon$$

Where I_t is the amount of investment in period *i*. S_{t-1} is the value of asset of the firm at the end of period of $t-1$. CF_t is the amount of free cash flow in the period of *i*.

4 Statistical description and results

Table 1 Statistical description

Variable	Obs	Mean	Std. Dev.	Min	Max
wi_r	18689	.0748112	.1147074	-.1750671	.6149523
wcf_r	18689	.050804	.1066734	-.308056	.4719238
wregion	18689	1.969715	1.062547	0	3
wctrlr	18689	.4724704	.5252652	0	2

There are totally 18689 effective observations in our study. Because of outliers, we robust the regression through tail winsorizing 10%. Table 2 shows the firm-level results of various regions.

Table 2 Regression results in terms of specific region

Var.	PD	YD	RB	OT
wcf_r	0.270*** (7.41)	0.314*** (11.13)	0.314*** (9.22)	0.350*** (15.40)
ctr_2	-0.002 (-0.14)	-0.020** (-2.02)	0.002 (0.21)	-0.004 (-0.49)
ctr_3	0.021 (1.64)	0.014 (1.39)	0.019 (1.58)	0.002 (0.25)
_cons	0.049*** (4.02)	0.055*** (5.75)	0.056*** (5.14)	0.059*** (6.90)
N	2070	4889	3725	8405
adj. R-sq	0.068	0.105	0.089	0.102

t statistics in parentheses
="* p<0.1 ** p<0.05 *** p<0.01"

Table 3 Regression results

Var.	est1	est2
wcf_r	0.298*** (23.45)	0.299*** (20.56)
wregion	0.000 (0.61)	-0.001 (-1.17)
wctrlr	0.010*** (8.64)	0.009*** (3.86)
wcf_rg		0.000*** (2.59)
wrg_ctr		0.002 (1.46)
wcf_ctr		-0.000*** (-2.98)
wcf_rg_ctr		0.000 (1.63)
_cons	0.053*** (28.14)	0.055*** (25.36)
N	19089	19089
adj. R-sq	0.120	0.121

t statistics in parentheses
="* p<0.1 ** p<0.05 *** p<0.01"

5 Evidence from Benelux

Table 4 Ownership and geography of Chinese enterprises in Benelux

	PD	YD	RB	OT	SUM
SOE	3	2	17	1	23
POE	3	7	3	4	17
SUM	6	9	20	5	40

There are forty Chinese firms established their subsidiaries in Benelux. Most of them come from RB, hit twenty. The number of those from YD and PD is less than RB, but more than OT's. Totally, the number of SOE is slightly more than POE.

Fig2. Home location of Chinese firms in Benelux

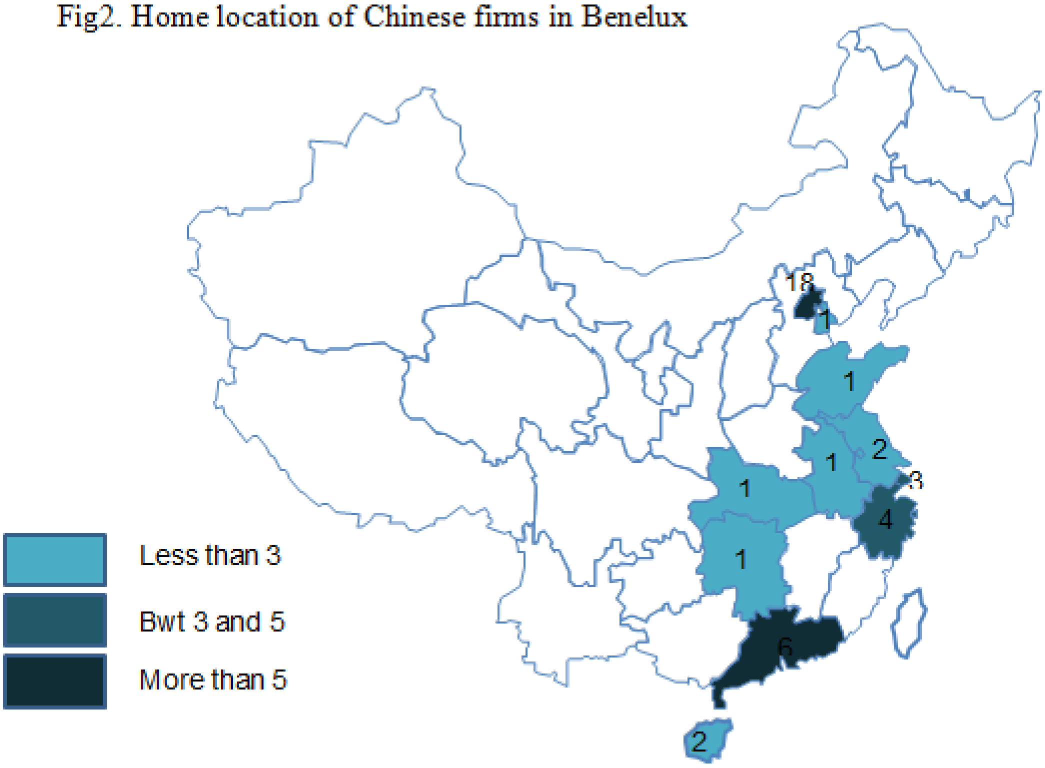
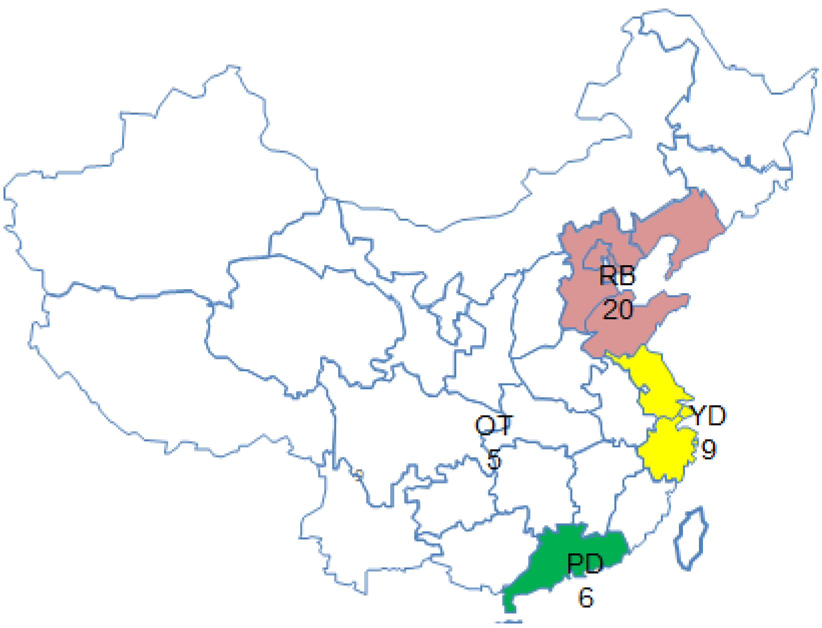


Fig3. Classification of Chinese firms in Benelux based on home EGP



6 Conclusions

It is hard to say geographic factors do influence firms' investment decision-making as well as its ownership structure. However, in the context of Chinese listing companies and Chinese firms in Benelux, those from coastal regions, in particular economic poles, tend to investment much more than peers from other regions. Similarly, the number of Chinese firms in Benelux whose home location in YD, PD and RB is much more than those from other Chinese regions. As a result, Chinese firms from economic poles have stronger preference to invest and tend to be more open to go abroad. Furthermore, SOEs from RB tend to invest overseas more than POEs. The case is just opposite in YD around Shanghai. In contrast, the ownership of PD's firms who invest overseas appear more balance between SOEs and POE. In brief, geographic location constitutes one of crucial elements impacting firms' investment decision-making.

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APPENDIX 1 CHINESE FIRMS IN BENELUX

NO	Title	Home location	Pole	Ownership
1	COSCO Container Lines NetherlandsBV	Beijing	RB	SOE
2	China Southern Airlines Amsterdam Office	Guangzhou	PD	SOE
3	China Shipping Agency (Netherlands)BV	Beijing	RB	SOE
4	China Insurance Co.Netherlands Branch	Shanghai	YD	SOE
5	CCIC Europe B.V	Beijing	RB	SOE
6	Huawei Technologie(Netherlands)BV	Shenzhen	PD	POE
7	Bank Of China Luxembourg S.A. Rotterdam Branch	Beijing	RB	SOE
8	Rainbow Chinese Legals(Holland)BV	Shanghai	YD	POE
9	China Classification Society Rotterdam Office	Beijing	RB	SOE
10	De Heng Law Office The HagueBV	Beijing	RB	POE
11	Freedom International Engineering & TradingBV	Beijing	RB	SOE
12	BYD EuropeBV	Shenzhen	PD	POE
13	ZTE NetherlandsBV	Shenzhen	PD	SOE
14	M.D.Haier Netherlands BV	Qingdao	RB	SOE
15	Europe China PowerBV	Beijing	RB	POE
16	Longwon Port EuropeBV	Hainan	OT	POE
17	COMECO Europe B.V	Beijing	RB	SOE
18	ICBC(EUROPE)S.A.Brussels Branch	Beijing	RB	SOE
19	ICBC Luxembourg Branch	Beijing	RB	SOE
20	Bank of China (Luxembourg)SA	Beijing	RB	SOE
21	Bank of China Brussels Branch	Beijing	RB	SOE
22	HNA Group	Hainan	OT	SOE
23	COSCO Belgium NV	Beijing	RB	SOE
24	Huawei Technologies Belgium NV	Shenzhen	PD	POE
25	China Shipping Agency (Belgium)bvba	Beijing	RB	POE
26	BBCA Belgium NV	Anhui	OT	POE
27	Westlake Europe	Hangzhou	YD	POE
28	Energetic lighting Europe NV	Hangzhou	YD	POE
29	WINSUN Luxemburg BVBA	Jiangsu	YD	POE
30	Hedgren Creations NV	Hangzhou	YD	POE
31	SINOCHEM	Beijing	RB	SOE
32	Dongtai Oujia BVBA	Nanjing	YD	POE
33	ETIC SA	Beijing	RB	SOE
34	ZTE Belgium NV	Shenzhen	PD	SOE
35	Sany Belgium Holding	Changsha	OT	POE
36	APM Terminals Zeebrugge NV	Shanghai	YD	SOE
37	Illochroma Haoneng Europe NV	Hangzhou	YD	POE
38	Air China Limited Brussels Office	Beijing	RB	SOE
39	Juxing I.T.I. BVBA	Wuhang	OT	POE
40	Tianjin International Corp.NV	Tianjin	RB	SOE

16. Dynamics of China’s outward foreign direct investment in the EU: The perspective of regional opportunism, industries and politics

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Abstract

The fast growth of China’s outward foreign direct investment (OFDI) and its jump expected in future capture the interests in term of theoretical research. Generally, location selection in a specific European Union (EU) country is often described as a role of bridgehead to target entire European market. However, the proportion of China’s OFDI over that of invested counterparts is still less and its growth in individual country is very diverse as well. Furthermore, the scenario of its continuous growth is not always true, which contradicts the optimism of many people. In order to supplement the defect of existing knowledge on it, this paper depicts a panorama of China’s OFDI in the EU from the perspective of both member countries and industries through cross comparison of its variety. Based on the depiction, we find that China’s OFDI in the EU is indeed closely related to regional opportunism of the market, preexisting clusters in the host country and bilateral agreements between the host nation and Chinese government. As a result, we propose that i) Chinese OFDI increases strongly under the condition of high level of regional negotiation; ii) Chinese OFDI increases strongly because of preexistence of a strong cluster in a European country; iii) Chinese OFDI increases strongly because of new important bilateral agreements with the Chinese government.

1 Introduction

The last few decades have witnessed an increased interest in multilateral attempts at both the regional and global level to channel countries' competitive bidding for FDI streams to more efficient and sustainable ends. Most notably, the public policy consensus points to the need to reduce inefficient beggar-thy-neighbour policies (Brewer & Young, 1997) and increase FDI allocation on the more efficient and sustainable basis of the relative strength of a cluster (Götz, 2007; Götz, 2015; Yehoue, 2009; Andersson, 2004).This requires the reinforcement of regional authorities in the identification and building-up of clusters (Dhéret et al. 2014).

The EU Lisbon Treaty is one of the latest and most prominent multilateral attempts to increase the regional effiency of FDI streams. Several arguments have developed as to the effectiveness of the Treaty. An emerging school of thought argues that while the case for constraining competitive bidding for FDI is strong from an EU perspective, the instruments of EU policy do not allow for an alignment of incentives and a more efficient, long term allocation of FDI in the EU (Meunier, 2014a). In other words, the Treaty increases beggar-thy-neighbour opportunism between EU countries. Other research provide a more constructive picture, arguing that it is necessary to implement the treaty through integrating internal policies of EU Member States, such as national labour regulations, particularly with respect to visas, and reducing bureaucracy at all levels., (Clegg & Voss, 2012)

In this paper we investigate the relevance of each argument for Chinese FDI streams in the EU. However, Chinese OFDI is still not very much as an emerging economy, which is only 10% of the USA, 65% of Belgium although the growth speed on year-on-year basis has been high during 1993-2013. Obviously, Chinese FDI patterns are still young, not established yet as other IFDI streams. The Treaty of Lisbon is meant to structure and increase Chinese OFDI investments in the EU. Of course, there are other deep concerns on Chinese economy like struggles with the tension between the need to foster economic development by empowering local officials and the regime's imperative to control them politically (Luo et al., 2010) as well as concerns of "taking over Europe" or "scramble for Europe" (Godement and Parello-Plesner, 2011). As a result, some scholars recommend devising and implementing supranational, apolitical and transparent procedure for reviewing investment, regulating the incentives and avoiding the "race to the bottom" or beggar-thy-neighbour polices (Götz, 2015; Brewer & Young, 1997)

This paper follows Clegg and Voss (2012)'s calls to investigate the deep motivations of these investments and what is important relating to Chinese direct investments in the European Union. We draws into the data of investment report released by the National Bureau of Statistics (NBS) and the Ministry of Commerce (MOFCOM) from 2003 to 2014. We analyzed the regional level, clusters level and bilateral politics effects through comparison. In the end, we concluded that there are three propositions that have directly influence on China’s OFDI.

2 Economic and political context of Chinese OFDI toward the EU

2.1 Attraction of regional opportunities

Effective and sustainable FDI policies require measures that avoid “beggar-thy-neighbour” solutions. In the context of investment promotion, the challenges are to find new sectoral priorities (for example, replacing the automotive industry), and new measures (including a rethinking of the system of subsidies which in the current form has been to little avail in stopping job losses) that are sustainable. (In the countries in transition in particular questions are raised if policies to attract FDI and benefit from it have been sufficient and the right ones)

“Beggars can’t be Choosers" (Meunier, 2014a). In a position of beggars since the financial crisis, and given the ambivalence of the Lisbon Treaty, the EU countries have competed against each other for FDI from a short term perspective, rather than a coherent EU-wide long term perspective. To prevent the race to the bottom, The EU Lisbon Treaty becomes one of the latest multilateral attempts to constrain competitive bidding through beggar-thy-neighbour incentive policies (Brewer & Young, 1997; Meunier, 2014a). The Treaty of Lisbon is meant to structure and bring FDI within the scope of the EU common commercial policy (CCP), making it an exclusive EU competence (Götz, 2015). While the case for constraining competitive bidding for FDI is strong from an EU perspective, the instruments of EU policy do not allow for an alignment of incentives and a more efficient, long term allocation of Chinese FDI in the EU.

In term of the young but fast growing Chinese OFDI investments in the EU, an emerging stream of researchers (Meunier, 2014b; Hensmans and Liu, 2014) argue the lack of coherence of the treaty invites political opportunism and regional market opportunism, instead of more efficient "strength of local cluster-based" objectives, Which originates from the unclear scope and coverage of new EU competence. For example, FDI is still beyond the EU’s exclusive competence (Shan & Zhang, 2014; Götz, 2015) as well as portfolio investment and dispute settlement (Götz, 2015).

Regarding the internationalization of Chinese firms, its content is proposed as market and natural resources seeking at the first. Whereafter, more people echo the proposition that Chinese investors target market access as well as strategic capability upgrading through strategic asset seeking (Rui & Yip, 2008; Deng, 2004; Child & Rodrigues, 2005). At the same time, some scholars believe that they are targeting exploit advantages of both the host context and strengths of themselves to offset the liability of foreignness (Zaheer, 1995; Zaheer & Mosakowski, 1997). Indeed, different markets or countries mean different resource endowment and opportunities. One of significant events in the EU is the Lisbon Treaty in 2009. The treaty formally transferred competence over the negotiations of foreign direct investment (FDI) agreements to the EU, which became in theory a unified actor with respect to both outbound and inbound FDI. However, many political and legal ambiguities surround the true extent of the EU's authority and autonomy over foreign investment. This contribution argues that the surge of Chinese FDI into Europe, which is taking place simultaneously with this transition to a new EU foreign investment regime, has the potential to influence the final shape of this regime by exerting both centripetal and centrifugal pressures (Meunier, 2014a). The treaty fundamentally reflects the concern about regional opportunism. In the EU, small open economies such as Austria, the Netherlands or Belgium possess particular institutional advantages. A historical dependence on FDI investment, R&D activity and job-creation by foreign companies induces small countries such as Belgium to be early movers in opening up to and facilitating new projects of global innovation. In return for foreign investors, small open economies typically provide important R&D and tax incentives, highly skilled and internationally adaptive labor force, customers used to buying foreign goods and services, and more accommodating subsidiary establishment conditions than larger economies (Van den Bulcke and Verbeke 2001; Van den Bulcke and Zhang, 2005). By virtue of logistical centrality and advanced innovation facilities of some of them, major global competitors often choose to establish their regional headquarters in small open economies (Gassler and Nones, 2008). These conditions will probably create extra opportunities for investors in the EU.

2.2 Cushion of national clusters

With respect to the disputes between the strengths and weakness of regional opportunism, some scholars argue that it is therefore highly recommended to "make the presence of cluster a key criterion in the distribution of public money" and "reinforce the role of regional authorities in the identification and building-up of clusters" (Dhéret, et al. 2014).From a couple of years clusters are regarded as factors improving region's attractiveness for FDI (Götz, 2007; Yehoue, 2009; Andersson, 2004).Cluster-based policy is therefore the way to encourage foreign firms to locate in given place (Götz, 2015).

Researchers of industrial clusters emphasize the role of inter-firm cooperation (Humphrey & Schmitz, 2002). Cluster distribution in specific nation plays a key role on location selection, as an engine for attracting foreign direct investment (Yehoue, 2009). Clusters offer linkages among firms (Rugman & Verbeke, 2003) and a high level of entrepreneurial culture (Majocchi & Presutti, 2009). In fact, entrepreneurs are a critical element in the formation of clusters (Feldman et al., 2005). Furthermore, pre-existing clusters can generate significant spillovers such as productivity, technology, knowledge etc (De Propris & Driffield, 2006). In situations where firms are geographically clustered, for example, informal contact and exchanges between employees in different firms represents one of the main carriers of knowledge diffusion in the cluster (Dahl & Pedersen, 2004; Iammarino & McCann, 2006). In particular, those MNEs from emerging economies usually target strengthening technological competence including R&D, brand construction, efficient international management skills and even capability transformation. Those nations with certain clusters make it easier for them access to these types of crucial elements. The effect of spillovers also provides a green channel for these later-comers to catch up and compete with present MNEs. Incremental upgrading (i.e. learning by doing) and the spread of innovations through interactions within the cluster make new investors avoid extra outsidership as well (Humphrey & Schmitz, 2002). As a result, clusters increase the safety whereas decrease the risk for new entrants.

2.3 Catalysis of bilateral political relationship

Based on the attraction of regional opportunities and cushion of clusters, bilateral politics catalyze the growth of investment. The basic purpose of bilateral treaties (BTs) is to signal to investors that investments will be legally protected under international law in case of political turmoil and to mitigate the possibility of double taxation of foreign entities (Sauvant and Sachs, 2009). They also provide mechanisms for making commitments to foreign investors about the treatment of their assets. Empirical study has proved that developing countries enjoy a rise of FDI inflows through international trade agreement (Büthe & Milner, 2008). Moreover, BTs based on a pair of nice political partners do promote FDI flows (Busse et al., 2010; Neumayer & Spess, 2005; Ramamurti, 2004). Similarly, bilateral and multilateral international treaties and agreements influence China's OFDI flows (Luo et. al 2010). One of interesting phenomena is that lots of investment deals between EU member states and China have been carried ***after*** an important bilateral agreement. Here, there are two levels of BTs- the member country and the EU as a whole. BTs between China and an EU member directly accelerate the bilateral FDI flows while the overall relationship between the EU and China mediate the development of Chinese OFDI in the EU member country. Politics is still one of critical factors of economic relationship between EU and China

3 Current situation of Chinese OFDI in the EU

This study includes four kinds of data. First, we made use of data of investment report released by the NBS and the MOFCOM from 2003 to 2014 in terms of Chinese OFDI. We obtain the number of bilateral OFDI flows with each member country as well as total industrial distribution. Second, we referenced FDI Regulatory Restrictiveness Index (RRI) released by OECD, which introduces the regional chance with respect to specific industrial barrier. Third, the data regarding clusters around the EU come from the European Cluster Observatory. In this paper, we quoted its report in 2011. Finally, the data of BT were manually prepared through the publications of the Ministry of Foreign Affairs of China. It is worthy of mentioning that the statistical range of China's OFDI includes those investments accounting for 10% or more voter rights held or controlled by domestic investors through direct investment. Moreover, it also includes those investments by their host agencies like subsidiaries, JVs and branches. Based the data collection, as a result, we made a cross comparison between China's OFDI in the EU with the barrier of industrial entry as well as the pre-existing cluster, bilateral agreements.

China's OFDI flows in the EU are very diverse. First, the unbalance is reflected by the proportion of dominant countries in the EU. From the horizontal comparison, dominant nations account for much majority of Chinese investment. For example, Chinese FDI in UK, Germany and France is totally 79% over that of EU in 2013. Second, the investment appears very dynamic in the same country in different periods. For example, China's FDI in Netherlands in 2007 witnessed a surge by 20 times to 100 million dollars although it is ascribed to the less volume of the previous year to certain degree. By contrast, the investment experienced a year on year plunge of 36% in 2010. Just one year later, in 2011, it hit 168 million dollars with a year on year jump by more than two times. Table 1 shows China's OFDI flows in the EU from 2005 to 2013.

Table 1 China's OFDI flows in the EU (USD millions)

MS	CODE	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bulgaria	BG			172.00					16.29	53.90	54.17	2069.00
Croatia	HR					1.20		0.26	0.03	0.05	0.05	
Estonia	EE	-0.02	0.04	0.74	-3.70	-1.08	4.12	6.38	-2.63	2.61	0.27	
Greece	GR			0.03	0.12			0.43	0.88	1.90		
Poland	PL	11.20	2.20	44.30	25.80	93.40	139.60	-191.70	0.40	101.20	7.50	18.34
Romania	RO			2.87	9.63	6.80	11.98	5.29	10.84	0.30	25.41	2.17
Hungary	HU	3.60	14.83	0.65	0.93	17.02	2.15	8.21	370.01	11.61	141.15	25.67
Lithuania	LT										1.00	5.51
Cyprus	CY					0.30				89.54	3.48	76.34
Czech	CZ	7.58	0.63	11.33	36.56	63.95	12.79	15.60	12.34	8.84	76.84	17.84
Malta	MT				0.10		0.47	0.22		0.27		0.12
Portugal	PT	0.10	0.39						0.74	0.28	5.15	191.36
Slovakia	SK					8.40	2.11	0.26	15.89	34.82	2.19	0.33
Slovenia	SI				0.12	0.00	0.30	0.04	3.60		0.34	
Austria	AT					19.17		204.22			53.99	13.28
Belgium	BE				0.13	4.91		23.62	45.33	35.90	98.40	1619.54
Denmark	DK	3.95	0.50	19.01	5.38	0.27	124.73	5.22	18.68	117.79	176.54	27.39
Finland	FI	24.85	11.18	-1.24	-7.53	-4.11	-92.41	35.65	72.81	-70.54	107.04	8.52
France	FR	13.56	17.39	6.09	5.60	9.62	31.05	45.19	26.41	3482.32	153.93	260.44
Germany	DE	347.94	137.91	128.74	76.72	238.66	183.41	179.21	412.35	512.38	799.33	910.81
Ireland	IE				25.29	0.20	42.33		32.88	16.93	48.88	117.02
Italy	IT			7.46	7.63	8.10	5.00	46.05	13.27	224.83	118.58	31.26
Luxembourg	LU	11.67			2576.13	4.19	42.13	2270.49	3207.19	1265.00	1133.01	1275.21
Netherlands	NL	5.65	13.67	3.84	5.31	106.75	91.97	101.45	64.53	167.86	442.45	238.42
Spain	ES	-2.26	6.21	1.47	7.30	6.09	1.16	59.86	29.26	139.74	46.24	
Sweden	SE			1.00	5.30	68.06	10.66	8.10	1367.23	49.01	285.22	170.82
UK	UK	3.27		24.78	35.12	566.54	16.71	192.17	330.33	1419.70	2774.73	1419.58

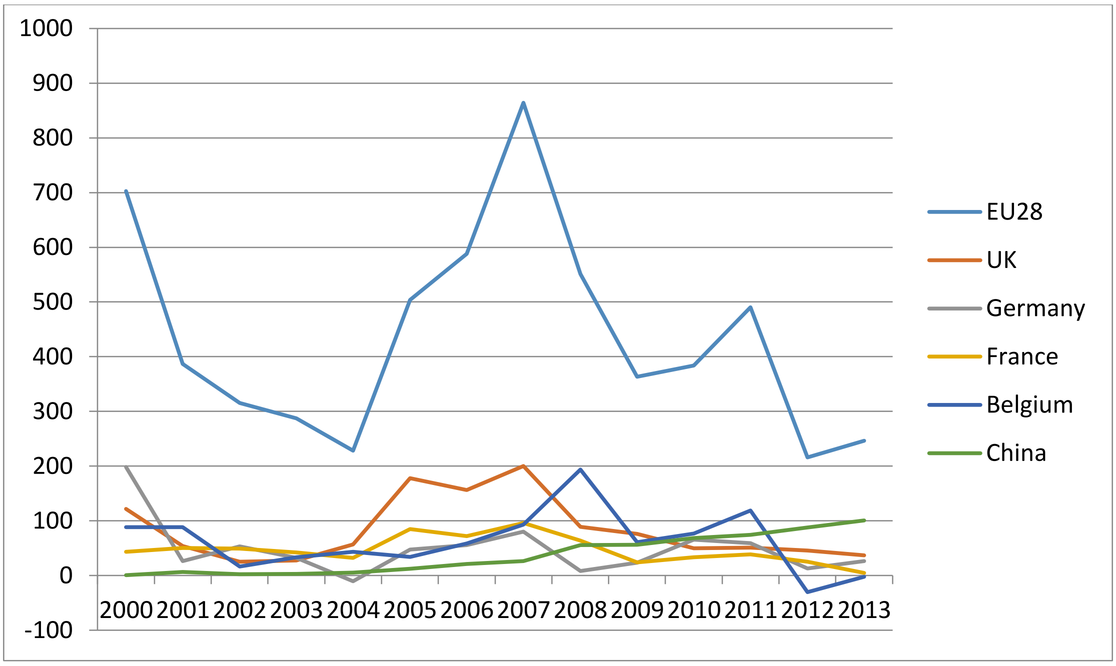
Source: NBS, MOFCOM, OECD

**Data of OECD as a complement for missing parts of NBS & MOFCOM*

From the angle of industries, Table 2 and 3 respectively introduce the total industrial development of China's OFDI and regulatory restrictiveness in the EU. For instance, Table 2 denotes the continuous growth of China's OFDI from 2003 to 2013. Mining, manufacturing, wholesale & retail trades and leasing & business services shape the main part of the flows Financial intermediation has become more significant since 2007. Table 3 depicts the overall regulatory situation around the EU. The RRI denotes some parts of a country's investment context in terms of foreign equity limitations, screening or approval mechanisms, restrictions on the employment of foreigners as key personnel, operational restrictions, e.g. restrictions on branching and on capital repatriation or on land ownership. Although a country's ability to attract FDI will be affected by factors such as the size of its market, the extent of its integration with neighbours etc, it is necessary to interpret the question.

Furthermore, table 4 provides the number of important bilateral agreements between China and EU members, which is declared by the Ministry of Foreign Affairs of China. The amount before 2000 comprises the BTs and agreements since the establishment of diplomatic relations. Totally, the number of agreements is steady over time although more BTs occasionally appeared in specific time. This is up to the expectations, political and economic relationship of both sides.

Fig. 1 Chinese OFDI and EU FDI Inflows from 2000 to 2013 USD billions



Source: UNCTAD, MOFCOM, OECD

Table 2 Chinese OFDI by Sector 2003-2013

Sector	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total	**285465**	**549799**	**1226117**	**1763397**	**2650609**	**5590717**	**5652899**	**6881131**	**7465404**	**8780353**	**10784371**
Agriculture, Forestry, Animal Husbandry and Fishery	8136	28866	10536	18504	27171	17183	34279	53398	79775	146138	181313
Mining	137866	180021	167522	853951	406277	582351	1334309	571486	1444595	1354380	2480779
Manufacturing	62404	75555	228040	90661	212650	176603	224097	466417	704118	866741	719715
Production and Supply of Electricity, Heat, Gas and Water	2196	7849	766	11874	15138	131349	46807	100643	187543	193534	68043
Construction	2278	4795	8186	3323	32943	73299	36022	162826	164817	324536	436430
Wholesale and Retail Trades	35724	79969	226012	111391	660418	651413	613575	672878	1032412	1304854	1464682
Transport, Storage and Post	7721	82866	57679	137639	406548	265574	206752	565545	256392	298814	330723
Hotels and Catering Services	85	203	758	251	955	2950	7487	21820	11693	13663	8216
Information Transmission, Software and Information Technology	883	3050	1479	4802	30384	29875	27813	50612	77646	124014	140088
Financial Intermediation					166780	1404800	873374	862739	607050	1007084	1510532
Real Estate	-1298	851	11563	38376	90852	33901	93814	161308	197442	201813	395251
Leasing and Business Services	27878	74931	494159	452166	560734	2171723	2047378	3028070	2559726	2674080	2705617
Scientific Research and Technical Services	638	1806	12942	28161	30390	16681	77573	101886	70658	147850	179221
Management of Water Conservancy, Environment and Public Facilities	634	120	13	825	271	14145	434	7198	25529	3357	14489
Service to Households, Repair and Other Services	210	8814	6279	11151	7621	16536	26773	32105	32863	89040	112918
Education				228	892	154	245	200	2008	10283	3566
Health and Social Service	11	1		18	75		191	3352	639	538	1703
Culture, Sports and Entertainment	100	98	12	76	510	2180	1976	18648	10498	19634	31085
Public Management, Social Security and Social Organization		5	173								
Data before 2003 are excluded concerning with consistency											

Source: MOFCOM

Table 3 OECD FDI Regulatory Restrictiveness Index-2014

Country	Austria	Belgium	Czech	Denmark	Estonia	Finland	France	Germany	Greece	Hungary	Iceland	Ireland	Italy	Luxembou	Netherlan	Norway	Poland	Portugal	Slovak	Slovenia	Spain	Sweden	Switzerlan	UK	OECD-Av.	Latvia	Lithuania	Romania
Sector / Industry																												
Primary	0.15	0.035	0.025	0.056	0.023	0.015	0.155	0.069	0.079	0	0.241	0.135	0.13	0	0.062	0.156	0.05	0.006	0	0	0.011	0.138	0	0.16	0.1	0.027	0.07	0
Agriculture & Forestry	0	0.023	0.05	0	0.045	0.009	0.23	0	0	0	0.12	0.045	0	0	0	0	0.1	0	0	0	0	0	0	0.023	0.053	0.045	0.023	0
Agriculture	0	0.023	0.05	0	0.045	0.009	0.459	0	0	0	0.12	0.045	0	0	0	0	0.1	0	0	0	0	0	0	0.023	0.067	0.045	0.023	0
Forestry	0	0.023	0.05	0	0.045	0.009	0	0	0	0	0.12	0.045	0	0	0	0	0.1	0	0	0	0	0	0	0.023	0.039	0.045	0.023	0
Fisheries	0.5	0.073	0	0.225	0	0.032	0.15	0.275	0.225	0	0.612	0.45	0.5	0	0.248	0.575	0	0.023	0	0	0	0.55	0	0.573	0.258	0.009	0.23	0
Mining & Quarrying (incl. Oil extr.)	0.1	0.023	0	0	0	0.009	0.009	0	0.09	0	0.112	0	0.02	0	0	0.05	0	0	0	0	0.045	0	0	0.023	0.037	0.009	0.005	0
Secondary	0.143	0.023	0	0	0	0.02	0	0	0	0	0.176	0	0	0	0	0	0	0	0	0	0	0	0.071	0.023	0.034	0.009	0.005	0
Manufacturing	0	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0	0	0	0	0	0	0	0.023	0.02	0.009	0.005	0
Food and other	0	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0	0	0	0	0	0	0	0.023	0.02	0.009	0.005	0
Oil ref. & Chemicals	0	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0	0	0	0	0	0	0	0.023	0.02	0.009	0.005	0
"Metals, machinery and other minerals"	0	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0	0	0	0	0	0	0	0.023	0.02	0.009	0.005	0
"Electric, Electronics and other instruments"	0	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0	0	0	0	0	0	0	0.023	0.02	0.009	0.005	0
Transport equipment	0	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0	0	0	0	0	0	0	0.023	0.02	0.009	0.005	0
Electricity	1	0.023	0	0	0	0.084	0	0	0	0	0.562	0	0	0	0	0	0	0	0	0	0	0	0.5	0.023	0.12	0.009	0.005	0
Electricity generation	1	0.023	0	0	0	0.159	0	0	0	0	0.562	0	0	0	0	0	0	0	0	0	0	0	0.5	0.023	0.126	0.009	0.005	0
Electricity distribution	1	0.023	0	0	0	0.009	0	0	0	0	0.562	0	0	0	0	0	0	0	0	0	0	0	0.5	0.023	0.115	0.009	0.005	0
Construction	0	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0	0	0	0	0	0	0	0.023	0.02	0.009	0.005	0
Tertiary	0.066	0.052	0.012	0.045	0.028	0.019	0.033	0.022	0.035	0.057	0.133	0.037	0.057	0.007	0.008	0.113	0.125	0.012	0.098	0.015	0.038	0.068	0.12	0.05	0.085	0.052	0.039	0.016
Distribution	0	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0	0	0	0	0	0	0	0.023	0.022	0.009	0.005	0
Wholesale	0	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0	0	0	0	0	0	0	0.023	0.02	0.009	0.005	0
Retail	0	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0	0	0	0	0	0	0	0.023	0.024	0.009	0.005	0
Transport	0.182	0.114	0.075	0.083	0.15	0.092	0.15	0.2	0.15	0.167	0.204	0.125	0.2	0.075	0.083	0.35	0.092	0.083	0.075	0.15	0.075	0.292	0.25	0.114	0.218	0.084	0.28	0.167
Surface	0.05	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0	0	0	0	0	0.2	0	0.023	0.039	0.009	0.005	0
Maritime	0.225	0.073	0	0.023	0.225	0.032	0.225	0.275	0.225	0.275	0.162	0.15	0.3	0	0.023	0.5	0.05	0.023	0	0.225	0	0.25	0.5	0.073	0.262	0.009	0.23	0
Air	0.27	0.248	0.225	0.225	0.225	0.234	0.225	0.325	0.225	0.225	0.337	0.225	0.3	0.225	0.225	0.55	0.225	0.225	0.225	0.225	0.225	0.425	0.25	0.248	0.352	0.234	0.605	0.5
Hotels & restaurants	0.015	0.029	0	0	0	0.009	0	0	0.005	0	0.112	0	0.007	0	0	0	0	0.002	0	0	0	0	0	0.023	0.021	0.009	0.005	0
Media	0	0.023	0	0	0	0.009	0.048	0.025	0.113	0	0.112	0	0.363	0	0	0.125	0.298	0	0	0	0.225	0.2	0.467	0.248	0.163	0.009	0.005	0
Radio & TV broadcasting	0	0.023	0	0	0	0.009	0.045	0.05	0.225	0	0.112	0	0.225	0	0	0.25	0.575	0	0	0	0.45	0.2	0.6	0.473	0.234	0.009	0.005	0
Other media	0	0.023	0	0	0	0.009	0.05	0	0	0	0.112	0	0.5	0	0	0	0.02	0	0	0	0	0.2	0.333	0.023	0.093	0.009	0.005	0
Communications	0	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0.075	0	0	0	0	0.2	0	0.023	0.089	0.009	0.005	0
Fixed telecoms	0	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0.075	0	0	0	0	0.2	0	0.023	0.095	0.009	0.005	0
Mobile telecoms	0	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0.075	0	0	0	0	0.2	0	0.023	0.082	0.009	0.005	0
Financial services	0.002	0.024	0.01	0.002	0.002	0.011	0.054	0.005	0.02	0.005	0.119	0.009	0.018	0.002	0.002	0.067	0.003	0.017	0.002	0.002	0.002	0.002	0.067	0.024	0.035	0.071	0.006	0.002
Banking	0	0.023	0	0	0	0.009	0.045	0.011	0.056	0	0.132	0	0	0	0	0.05	0	0.023	0	0	0	0	0.1	0.023	0.04	0.009	0.005	0
Insurance	0	0.023	0	0	0	0.009	0.068	0	0	0	0.112	0.023	0	0	0	0	0	0.023	0	0	0	0	0	0.023	0.023	0.009	0.005	0
Other finance	0.005	0.027	0.03	0.005	0.005	0.014	0.05	0.005	0.005	0.016	0.112	0.005	0.055	0.005	0.005	0.15	0.01	0.005	0.005	0.005	0.005	0.005	0.1	0.027	0.042	0.194	0.009	0.005
Business services	0.322	0.248	0	0.363	0	0.046	0.003	0	0.056	0	0.112	0	0	0	0	0.313	0	0	0	0	0.113	0.051	0	0.023	0.067	0.009	0.005	0
Legal	0.225	0.473	0	1	0	0.099	0.01	0	0	0	0.112	0	0	0	0	1	0	0	0	0	0.45	0.09	0	0.023	0.117	0.009	0.005	0
Accounting & audit	0.613	0.473	0	0.45	0	0.065	0	0	0.225	0	0.112	0	0	0	0	0.25	0	0	0	0	0	0.113	0	0.023	0.1	0.009	0.005	0
Architectural	0.225	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0	0	0	0	0	0	0	0.023	0.026	0.009	0.005	0
Engineering	0.225	0.023	0	0	0	0.009	0	0	0	0	0.112	0	0	0	0	0	0	0	0	0	0	0	0	0.023	0.026	0.009	0.005	0
Real estate investment	0.2	0.023	0.023	0.05	0.15	0	0	0	0	0.45	0.235	0.25	0	0	0	0.25	0.9	0	1	0.01	0	0	0.4	0	0.164	0.225	0.105	0
Total FDI Index	0.106	0.04	0.01	0.033	0.018	0.019	0.045	0.023	0.032	0.029	0.167	0.043	0.052	0.004	0.015	0.085	0.072	0.007	0.049	0.007	0.021	0.059	0.083	0.061	0.069	0.034	0.034	0.008

Source: OECD

Table 4 Number of Chinese Important Bilateral Agreements with EU MS

MS	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Ireland													1		
Austria	1	1			3	4	2	1			4	7		1	3
Bulgaria							1		2	2	2				3
Belgium			1		1	1	1	1		1			6		1
Poland	1				2							1	1		
Denmark	1	1			3		1	2	2		4		8		5
Germany	3		3	1	4	1	2	1		1	1	10	13	5	18
France			2		4	1	3	1		3	4			2	2
Finland					1	2	2	2		2	1	1	1	1	
Netherlands								2							1
Czech						1									1
Latvia					6						1	1			2
Lithuania	1		1							2	1		1	1	
Luxembourg	1		1			1	1								
Romania			1	1	1									1	
Malta											1				
Portugal			1			12	1	6		1	3		1		3
Sweden	1		1		1		4	2	3	1	3		1		
Cyprus		1		1			1	2	1				1	2	
Slovakia		1		1				1							
Spain	1					4		1							
Greece	1		3			4	3		4		2	1			6
Hungary	1			1	1										1
Italy		1			4	1			1	4	3				1
UK				1	1						3	1		7	4

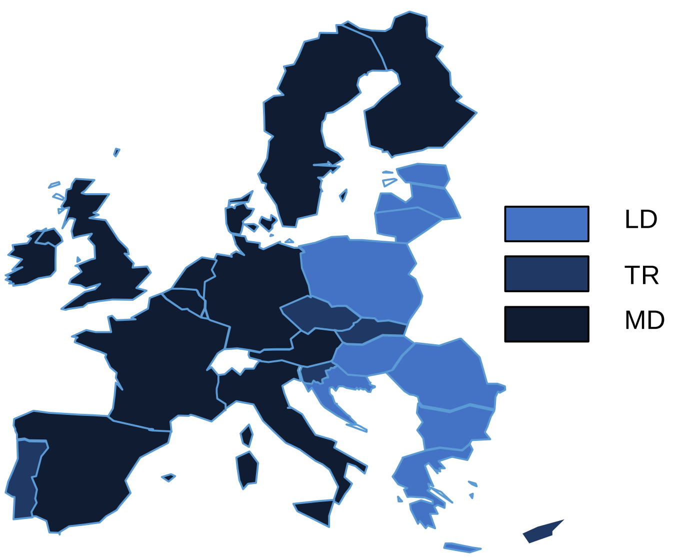
Source: Ministry of Foreign Affairs China

4 An in-depth comparison among MS in term of various factors

4.1 The classification of the EU MS

The classification of regions is determined on the basis of how the GDP per capita of each region, measured in purchasing power parities (PPS) and calculated on the basis of Union figures (Moussis, 2011) in 2014. There are three types of regions: (a) less developed regions (LD), whose GDP per capita is less than 75% of the average GDP of the EU-28; (b) transition regions (TR), whose GDP per capita is between 75% and 90% of the average GDP of the EU-28; (c) more developed regions (MD), whose GDP per capita is above 90% of the average GDP of the EU-28 (Moussis, 2011).(Further information about EU-28 GDP per capita, see appendix 2)

Fig 2. EU-28 member states and the classification



4.2 Chinese OFDI dominated by MD

Thirteen countries are classified as MD, who account for 89% of total Chinese OFDI during the period from 2003 to 2013. We can say that they are the backbone in term of influx. If we look at further the specific subcategory from the size of the members. We found that large size MS like UK, Germany and France are three most popular destinations. However, some smaller MS like Benelux, Sweden and Denmark have witnessed a fast growth during the last three years. They have attracted 34% of Chinese OFDI received by MD regions from 2011 to 2013. Interestingly, they are all top globalized countries in the EU (KOF, 2014) in term of the society, culture and economy. This macro-level data are consistent with the theoretical conclusions from a micro-level or firm-level of analysis (Hensmans and Liu, 2014). Their excellent performance of Chinese OFDI influx isn't hard to be understood. Reasons of FDI influx are always complicated. The natural dependence on FDI regarding tax or employment matters during the process. A) Unique strengths of clusters: business and financial service, biotech industry in Benelux, aeronautical manufacturing in Sweden, Shipping in Denmark shows their respective strength. B) Intimacy of bilateral diplomacy: except UK, France and Germany, the strengthening bilateral relationships between China and small open EU MS played an important role on FDI flows, which is reflected by their number of bilateral business agreements. C) Opportunity of access: They are facing mobilized economic flows, less restrictions, information transparency and political openness. In particular, they are relying on FDI more than other counterparts, which make them more active in welcoming foreign investment. However, the role of regional opportunity resulted from openness is melting. The Lisbon Treaty offers the EU more consistent policy with transparency around MS. It means all the MS become homogenous in term of openness. This is not "beggar-thy-neighbour". Among these small but open countries, in particularly, Luxembourg held 19% of the FDI influx that is even more than France did. Luxembourg is the tax haven in the EU (Markle, & Shackelford, 2009). Chinese OFDI in Luxembourg focuses on financial sector.

4.3 Growth of Chinese OFDI in TR

TR comprises six countries, Portugal, Czech, Cyprus, Malta, Slovenia and Slovakia. Chinese OFDI in TR tripled in 2013. Around TR, Portugal, Cyprus and Czech have seen the most Chinese OFDI. In particularly, their inflows account for 93% of the total influx in TR. Some of these countries are open to Chinese investors, even if relating crucial projects. For example, China Three Gorges Corporation, an invested 2.69 billion euro in 2011 for 21.35% equity of Energias de Portugal SA（EDP）. Three years later, Fosun international Co.Ltd acquired 80% insurance assets of Caixa Geral de Depositos S.A. at the price of 1 billion euro. The two firms are both important players in Portugal market. The two project's progress reflected the open policy in big deals, which often led to deal failure relating to Chinese firm's overseas M&A. Czech enjoys the reputation of industry manufacture. Chinese investors like Changhong group, a Chinese TV producer, invested ten million euro for its European manufacture base in Nymburk of Czech in 2007. Furthermore, YAPP Automotive Parts Co., Ltd invested thirty million euro for its factory producing auto parts in Mladá Boleslav, Czech in 2012. These cases denote the individual strength of targeting MS.

4.4 Start up of Chinese OFDI in LD

Countries of LD have been neglected for a long time. The situation has changed gradually because they are becoming ideal destinations of Chinese OFDI. There are totally nine EU MS as LD. All of them except Greece joined the EU after 2004 and became the youngest MS. Among them, Bulgaria, Hungary, Poland and Romania are the popular investment location based on the data of last three years. They held over 90% of Chinese OFDI in this area. They possess sizable internal market and are becoming the bridges for Chinese investors accessing the EU. From the view of clusters, Both Hungary and Poland have impressive logistic basis no matter infrastructure or center location in the EU, which increase the ability of radiation of transportation or service. For example, Huawei, a Chinese telecom firm, invested its ambitious logistic project of European supply chain in Hungary as well as two factories. Targeting exploiting the strength of new energy industry of Poland, China-CEE Cooperation Fund invested over one hundred million euro in new energy projects in 2014. Bulgaria and Romania, as the important former communist countries, have much more communications between bilateral ruling parties. They are providing alternative channels for Chinese investors trough attractive polices. For instance, Bulgarian Supreme Court revoked the photovoltaic grid access fee based on the old law. This is positive to Chinese photovoltaic investors. In addition, they are the potential partners of Chinese Silk Road economic project.

Briefly, the percentage of Chinese OFDI is less compared to the total FDI inflows in the EU, but the overall Chinese OFDI into the EU is keeping rise. The proportion is higher in younger EU member countries like the CEE.

4.5 The evidences from three arguments

Regional opportunism**:** Chinese investment projects in CEE are primarily located in capital cities whereas following cluster distribution in west Europe (Zhang, et al., 2012).

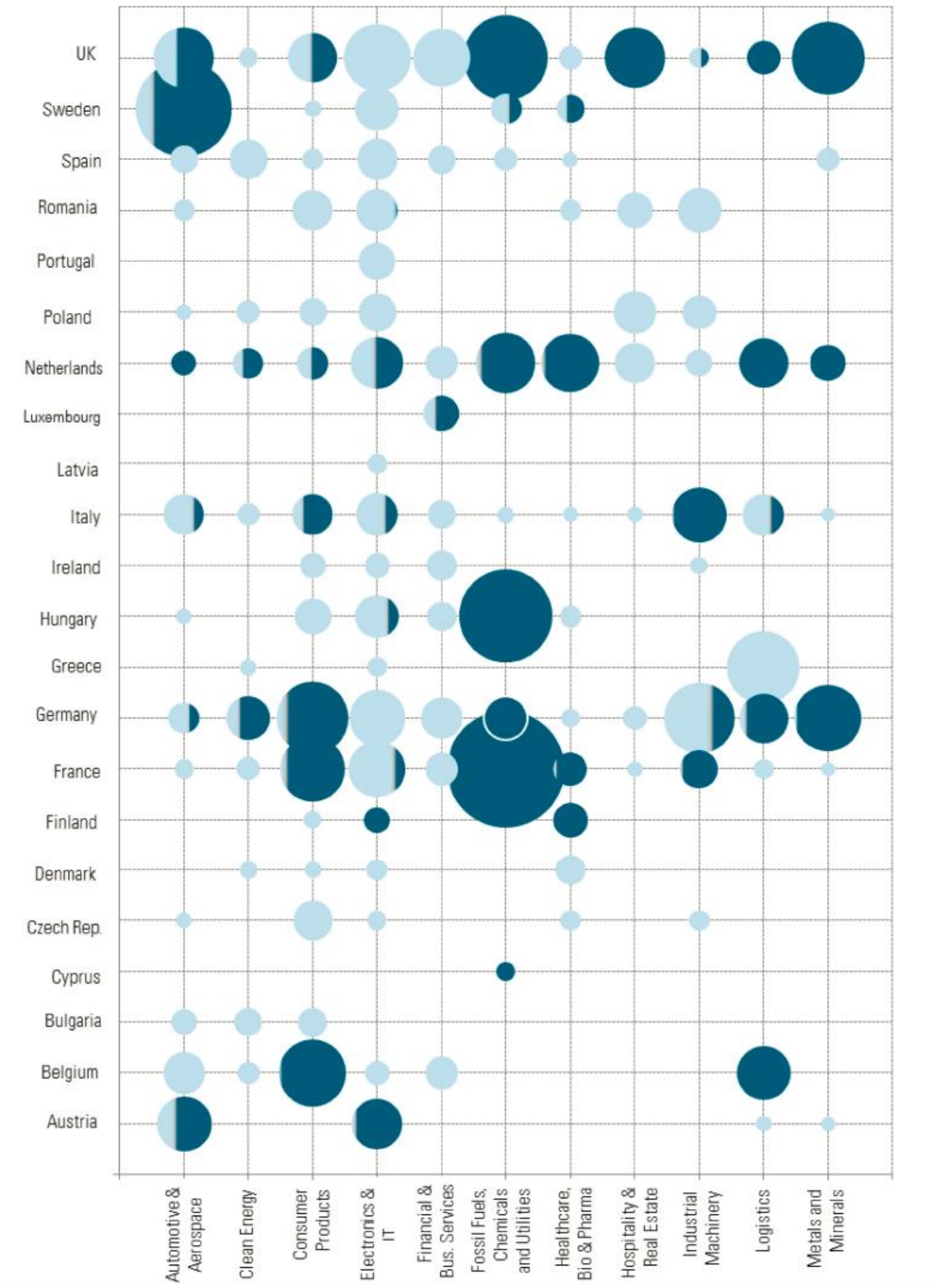
The evidences are in two aspects: FDI stock and flows. EU's core countries like Germany and France (Lane, 2006) witness more amount of FDI stock. They have considerable power in EU level as well as UK (Bindseil & Hantke, 1997). However, Bucharest, Budapest and Prague are the east European hubs for Chinese investors (Zhang, et al., 2012). Their strengths as bridgeheads targeting the whole EU for Chinese investors attract more and more investment from China. In contrast, their advantages of clusters are not as strong as west peers'. As a result, their competence primarily comes from other reasons. No matter the policy level or lower cost of investment, the elements can been considered as individual opportunities. Of course, we shouldn't completely ignore the comparative strengths in specific industry.

Proposition 1 Chinese OFDI increases strongly in less developed EU MS ascribing to the high level of regional opportunism rather than the strength of a cluster

Industrial clusters: According to table 1, UK, Luxembourg, Germany, France, Netherlands, Sweden and Ireland led the inflow FDI from China, whose inward FDI from China were all more than 100 million dollars in 2013. From the industrial perspective, Chinese OFDI ascribe to four sectors: Mining, Manufacturing, Wholesale and Retail Trades, Leasing and Business Services, which account for an average percentage of 75% of its total OFDI. In 2007, a new sector of financial intermediation was introduced in the statistics. From then one, financial intermediation has held an important part of Chinese OFDI, averaging 13.8% of overall OFDI.

Figure 1 shows Chinese OFDI in Europe by industries. We can make a cross comparison both the horizontal and vertical axis. For example, Chinese OFDI in Sweden during 2000-2011 obviously focused on automobile, which has a cluster of star rating 2.07 regarding its cluster size, specialization and focus. Other cases like chemicals and utilities in France, industrial machinery in Germany, chemicals and utilities, healthcare, bio & pharma in Netherlands, consumer products in Germany, France and Belgium. At first, a surprising case is Hungary, who has a very high level of cluster of logistics, star rating 2.51 but less investment from China in the period. However, Chinese investment in Hungary has increase very much since 2014 when Chinese investors set up a logistic hub in Hungary. As a result, preexisting cluster boosts the investment from China as a very positive role, in particular in MD regions.

Fig. 3 Chinese OFDI in the EU by industries



Source: China Invests in Europe (Hanemann & Rosen, 2012; Hanemann & Huotari, 2015*)*

Moreover, most M&A cases declared focus on those favorable industries in the host countries. Most of Chinese OFDI were through M&A since 2003 (Liu and Song, 2012).

Proposition 2 Chinese OFDI increases strongly in more developed EU MS ascribing to preexistence of a strong cluster rather than regional opportunism.

Leap of OFDI flows: According to table 1 and table 4, the sudden leap of OFDI often appeared after important government agreements signed. That could mean the correlation between the investment and politics. We define a year on year growth more than 50% as a leap. Investment stickiness to key bilateral agreements is identified if there is a key bilateral agreement in the year of investment boom. Normally, the effect of the agreement takes time to appear. For example, first, Irish and Chinese government signed a bilateral agreement12 in 2012, then Chinese FDI in Ireland surged to 117 million dollars, in 2013 a 139% year on year growth. Second, Chinese FDI in France in 2011 dramatically increased to 3.48 billion dollars from 26 million dollars in 2010. When we check the bilateral agreement, we found there were four crucial agreements signed between France and China in 2010 involving communication, education, technology and strategic cooperation. If we compare the investment earlier, Dutch government and Chinese counterpart got two important agreements including agricultural cooperation and strengthening bilateral partnership in 2007, and then FDI from China in Netherlands increased to 107 million dollars by twenty times. Similar case happened in Sweden in 2010 when Chinese FDI in the country surged to 1.36 billion dollars by 168 times accompanying with three agreements signed in the same year such as small & medium enterprises cooperation of two sides and the long term plan of cooperate social responsibility. Close political relationship can reduce the concern of unnecessary suspicion, in particular for Chinese firms who often worry about. CEE MS are usually stronger in bilateral diplomacy with China resulted from previous similar national regime. Another point should be mentioned is that Chinese OFDI serves to build a new cluster in a particularly European country that is very open, which echoes the point of clusters.

Furthermore, if we check the correlation between the agreements and FDI flows, we can find that BTs play more roles in promoting Chinese OFDI toward EU member states. Table 8 shows that the influence of BTs rises in following three years whereas weakens afterwards.

[12] Joint Statement between The People's Republic of China and Ireland on Establishing Strategic Partnership for Mutually Beneficial Cooperation

Fig. 4 Spearman correlation between BTs and Chinese OFDI

	dbt	pinv	pinv1	pinv2	pinv3	pinv4
dbt	1.0000					
pinv	-0.0390	1.0000				
pinv1	-0.0008	0.5135	1.0000			
pinv2	0.0536	0.4662	0.5135	1.0000		
pinv3	0.0888	0.3485	0.4766	0.5255	1.0000	
pinv4	0.1049	0.1892	0.3489	0.4779	0.5383	1.0000

Notes: dbt is the dummy of BTs; pinv denotes the percentage of Chinese FDI flows into certain country over total EU26; pinv1 means the amount of pinv next year etc.

Proposition 3: New important bilateral agreements between Chinese government and EU MS are crucial for Chinese OFDI growth around EU MS.

5 Conclusion

Indeed, China's OFDI is characteristic as fast growth during the past decade. In particular, people expect its continuity and stable increase to contribute to bilateral trade and even world economy. From the example of the EU, however, China's OFDI shows the feature of diversity and unbalance from the perspective of both MS and industries in term of chronological development. Furthermore, the individual roles of regional attraction and strengths of clusters are different in term of host conditions. In contrast, bilateral diplomacy or agreements promotes Chinese OFDI towards all EU MS. In brief, China's OFDI toward the EU is a process of integration of bilateral strengths of regional and industrial level accompanying with strong political relations. A closer bilateral context accelerates the progress of the procedure.

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Appendix 1 Industrial Clusters around EU27 in 2011

Region	Sectors	star rating
Austria	Biotech	1.71
	Construction	1
	Financial services	1.44
	Furniture	1.15
	Lighting and electrical equipment	1.08
	Metal manufacturing	1.38
	Oil and gas	1.28
	Power generation and transmission	1.53
	Processed food	1.18
	Production technology	1.13
	Sporting, recreational and children's goods	1.17
	Telecom	1.94
	Tourism and hospitality	1.78
	Transportation and logistics	2.11
Belgium	Textiles	2.23
	Pharmaceuticals	1.81
	Financial services	1.79
	Jewellery and precious metals	1.54
	Chemical products	1.13
	Heavy Machinery	1.07
	Business services	1
Bulgaria	Apparel	2.48
	Construction	1
	Farming and animal husbandry	1.58
	Footwear	1.65
	Heavy Machinery	1.11
	Leather products	1.33
	Processed food	1.12
	Telecom	1.41
	Textiles	1.52
	Tobacco	1.83
Cyprus	Construction	1
	Farming and animal husbandry	1
	Financial services	1
	Tourism and hospitality	2
	Transportation and logistics	1
Czech Republic	Automotive	1.5
	Biotech	1.17
	Building fixtures, equipment and services	1.81
	Construction	1
	Footwear	1.04
	Instruments	1.23
	Leather products	1.04
	Lighting and electrical equipment	1.33
	Metal manufacturing	2.1
	Oil and gas	1.62

	Paper products	1
	Power generation and transmission	1.11
	Sporting, recreational and children's goods	1.49
	Textiles	2.02
Germany	Aerospace	1.47
	Automotive	2.04
	Biotech	1.08
	Business services	1.46
	Chemical products	1.33
	Financial services	1.69
	Instruments	1.44
	IT	1
	Medical devices	1.24
	Metal manufacturing	1.84
	Oil and gas	1.08
	Pharmaceuticals	1.06
	Plastics	1.13
	Power generation and transmission	1.26
	Production technology	1.97
Denmark	Biotech	1.81
	Building fixtures, equipment and services	1.04
	Oil and gas	1.56
	Pharmaceuticals	1.85
	Transportation and logistics	1.53
Estonia	Apparel	1
	Business services	1
	Construction	1
	Farming and animal husbandry	1
	Furniture	2
	Maritime	1
	Oil and gas	1
	Paper products	1
	Power generation and transmission	1
	Processed food	1
	Textiles	1
	Transportation and logistics	1
Spain	Agricultural products	1.4
	Business services	1.13
	Construction	2.13
	Construction materials	1.37
	Farming and animal husbandry	2.07
	Footwear	1.69
	Maritime	1.75
	Metal manufacturing	1.15
	Stone quarries	1.05
	Tobacco	1.78
	Tourism and hospitality	1.31
	Business services	1
	Construction	1

Finland	Farming and animal husbandry	1.4
	Paper products	2.33
	Power generation and transmission	1.61
	Telecom	2.23
	Transportation and logistics	1.65
France	Aerospace	1.76
	Business services	1.5
	Financial services	1.9
	Instruments	1.06
	Processed food	1.44
Greece	Agricultural products	2.12
	Apparel	1.33
	Construction	1.32
	Farming and animal husbandry	2.77
	Financial services	1.19
	Jewellery and precious metals	1.27
	Leather products	1.99
	Tobacco	1.75
	Transportation and logistics	1.26
Hungary	Automotive	1.26
	Business services	1.52
	Education and knowledge creation	1.61
	Farming and animal husbandry	1.97
	Financial services	1.7
	Footwear	1.07
	Heavy Machinery	1.07
	Leather products	1.58
	Oil and gas	1.54
	Pharmaceuticals	1.71
	Processed food	1.14
	Telecom	1.22
	Transportation and logistics	2.51
Ireland	Business services	1
	Construction	1
	Distribution	1
	IT	3
	Medical devices	2
	Pharmaceuticals	2
	Processed food	2
	Stone quarries	2
	Telecom	1
	Tourism and hospitality	3
	Transportation and logistics	1
Italy	Aerospace	1.09
	Apparel	1.81
	Automotive	1.26
	Business services	1.29
	Chemical products	1.01
	Construction	1.81

	Construction materials	1.61
	Financial services	1.04
	Footwear	2.11
	Furniture	1.42
	Heavy Machinery	1.16
	Jewellery and precious metals	1.51
	Leather products	1.73
	Lighting and electrical equipment	1.1
	Metal manufacturing	2.16
	Pharmaceuticals	1.37
	Plastics	1.11
	Processed food	1.25
	Production technology	1.71
	Sporting, recreational and children's goods	1.39
	Textiles	1.58
	Tourism and hospitality	1.01
	Transportation and logistics	1.7
Lithuania	Apparel	2
	Building fixtures, equipment and services	2
	Construction	1
	Construction materials	2
	Furniture	2
	Maritime	2
	Processed food	3
	Textiles	2
	Transportation and logistics	1
Luxembourg	Business services	2
	Construction	1
	Processed food	1
	Transportation and logistics	1
Latvia	Construction	1
	Education and knowledge creation	1
	Maritime	2
	Transportation and logistics	1
Malta	Apparel	2
	Building fixtures, equipment and services	2
	Construction	2
	Furniture	2
	IT	2
	Media and publishing	2
	Processed food	2
	Telecom	1
	Transportation and logistics	2
Netherlands	Business services	1.22
	Farming and animal husbandry	1.28
	Financial services	1.36
	Jewellery and precious metals	1.32
	Oil and gas	1.4
	Sporting, recreational and children's goods	1.95

	Tobacco	1.29
	Transportation and logistics	1.08
Poland	Aerospace	1.05
	Automotive	1.53
	Building fixtures, equipment and services	1.33
	Construction	1.19
	Education and knowledge creation	1.76
	Financial services	1.13
	Furniture	1.82
	Metal manufacturing	1.09
	Oil and gas	1.32
	Processed food	1.79
	Stone quarries	1.4
	Telecom	1.17
	Tobacco	1.32
	Transportation and logistics	2.07
Portugal	Apparel	2.66
	Building fixtures, equipment and services	1.49
	Business services	2.41
	Construction	2.6
	Construction materials	1.76
	Footwear	2.84
	Furniture	1.51
	Jewellery and precious metals	1.43
	Leather products	1.08
	Maritime	1.66
	Stone quarries	1.42
	Textiles	2.39
	Transportation and logistics	1.43
Romania	Apparel	2.7
	Automotive	1.82
	Construction	1.78
	Distribution	1.41
	Footwear	2.47
	Furniture	1.96
	Heavy Machinery	2.36
	Leather products	1.36
	Oil and gas	1.43
	Processed food	1.55
	Telecom	1.39
	Textiles	1.25
	Transportation and logistics	1.51
Sweden	Automotive	2.07
	Business services	1.9
	Construction	1
	IT	1.55
	Metal manufacturing	1.36
	Paper products	1.57
	Business services	1

	Construction	1
	Financial services	1
	Leather products	2
	Metal manufacturing	3
	Power generation and transmission	2
Slovakia	Apparel	1.23
	Automotive	2.31
	Building fixtures, equipment and services	1.69
	Construction	1
	Footwear	1.58
	Lighting and electrical equipment	1.54
	Metal manufacturing	1.9
	Plastics	1.46
	Power generation and transmission	1.5
	Processed food	1.35
	Production technology	1.3
	Transportation and logistics	1.54
United Kingdom	Aerospace	1.26
	Biotech	1.14
	Business services	1.62
	Education and knowledge creation	1.55
	Financial services	1.4
	Oil and gas	2.62
	Transportation and logistics	1.1

Source: European Cluster Observatory (www.clusterobservatory.eu)

Appendix 2 Classification of EU-28

Region	GDP per capita	Type
EU-28	100	
Belgium	119	MD
Bulgaria	45	LD
Czech	84	TR
Denmark	124	MD
Germany	124	MD
Estonia	73	LD
Ireland	132	MD
Greece	72	LD
Spain	93	MD
France	107	MD
Croatia	59	LD
Italy	97	MD
Cyprus	85	TR
Latvia	64	LD
Lithuania	74	LD
Luxembourg	263	MD
Hungary	68	LD
Malta	85	TR
Netherlands	130	MD
Austria	128	MD
Poland	68	LD
Portugal	78	TR
Romania	54	LD
Slovenia	83	TR
Slovakia	76	TR
Finland	110	MD
Sweden	124	MD
UK	108	MD

EURODATA 2015

17. A bibliometric study of most influential authors in expatriate management and national culture research

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Abstract
This study ranks researchers in expatriate management related to national culture issues. It is based on publications in elite Management, International Business, and Human Resource academic journals between 2000 and 2012. The database comprises 222 articles involving 368 authors. The analysis uses a broad scoring procedure that includes: (I) scholars' productivity in terms of number of publications (both, total and adjusted), (II) authors' productivity in terms of potential impact based on journals' performance (a wide spectrum of different metrics is used in order to allow for alternative perspectives), and (III) a citation analysis. The use of multiple and diverse scores provides a comprehensive understanding of the ranking of scholars within this particular subfield of research.

1. Introduction

Expatriate management (EM) as a distinctive subfield of research arises at the interface between International Business (IB) and Human Resource Management (HRM) focusing on people working part of their working career abroad (Bonache et al., 2001; Harrison et al., 2004), whether in corporate or self-initiated international assignments. National culture (NC) issues arise as a key element conditioning all the stages in the EM process from identification and selection of potential expatriates or self-expatriate decision to succession planning and repatriation, through training and development, compensation, performance appraisal, and retention/turnover (Harvey & Moeller, 2009).

As an important area in both IB and HRM fields, it has attracted substantial attention among scholars. A main objective of scholarly research is to influence the thinking of other scholars, as well as the field as an aggregate. Hence, as a body of literature evolves, it is useful to examine its development and influence (Acedo & Casillas, 2005; Peng & Zhou, 2006). Some recent reviews have analyzed this subfield evolution from a qualitative perspective focusing on some particular aspects of EM (i.e.: performance, training, repatriation) or providing a wide overview of the field in order to analyze the state of the art and identify a research agenda—

see, among others, Berry (2005), Bonache et al. (2001), Claus & Briscoe (2009), De Cieri et al. (2007), Harrison et al. (2004), Harvey & Moeller (2009), Nam et al. (2013), and Nery-Kjerfve & McLean (2012).

On the contrary, this subfield lacks comprehensive reviews developed from a quantitative perspective —the recent bibliometric studies by Dabit et al. (2015) and Tseng et al. (2010) aimed at building a conceptual map of the field and analyzing current research paradigms respectively are among the few exceptions. The role and relevance of quantitative studies is well documented in literature spanning a variety of disciplinary areas —see Lahiri & Kumar (2012) for an exhaustive review. Apart from providing information relative to scholars' influence on the field's content and research agenda, quantitative and ranking studies reflect and create reputations for schools and individuals (Baden-Fuller et al., 2000), and impact the morale and earnings of schools (Kogut 2008).

In this study we carry out a quantitative analysis focused on authors' research productivity and impact within the particular subfield of EM/NC. We follow a comprehensive approach in order to identify the most prolific authors within the subfield, as well as the most productive (based on 9 different journals' metrics aimed at assessing journals' performance) and cited ones. The article is organized as follows: first, we present the methodology used in the study; we then show our analyses of most prolific, productive, and cited authors. The last section displays main conclusions, reflections and limitations.

2. Methodology

Our first step consisted in the development of a protocol for a systematic and replicable review relative to the following issues:

Focus of the review: articles dealing with the influence of national culture issues at any stage of the expatriate management process.

Period of study: Our review is focused in recently published articles, so that our period is 2000-2012[13].

[13] Our choice of 2012 as the last year of the period derives from requirements relative to the citation analysis, as it needs a lag period in order to provide enough time for an article to be cited. By finishing our period in 2012 we guarantee that all the articles included in the database enjoy at least a 2-year period to be cited.

Type of articles: Full length articles published in academic journals[14]. Therefore, we have not taken into account editorials, commentary essays, book chapters, conference proceedings, etc.

Journals selection: We have focused our search in high-impact journals. Based on 2012-JCR annual impact factors we firstly selected the top 5 journals within *Business* and *Management* categories. We then carried out a search in order to identify all journals within JCR's *Business, Management* and *Economics* categories specifically focused in International Business and Human Resources. Table 1 shows the final list of 26 selected journals.

Articles identification: The first step within this stage was developed through a keyword search using the Scopus database. Through this search we identified all articles including at least one of the words in Table 2 in their title, abstract, or keywords. A second step implied a qualitative analysis based on at least two researchers' reading an interpretation of the articles' abstracts (full text when necessary) in order to decide whether the identified articles actually addressed our intended issue. Our final selection gathers 222 articles (Appendix 1).

Coding process: Data relative to each article were collected manually, categorized by author/s, year, journal, article length[15], and journals' performance in the year of publication —see section 3.2 for a wide description of the 9 different metrics considered to assess journals' performance.

[14] This type of articles can be considered to be validated knowledge (Podsakoff et al., 2005; Ramos-Rodríguez & Ruíz-Navarro, 2004). Conversely, editorials, commentaries, book chapters, etc. are often not reviewed under the same competitive review process as regular articles.

[15] The total number of pages per article was standardized based on a conversion factor using the average number of pages in IJHRM's articles.

Table 1. Breakdown of identified articles by source journal

Journal*	Abbreviation	Number of articles**
Academy of Management Journal	AMJ	9
Academy of Management Review	AMR	3
Asia Pacific Journal of Human Resources	APJHR	4
Cross cultural management	CCM	20
European Journal of International Management	EJIM	3
Human Relations	HR	2
Human Resource Development Quarterly	HRDQ	5
Human Resource Management	HRM	13
Human Resource Management Journal	HRMJ	3
Human Resource Management Review	HRMR	7
International Business Review	IBR	6
International Journal of Human Resource Management	IJHRM	84
Journal of Applied Psychology	JAP	4
Journal of International Business Studies	JIBS	11
Journal of International Management	JIM	9
Journal of Management	JM	5
Journal of World Business	JWB	20
Management International Review	MIR	6
Personnel Psychology	PP	3
Personnel Review	PR	5
Total		**222**

*A direct search in the journals' archives was carried out for some particular journals/years not available in searched databases

**The search carried out within *Administrative Science Quarterly, International Marketing Review, Journal of Human Resources, Journal of International Marketing, MIS Quarterly*, and *Strategic Management Journal* yielded no articles to be included in our research

Table 2. List of words used when performing the keyword search

Acculturation	Cultural distance
Cross-country	Cultural differences
Cross-cultural	Expatriate
Cross-national	Expatriation
Culture*	Psychic distance

*This term was entered as "international culture" for non-IB-focused journals

3. Analysis

3.1 Absolute and adjusted productivity of authors based on number of published articles

Our first analysis identifies the most prolific authors within the field considering both total and adjusted number of contributions. The total or raw number of contributions gathers the absolute number of articles in which each author is involved (regardless of the total number of co-authors in the article), while the adjusted contribution takes into account the number of different co-authors in an article —see, among others, Inkpen & Beamish (1994), Quer et al. (2007), Treviño et al. (2010), and Xu et al. (2008).

A total amount of 368 different authors are involved in the 222 selected articles, as almost 80% of them are co-authored. While 45% of the articles are coauthored by two researchers, at least three different authors are involved in about one third of them. More than 80% of these authors contributed only once (absolute contribution) pointing to a wide variety of researchers working on the field, but only a few being able to consistently publish in the selected top journals.

Table 3 reports the most prolific individual contributors to the field. As shown in the Table 3, Jan Selmer, Paula M. Caligiuri, Riki Takeuchi, and Michael Harvey are the most prolific authors in terms of both raw and adjusted counting, contributing more than 3 times (adjusted contribution) to our selected list. The magnitude of contribution of these leading authors can best be viewed in comparison to the average adjusted appearance of 0.60. Even more, taking into account their total number of contributions and the wide spectrum of journals they have published in (clear distinctions exist among these journals in terms of aim and scope or intended audience), we can affirm that this set of authors have reached a particularly extensive and diverse audience.

Table 3. Most prolific authors

Rank*	Adjusted contributions	Total contributions	Rank*	Adjusted contributions	Total contributions

1	Selmer, J.	11,91	Selmer, J.	16	**11-12**	Scullion, H.	2	Peltokorpi, V.	4
2	Caligiuri, P.	4,03	Takeuchi, R.	8	**13**	Kraimer, M.L.	1,66	Scullion, H.	4
3	Takeuchi, R.	3,24	Caligiuri, P.	7	**14**	Härtel, C.E.	1,58	Bolino, M.C.	3
4	Harvey, M.	3,16	Harvey, M.	7	**15-19**	Ando, N.	1,5	Dickmann, M.	3
5-6	Gamble, J.	3	Shaffer, M.A.	7	**15-19**	Cole, N.	1,5	Gamble, J.	3
5-6	Peltokorpi, V.	3	Kraimer, M.L.	5	**15-19**	Harrison, D.A.	1,5	Lepak, D.P.	3
7	Hutchings, K.	2,83	Froese, F.J.	4	**15-19**	Peterson, R.B.	1,5	Marinova, S.V.	3
8	Gong, Y.	2,66	Gong, Y.	4	**15-19**	Yamazaki, Y.	1,5	Tarique, I.	3
9	Froese, F.J.	2,5	Harrison, D.A.	4	**20-21**	Dickmann, M.	1,33	Varma, A.	3
10	Shaffer, M.A.	2,41	Härtel, C.E.	4	**20-21**	Janssens, M.	1,33	Yun, S.	3
11-12	Haslberger, A.	2	Hutchings, K	4	**22**	Bolino, M.C.	1,08		

* Ranked by adjusted number of contributions

3.2. Absolute and adjusted productivity of authors based on journals' performance

Journal metrics play a central role in most performance evaluations of research outputs as they have become a highly used way to rank journals. Different metrics exist, each of them calibrated to take into account specific features and focused on a particular (and therefore limited) perspective. Bibliometricians agree on the complex and multi-dimensional nature of journal performance (Moed et al., 2012). As a consequence, no single metric can effectively capture the entire spectrum of research performance; using Moed's (2010, p. 274) words "there is no single perfect indicator of journal performance".

In order to provide a wide perspective of authors' productivity based on journals' performance, and following suggestions in the White Paper on the Evolution of Journals Assessment, our analysis is based on 9 different metrics whose respective methodologies, data sources, advantages, and drawbacks have been widely discussed in existing literature —see, among others, Bergstrom (2007), Bergstrom et al. (2008). Colledge et al. (2010), González-Pereira et al. (2010), Guerrero-Bote & Moya-Anegón (2012), Moed et al. (2012), Sicilia et al. (2011), and Waltman et al. (2013). In particular, the metrics calculated and published by Thomson Reuters, Eigenfactor Organization, and Scopus are used.

Journal Impact Factors calculated by Thomson Reuters[16] and published in Journal Citation Reports (JCR) measure the frequency with which the average article in a journal has been

[16] Formerly known as t*he Institute for Scientific Information.*

cited in a particular period of time. In other words, they rank journals by the number of times they are cited in a given period. In particular, we have considered the following impact factors:

- ✓ JCR Annual-impact factor (JCR): it is a ratio between current year citations to any item published in the journal during the previous two years and the total number of articles published by this journal in the same two-year period.
- ✓ JCR Annual-impact factor without journal self-citation (JCR-wsc): the same as the previous one, except for the fact that current year citations coming from articles published in the same journal are not taken into account.
- ✓ JCR 5-year impact factor (JCR-5): it is an average citation rate similar to JCR that takes into account a 5 year period of time. It is only available from 2007; therefore, this metrics has been included in our study only for articles published from 2007 to 2012.
- ✓ JCR Immediacy index (JCR-in): it measures the ratio between current year citations to any article published in the journal in the same year and the total number of articles published by this journal in this same year. Therefore, it shows the number of times that the average article within the journal is cited in the year it is published and indicates how quickly articles in a journal are cited.
- ✓ Journal metrics calculated by the Eigenfactor Organization (University of Washington) rely on 5-year citation data and are calculated for journals listed in Thomson's JCR. They consider not only the number of incoming citations, but also their origin, so that citations coming from highly ranked journals are assigned a greater weight. Additionally, these metrics adjust for citation differences across disciplines. The two metrics considered are:
- ✓ Eigenfactor score (Eg): It bases on iterative ranking schemes known as eigenvector centrality methods. Journals are considered to be influential if they are cited often by other influential journals. Scores are scaled so that the sum of the Egs of all journals listed in Thomson's JCR is 100 and each journal's Eg is a percentage of this total. The Eg pretends to be a measure of the journal's total relevance for the scientific community and an estimate of the percentage of time that library users spend with a specific journal.

Article influence score (AI): it is a measure of the average influence of articles in the journal over the first five years after publication. It is calculated as the journal's Eg divided by the fraction of articles published by that journal. The fraction is normalized so that the total for all articles from all journals is always 1.0. Therefore, an AI value above 1.0 indicates above average influence.

Journal metrics powered by Scopus database, that is, Impact per Publication (IPP), Source Normalized Impact per Paper (SNIP), and Scimago Journal Rank (SJR). The two former have been developed by the Centre for Science and Technology Studies (University of Leiden), while the latter has been developed by a research group gathering a major European Scientific Institution17 and 4 different universities. As these metrics use Scopus as data source, they provide information for a wider number of journals than JCR or Eigenfactor scores.

- ✓ The IPP (also known as Raw Impact per Publication) measures the ratio of citations in a particular year to scholarly articles published in the journal in the three previous years divided by the number of scholarly articles published by the journal in those same years. It provides a raw indication of the average number of citations a publication published in the journal will likely receive. In short, it is somehow similar to JCR impact factor, although it relies on a different data source and takes into account a different period of time.
- ✓ The SNIP gathers the IPP once it has been normalized for the citations in the subject field. Hence, it measures contextual citation impact by weighting citations based on the total number of citations in a subject field. As a consequence, the impact of a single citation is given higher value in subject areas where citations are less likely and vice versa. It is calculated as the ratio of a journal's citation count per paper and the citation potential in its subject field. SNIP allows correcting the biases derived from differences in citation potential.
- ✓ As the Eg, the SJR bases on citation weighting schemes and eigenvector centrality where iterative calculation is essential. It relies on 3-year citations weighted by subject field and quality of the citing journal. It makes a distinction between journal popularity (based on number of citations) and journal prestige (based on the quality of these citations).

In order to assess authors' productivity the following process was followed: as a first step and for each of the 222 articles, we considered the 9 different journal's metrics in the year that the article was published. Second, we weighted each of these metrics by the standardized article's length and the adjusted number of authors. Then, a cumulative value was estimated for each of the 368 authors by adding the scores relative to all the articles in which the author was involved. The final output is an author's cumulative productivity value for each of the 9 different metrics considered. Table 4 presents these cumulative values for the top-40 authors.

[17] The Spanish Consejo Superior de Investigaciones Científicas (CSIC).

Table 4. Most productive authors based on journals' performance

JCR		JCR-in		JCR-wsc		Eg		AI		SJR		SNIP		IPP		JCR-5*	
Shaffer, M.A	11.65	Takeuch, R.	1.94	Shaffer, M.A	10.62	Shaffer, M.A	.05	Shaffer, M.A	9.30	Shaffer, M.A	14.03	Shaffer, M.A	9.91	Shaffer, M.A	13.80	Shaffer, M.A	14.08
Takeuch, R.	9.93	Shaffer, M.A	1.45	Takeuch, R.	8.76	Takeuch, R.	.04	Takeuch, R.	7.75	Takeuch, R.	12.84	Takeuch, R.	8.66	Takeuch, R.	12.31	Takeuch, R.	12.67
Kraimer, M.L.	8.60	Kraimer, M.L.	0.94	Kraimer, M.L.	7.63	Gong, Y.	.04	Gong, Y.	7.18	Gong, Y.	11.33	Gong, Y.	7.03	Kraimer, M.L.	9.76	Kraimer, M.L.	8.73
Gong, Y.	6.65	Caprar, D.V.	0.80	Gong, Y.	6.03	Kraimer, M.L.	.03	Kraimer, M.L.	7.03	Kraimer, M.L.	9.18	Kraimer, M.L.	6.94	Gong, Y.	8.87	Caprar, D.V.	5.91
Bolino, M.C.	5.13	Fee, A.	0.67	Bolino, M.C.	4.75	Harrison, D.A.	.03	Harrison, D.A.	4.05	Tharenou, P.	5.99	Selmer, J	6.17	Selmer, J	5.76	Caulfield, N.	5.88
Chen, Y.-P.	4.33	Gong, Y.	0.61	Chen, Y.-P.	4.00	Caligiuri, P.	.02	Bolino, M.C.	3.14	Harrison, D.A.	5.78	Caligiuri, P.	4.33	Harrison, D.A.	5.11	Tharenou, P.	5.88
Caprar, D.V.	3.91	Bolino, M.C.	0.60	Harrison, D.A.	3.31	Tharenou, P.	.02	Tharenou, P.	3.07	Caulfield, N.	5.60	Harrison, D.A	3.91	Caprar, D.V.	4.97	Farh, C.I.C.	5.83
Harrison, D.A.	3.87	Gray, S.J	0.55	Caprar, D.V.	3.05	Caulfield, N.	.02	Caulfield, N.	2.95	Farh, C.I.C.	4.96	Bolino, M.C.	3.45	Caligiuri, P.	4.79	Bolino, M.C.	5.70
Caligiuri, P.	3.48	Chen, Y.-P.	0.49	Lazarova, M.	2.98	Farh, C.I.C.	.01	Caligiuri, P.	2.81	Lazarova, M.	4.25	Lazarova, M.	3.07	Bolino, M.C.	4.77	Lazarova, M.	5.36
Tharenou, P.	3.14	Harrison, D.A.	0.48	Westman, M.	2.98	Bolino, M.C.	.01	Farh, C.I.C.	2.74	Bolino, M.C.	4.23	Caprar, D.V.	2.90	Lazarova, M.	4.23	Westman, M.	5.36
Farh, C.I.C.	3.14	Caligiuri, P.	0.46	Farh, C.I.C.	2.97	Caprar, D.V.	.01	Chen, Y.-P.	2.63	Caprar, D.V.	4.20	Westman, M.	2.90	Tharenou, P.	4.18	Chen, Y.-P.	5.01
Lazarova, M.	3.09	Lazarova, M.	0.43	Tharenou, P.	2.76	Yun, S.	.01	Wayne, S.J.	2.49	Westman, M.	4.16	Tharenou, P.	2.84	Farh, C.I.C.	4.13	Chang, Y.-Y.	4.03
Westman, M.	3.09	Westman, M.	0.43	Caligiuri, P.	2.74	Chang, Y.-Y.	.01	Lazarova, M.	2.39	Selmer, J	4.03	Farh, C.I.C.	2.84	Westman, M.	4.10	Gong, Y.	4.03
Caulfield, N.	2.87	Farh, C.I.C.	0.40	Caulfield, N.	2.63	Peng, M.W.	.01	Westman, M.	2.39	Caligiuri, P.	3.92	Chen, Y.-P.	2.69	Chen, Y.-P.	4.05	Peng, M.W.	4.03
Peltokorpi, V.	2.75	Gertsen, M.C.	0.40	Chang, Y.-Y.	2.17	Tesluk, P.E.	.01	Hall, D.T.	2.27	Chang, Y.-Y.	3.79	Harvey, M.	2.67	Caulfield, N.	3.73	Froese, F.J.	3.77
Chang, Y.-Y.	2.38	Søderberg, A.-M.	0.40	Peng, M.W.	2.17	Wayne, S.J.	.01	Chang, Y.-Y.	2.24	Peng, M.W.	3.79	Peltokorpi, V.	2.52	Peltokorpi, V.	3.61	Kim, K.	3.47
Peng, M.W.	2.38	Lin, C.Y.Y.	0.40	Shay, J.P	2.08	Chen, Y.-P.	.01	Peng, M.W.	2.24	Chen, Y.-P.	3.77	Wayne, S.J.	2.51	Froese, F.J.	3.29	Bartol, K.M.	3.35
Shay, J.P	2.33	Yamazaki, Y.	0.40	Bartol, K.M.	1.87	Stahl, G.K.	.01	Caprar, D.V.	1.94	Kim, K.	2.88	Caulfield, N.	2.44	Wayne, S.J.	2.97	Shapiro, D.L.	3.35
Selmer, J	2.24	Danis, W.M.	0.38	Shapiro, D.L.	1.87	Froese, F.J.	.01	Yan, A.	1.88	Ren, H	2.84	Froese, F.J.	2.30	Chang, Y.-Y.	2.95	Shin, J.	3.35
Froese, F.J.	2.22	Tharenou, P.	0.35	Shin, J.	1.87	Lazarova, M.	.01	Zhu, G.	1.88	Bartol, K.M.	2.71	Gamble, J.	2.24	Peng, M.W.	2.95	Harrison, D.A	3.03
Wayne, S.J.	2.13	Selmer, J	0.34	Peltokorpi, V.	1.84	Westman, M.	.01	Yamazaki, Y.	1.83	Shay, J.P	2.67	Hall, D.T.	2.22	Harvey, M.	2.90	Ren, H	3.03
Kim, K.	1.95	Caulfield, N.	0.33	Kim, K.	1.81	Bhaskar-Sh., P.	.01	Ren, H	1.68	Shapiro, D.L.	2.60	Bartol, K.M.	1.98	Bartol, K.M.	2.73	Peltokorpi, V.	2.92
Gertsen, M.C.	1.95	Altman, Y.	0.33	Hall, D.T.	1.73	Luk, D.M.	.01	Shay, J.P	1.57	Shin, J.	2.60	Cole, N.	1.86	Yamazaki, Y.	2.72	Gertsen, M.C.	2.51
Søderberg, A.-M.	1.95	Baruch, Y.	0.33	Wayne, S.J.	1.68	Wang, M.	.01	Wang, M.	1.52	Hall, D.T.	2.57	Shapiro, D.L.	1.81	Shapiro, D.L.	2.56	Søderberg, A.-M.	2.51
Bartol, K.M.	1.93	Barinaga, E.	0.32	Ren, H	1.63	Hall, D.T.	.01	Kim, K.	1.50	Chen, G.	2.36	Shin, J.	1.81	Shin, J.	2.56	Chen, G.	2.48
Shapiro, D.L.	1.93	Hall, D.T.	0.32	Li, J.	1.58	Ren, H	.01	Bartol, K.M.	1.50	Kirkman, B.L.	2.36	Chang, Y.-Y.	1.77	Kim, K.	2.43	Kirkman, B.L.	2.48
Shin, J.	1.93	Peterson, R.B	0.31	Froese, F.J.	1.52	Selmer, J	.01	Shapiro, D.L.	1.50	Tangirala, S.	2.36	Peng, M.W.	1.77	Hall, D.T.	2.39	Tangirala, S.	2.48
Hall, D.T.	1.89	Lin, H.-W.	0.29	Gertsen, M.C.	1.51	Yan, A.	.01	Shin, J.	1.50	Li, J.	2.28	Yamazaki, Y.	1.74	Gertsen, M.C.	2.35	Cole, N.	2.46
Cole, N.	1.82	Lu, T.-C.	0.29	Søderberg, A.-M.	1.51	Zhu, G.	.01	Yun, S.	1.44	Wayne, S.J.	2.24	Marinova, S.V.	1.65	Søderberg, A.-M.	2.35	Bozionelos, N.	2.37
Ren, H	1.78	Froese, F.J.	0.28	Yamazaki, Y.	1.40	Kim, K.	.01	Bhaskar-Sh., P.	1.26	Peltokorpi, V.	2.15	Kim, K.	1.61	Gray, S.J	2.26	Barinaga, E.	2.35
Harvey, M.	1.77	Bartol, K.M.	0.27	Wang, M.	1.35	Shay, J.P	.01	Luk, D.M.	1.26	Yun, S.	2.11	Yun, S.	1.59	Ren, H	2.21	Li, J.	2.20
Li, J.	1.75	Shapiro, D.L.	0.27	Gray, S.J	1.32	Lepak, D.P.	.01	Chen, G.	1.24	Harvey, M.	2.02	Barinaga, E.	1.55	Cole, N.	2.18	Shay, J.P	2.20
Yamazaki, Y.	1.71	Shin, J.	0.27	Fee, A.	1.32	Chen, G.	.01	Kirkman, B.L.	1.24	Yan, A.	2.00	Gray, S.J	1.53	Shay, J.P	2.17	Dickmann, M.	1.98
Gray, S.J	1.71	Kim, K.	0.26	Cole, N.	1.28	Kirkman, B.L.	.01	Tangirala, S.	1.24	Zhu, G.	2.00	Wang, M.	1.53	Fee, A.	2.12	Fee, A.	1.92
Wang, M.	1.62	Shimoni, B.	0.24	Selmer, J.	1.23	Tangirala, S.	.01	Marinova, S.V.	1.21	Marinova, S.V.	1.96	Yan, A.	1.52	Marinova, S.V.	2.11	Gray, S.J	1.92
Fee, A.	1.59	Wang, M.	0.24	Marinova, S.V.	1.19	Li, J.	.01	Tesluk, P.E.	1.19	Froese, F.J.	1.91	Zhu, G.	1.52	Gamble, J.	2.06	Pattie, M.	1.83
Barinaga, E.	1.58	Wayne, S.J.	0.23	Yan, A.	1.17	Cole, N.	.01	Peltokorpi, V.	1.17	Lepak, D.P.	1.90	Fee, A.	1.47	Yun, S.	1.98	Delios, A.	1.77
Marinova, S.V.	1.41	Peltokorpi, V.	0.23	Zhu, G.	1.17	Peltokorpi, V.	.01	Li, J.	1.11	Gertsen, M.C.	1.89	Lepak, D.P.	1.40	Wang, M.	1.95	Gaur, A.S.	1.77
Yun, S.	1.38	Cole, N.	0.22	Yun, S.	1.14	Bartol, K.M.	.01	Gray, S.J	1.08	Søderberg, A.-M.	1.89	Peterson, R.B	1.40	Bozionelos, N.	1.87	Singh, K.	1.77
Yan, A.	1.28	Chang, Y.-Y.	0.22	Bozionelos, N.	1.14	Shapiro, D.L.	.01	Lepak, D.P.	1.04	Wang, M.	1.85	Shay, J.P	1.40	Barinaga, E.	1.76	Ellis, D.R.	1.74

*Only for articles published from 2007 in advance Bhaskar-Sh., P.: Bhaskar-Shrinivas, P.

As before said, each metrics aims at favoring a particular perspective; therefore, rankings differ from one another. Although correlations exist, they are far from being perfect. Focusing on the leadership positions in each ranking, we find 4 authors that consistently keep among the top-10 —Shaffer, Takeuchi, Kraimer, and Bolino— regardless of the metric considered. As they keep this position even in the JCR-5 that is only calculated for articles published after 2007, we can affirm that their leadership keeps consistent all along the analyzed period. Additionally, Gong and Harrison keep within this top-10 group for all metrics except JCR-5, pointing to a leadership position similar to that of the former group, but only in the first sub-period (2000-2006). As shown in the Table 4, some authors (i.e.: Caulfield, Fahr, Lazarova, Westman) enter this top-10 selected group when focusing in the second sub-period and/or not taking into account self-citation by the journal, while other authors (i.e.: Fee, Gray) enter this group when considering the immediacy degree of the citation process, pointing to cutting-the-edge research quickly acknowledged and cited by colleagues[18]. Broadening the data source (i.e.: using Scopus) and /or weighting citations by journals' influence or discipline implies the entry/exit of different authors within this selected group (i.e.: Caprar, Caligiuir, Chen, Selmer, Tharenou).

3.3. Assessment of the impact of research articles: a citation analysis

As before said journal metrics represent the average impact of an article published in a specific journal. Consequently, they do not measure the actual impact of a particular article or piece of research. Citation analysis assumes that any bibliographic reference included in an article reflects some influence on the author's results and/or perspective. Hence, it is an objective and widely used way to measure an article's impact —see, for instance, Acedo & Casillas (2005), Li & Tsui (2002), Peng & Zhou (2006), Quer et al. (2007).

In order to assess the actual impact of the articles gathered in our database, we conducted a citation analysis up to December 31st-2014 using Scopus database. Citations were not counted for articles published in journals not included in this database for some particular years[19], so that we finally measured citation for 202 articles that gathered a total of 4,588 cites (4,241 excluding self-citation), an average of more than 20 cites per article. Table 5 reports the list of 56 articles with at least 25 cites excluded self-citation (about 25% of the total list of 222 articles).

[18] It has to be noted that a bias exists, as the higher the journal's number of issues per year, the higher its JCR-in is likely to be.

[19] Cross Cultural Management: 2000-2009, Human Resource Development Quarterly: 2000, Human Resource Management Journal: 2000, and Management International Review: 2000-2004.

Table 5. Most cited articles

Rank*	Article	Year	Journal	Total citations excluding self-citations/per year	Rank	Article	Year	Journal	citations excluding self-citations/per year
1	Bhaskar-Shrinivas et al.	2005	AMJ	222/24.7	29-30	Chen et al.	2010	AMJ	39/9.8
2	Kraimer et al.	2001	PP	179/13.8	29-30	Kim & Slocum	2008	JWB	39/6.5
3	Caligiuri	2000	PP	159/11.4	31-33	Shin et al.	2007	JIBS	38/5.4
4	Yan et al.	2002	AMJ	111/9.3	31-33	Harrison & Shaffer	2005	IJHRM	38/4.2
5	Takeuchi et al.	2002	JAP	101/8.4	31-33	Wang & Kanungo	2004	IJHRM	38/3.8
6	Johnson et al.	2006	JIBS	98/12.3	34	Hocking et al.	2007	HRM	35/5.0
7	Takeuchi et al.	2005	AMJ	92/10.2	35	Leung et al.	2001	IJHRM	34/2.6
8	Gong	2003	AMJ	85/7.7	36-38	Takeuchi	2010	JM	33/8.3
9	Caligiuri et al.	2001	IJHRM	82/6.3	36-38	Engerlhard & Nägele	2003	JWB	33/3.0
10	Gamble	2003	IJHRM	71/6.5	36-38	Eschbach et al.	2001	IJHRM	33/2.5
11-13	Carr et al.	2005	JWB	70/7.8	39-42	Peltokorpi & Froese	2009	IJHRM	32/6.4
11-13	Manev & Stevenson	2001	JIBS	70/5.4	39-42	Brock et al.	2008	JIBS	32/5.3
11-13	Law et al.	2000	IJHRM	70/5.0	39-42	Carraher et al.	2008	JIBS	32/5.3
14	Kraimer & Wayne	2004	JM	69/6.9	39-42	Stroh et al.	2000	JWB	32/2.3
15	Shaffer & Harrison	2001	JAP	61/4.7	43-45	Colakoglu & Caligiuri	2008	IJHRM	31/5.2
16	Mezias & Scandura	2005	JIBS	60/6.7	43-45	Gong	2003	JM	31/2.8
17	Van Vianen et al.	2004	AMJ	59/5.9	43-45	Gamble	2000	IJHRM	31/2.2
18-19	Gaur et al.	2007	JM	57/8.1	46	Paik & Sohn	2004	JWB	30/3.0
18-19	Ferner et al.	2001	JWB	57/4.4	47-48	Peltokorpi	2008	IJHRM	29/4.8
20	Bossard & Peterson	2005	JWB	56/6.2	47-48	Napier & Taylor	2002	IJHRM	29/2.4
21	Baruch & Altman	2002	HRM	52/4.3	49	Kraimer et al.	2009	HRM	28/5.6
22	Stahl & Caligiuri	2005	JAP	48/5.3	50	Lazarova et al.	2010	AMR	27/6.8
23	Bennett et al.	2000	HRM	45/3.2	51-53	Takeuchi et al.	2005	PP	26/2.9
24	Tarique et al.	2006	IJHRM	43/5.4	51-53	Goodall & Roberts	2003	JWB	26/2.4
25-27	Tharenou & Caulfield	2010	AMJ	42/10.5	51-53	Clegg & Gray	2002	IJHRM	26/2.2
25-27	Au & Fukuda	2002	JWB	42/3.5	54-56	Bozionelos	2009	HRM	25/5.0
25-27	Harvey et al.	2001	IJHRM	42/3.2	54-56	Wang & Takeuchi	2007	JAP	25/3.6
28	Selmer	2001	IJHRM	41/3.2	54-56	Legewie	2002	IJHRM	25/2.1

*Ranked by total number of citations, excluded self-citation as first criterion, and by citations per year as second one

Although we have provided to all articles at least a 2-year period to be cited, it must be acknowledged that this analysis does not do full justice to articles published in most recent years (i.e.: any article published in 2011 or 2012 has reached 25 cites). In order to take into account this bias we have considered also the ratio of citations per year, considering the number of years since the article was published. Some recent articles arise among the most cited ones, among them, Chang et al. (2012) and Tharenou & Caulfield (2010) —more than 10 cites per year—, Chen et al. (2010) and Takeuchii (2010) —more than 8 cites per year— Doherty et al. (2011) and Shaffer et al. (2012) —over 7 cites per year. Although these are not among the most cited articles in absolute terms, this evidence points to an expected outstanding influence in the near future.

The distribution of 56 most cited documents by journal shows us the prominent relevance of IJHRM, as it gathers up to 30% of these selected articles. When analyzing this issue in relative terms, we find that 100% of the articles published in JAP and PP and over 65% of the articles published in AMJ, AMR, and JM are included in this top-cited list. Up to 20% of these selected articles come from Management journals and 25% from IB journals, with the remaining 52% coming from Human Resource specialized journals.

A total of 112 authors are involved in the 56 most cited articles. From this list, we selected the top 25 most cited authors (Table 6) by estimating cumulative cites based in these 56 articles. As shown in Li and Tsui (2002), this is a conservative estimate of the impact of these authors' work, as we did not include in this cumulative counter other articles they published that did not survive the 25-cites cutoff. As shown in the Table 6, Margaret Shaffer, David Harrison and Paula Caligiuri are the authors with over 300 citations of their work, while another five different authors gather more than 200 citations.

Table 6. Top-25 authors based on citation

Rank	Authors	Total citations excluding self-citations	Rank	Authors	Total citations excluding self-citations
1	Shaffer, M.A.	376	14-16	Hall, D, T.	111
2	Harrison, D.A	321	14-16	Yan, A.	111
3	Caligiuri, P.	320	14-16	Zhu, G.	111
4	Takeuchi, R.	277	17	Gamble, J.	102
5	Kraimer, M.L.	276	18-20	Apud, S.	98
6	Wayne, S.J.	248	18-20	Johnson, J. P.	98
7-8	Bhaskar-Shrinivas, P.	222	18-20	Lenartowicz, T.	98
7-8	Luk, D.M.	222	21	Lepak, D.P.	92
9-10	Tesluk, P.E.	193	22-24	Bürgi, P.	82
9-10	Yun, S.	193	22-24	Lazarova, M.	82
11	Jaworski, R.A.	179	22-24	Phillips, J.	82
12	Gong, Y.	159	25	Kim, K.	78
13	Tarique, I.	125			

4. Reflections

This piece of research provides an overview of the leading authors in the particular subfield of EM/NC, based on publications in top Management, International Business and Human Resource journals. It bases on a comprehensive set of measures that allows identifying most prolific, most productive, and most cited authors. Therefore, it sheds light on the source and magnitude of the scholarly influence in EM/NC.

The first conclusion to be derived is that in order to have a comprehensive understanding of the ranking of scholars, different measures have to be simultaneously used. A high number of publications in top journals clearly indicate that a scholar has been prolific and successful in generating high visibility output. However, this number does not provide information about this output's potential/actual impact. Ranking scholars by using the number of publications in an isolated way hides the implicit assumption that all contributions have equal impact. As pointed in Peng & Zhou (2006), although all published journal articles can be argued to be high quality research which makes a contribution, their impact is not likely to be equal. Using journal metrics (impact factors and influence scores) is a first option to overcome this shortcoming (Treviño et al., 2010). As a wide range of metrics exist, each of them favoring a particular issue (raw impact, weighted impact, immediacy, etc.), the use of a single metric does not provide a comprehensive oversaw of research's impact. Just on the contrary, different metrics based on diverse data sources and different methodologies must be considered. Even when considering multiple metrics, ranking authors based only on journals' performance may derive in a bias, as these metrics relate to "an average article" published in the journal. Finally, a citation analysis allows measuring the actual influence of a particular article. However, and regardless of its objective nature, biases are still likely —older publications getting, on average, a higher number of citations (Peng & Zhuo, 2006), potential citation based on legitimacy issues rather than in intellectual rigor (Mizruchi & Fein, 1999), or some type of articles (i.e: conceptual, reviews) systematically receiving more cites (Harzing, 2002).

As each measure has advantages, but also shortcomings, considering a wide spectrum of measures becomes essential in order to provide a reliable overview of the field. Actually, our analysis reveals that volume (number of publications), productivity (publications impact based on journals' performance), and influence (number of citations) do not always overlap.

When focusing on the top-10 authors within the different rankings, we find that Margaret Shaffer and Riki Takeuchi unquestionable lead this field of research, as they are among the top-10 most prolific (total and adjusted contributions), productive (9 different metrics) and cited authors —María Kraimer shares a quite similar position, except for the fact that she is not within the top-10 most prolific authors when considering adjusted contributions. However, such overlap does not exist for all authors, as only 50% (total contributions) and 70% (adjusted contributions) of the top-10 most prolific authors are also included in the top-10 most cited ones. In a similar way, some highly prolific authors do not reach so high positions in productivity rankings based on journals' performance, while some particularly productive authors do not rank among the most cited ones. In summary, although one may intuitively expect that more prolific authors are also highly productive and cited, this is not necessary the case —our findings relative to this point are consistent with those achieved by Peng & Zhou (2006) in their analysis relative to global strategy literature.

Limitations

Although the present study provides important insights into the state of scholarship in the EM/NC field, it is important to note several limitations.

A first limitation derives from the focus on just scholars, but not on academic institutions. Developing an additional analysis in order to rank institutions according to their degree of productivity, and identifying most influential institutions arises as a necessary step in order to have a comprehensive oversaw of the field. Even more, rather than just identifying the institutional affiliation of authors at the moment the articles were published, it would be particularly interesting to identify the institutions currently hosting the most influential authors as it is to be expected that these institutions play a key role in driving the field's research agenda in the near future.

Although this is a bibliometric study based on quantitative objective measures, subjective decisions were made with respect to the inclusion of certain types of research outputs, as editorials, books, book chapters, etc. were not included in the analysis. Our focus on full length journal articles impedes the analysis of this outputs' actual or potential influence, and prevents recognition to their authors.

Results are contingent to the selected time period; therefore, selecting a different time period may change the findings. Additionally, past productivity is not necessary and indicator of future productivity. As addressed to in Xu et al. (2008), the productivity of authors varies depending on their career cycles, editorial roles, and so on.

Finally, we have used a relatively simplistic citation methodology (i.e.: count-based approach). An extension of this work using more sophisticated approaches —see, for instance, Tahai and Meyer 1999)— could be an interesting issue within the research agenda. Even more, as pointed by Peng and Zhou (2006), a meaningful measure of an article's influence would be its impact on the profession rather than on researchers. Although this arises as an exciting challenge, it requires a data source quite different from the one used in this research.

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18. Brand logo design: Exploring consumer response to naturalness across cultures

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Abstract

Literature concerned with logo strategy suggests that the aesthetic appeal of brand logo significantly influences consumer reactions. The main purpose of this research is to study the influence of the different categories of natural logo designs on consumer response. Through two studies in three countries, this research sheds light on consumer logo preferences, by investigating the psychological properties of the naturalness of logo design. Results showed that naturalness is an essential design element that significantly influences affective responses. Moreover, results suggest that organic designs are clearly preferred, and that the appeal of the different categories of natural designs seems to be universal. Furthermore, our findings suggest that affect towards unknown organic logos is at the same level that affects towards known abstract logos. This is a relevant finding from a managerial point of view, since familiarity (an essential cognitive response towards the brand that has a cost for the firm) can be replaced at non-cost with the type of logo design used.

Keywords: brand, brand logo design, consumer response, national cultures

19. Exports and tourism: Testing the causality

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Abstract

This paper analysis the dialectic between exports of local processed agro-food products and inbound tourism. On the one hand, the inflow of visitors reduces the costs of entering in foreign markets. Indeed, as it brings a sample of the international market to the local economy, international tourism reduces the costs of acquiring information about the demands of international clients. Furthermore, international visitors learn about and taste new products while travelling, and back in their countries, they act as promoters of these products from abroad. Hence, 'tourism acts as a springboard for promotion of domestic products in foreign markets'. The contact with the local agro-food products, in restaurants, shops and local fairs, for example, plays a major role in the way visitors experience the destination, and some visitors even return to the same destination to taste and enjoy its authentic products.

The empirical research is conducted with respect to Portugal and some local agro-food products for which Portugal is known internationally, namely cheese, olive oil, sausages, canned fish, and wine. Data for the period between 2000 and 2012 is analysed using Johansen's maximum likelihood method (ML) and Granger causality test. The results of Granger short-run causality test reveal that the relationship exist, but the significance and direction of causality differs between products. Based on these results it argues that policymakers should exploit new opportunities related with the reputation and image of the region of origin of the local products to promote tourism. Moreover, by providing evidence on the impact from increased inflows of visitors on increased exports of local products, the strength of a new channel through which tourism in Portugal can have economy wide gains emerges.

20. The impact of non-familial management in internationalization

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Abstract

Purpose: Although the concepts of “family business,” internationalization, and “agency theory” have received some attention in the literature, these concepts and theories have been used independently. Our study helps close the gap between what we know and what we need to know about family managers’ and non-family managers’ (NFMs’) decision making regarding internationalization

Design/methodology/approach: We analyze the story of Busscar, a Brazilian firm that began internationalization with a family manager and finished it with a non-family one. The transition happened suddenly, as the family CEO died in an accident and the company promoted a overnight to replace him. This circumstance and the fact that Busscar accelerated its internationalization process after the transition just to go bankrupt a few years later makes this case a critical one.

Findings: We conclude that under NFMs, the speed and scope of firm-internationalization processes were accelerated and the financial risks augmented, in line with agency theory hypothesis and contradicting suggestions that NFMs tend to be more structured.

Research limitations/implications: For many researchers, it is important to professionalize the management of family firms. It is expected that an NFM leads to a more structured strategy. Our study shows otherwise. Changing the manager leads to opportunistic internationalization using emerging strategies rather than following deliberate ones.

Originality/value: This study suggests that the firm, the network, entrepreneurship and ownership are not the only important variables. Manager origin (inside or outside the family) can change everything.

Keywords: Family business, succession, international business, international strategy,

agency theory.

21. Critical realist case studies of foreign subsidiary development

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Abstract

In this methodological paper, I explore the potential of critical realist case studies for research on foreign subsidiary development. For that purpose, I begin with a review of the ontological, epistemological, and methodological assumptions of critical realism. Ontologically, reality is assumed to be stratified and emergent; epistemologically, knowledge is assumed to be transitive, but objective; and methodologically, research is expected to be highly contextual. In addition, I review the implications of such assumptions for causation, explanation, and generalization. In particular, causation is regarded as the manifestation of mechanisms rather than variables; explanation is based on retroduction rather than induction or deduction; and generalization is assumed to be transfactual rather than analytical or statistical. Critical realist case studies can thus be distinguished from other types of case studies for their emphasis on contextual explanation. In order to illustrate the potential for such case studies in international business research, I conclude with an application to foreign subsidiary development.

Keywords: critical realism, case studies, foreign subsidiary development

Introduction

In the last forty years, Critical Realism (CR) established itself as a legitimate alternative ontology and epistemology to other philosophical stances such as positivism, constructivism, critical theory, and conventional realism (Morais, 2010). In Elger's words (2010, p. 256), CR 'opposes the traditional dichotomies of positivist and constructionist epistemologies and the associated polarization of quantitative and qualitative methods'.

As a methodology, however, CR has failed to provide clear guidelines to those willing to conduct a critical realist research project in general (e.g. O'Mahoney and Vincent, 2014) and in international business (IB) in particular (Morais, 2011; Welch et al., 2011). Elger (2010, p. 256), for instance, claims that the implications of CR 'for a distinctively critical realist conception of case study research remain underdeveloped and are only now being discussed'. Roy Bhaskar (2014, p. v), the founder of CR, equally acknowledges that "if CR is to be 'serious', it must be applicable".

In the particular case of multinational corporations, Doz (2004) similarly claims a traditional dichotomy between economic and managerial theory. Economic theory is based on quantitative methods and focused on contextual factors that explain the existence of multinational corporations. Managerial theory, by contrast, is based on qualitative methods and focused on managers and processes of multinational corporations. Economic theory has Anglo-Saxon origins, whereas managerial theory has Nordic roots, especially in Sweden and in Finland.

In the context of managerial theory, the focus has evolved from the management of the multinational corporations to the management of the subsidiaries (Birkinshaw, 1996; Paterson and Brock, 2002; Doz, 2004). In the specific case of subsidiary development, it is assumed that such a process is influenced by numerous factors at several levels of analysis such as the mandate given by the headquarters, the subsidiary choices, and the local environment (Birkinshaw and Hood, 1998). It appears consensual, however, that an extensive explanation of subsidiary development will only be possible with longitudinal case studies (Chidlow et al., 2015).

More generally, it has been recently acknowledged that new philosophical stances are needed in IB research (Devinney et al., 2013). In particular, it is assumed that the influence of economic theory in IB research may have limited its plurality in terms of ontological, epistemological, and methodological assumptions. Qualitative methods in general and case studies in particular are therefore increasingly welcome in IB research (Birkinshaw et al., 2011; Doz, 2011).

According to Welch et al. (2011), the most promising and least practiced type of case study in IB research is the critical realist case study. The main virtue of such a type of study is the ability to explain historically a process in a certain context, complementing the quantitative results of economic theory with contextual explanations from managerial theory. The purpose of this methodological paper is therefore to review the specificities of critical realist case studies for research on IB in general and subsidiary development in particular.

The next section thus reviews the ontological, epistemological, and methodological assumptions of CR. The third section discusses the implications of such assumptions for causation, explanation, and generalization. The fourth section reviews current prescriptions on how to conduct a critical realist case study. The fifth section illustrates the potential of such case studies in IB with the case of subsidiary development. The sixth and concluding section summarizes the main contributions of this paper.

Assumptions of critical realism

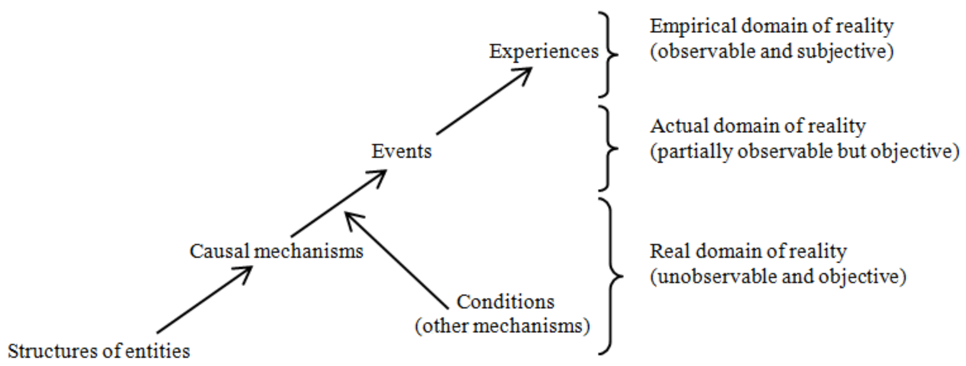
Over the last thirty years, CR has gained prominence as a philosophical stance (Blundel, 2007). Harré (1972) and Bhaskar (1975) established the basis of 'transcendental realism' as an ontological and epistemological stance in the natural sciences which challenges conventional realist ontology by proposing that reality is stratified into three domains (Bhaskar, 1975, p. 56), not all of which are observable. Such a stance was then extended into the social sciences as 'critical naturalism' (Bhaskar, 1979), but with the acknowledgment of differences between natural and social phenomena. Specifically, 'critical naturalism' proposed a unity of method between the natural and social sciences while acknowledging that social phenomena are characterized by non-natural features such as the intentionality of human action, the emergence of autonomous and inherently meaningful social structures, and the interplay between social structure and human agency (Blundel, 2007, p. 54). The term 'critical realism' is thus a synthesis of 'transcendental realism' and 'critical naturalism'.

In terms of ontology, critical realists share the assumption of positivists that 'the world exists independently of our knowledge of it' (Sayer 1992, p. 5). They differ, however, on the critical realist assumption that the world consists of more than events and our experience of them. In particular, critical realists posit a stratified world that comprises a real, an actual and an empirical domain (Bhaskar, 1979; Harré and Madden, 1975; Harré and Secord, 1972; Outhwaite, 1987).

As depicted in Figure 1, the ‘real’ domain consists of causal mechanisms; that is, processes by which structured entities with causal powers and liabilities act and generate events in the actual domain. Thus, the real is ‘the realm of objects, their structures and powers’ (Sayer 2000, p. 11). The real domain is unobservable but objective since critical realist ontology assumes reality to be independent of our knowledge of it.

The actual domain, on the other hand, consists of equally objective but partially observable events, since scientific means such as the microscope and statistical treatment of data may allow events that are unobservable to human senses to become observable. The empirical domain, by contrast, consists of subjective but observable experiences. Events are, therefore, only observable by human senses as experiences in the empirical domain, and may be out of synch with the causal mechanisms that create them.

Figure 1. Critical realist view of reality (adapted from Sayer, 2000, p. 15, Figure 1.2)



In terms of epistemology, critical realists believe, as do constructivists, that knowledge can only be produced in terms of available descriptions or discourses (Sayer, 2000). In other words, scientific theories and discourse are transitive, but the world they address is intransitive. A critical realist perspective thus views social phenomena as dependent on the social meaning ascribed to them and the production of knowledge as a social practice, which influences its content (Sayer, 1992). This is not to say that social phenomena exist exclusively as interpretations of researchers nor that knowledge is exclusively linguistic, but rather that such influences must be accounted for in the evaluation of scientific knowledge. In particular, social scientists need to engage in a so-called 'double hermeneutic'; that is, interpret the theories of their own scientific community, as well as that of 'knowing' social phenomena (Blundel, 2007, p. 55). In Blundel's (2007, p. 54) words, 'realists have been unwilling to stop their search at the level of meaning, but prefer to see its interpretation as merely the starting point for the pursuit of deeper causal explanations'.

In terms of methodology, Sayer (2000, p. 19) claims that "critical realism endorses or is compatible with a relatively wide range of research methods". The author distinguishes, however, between extensive research on formal relations of similarity based on a priori taxonomic groups, and intensive research on substantial relations of connection based on causal groups. Extensive research begins with the identification of a population and the definition of taxonomic groups "often based on bad or incoherent abstractions" (Sayer, 2000, p. 19) to seek quantitative relations among variables. Intensive research, by contrast, begins with particular individuals and then traces their main causal relationships to elicit causal groups that may not be possible to define at the outset of the research. Extensive research thus "ignores or does not directly address the causal groups in which particular individuals (persons, institutions, etc) are actually involved, that is the groups or networks of specific people, institutions, discourses and things with which they interact" (Sayer, 2000, p.20).

In similar fashion, Reed (2009, pp. 439-440) suggests that CR implies the adoption of an intensive research design with certain characteristics. First, research questions should be context-specific and aimed at explaining why a certain change was produced in a particular situation for a particular group of entities. Second, the answer to such questions should require a combination of ethnographic, textual, historical, and structural data. Third, such a combination of phenomenological, discursive, interpretative, and material data should facilitate the identification of substantive relations and the underlying generative mechanisms that produced them. Fourth, there should be iteration between empirical detail and theoretical analysis. Finally, the causal explanations that account for observed outcomes in terms of generative mechanisms should be corroborated by iteration between specific cases.

More recently, Ackroyd and Karlsson (2014) distinguish between eight distinctive research designs based on two dimensions: whether the research is intensive or extensive; and whether the researcher is detached or involved. They claim, however, that "chief among these are the ordinary case study and the comparative case study"

(Ackroyd and Karlsson, 2014, p. 23), which they consider intensive and detached to discover causal mechanisms and their interaction with their context.

Nevertheless, Ackroyd and Karlsson (2014, p. 45) acknowledge that “there is a serious lack of appealing and accessible material on CR-informed methodology to set those new to these ideas off on a path to accomplish interesting and insightful research”. More importantly, the authors acknowledge that “supplanting the positivist paradigm with one which has limited capacity to produce objective knowledge can hardly be considered an advance”. The following section thus discusses the implications of critical realist ontological, epistemological, and methodological assumptions for causation, explanation, and generalization.

Causation, explanation, and generalization

Mechanism-centred theorizing reflects a critical realist approach to case study research, whereas variable-centred theorizing is typical of conventional realist and positivist research (Morais, 2011). As Easton (2010, p. 120) points out, the concept of entities with causal powers whose effects depend on contingent relationships is fundamentally opposed to variables, and thought to offer a more powerful explanation since ‘variables can only register (quantifiable) change, not its cause’ (Sayer, 1992, p. 180).

Central to such a debate is the claim that realism has a greater focus on context, given that positivism relies on fewer analytical variables (McGrath, 1982; Ragin, 1987), and in its pursuit of generalizable laws seeks to abstract away from context. A hypothesis, for instance, includes two analytical variables only. Therefore, it can be regarded as an under-contextualized simplification of reality. Conventional realist models, by contrast, tend to include more analytical variables in order to prevent under-contextualization, but are not mechanism-centred as critical realist models.

A mechanism-centred approach to research is focused on the ways in which structures of necessarily related entities cause events to occur. When two entities are necessarily related and thus have their identity mutually constituted (e.g., a manager and a subordinate who can only be defined in relation to the other), they form a structure (Sayer, 1992). Conversely, entities are externally or contingently related if either entity can exist without the other (Sayer, 1992). Ultimately, what is necessary or contingent can come down to one’s viewpoint, since ‘the theoretical framework chosen governs the difference between necessary and contingent’ (Easton, 2010, p. 121).

Whether a causal power is activated or not depends on intrinsic conditions, which preserve the nature of the entity, and on extrinsic conditions, which are external to the entity (Sayer, 1992). A regular generation of events is achieved when both intrinsic and extrinsic conditions are met, but such control of all interfering variables is only possible in closed systems (Bhaskar, 1979; Harré and Madden, 1975), such as laboratory-style experiments. In the social sciences (and indeed, much of the natural sciences) such conditions of closure are virtually unattainable due to: a) individual capacity for learning and self-change, which violates intrinsic conditions; and b) modification of social systems by human action, which violates extrinsic conditions (Sayer, 1992).

According to Sayer (2000, p. 23), "a realist approach assumes open systems and a generative model of causation in which the outcomes of the activation of mechanisms (e.g. crime prevention programmes) always depend on specific contexts". By contrast, the orthodox 'successionist' theory of causation assumes the social world to be a closed system in which events are expected to regularly cause certain effects. In other words, positivism and conventional realism do not consider the emergence of unexpected actions of interpretation and implementation of mechanisms, which violate intrinsic conditions, or unexpected reactions from their context, which violate extrinsic conditions. In other words, only critical realism assumes social systems to be emergent to the point of questioning regularities and causal laws.

According to Elger (2010, p. 254), a critical realist explanation thus requires a theoretically guided analysis of relationships among mechanisms (processes by which entities with particular causal powers cause events), contexts (other entities which may trigger, mediate, or contradict those powers), and outcomes (caused effects or events). Explanation does not proceed through either induction or deduction, since both remain at the level of partially observable events (i.e., the actual domain). Rather, in order to understanding how mechanisms and structures impact on observable behaviour, critical realists have suggested a mode of inference they have termed 'retroduction'. Retroduction refers to the move from the observable experience in the empirical domain of an event in the actual domain to its causal mechanisms in the real domain (Blundel, 2007; Bhaskar, 2014).

Retroduction addresses an important question regarding the feasibility of critical realist explanation: if causal mechanisms are unobservable, how can they be accessible to social scientists? According to critical realists, an explanatory effort starts with actors' own accounts of what has caused the phenomenon (Danermark et al., 2002). Retroduction thus implies a retrospective inference of unobservable causal mechanisms in the real domain of reality from actors' accounts (i.e., stated reasons) of observable experiences in the empirical domain of reality. Researchers take the descriptive accounts of actors and 'redescribe' them using available theoretical perspectives and causal language (Easton, 2010, p. 199).

Critical realists regard retroduction logic (cf. Sayer 1992, pp. 169-174) as being fundamentally different from deductive sampling logic and inductive replication logic. It is not the case that 'mechanisms are postulated then data collected', or that mechanisms are 'induced' from data (Easton, 2010, p. 124). While induction and deduction are variable-centred approaches which circumscribe explanation to the actual domain of reality, CR focuses on mechanism-centred theorizing which extends explanation to the real domain of reality.

In line with its alternative view of causation and explanation, CR offers a fresh conceptualization of generalization: transfactual generalization. The term 'transfactual' implies that causal mechanisms in the real domain of reality can be generalized in spite of not manifesting themselves in the empirical domain of reality. In Blundel's (2007, pp. 55-56) words, "retroduction involves a type of scientific generalization that is concerned with the isolation of fundamental structures whose powers can be said to act 'transfactually' (i.e. continuing to exist, even though their operations may not be manifested at the level of events or observations)".

More specifically, Easton (2010, p.121) relates the issue of critical realist generalization to that of necessary and contingent relations between entities since 'if all relations were contingent then each explanation would be unique and incapable of contributing towards anything by way of generalization'. As a result, 'researchers do not postulate ironclad laws, but tendencies, which may or may not manifest themselves in the empirical domain' (Tsoukas, 1989, p. 558).

Transfactual generalization (see also Danermark et al., 2002, p. 77) is regarded as an alternative to statistical and analytical generalization (e.g., Bonoma, 1985; Brewer and Hunt 1989), since causal mechanisms may be generalized in the real domain of reality despite not exhibiting statistical or analytical external validity in the actual domain.

Critical realist case studies

CR is primarily ontological and epistemological, not methodological (e.g. Reed, 2009). A strong bridge between the philosophical and the applied is yet to be forged, and there are very few examples of critical realist case studies to be found (e.g., Ackroyd, 2009;

Welch et al., 2011). There is no doubt, however, that case study research is regarded as essential to generating causal explanations in the critical realist tradition (Ackroyd and Karlsson, 2014).

Given the diversity of case study research, the question remains as to what sort of case study design is consistent with a critical realist approach. In general, case studies may be objectivist or subjectivist depending on whether they address facts or values, respectively. Stake (2000), for instance, distinguishes between ‘instrumental’ and ‘intrinsic’ case studies. In ‘instrumental’ case studies the case (sampling unit) is of secondary interest, but it facilitates the understanding of a phenomenon (Stake, 2000, p. 437). In ‘intrinsic’ case studies ‘the purpose is not to come to understand some abstract construct or generic phenomenon’, but the particular features of the case (sampling unit). In other words, instrumental case studies address facts whereas intrinsic case studies address values.

The literature does provide some suggestions as to how to design a critical realist case study, even though such studies remain rare in practice. Danermark et al. (2002, pp. 103-105), for instance, recommend the selection of ‘extreme’ or ‘pathological’ cases as well as comparative cases for the purpose of identifying causal mechanisms. Ackroyd (2009) suggests four different case study research designs, along two dimensions: causal mechanisms and contexts. Intensive single case studies allow the understanding of a specific causal mechanism in one context, whereas intensive multiple case studies allow the understanding of that specific causal mechanism in various contexts. On the other hand, extensive single case studies allow the understanding of interacting causal mechanisms in one context, whereas extensive multiple case studies allow the understanding of those interacting causal mechanisms in various contexts.

More generally, Easton (2010, pp. 123-124) proposes six steps in order to conduct a critical realist case study. First, the phenomenon to be studied should be complex, dynamic and relatively clearly bounded. Second, the research question should be of the form ‘what caused the events associated with the phenomenon to occur’. Third, the objects or entities which characterize the phenomenon should be identified, taking into account necessary as well as contingent relations among them. Fourth, data should be collected through several collection techniques, with a particular focus on plausible causal mechanisms. Fifth, data should be interpreted through retroductive logic and taking into account the double hermeneutic (interpreting knowledge in the scientific community as well as in the phenomenon under study). Finally, alternative explanations should be compared through ‘judgemental rationality’ (reasoned, provisional and public discussion of alternative judgements about reality).

More recently, Welch et al. (2011) suggest of typology of case studies based on two dimensions: contextualisation and causal explanation. The authors claim that critical realist case studies are the only type of case study that emphasizes contextualization and causal explanation simultaneously by focusing on contextualised explanations. By contrast, positivist (empiricist) case studies (e.g. Eisenhardt, 1989) deemphasize both contextualization and causal explanation by focusing on inductive theory building. Interpretive/constructionist case studies (e.g. Stake, 1995), on the other hand, emphasize contextualization at the expense of causal explanation by focusing on interpretive sensemaking. Finally, positivist (falsificationist) case studies (e.g. Yin, 2009) emphasize causal explanation at the expense of contextualization by focusing on natural experiments.

Welch et al. (2011, p. 747) claim, in particular, that “the philosophical foundation for contextualised explanation is distinct from the other methods of theorising, as it lies in critical realism”. They acknowledge, however, that in their content analysis of 199 case-based research articles published between 1999 and 2008, in Academy of Management Journal, Journal of International Business studies, and Journal of Management Studies, only three articles take a critical realist perspective and none is focused on IB. Welch et al. (2011, p. 756), thus conclude “that greater application of contextualised explanation would benefit the IB field”. More recently, Saka-Helmhout (2014, p. 185), cites Morais (2011) to justify “a practical application of critical realism in IB research, in particular in cross-national transfer of knowledge, to show its potential use in causation, explanation, and generalization”.

The adoption of critical realist case studies in IB research is thus welcome and increasingly recommended. There are, however, pros and cons in their application. On the one hand, case studies are the most popular qualitative research strategy in IB studies (Andersen and Skaates, 2004; Piekkari et al., 2009) and the field is prone to debates on philosophy of science (e.g., Devinney et al., 2013). On the other hand, however, IB researchers tend to avoid risky methodological choices given their psychic distance towards research subjects (Hurmerinta-Peltomäki and Nummela, 2004) and the low rate of publication of qualitative research in IB journals (e.g., Pauwels and Matthyssens, 2004). The following section thus attempts to illustrate the potential for critical realist case studies in IB with an application to foreign subsidiary development.

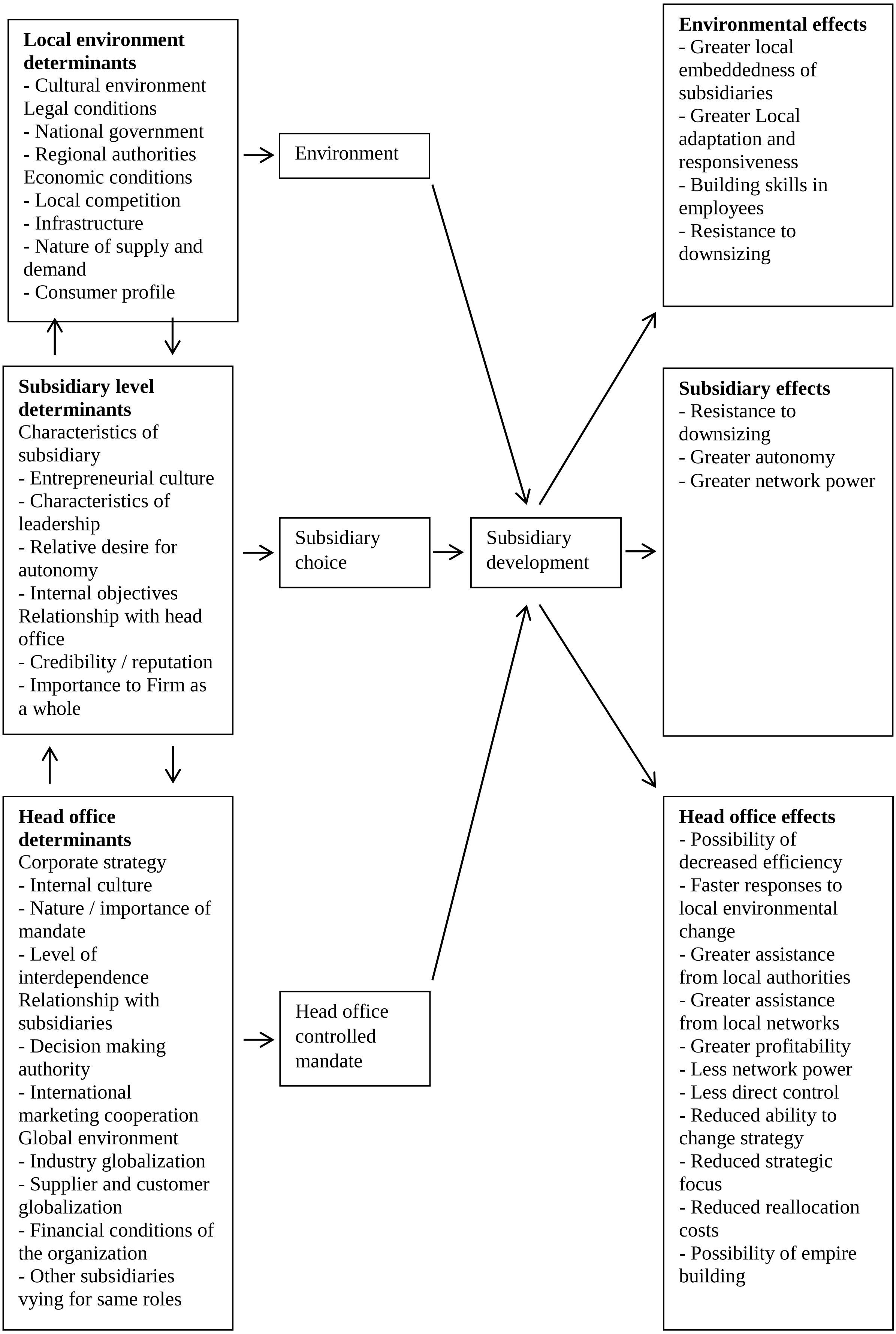
Foreign subsidiary development

In a review of subsidiary-management research, Paterson and Brock (2002) subdivide the field in four research streams: uniform top-down design of strategy and structure by headquarters; heterogeneous and bilateral headquarters-subsidiary relationships; typologies of subsidiary roles including world product mandates and centres of excellence; and subsidiary development. The latter topic of research is justified with the importance of continuous investment in subsidiaries from the point of view of the host country, including local managers, government and other stakeholders.

In particular, subsidiary development is regarded as a process of changing roles (Cavanagh and Freeman, 2012). In addition, it is conceptualized as a cyclical process of action and reaction in which three basic mechanisms interact: the mandate given by the headquarters, subsidiary choices, and the local environment (Birkinshaw and Hood, 1998). Such three main drivers of subsidiary development are related, in turn, with several factors at several levels of analysis resulting in a complex theoretical framework. Paterson and Brock (2002, p. 149), for instance, depict a model (Figure 2) which they call “subsidiary development: causes and effects” including forty variables at the level of headquarters, subsidiary, and local environment.

Such a proliferation of variables is one of the criticisms targeted at positivist research (Morais, 2011), especially when the phenomenon under study is dynamic such as subsidiary development. In the particular case of Figure 2, the dynamics of subsidiary development are only implicit in the arrows connecting taxonomic groups such as local environment, subsidiary, and head office. It is not clear, however, whether such taxonomic groups are causal groups at all and which causal mechanisms explain their interaction.

Figure 2. Subsidiary development: causes and effects (adapted from Paterson and Brock, 2002, p. 149, Figure 4)



As an antidote to such proliferation of variables in IB research, I have previously recommended mechanism-centred theorizing based on critical realist case studies (Morais, 2011). From that perspective, it would be possible to explain subsidiary development as an outcome of causal mechanisms underlying the interaction of causal groups. Such causal groups could be other than local environment, subsidiary, and head office. In addition, it would be possible to specify the contexts in which such causal mechanisms are activated.

In similar fashion, recent research on subsidiary development claims that “future research could gain from adopting a longitudinal approach in order to demonstrate a subsidiary’s development over time” (Chidlow et al., 2015, p. 8). Such a recommendation does not take, however, a critical realist point of view.

Such a research gap in the study of subsidiary development thus could be addressed by critical realist case studies. In particular, researchers could trace the process behind subsidiary development with a particular emphasis on necessarily related entities (persons or institutions) and their causal powers. From that initial approach to detailed case study data, researchers could elicit substantial relations of connection, that is, causal groups that suggest unobservable but plausible causal mechanisms. As a result, the causal mechanisms of subsidiary development could be postulated, albeit tentatively, for subsequent peer review through judgemental rationality (Easton, 2010).

Such research findings would contrast with the current proliferation of variables in the study of subsidiary development (Paterson and Brock, 2002). Moreover, instead of assuming taxonomic groups such as headquarters, subsidiary, and local environment (Birkinshaw and Hood, 1998), researchers would be open to conceptualise new causal groups (Sayer, 2000). A promising avenue in that direction is the suggestion by Cavanagh and Freeman (2012) that subsidiary development is a process of changing roles, thus emphasizing its emergent nature (Sayer, 2000).

Conclusion

CR is increasingly acknowledged as a new philosophical stance, but its methodological implications are still controversial. This paper contributes to such a debate by reviewing the ontological, epistemological, and methodological assumptions of CR and its implications for causation, explanation, and generalisation. In particular, reality is assumed to be stratified and emergent; knowledge is assumed to be transitive, but objective; and research is assumed to be highly contextual. As a result, causation is regarded as the manifestation of mechanisms rather than variables; explanation is based on retroduction rather than induction or deduction; and generalization is assumed to be transfactual rather than analytical or statistical. Critical realist case studies can thus be distinguished from other types of case studies for their emphasis on contextual explanation. The field of IB research is particularly prone to the adoption of critical realist case studies due to the widespread use of case study research and interest in philosophy of science. An example of the potential application of CR in IB research is the study of subsidiary development given its characterisation as a process of changing roles.

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22. Labour market flexibility and FDI attraction: A macroeconomic analysis

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Abstract

The foreign direct investment (FDI) is a mode of entry into international markets that can provide important benefits to the host economies. For this reason, policymakers have sought to apply policies to attract greater foreign direct investment flows. Thus, it is useful to understand how these policies influence the attraction of FDI. Although there is an extensive and relevant literature that explores the determinants of FDI, there are few studies that focus on the relationship between labour market flexibility and foreign direct investment. Within the existing studies that focus on this determinant, there are few studies who use macroeconomic data, verifying thus a higher incidence of firm-level studies. Additionally, most of the studies also use old data. Thus, this study aims to analyze the influence of labour market flexibility on foreign direct investment, based on macroeconomic data for a set of 180 countries and a relatively recent period of analysis (2004-2009). Using econometric techniques with panel data, the results show that labour market flexibility enhances the attraction of FDI. In particular, the rigidity of working hours is the dimension of labour market regulations that most negatively affects the attraction of FDI. Furthermore, based on the control variables used, it was found that the economic and financial incentives, trade barriers, the growth and the size of the market and the level of human capital are important determinants in the explanation of FDI's patterns.

Keywords: Foreign direct investment, location determinants, labour market flexbility, labour regulations

JEL codes: F21; J80.

23. Imports and exports: The case of family firms

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Abstract

Within the growing literature on family businesses, the topic of internationalization is receiving increased attention among academic researchers. However, the results obtained are inconclusiveness. We expect to provide more light to this literature analyzing the impact of imports on both export propensity and export intensity in the particular case of family businesses. We also deepen on the study of intermediate imports from subsidiaries and other independent suppliers. We use a Spanish manufacturing panel data for the period 2006-2012 from the database SBS. The method used is a two-stage Heckman selection model. We find a positive impact of imports on exports, so there are no differences between family and non-family firms. When we focus on intermediate imports, the behavior of family businesses and other companies is no exactly the same.

Keywords

Imports, exports, internationalization, family firms.

Introduction

Globalization is increasingly pushing firms to internationalize. However, family firms are still reluctant to increase their international presence. Thus, within the growing literature on family businesses, the topic of internationalization is receiving increased attention among academic researchers (e.g. Fernández and Nieto, 2006; Arregle et al., 2012). Despite this interest, there is not a clear understanding of how family ownership and management affects different aspects related to internationalization process, so the results obtained are considered as inconsistent so far (Kontinen and Ojala, 2010; Pukall and Calabrò, 2014).

Some authors suggest that family ownership and management have a positive impact on the internationalization of a company (e.g. Zahra, 2003; Carr and Bateman, 2009). However, other researchers maintain that the relationship between these variables is negative (e.g. Fernández and Nieto, 2006; Graves and Thomas, 2006). We can even find papers where there are no significant differences between family firms and non-family firms in regard to international practices (e.g. Cerrato and Piva, 2010). According to Pukal and Calabrò (2014), the main conclusion is that the external ownership and influence via the board leads to an increase in internationalization activities of family firms, while a complete exemption of family control or influences might turn this effect around. Therefore, one of the main challenges to family businesses is to balance the ability to expand overseas to compete in a global market, and the ability to preserve the control of the company within the family owner group.

As expected, family firms own specific characteristics that differentiate them from other companies when facing the international market. When a firm develops a internationalization process requires a set of resources and skills. Family firms, per se, provide some of these resources, but also it is a barrier to access other. For example, family commitment with the strategy of the company, long-term orientation, or reputation are some of the features of family businesses, while the difficulty to get financial resources or the possible lack of professionalization are obstacles that they must overcome. Thus, there is an interest in the study of family businesses that reside in the own nature of this type of firms.

In the previous literature there are few studies trying to measure whether family firms are more active than non-family firms in the international market. These papers focus on exports, while there is no information on import activities. Fernández and Nieto (2006) analyze whether family ownership and management have a significant effect on international activity, and in particular, whether the obstacles of family businesses limit their international expansion regarding to export propensity and export intensity. They obtain that family firms that are exporters are lower than other companies, and their level of international commitment, measured by export intensity, is also lower than non-family firms. Graves and Thomas (2006) focus their study on the differences of management capabilities between family firms and non-family firms with regard to internationalization, confirming that family businesses are one step behind the non-family businesses, especially in high levels of internationalization. However, Cerrato and Piva (2010) indicate that the involvement of the family property in management only has a negative impact on export propensity, whereas once the firm is an exporter there are no significant differences between family firms and non-family firms, either export intensity or geographical scope.

Traditionally, the priority of family firms is long-term survival versus growth, so they usually grow slowly (Harris et al., 1994). The main reasons of this conservative behavior are the following: risk aversion of family businesses because a significant part of the wealth of the owner family is committed in the company; and lack of resources and capabilities because to finance certain investments, such as the international expansion of the firm, it can be opposed to the aims and demands of the family, who prefer internal versus external financing. Both of them are obstacles to internationalization process.

Our research focus on the study of imports, where the case of family firm could be particularly important, as in the few previous studies on exports. Specifically, our aim is to analyze whether family ownership and management influence the possible positive impact of imports on exports. In other words, we expect to examine whether there are significant differences between family businesses and non-family businesses in their international activities. In this way, we hope to contribute to literature that includes the knowledge of both family firms and internationalization, providing more light to previous results obtained in other papers. Moreover, we focus our research on an international aspect that it has no been studied according our knowledge.

In particular, we focus on the analysis of the impact of imports on both export propensity and export intensity, with more attention on those imported intermediate products and distinguishing between those intermediate imports that come from subsidiaries and those coming from other independent suppliers. For this study, we use a representative sample of Spanish manufacturing family firms that consists in an unbalanced panel of 2,954 observations covering the period between 2006 and 2012.

Background

According Bellido and Ramírez (2015), where we analyze the different effects that the different types of imports could have on exports, we present a brief summary in the Tables 1 and 2.

Table 1. Benefits of imports to export propensity

Type of import	Imports (in general)	Intermediate imports	
		Subsidiaries	Independent suppliers
Benefits	Learning process, increase of information and knowledge about foreign markets and international experience.	Increase of information advantages: more comunication and information exchange, and better coordination. Greater recognition by the market and reputation.	Improvement of productivity, use of lower costs and higher quality, and greater efficiency.
Consequences	Better conditions to overcome the barriers and aditional costs of entry in a foreign market → Increase of export propensity.		

Source: Own elaboration.

Table 2. Benefits of imports to export intensity

Type of import	Imports (in general)	Intermediate imports	
		Subsidiaries	Independent suppliers
Benefits	Access to cheaper or higher quality inputs, and also inputs are no available in local market, as well as new technological advances. More reputation → More commitment and trust.	More control over costs and quality, economies of scope, improvements in efficiency and productivity, and possibility to improve innovativeness.	Tap internal resources, improvements in efficiency, lower investment in production assets, more ability to response and flexibility, and possibility to improve innovativeness by transfer of knowledge.
Consequences	Improvement and development of competitive advantages of the firm → Increase of export intensity.		

Source: Own elaboration.

Focusing on the case of family firms, firstly we must define family business. In the literature there is a great diversity of concepts to delimit a family firm. In general, it is common to combine the ownership by a family, and the membership of at least one member of the family in a management position (e.g. Graves and Thomas, 2006; Claver et al., 2008; Abdellatif et al., 2010). We define family firm as a company where a family participate actively in the control and management of the firm.

Internationalization is a good opportunity to exploit the competitive advantages of the firm abroad. However, family firms are at a disadvantage in comparison with other companies when they face their international expansion because they have more difficulties to obtain financial resources, a conservative attitude, and they are risk averse. Family businesses may find more obstacles to internationalize due to lack of resources and skills to address the complexity of the process. Moreover, the uncertainty around the internationalization process is an added difficulty since the decision to start competing in foreign markets is an uncertain decision because of lack of information about foreign markets and internationalization process. In this situation, imports arise as an international operation that can be important to international expansion since they allow firms to access to a key resource to face and try to overcome the obstacles: the available information about both international market and management of overseas expansion. Other aspect that may be important is the learning process and gradual acquisition of experience and knowledge about international market obtained by import activities. As a consequence, the internationalization process can be driven, and therefore they can boost exports of the firm. In other words, imports may facilitate family firms the overcoming of barriers and the decreasing of entry costs in a foreign country, while they gain access to lower cost or higher quality inputs, or access to new technological advances that favor the development of their competitive advantages. Thus, imports can facilitate their presence in the international market.

Whether we analyze in more detail the advantages that imports can provide family businesses, the case is different depending on type of imports. Imports from subsidiaries require a high initial investment so the greater difficulty to access to resources of family firms or their conservative attitude may stop this type of international operation. Meanwhile, their risk aversion or their reluctant attitude to make changes within the firm that favor the decentralization also constitute difficult barriers to overcome to create subsidiaries. As a consequence, family firms are unable to benefit from the advantages generated by intrafirm trade in order to overcome entry costs of a foreign country or to enhance their international activities. However, imports from other independent suppliers are a good opportunity to family firms and their presence in foreign markets. They may create and maintain stable long-term relationships with suppliers, so family businesses can access to management capabilities necessary in international market in order to face a more complex internationalization process. For all these reasons, we consider that the possible positive effects of imports on exports also occur in the case of family firms. However, we expect that this positive impact have no place to study the intrafirm trade.

Methods

To carry out the empirical analysis we use the information provided by the database "Survey on Business Strategies (SBS)", which contains accountung and strategic information of panel data about Spanish manufacturing firms with 10 or more worlers. This database is considered as a representative database of the Spanish network, and suitable for microeconomic analysis (Fariñas and Jaumandreu, 1999). For this study, we select family firms obtaining a sample that consists in an unbalanced panel of 2,954 observations, of which 2,114 correspond to exporters.

In the Table 3 we present the descriptive statistics about the number of family businesses are non-exporters, exporters, non-importers and importers.

Table 3. Number of firms according to specific international operation performed

Year	Non-exporters	Exporters	Non-importers	Importers		Total
				Subsidiaries	Independent suppliers	
2006	115	259	113	261		374
				39	168	
2007	104	221	99	226		325
				23	162	
2008	110	244	103	251		354
				24	180	
2009	106	253	107	252		359
				20	183	
2010	104	253	107	250		357
				29	170	
2011	155	429	166	418		584
				32	296	
2012	146	455	166	435		601
				36	326	

Source: Own elaboration from database SBS.

With respect to variables, we have two dependent variables: export propensity and export intensity, so we use a two-stage Heckman selection model (Heckman, 1989) because this procedure allow us avoid the potential problem of selection bias that happens due to the export intensity of some companies is zero. Therefore, in the first stage our model analyzes the impact of imports, intrafirm trade and intermediate imports from independent suppliers on export propensity for family firms by a Probit model. In the second stage, after selecting exporters, our model studies the effect of these variables on export intensity by Ordinary Least Squares regression (OLS).

In the Table 4 we show the main descriptive statistics of variables used in each stage of Heckman selection model. In the Table 5 we present correlation matrices and VIF values, which are below of 10, the limit established by Hair et al. (1999). Thus, there are no multicollinearity problems in our model.

Table 4. Descriptive statistics

	Full Sample (N= 2,954)				Censored Sample (N= 2,114)			
Variable	Minimum	Maximum	Mean	s.d.	Minimum	Maximum	Mean	s.d.
m	0	0.801	0.096	0.132	0	0.801	0.121	0.138
Sub	0	1	0.022	0.110	0	1	0.030	0.128
nonSub	0	1	0.368	0.440	0	1	0.443	0.444
Age	0.693	5.147	3.335	0.610				
Size	2.303	8.892	4.193	1.207	2.303	8.892	4.497	1.194
Markets					0	4	2.371	1.292

N: number of observations; s.d.: standard deviation.

Source: Own elaboration from database SBS.

Table 5. Correlation matrices and VIF analysis

	1	2	3	4	5	VIF	1	2	3	5	6	VIF
1. m	1.00					1.23	1.00					1.36
2. Sub	0.12*	1.00				1.11	0.08*	1.00				1.11
3. nonSub	0.27*	-0.05*	1.00			1.11	0.06*	-0.09*	1.00			1.33
4. Age	0.21*	0.10*	0.09*	1.00		1.11						
5. Size	0.40*	0.24*	0.17*	0.30*	1.00	1.25	0.35*	0.23*	0.05*	1.00		2.08
6. Markets							0.13*	0.05*	0.06*	0.33*	1.00	1.17

* p-value < 0.01

Source: Own elaboration from database SBS.

Results

In the Table 6 we show our results. Firstly, Wald statistics indicate that our model is suitable because the fit is good. As a result, the estimates are consistent. Secondly, our model predicts consistent results regarding to the fist stage (Probit), since the 80.47% of cases are classified correctly. Thirdly, Mills' ratio is no statistically significant so there is no a problem of selection bias. However, we consider that this method is the most appropriate because the problem could have occurred.

In the column 1 we present the result of the first stage of Heckman selection model, where we study the impact of imports, intermediate imports from subsidiaries, and intermediate imports from other independent suppliers on export propensity. In the column 2 we show the results obtained in the second stage, where we examine the effect of these variables on export intensity. Whether we focus on first stage, we appreciate that imports have a positive and statistically significant impact on the decision of exporting of family firms, which confirm our hypothesis. Regarding to intermediate imports, the effect of those that come from subsidiaries is no statistically significant, whereas the impact of those coming from other independent suppliers is positive and statistically significant, supporting our hypotheses. With respect to the results of the second stage, we observe that the effect of imports on export intensity is also positive and statistically significant. However, in regard to intermediate imports we obtain different results in comparison with the first stage. The impact of intermediate imports from subsidiaries on export intensity is positive and statistically significant, but in the case of intermediate imports from independent suppliers the relationship is no statistically significant.

Table 6. Results for two-stage Heckman selection model

	Stage 1 - Probit export propensity$_t$	**Stage 2 – MCO** export intensity$_t$
Variables	Coef. (Std. Error)	Coef. (Std. Error)
constant	-2.199*** (0.259)	0.086 (0.067)
m_{t-1}	2.335*** (0.311)	0.232*** (0.048)
Sub $_{t-1}$	0.461 (0.461)	0.114** (0.043)
nonSub $_{t-1}$	0.483*** (0.071)	0.019 (0.015)
Age $_{t-1}$	0.180*** (0.052)	
Size $_{t-1}$	0.461*** (0.032)	-0.007 (0.008)
Markets$_{t-1}$		0.068*** (0.004)
Mills' ratio		-0.008 (0.044)
Sector dummies	Included	Included
Time dummies	Included	Included
No. Observations	2,954	2,114
No. Cases correctly classified	2,377 (80.47%)	
Adjusted R^2 (%)		27.20
$R^2_{McFadden}$ (%)	28.08	
Wald chi^2		645.75***

Conclusions

Family businesses and internationalization are two important part of management literature in recent years. The joint study of both is growing because of the need to analyze the international expansion of the particular case of family firms. However, the results obtained in previous papers are inconclusiveness, so we must deepen the impact of family ownership and management on different aspects of internationalization in order to light up and complement the present knowledge.

In our research we focus on the analysis of imports because there are no previous studies examining them from the case of family businesses according to our knowledge. For this reason, we study the impact of imports on exports with particular emphasis on the greater difficulties that family firms may find in international market, and also how they may overcome the obstacles of internationalization process.

The results obtained indicate that there is a positive impact of imports on both export propensity and export intensity, so family businesses are able to use the advantages provided by imports. In regard to intermediate imports, we distinguish between subsidiaries and other independent suppliers, and appreciate that the impact is also positive in this second case, but only on export propensity. We have no evidence of a positive relationship between intrafirm trade and the decision of exporting, probably due to the great difficulties to create subsidiaries for family firms. Indeed, only 7% of family businesses have subsidiaries in our sample. Once the firm is already an exporter, the relationship between intrafirm trade and export intensity is positive too.

According to our analysis and also based on what obtained in Bellido and Ramírez (2015), there are no many differences between family firms and other companies. In a so globalized market, family businesses they are involved in the internationalization process, at least in regard to importing and exporting, in a similar proportion than non-family businesses. We can find differences when we focus on intermediate imports, either though subsidiaries or though independent suppliers, since family firms perform lesser extent these international operations. With respect to the impact of different import activities on exports, the only difference is found in the effect of intrafirm trade on export propensity, whose relationship is no significant in the case of family businesses but positive for other companies. However, the rest of relationships studied have similar results for all companies.

Our research contributes to fill a gap in both literature on family businesses and internationalization. In particular, we expect to provide some light to international expansion of family firms because the previous results are inconclusiveness. We perform our study from an importer perspective, something new to our knowledge. Thus, our main contribution is deepen on the knowledge of family businesses and their differences with non-family businesses regarding to the effects of imports on exports.

Moreover, we provide some implications for management of family firms. In our research we show the positive effects of different types of imports on exports, and how firms can use the advantages that import activities provide to face international market, and to overcome the obstacles of export process of the firm. We also develop how family firms may benefit of some of these advantages in order to overcome the greater difficulties that they find to internationalize, and we demonstrate that imports are a valid and beneficial method to decrease the potential differences between family firms and non-family firms in foreign markets.

Finally, we have a set of limitations in our study. Firstly, our database has no detailed information about family businesses, so it is necessary to deepen on other aspects of interest. Secondly, we use proxies to measure some variables, but all of them are recognized and approved in the literature. At last, our database only contains information about Spanish manufacturing firms, so this research could be replicated in other context to contribute to the generalization of the results.

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24. Institutional framing for entrepreneurship: A comparative analysis between a Sub-Saharan country and a Southern European country

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Abstract

This article examines several institutional driven dimensions and the capacity to start a business in a factor-driven country and in an innovation-driven country. The study uses data from the National Expert Survey - Global Entrepreneurship Monitor (NES-GEM) data. Specifically, the data was gathered through the application of a structured interview to National (entrepreneurship) Experts in a cross-cultural context. Two countries, Portugal and Angola are analysed. Results show that there are significant differences concerning the cultural and social norms, the government entrepreneurship programs as well as the social image of the entrepreneur. The study is limited by the reduced number of countries selected. A further limitation is based on the fact that the study only addresses the institutional factors present on NES-GEM. In terms of originality, first, the study addresses an area of the GEM model that is under-researched - the National Experts Survey database. Second, the study compares three institutional factors between two subsample data sets representing a factor-driven economy and an innovation-driven economy.

Keywords- Cross-cultural Management; Global Entrepreneurship; GEM data

25. Cross-border mergers & acquisitions: A bibliometric review and future research avenues

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Abstract

Cross-border mergers and acquisitions have attracted a substantial attention over the last few years. The increasing number of cross-border deals has also driven the attention of scholars to this phenomenon and research has augmented over the years. Therefore it is useful to look into the literature and grasp what is already known in a systematic and analytical way. There has been some attempts to review the extant knowledge in the field. However, most reviews are more general M&A reviews and do not focus specifically on cross-border deals, or restrict the analysis to a specific region. Other studies use different approaches, such as meta-analyses to look into the determinants of performance, but do not focus on cross-border deals. In this paper we conduct a bibliometric review of cross-border mergers and acquisitions over a 20-year period (1994-2013). Using a sample of 256 articles published in 69 journals we performed citation, co-citation and factor analyses, in a longitudinal way which allowed us to observe the evolution of the themes and theoretical approaches used. We did not restrict the data retrieval to a single field but instead opted for retrieving articles published in Business and Management outlets. Therefore we include general management journals (e.g. Academy of Management Journal) and specific outlets for several disciplines such as international business (IB) (e.g. Journal of International Business Studies), strategic management (e.g. Strategic Management Journal), human resources (e.g. International Journal of Human Resource Management) and others. We conducted citation, co-citation and factor analyses both for the entire sample and also for sub-periods in a longitudinal way. These analyses arguably allow us to understand what are the key topics delved into and what are the key works influencing CBMA research. We also grasp the intellectual structure of the CBMA field as we present the ties binding theories and authors. Thus we identified the importance of culture-related works as well as the increasing importance of resource- and knowledge-related approaches. Finally we suggest some avenues for future research endeavors. Our bibliometric review is also valuable as it presents in a systematic way a large amount of scattered information on CBMA and allows for scholars – especially junior scholars and newcomers to the field – to quickly grasp the current state of CBMA research. Also our study may be useful to detect gaps in the existing research literature and may thus contribute to a further understanding of CBMA.

Keywords: Cross-border M&As; international acquisitions; bibliometric review

Introduction

Cross-border mergers and acquisitions (CBMA) are an important way to perform foreign direct investment (FDI) operations. As an alternative to greenfield ventures or partnerships, CBMA pose specific challenges and offer unique advantages. Therefore there has been a wealth of research delving into CBMA (Shimizu et al., 2004). For instance, the choice of CBMA over other entry modes (Anderson & Gatignon, 1986; Barkema, Bell & Pennings, 1996; Chang & Rosenzweig, 2001) has been looked into. The influence of several country-level factors on CBMA has been delved into (Stahl & Voigt, 2008), namely national cultural differences (Morosini, Shane & Singh, 1998), institutions (Björkman, Fey & Park, 2007; Olie, 1994;) and also combining multiple country-level factors (Brouthers & Brouthers, 2000). Several firm-level factors influencing CBMA have also been delved into such as relatedness (Datta & Puia, 1995), the degree of subsidiaries control required (Gatignon & Anderson, 1988) and the control mechanisms deployed (Calori, Lubatkin & Very, 1994). The post-CBMA integration challenges have also been examined (Birkinshaw, Bresman & Håkanson, 2000), focusing the differences in organizational cultures (Buono & Bowditch, 1989) and the top executive teams influence in value creation (Graebner, 2004). From a theoretical standpoint, there are also multiple approaches, ranging from a resource-based view (RBV) (Capron, 1999) to transaction costs theory (Hennart & Reddy, 1997) (TCT) and organizational learning (Haleblian & Finkelstein, 1999; Vermeulen & Barkema, 2001). Thus we may observe a broad range of research interests which result in a somewhat fragmented research field (Stahl & Voigt, 2008).

There has been some attempts to organize and make sense of the extant knowledge in the field. However, most reviews are more general M&A reviews and do not focus specifically on cross-border deals (Cartwright & Schoenberg, 2006; Ferreira et al., 2014; Haleblian et al., 2009) or restrict the analysis to a specific region (Chen & Findlay, 2003). Other studies use different approaches, such as meta-analyses to look into the determinants of performance (e.g. Datta et al., 1992; King et al., 2004), but do not focus on cross-border deals. Thus, although there have been some attempts to review the extant literature on CBMA (e.g. Chapman, 2003; Hitt & Pisano, 2004; Shimizu et al., 2004) most of the CBMA reviews focus a specific topic within the field, such as cultural compatibility (Schoenberg, 2001) and human resources management (Napier, 1989). Thus it is arguably important to offer a portrayal of what is known and how has CBMA research evolved so far.

The objective of this paper is understand how has the CBMA research evolved in the last decades. We performed a bibliometric review of 256 articles published in 69 journals over the 1994-2013 period using the meta-data of the articles we retrieved from *ISI Web of Knowledge*. We did not restrict the data retrieval to a single field but instead opted for retrieving articles published in Business and Management outlets. Therefore we include general management journals (e.g. *Academy of Management Journal*) and specific outlets for several disciplines such as international business (IB) (e.g. *Journal of International Business Studies*), strategic management (e.g. *Strategic Management Journal*), human resources (e.g. *International Journal of Human Resource Management*) and others. We conducted citation, co-citation and factor analyses both for the entire sample and also for sub-periods in a longitudinal way. These analyses arguably allow us to understand what are the key topics delved into and what are the key works influencing CBMA research. We also grasp the intellectual structure of the CBMA field as we present the ties binding theories and authors.

This paper contributes to a better understanding of CBMA by putting forward a broad portrayal of the research over the last two decades. Literature reviews seek to understand what is already known and how has research been so far. However, traditional literature reviews are only capable of examining a relatively small number of works in a somewhat arbitrary selection. Therefore when trying to make sense of a large body of knowledge a more objective approach may be useful to complement the traditional in-depth literature reviews, as bibliometric techniques are suitable to deal with a large number of articles which allows to uncover trends and map the intellectual structure of the field. Our bibliometric review is also valuable as it presents in a systematic way a large amount of scattered information on CBMA and allows for scholars – especially junior scholars and newcomers to the field – to quickly grasp the current state of CBMA research. Also our study may be useful to detect gaps in the existing research literature and may thus contribute to a further understanding of CBMA.

The paper proceeds by presenting an overview of the extant literature on cross-border mergers and acquisitions. The methodology used is then presented and our main findings follow. The paper closes with a broad discussion of our results and avenues for future research.

Literature review

Cross-border mergers and acquisitions are considered to be all the merger and acquisition (M&A) deals involving firms headquartered in two different countries (Hitt & Pisano, 2004). M&As are posited to be arduous operations since they considered unique operations (Hayward, 2002) which require developing specific capabilities to perform successfully. Additionally, CBMA occur in the international business environment encompassing the differences in culture, economic and financial system, political and legal issues and other institutions which hinder firms' operations abroad (Ferreira et al., 2013). Thus firms performing CBMA face increased adversities due to differences in international business environment (Hitt & Pisano, 2004).

Cross-border mergers & acquisitions motives

Firms often choose to undertake CBMA to perform FDI (Chapman, 2003). Entering foreign markets allows firms to deploy and leverage their home-grown resources and capabilities in exploitative manner (Barney, 1991; Capron, Dussauge & Mitchell, 1998; Gubbi et al., 2010). Controlling resources and capabilities that are not readily available in the market may lead to imperfections which may be overcome by internalizing the activities. Thus, firms may appropriate the rents of their capabilities in foreign markets gaining an advantage over the local competitors (Buckley & Casson, 1976; Dunning, 1993). Notwithstanding, when exploiting resources and capabilities firms may internalize their activities through greenfield operations (Hennart & Park, 1993) which offers greater flexibility (Anand & Delios, 2002) and prevents paying acquisition premiums (Markides & Ittner, 1994) and dealing with organizational inertia (Barkema & Vermeulen, 1998).

Firms may also perform CBMA to develop new capabilities or access resources they do not hold or which are location-bound (Anand & Delios, 2002; Capron et al., 1998). When the internal development of new capabilities is difficult or there are failures in the market for resources, entering the market for corporate control may be more efficient (Capron et al., 1998; Wernerfelt, 1984). In fact, CBMA are often performed to acquire organizational knowledge and develop novel capabilities in a deliberate manner (Zollo & Singh, 2004). Thus, firms may also seek to obtain new resources and capabilities by acquiring foreign firms thus allowing to deploy them in other markets (Capron et al., 1998; Seth, 1990). This is often the case of firms from emerging economies may be especially vulnerable to competition from global competitors and perform CBMA to rapidly expand their pool of resources (Gubbi et al., 2010; Luo & Tung, 2007). This springboard expansion, to use Luo and Tung (2007) metaphor, allows firms not only to maintain their home-country competiveness but to enter other markets to leverage their newly acquired resources and capabilities.

Performing CBMA may also serve a risk diversification objective (Markides & Ittner, 1994; Moeller & Schlingemann, 2005). Although diversification may be achieved with other growth forms, CBMA are particularly useful in mature markets and simultaneously reduce the retaliation likelihood (Brouthers & Brouthers, 2000). Geographic diversification arguably allows reducing both the operational and financial risks, contrary to domestic acquisitions (Boateng, Quian & Tianle, 2008; Seth, 1990). The type of diversification, specifically the business relatedness, is posited to signal synergies creation in CBMA (Markides & Ittner, 1994; Singh & Montgomery, 1987) and may lead firms to opt to perform CBMA over other entry modes (Boateng et al., 2008; Brouthers & Brouthers, 2000).

Entry mode selection

The choice of performing a CBMA versus other equity or non-equity entry modes is often delved into, using several theoretical perspectives (Brouthers & Brouthers, 2000; Demirbag, Tatoglu & Glaister, 2008; Kogut & Singh, 1988). Firms are predicted to perform FDI (either acquisition or greenfield investments) when ownership-specific effects are expected, when it is the best form to access a specific location or when it is advantageous to internalize the international operations (Dunning, 1981; 1988; 1993). The OLI framework, also termed Eclectic Paradigm, (Dunning, 1981; 1988; 1993) delves into firm-specific and location-specific advantages to determine the most adequate entry mode in such way "[t]hat when OLI advantages are high, firms will prefer more integrated modes of entry." (Brouthers, Brouthers and Werner, 1999: 832). Although providing a comprehensive understanding of entry mode selection, it has received a great deal of criticism and has been recognized have limitations when applied to emerging market firms' expansion (Gaur & Kumar, 2010). Nevertheless, the Eclectic Paradigm has been widely used in IB research (Eden & Dai, 2010) and has been updated and redesigned to accommodate the evolution of IB research (Dunning & Lundan, 2008; Eden & Dai, 2010).

The entry mode selection as also been analyzed from a Transaction Costs Theory (TCT) lenses (e.g. Hennart & Park, 1993; Hennart & Reddy, 1997; Mayrhofer, 2004). The TCT looks at the choice between performing a transaction in the market or internalizing such transaction. TCT also moves beyond the equity versus non-equity dilemma to discern the most adequate entry mode among the equity modes – CBMA, joint venture, greenfield (Demirbag et al., 2008; Hennart & Park, 1993; Hennart & Reddy, 1997). From this theoretical perspective, firms prefer to enter via acquisition when it reduces the costs vis-à-vis other entry modes, namely in countries where differences may lead to uncertainty (Demirbag et al., 2008; Mayrhofer, 2004).

The home-host differences are posited to impact entry mode selection (Tihanyi, Griffith & Russel, 2005) and are often looked into when researching CBMA. The Uppsala model of internationalization (Johanson & Vahlne, 1977) posits firms' internationalization is a process which evolves over time, starting from lower risk (non-equity) entry modes to eventually undertaker riskier (equity) modes (Johanson & Vahlne, 1977). The two underlying assumptions are: (1) firms select the entry mode which allows to minimize psychic distance (Barkema, Bell & Pennings); and (2) over time firms engage in other international operations which allows them to learn and choose entry modes with further commitment (Chang & Rosenzweig, 2001). In the Uppsala model perspective, firms perform CBMA when they possess extensive international experience which permits them to cope with psychic distance, although there are conflicting results (e.g. Benito & Gripsrud, 1992). One particular case of differences which influence the entry mode decision is the cultural distance construct (Kogut & Singh, 1988; Tihanyi et al., 2005). When entering culturally distant countries, i.e. two countries with accentuated differences between the national cultures of (Hofstede, 1980), firms arguably prefer non-equity modes whereas equity modes such as CBMAs will be selected in culturally closer countries.

Post-deal challenges and outcomes

The post-deal issues receive a substantial wealth of scholarly attention, especially the performance of CBMAs (Shimizu et al., 2004). For instance, cultural differences are posited to impact the post-deal performance of firms (Chatterjee et al., 1992; Datta & Puia, 1995; Morosini et al., 1998). The national cultural distance (Hofstede, 1980; Kogut & Singh, 1988), i.e. differences in norms, routines and values, influence the routines for organizational design, the attitude towards risk, the leadership style and the decision-making process (Morosini et al., 1998) which may cause post-deal integration problems, thus having a negative effect on CBMA performance (Chatterjee et al., 1992). On the other hand, cultural differences may also offer firms access to novel routines and organizational designs thus improving the post-deal performance (Morosini et al., 1998).

Firms perform CBMA to acquire knowledge held by the target firms (Birkinshaw et al., 2000). Knowledge is perceived as an important resource firms use to develop competitive advantage (Barney, 1991; Cohen & Levinthal, 1990; Penrose, 1959) and firms' capacity to integrate knowledge is paramount (Kogut & Zander, 1992). The knowledge transfer across firms' organizational actors (teams, units) are widely issues have been widely researched (Van Wijk, Jansen, & Lyles, 2008). The knowledge transfer in CBMA poses additional challenges as two additional sets of differences – organizational-level and national-level – and are extensively analyzed (Birkinshaw et al., 2000; Bresman, Birkinshaw & Nobel, 1999). The knowledge transfer, especially of tacit knowledge and know-how, is especially relevant as it influences CBMA post-deal performance (Bresman et al., 1999).

Firm-level factors are posited to impact the post-deal performance (Capron, 1999; Datta, 1991; Datta et al., 1992; Graebner, 2004). The performance of CBMA may be influenced by the types of resource held by the acquirer and acquired and how they are reorganized (Shimizu et al., 2004). In fact, divesting and redeploying complementary resources may improve firms' performance (Capron, 1999). The structure of the firms involved in the CBMA may also influence the performance, especially their organizational fit (Datta, 1991). The similarity between the structures of acquirer and acquired firms, arguably improves post-deal performance (Cartwright & Schoenberg, 2006; Chatterjee et al., 1992).

One paramount aspect influencing post-deal performance is the post-deal integration (Birkinshaw et al., 2000; Buono & Bowditch, 1989), especially due to the dissimilarity of the integration processes which produce causal ambiguity (Heimeriks, Schijven & Gates, 2012). Integration of lower level employees may pose some challenges (Buono & Bowditch, 1989) especially taking into account the differences in the country-level environment (Bjorkman, Fey & Park, 2007). Nevertheless TMT integration may prove even more difficult and may arguably have an impact on CBMA performance (Zollo & Singh, 2004). The post-deal integration is also influence by organizational culture of acquirer and acquired firms: traditional perspective suggests differences in organizational culture will hinder the integration of the acquired firm's team thus hampering performance (Nahavandi & Malekzadeh, 1988). Notwithstanding, other works suggest employees with a more dissimilar culture see their identity threatened and thus make additional effort which improves CBMA performance (Colman & Lunnan, 2011).

Method

Data collection procedures

We collected a sample of 256 articles dealing with CBMA published in business/management peer-reviewed journals from 1994 to 2013. We collected the sample from journals indexed in Thomson Reuters ISI Web of Knowledge which are classified as business/management outlets. We did not restrict the origin of the articles with any other criteria to ensure the sample is the most representative possible. Therefore the articles included in our sample were published in various outlets (see Table 1) ranging from generalist management journals (Journal of Management Studies, Academy of Management Journal and Organization Science), strategic management journals (e.g. Strategic Management Journal, Long Range Planning and Journal of Economics & Management Strategy), practitioner oriented journals (e.g. Harvard Business Review, California Management Review and Sloan Management Review) and IB-specific journals (e.g. Journal of International Business Studies, Journal of World Business and International Business Review). There is no widely accepted criteria for selecting the journals of a bibliometric study – some studies use only one journal (e.g.

Ramos-Rodríguez & Ruíz-Navarro, 2004), others use the leading journals of a discipline (e.g. Ferreira et al., 2013), and others still use the journals with the highest impact factor (Acedo et al., 2006; Shafique, 2013) – which leads to arguments over the journals to include, or the cut-off point, for instance. Therefore, using a broad sample from multiple journals allows us to avoid biases due to editorial choices, disciplinary perspectives and thus grasp a better understanding of the CBMA-related research.

Table 1. Journals included in the sample

#	Journal	C	%	#	Journal	C	%
1	Journal of International Business Studies	39	15.23	**36**	Business History	1	0.39
2	Journal of World Business	19	7.42	**37**	Business History Review	1	0.39
3	International Business Review	18	7.03	**38**	California Management Review	1	0.39
4	European Journal of International Management	15	5.86	**39**	Canadian Journal of Administrative Sciences	1	0.39
5	Strategic Management Journal	14	5.47	**40**	European Management Review	1	0.39
6	Journal of Management Studies	10	3.91	**41**	Family Business Review	1	0.39
7	Management International Review	10	3.91	**42**	Gender Work and Organization	1	0.39
8	British Journal of Management	8	3.13	**43**	Human Relations	1	0.39
9	International Journal of Human Resource Management	7	2.73	**44**	Human Resource Management Journal	1	0.39
10	Journal of International Management	7	2.73	**45**	Industrial Marketing Management	1	0.39
11	Organization Studies	7	2.73	**46**	International Journal of Research In Marketing	1	0.39
12	Journal of Business Research	6	2.34	**47**	International Journal of Service Industry Management	1	0.39
13	Long Range Planning	6	2.34	**48**	International Journal of Technology Management	1	0.39
14	Harvard Business Review	4	1.56	**49**	Journal for East European Management Studies	1	0.39
15	International Marketing Review	4	1.56	**50**	Journal of Business	1	0.39
16	Journal of Management	4	1.56	**51**	Journal of Business & Industrial Marketing	1	0.39
17	Scandinavian Journal of Management	4	1.56	**52**	Journal of Business and Psychology	1	0.39
18	European Management Journal	3	1.17	**53**	Journal of Business-To-Business Marketing	1	0.39
19	Baltic Journal of Management	3	1.17	**54**	Journal of Management Inquiry	1	0.39
20	Emerging Markets Finance and Trade	3	1.17	**55**	Journal of Organizational Change Management	1	0.39
21	Academy of Management Journal	3	1.17	**56**	Journal of Productivity Analysis	1	0.39
22	Human Resource Management	3	1.17	**57**	Journal of Retailing	1	0.39
23	Industrial and Corporate Change	3	1.17	**58**	Management and Organization Review	1	0.39
24	Journal of Economics & Management Strategy	3	1.17	**59**	Management Science	1	0.39
25	Asia Pacific Journal of Management	2	0.78	**60**	MIS Quarterly	1	0.39
26	Australian Journal of Management	2	0.78	**61**	Personnel Review	1	0.39
27	Chinese Management Studies	2	0.78	**62**	RAE-Revista de Administração de Empresas	1	0.39
28	Corporate Governance-An International Review	2	0.78	**63**	RBGN-Revista Brasileira de Gestão de Negócios	1	0.39
29	Cross Cultural Management-An International Journal	2	0.78	**64**	Research Policy	1	0.39
30	Organization Science	2	0.78	**65**	Sloan Management Review	1	0.39
31	R & D Management	2	0.78	**66**	Small Business Economics	1	0.39
32	Service Industries Journal	2	0.78	**67**	Strategy Process	1	0.39
33	Academia-Revista Latinoamericana de Administracion	1	0.39	**68**	Technology Analysis & Strategic Management	1	0.39
34	Asia Pacific Business Review	1	0.39	**69**	Universia Business Review	1	0.39
35	Asian Business & Management	1	0.39				

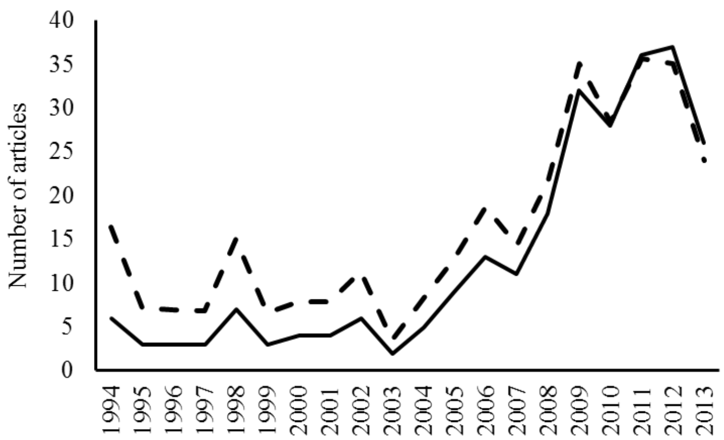
Note: C represents the number published in the journal; % is the percentage of articles of the sample published in the journal.
Source: Authors computations using *ISI Web of Knowledge* data

To build our sample we searched ISI Web of Knowledge – in the "Topic" field – using the keywords "cross border acquisition*", "cross border M&A" and "international acquisition*" (the asterisk allows capturing the variations of the search word) to capture the range of articles which potentially deal with CBMA – similar keywords were used in Haleblian and colleagues (2009) M&A review. Then we manually screened each article, observing the title, abstract, author supplied keywords and, when necessary, the article. This procedure, following Xu and Meyer (2013) bibliometric review of emerging economies, ensures the articles included in the sample actually deal with CBMA and were not misclassified.

Sample

The procedures described allowed us to identify 256 CBMA articles published between 1994 and 2013. Observing Figure 1 we may identify an increasing interest in CBMA research over the 1994-2013 period, despite a decrease in 2013. The rising trend may be attributed to a large number of outlets in recent years but the proportion of CBMA articles on the articles published overall is somewhat similar. Thus we arguably observe an increasing interest in CBMA. IB journals published the bulk of articles of our sample, namely Journal of International Business Studies, Journal of World Business, International Business Review, European Journal of International Management, Journal of International Management and to a lesser extent Asia Pacific Journal of Management, Corporate Governance-An International Review and Cross Cultural Management-An International Journal (see table 1).

Figure 1. *Evolution of articles included in the sample*



Note: The dotted line represents the % of CBMA articles in the total number of articles published by the journals included in our sample in the given year.

Source: Authors computations.

Procedures of analyses

We conducted three different but complementary analyses of our sample: citation, co-citation and factor analysis. We performed these analyses for the entire period and for sub-periods to ascertain the variations over time. We performed citation analysis to perceive which were the most used – and thus the most important – references in CBMA research. Therefore we may understand which are the key issues covered in sample and also the leading authors and works. We retrieved all the references of the 256 articles of our sample and summarized the data and we present the forty most cited in each period and in the overall sample.

Co-citation analysis allows understanding the intellectual structure of a field by discovering how works and theories interconnect (Ramos-Rodriguez & Ruiz-Navarro, 2004). Co-citation analysis investigates when two given works are referenced in the same paper and assumes they are somewhat related. Therefore two works which are more often referenced simultaneous are considered to have a stronger connection. Using the forty most referenced papers (again for the all period and the sub-periods) we constructed a co-citation matrix which we then used to plot the co-citation maps. The co-citation maps represent each work in a node and the lines linking the nodes represent the strength of the connection.

Finally we conducted a factor analysis using the co-citation matrixes. Factor analysis offers an alternative approach to identify the key issues or theories of a field of research as conceptually neighboring references tend to load in the same factor (Acedo et al., 2006; Shafique, 2013). We performed the factor analysis using varimax rotation and included each work – having a load value higher than 0.4 was a pre-requisite – in only one factor (following Acedo et al., 2006 and Shafique, 2013). This method arguably renders results which are more straightforward (Shafique, 2013) and allows us to extrapolate each factor’s theme by analyzing the works which were included in them. Therefore each factor proxies a theme of research in the CBMA research.

Results

Citation analysis

The results of the citation analysis are presented in table 2. We present the results for the entire period (1994-2013) and the three sub-periods defined (1994-2003; 2004-2008; 2009-2013), displaying both the absolute and relative frequency of the forty most cited works. The first sub-period is longer than the subsequent sub-periods since there are relatively few articles published (22 from 1994 to 1998 and 19 from 1999 to 2003) which would render the analysis meaningless (Ferreira et al., 2014). Observing the results we recognize the impact of Hofstede (1980) which is the most cited work overall (96 citations, used by 37.5% of the articles in the sample) and in each sub-period, closely followed by Kogut and Singh (1988). We may also identify the impact of other works on culture (Morosini et al., 1998; Weber et al., 1996) and of the Uppsala evolutionary model (Johanson & Vahlne, 1977). On another perspective, we may also recognize an increasing attention to works using a learning approach (e.g. Barkema et al., 1996; Barkema & Vermeulen, 1998; Vermeulen & Barkema, 2001) more recently.

Table 2. Most cited references

Table 2. Most cited references

#	1994-2003 (n= 41)	C	%	2004-2008 (n= 56)	C	%	2009-2013 (n= 159)	C	%	TOTAL (1994-2013) (n= 256)	C	%
1	Hofstede (1980)	15	36.59	Hofstede (1980)	25	44.64	Hofstede (1980)	56	35.22	Hofstede (1980)	96	37.50
2	Haspeslagh & Jemison (1991)	13	31.71	Kogut & Singh (1988)	19	33.93	Haspeslagh & Jemison (1991)	44	27.67	Kogut & Singh (1988)	72	28.13
3	Kogut & Singh (1988)	12	29.27	Morosini et al. (1998)	18	32.14	Kogut & Singh (1988)	41	25.79	Haspeslagh & Jemison (1991)	71	27.73
4	Chatterjee et al. (1992)	11	26.83	Haspeslagh & Jemison (1991)	14	25.00	Morosini et al. (1998)	34	21.38	Morosini et al. (1998)	53	20.70
5	Nahavandi & Malekzadeh (1988)	8	19.51	Hennart & Park (1993)	14	25.00	Barkema & Vermeulen (1998)	30	18.87	Barkema & Vermeulen (1998)	46	17.97
6	Datta (1991)	7	17.07	Johanson & Vahlne (1977)	14	25.00	Vermeulen & Barkema (2001)	28	17.61	Chatterjee et al. (1992)	44	17.19
7	Jemison & Sitkin (1986)	7	17.07	Datta (1991)	13	23.21	Birkinshaw et al. (2000)	27	16.98	Jemison & Sitkin (1986)	44	17.19
8	Buono & Bowditch (1989)	6	14.63	Barkema & Vermeulen (1998)	12	21.43	Stahl & Voigt (2008)	27	16.98	Johanson & Vahlne (1977)	43	16.80
9	Buono et al. (1985)	6	14.63	Buono & Bowditch (1989)	12	21.43	Jemison & Sitkin (1986)	26	16.35	Buono & Bowditch (1989)	39	15.23
10	Calori et al. (1994)	6	14.63	Hennart & Reddy (1997)	12	21.43	Weber et al. (1996)	25	15.72	Datta (1991)	37	14.45
11	Caves (1982)	6	14.63	Jemison & Sitkin (1986)	11	19.64	Barkema et al. (1996)	23	14.47	Weber et al. (1996)	37	14.45
12	Hennart & Park (1993)	6	14.63	Chatterjee et al. (1992)	10	17.86	Bjorkman et al. (2007)	23	14.47	Barkema et al. (1996)	36	14.06
13	Johanson & Vahlne (1977)	6	14.63	Weber et al. (1996)	10	17.86	Chatterjee et al. (1992)	23	14.47	Vermeulen & Barkema (2001)	36	14.06
14	Lubatkin (1983)	6	14.63	Caves & Mehra (1986)	9	16.07	Johanson & Vahlne (1977)	23	14.47	Larsson & Finkelstein (1999)	35	13.67
15	Shrivastava (1986)	6	14.63	Harzing (2002)	9	16.07	King et al. (2004)	23	14.47	Hennart & Park (1993)	33	12.89
16	Anderson & Gatignon (1986)	5	12.20	Larsson & Finkelstein (1999)	9	16.07	Larsson & Finkelstein (1999)	23	14.47	Nahavandi & Malekzadeh (1988)	33	12.89
17	Barkema et al. (1996)	5	12.20	Very et al. (1997)	9	16.07	Buono & Bowditch (1989)	21	13.21	Birkinshaw et al. (2000)	31	12.11
18	Caves & Mehra (1986)	5	12.20	Balakrishnan & Koza (1993)	8	14.29	Datta & Puia (1995)	21	13.21	Hennart & Reddy (1997)	29	11.33
19	Hill et al. (1990)	5	12.20	Barkema et al. (1996)	8	14.29	Shimizu et al. (2004)	21	13.21	Datta & Puia (1995)	28	10.94
20	Jensen & Ruback (1983)	5	12.20	Capron (1999)	8	14.29	House et al. (2004)	20	12.58	Shimizu et al. (2004)	28	10.94
21	Jensen (1986)	5	12.20	Nahavandi & Malekzadeh (1988)	8	14.29	Barney (1991)	19	11.95	Stahl & Voigt (2008)	28	10.94
22	Kitching (1967)	5	12.20	Olie (1994)	8	14.29	Bresman et al. (1999)	18	11.32	Calori et al. (1994)	27	10.55

23	Markides & Ittner (1994)	5	12.20	Vermeulen & Barkema (2001)	8	14.29	Hayward (2002)	18	11.32	King et al. (2004)	27	10.55
24	Pablo (1994)	5	12.20	Gatignon & Anderson (1988)	7	12.50	Moeller & Schlingemann (2005)	18	11.32	Cohen & Levinthal (1990)	26	10.16
25	Penrose (1959)	5	12.20	Brouthers & Brouthers (2000)	7	12.50	Cohen & Levinthal (1990)	17	10.69	Markides & Ittner (1994)	26	10.16
26	Salter & Weinhold (1979)	5	12.20	Cohen & Levinthal (1990)	7	12.50	Datta (1991)	17	10.69	Olie (1994)	26	10.16
27	Singh & Montgomery (1987)	5	12.20	Anand & Delios (2002)	7	12.50	Nahavandi & Malekzadeh (1988)	17	10.69	Barney (1991)	25	9.77
28	Zejan (1990)	5	12.20	Hayward (2002)	7	12.50	Ranft & Lord (2002)	17	10.69	Gatignon & Anderson (1988)	25	9.77
29	Rumelt (1974)	4	9.76	Shenkar (2001)	7	12.50	Graebner (2004)	16	10.06	Hayward (2002)	25	9.77
30	Barkema & Vermeulen (1998)	4	9.76	Shimizu et al. (2004)	7	12.50	Haleblian & Finkelstein (1999)	16	10.06	Schweiger & DeNisi (1991)	25	9.77
31	Benito & Gripsrud (1992)	4	9.76	Chang & Rosenzweig (2001)	7	12.50	Shenkar (2001)	16	10.06	Anderson & Gatignon (1986)	23	8.98
32	Doukas & Travlos (1988)	4	9.76	Cartwright & Cooper (1992)	7	12.50	Mathews (2006)	16	10.06	Bjorkman et al. (2007)	23	8.98
33	Harris & Ravenscraft (1991)	4	9.76	Calori et al. (1994)	7	12.50	Schweiger & DeNisi (1991)	16	10.06	Bresman et al. (1999)	23	8.98
34	Harrison et al. (1991)	4	9.76	Nelson & Winter (1982)	7	12.50	Kogut & Zander (1992)	16	10.06	Cartwright & Cooper (1993)	23	8.98
35	Li (1995)	4	9.76	Zejan (1990)	7	12.50	Zollo & Singh (2004)	16	10.06	Haleblian & Finkelstein (1999)	23	8.98
36	Lubatkin (1987)	4	9.76	Capron et al. (1998)	6	10.71	Anand & Delios (2002)	15	9.43	Shenkar (2001)	23	8.98
37	Napier (1989)	4	9.76	Eisenhardt (1989)	6	10.71	Gatignon & Anderson (1988)	15	9.43	Shrivastava (1986)	23	8.98
38	Ouchi (1980)	4	9.76	Haleblian & Finkelstein (1999)	6	10.71	Hambrick & Cannella (1993)	15	9.43	Very et al. (1997)	23	8.98
39	DiMaggio & Powell (1983)	4	9.76	Padmanabhan & Cho (1999)	6	10.71	Markides & Ittner (1994)	15	9.43	Hambrick & Cannella (1993)	22	8.59
40	Schneider & De Meyer (1991)	4	9.76	Shrivastava (1986)	6	10.71	Olie (1994)	15	9.43	House et al. (2004)	22	8.59

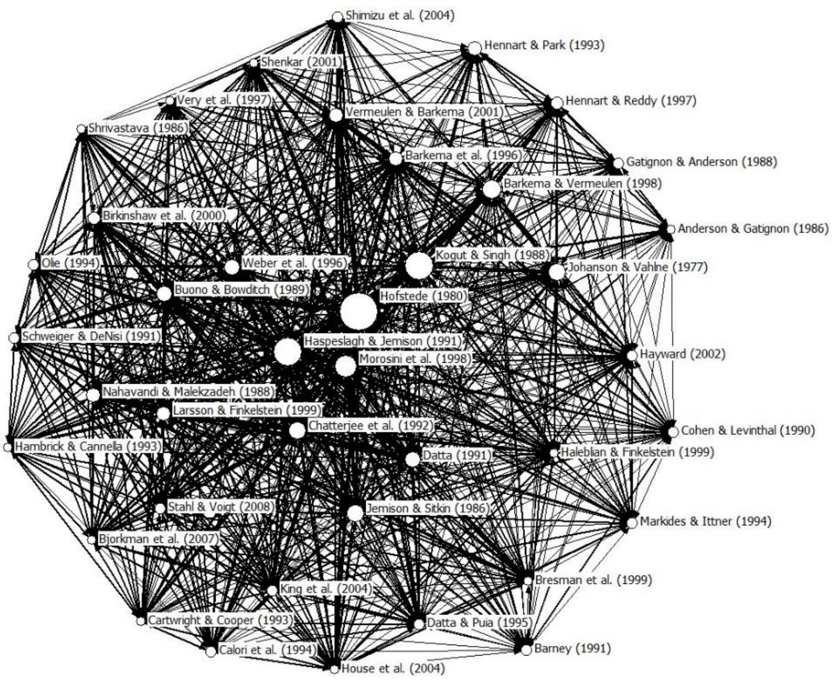
Notes: C represents the citation count in a given period; % is the percentage of the works of the period which use the reference.
Source: Authors computations using *ISI Web of Knowledge* data.

Co-citation analysis

We performed co-citation analyses of the forty most cited works. Co-citation analysis rely on the joint use of references to infer their proximity and we depict the relations using a co-citation network (see figures 2-5) both for the entire period and the sub-periods. The co-citation networks represent the works in the nodes (the larger the node the higher the citation count) and the connection between works in the lines (the thicker the lines the stronger the connection between two works).

Figure 2 depicts the co-citation network for the entire period (1994-2013). We may observe a central position of Hofstede (1980), Kogut and Singh (1988), Morosini et al. (1998) and Haspeslagh and Jemison (1991), arguably the most influential works in CBMA-related research. On a second layer of works we may identify works which use a learning approach (Barkema et al., 1996; Barkema & Vermeulen, 1998; Larsson & Finkelsein, 1999) and other which delve into performance issues (Chatterjee et al., 1992; Datta, 1991). On the outer layer, and thus arguably less influential, we may notice works dealing with HR issues (Bjorkman et al., 2007; Hambrick & Cannella, 1993; Schweiger & DeNisi, 1991), others which proxy the use of management theories such as TCT (Anderson & Gatignon, 1986; Gatignon & Anderson, 1988; Hennart & Park, 1993; Hennart & Reddy, 1997) or a RBV (Barney, 1991).

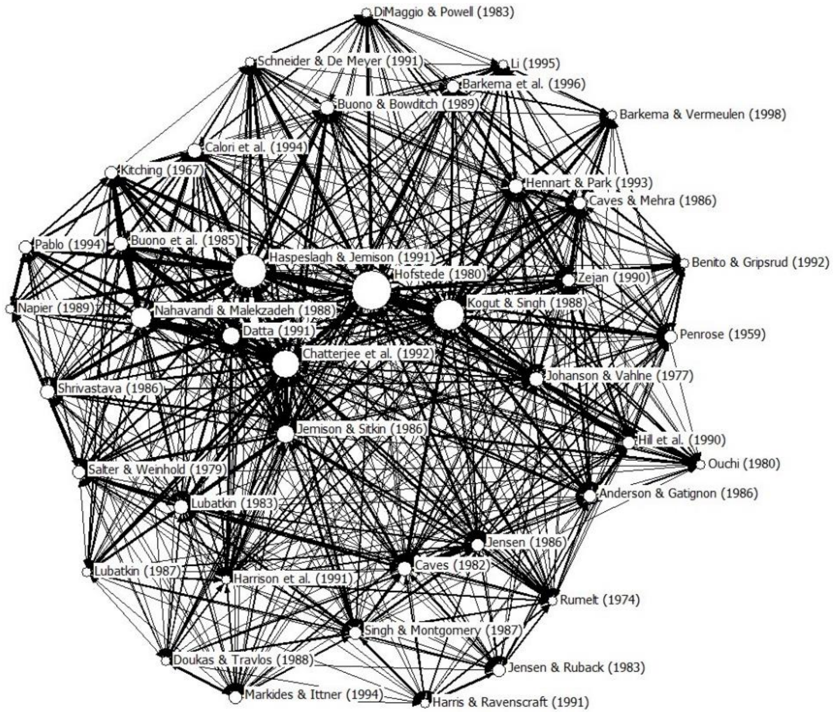
Figure 2. *Co-citation network 1994-2013*



Source: network drawn using *Ucinet* with data collected using *Bibexcel*.

Figure 3 depicts the co-citation network for the first sub-period (1994-2003). We may identify the central position of Hofstede (1980), Haspeslagh and Jemison (1991), Kogut and Singh (1988) and Chatterjee et al. (1992). We may also observe a strong link between the works on culture (Hofstede, 1980; Kogut & Singh, 1988) and the Uppsala model (Johanson & Vahlne, 1977). On more peripheral positions it is worth noticing several finance-related references (Doukas & Travlos, 1984; Harris & Ravenscraft, 1991; Jensen, 1986; Jensen & Ruback, 1983) and economics-oriented references (Rumelt, 1974; Salter & Weinhold, 1979).

Figure 3. *Co-citation network 1994-2003*

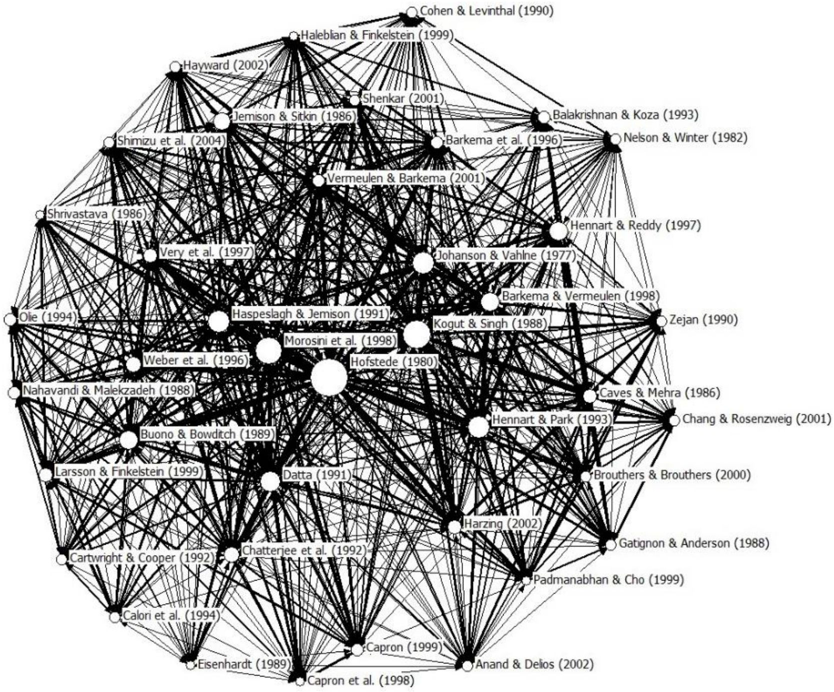


Source: network drawn using *Ucinet* with data collected using *Bibexcel*.

The co-citation network for the 2004-2009 sub-period is depicted on figure 4. We may clearly notice the central position of Hofstede (1980) and Kogut and Singh (1988) and also of Morosini et al. (1998), as well as a strong connection between these works. We may also observe a strong connection to the works on a second layer, namely the Uppsala model (Johanson & Vahlne, 1977), the learning approach (Barkema & Vermeulen, 1998; Vermeulen & Barkema, 2001) and performance-related issues (Datta, 1991; Very et al., 1997). On the outer layer we may identify works dealing with several issues, namely acquisition experience (Haleblian & Finkelstein, 1999; Hayward, 2002; Larsson & Finkelstein, 1999), entry mode selection (Brouthers & Brouthers, 2000; Chang & Rosenzweig, 2001; Padmanabhan & Cho, 1999), resource acquisition (Capron, 1999;

Capron et al., 1998) and post-deal integration (Shrivastava, 1986), whereas finance-related references are absent from the co-citation network.

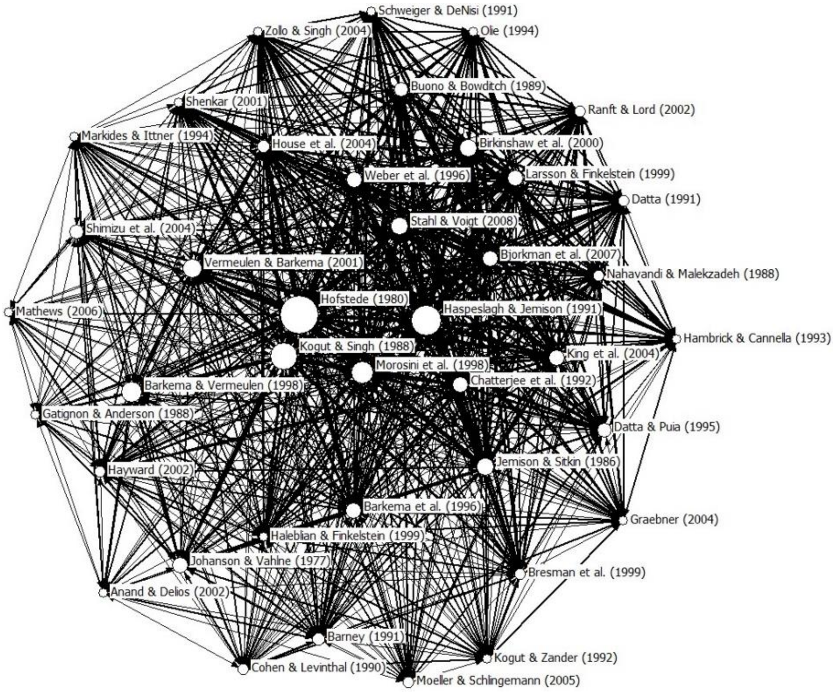
Figure 4. *Co-citation network 2004-2009*



Source: network drawn using *Ucinet* with data collected using *Bibexcel*.

The co-citation network for the last sub-period (2009-2013) is presented on figure 5. In a core position we may observe a cluster of works on culture with strong connections amongst themselves (Hofstede, 1980; Kogut & Singh, 1988; Morosini et al., 1998) and also strongly connected to Johanson and Vahlne (1977). On a second layer we may identify works on learning issues (Barkema & Vemeulen, 1998; Vermeulen & Barkema, 2001) – which have a strong connection to Zollo and Singh (2004) work on deliberate learning – and another culture-related cluster (House et al., 2004; Stahl & Voigt, 2008; Weber et al., 1996). On the periphery of the network it is worth noting works with several theoretical perspectives such as RBV (Barney, 1991), KBV (Kogut & Zander, 1992), absorptive capacity (Cohen & Levinthal, 1990) and TCT (Gatignon & Anderson, 1988). We may also observe the peripheral positions of Mathews' (2006) work on emerging countries multinationals and the only finance-related reference (Moeller & Schlingemann, 2005).

Figure 5. Co-citation network 2009-2013



Source: network drawn using *Ucinet* with data collected using *Bibexcel*.

Factor analysis

We conducted a factor analysis to identify the sub-themes delved into (Lin & Cheng). The theme of each factor was inferred analyzing the content of the articles (Nehrur et al., 2008). We performed analyses for the entire sample and for each sub-period we identified, using the co-citation matrixes of the 40 most cited works (Shafique, 2013). Similarly to the citation and co-citation analyses the first sub-period encompasses ten years since there was a relatively low number of papers published in the period.

The factor analysis for the entire period (1994-2013) returned three factors explaining 73% of the variance (Table 3). The first factor – which we termed "Post-deal integration: Challenges and outcomes" deals with several problems firms face upon performing an M&A deal (Shrivastava, 1986). The integration of people is delved into (Birkinshaw et al., 2000; Buono & Bowditch, 1989; Cartwright & Cooper, 1993; Nahavandi & Malekzadeh, 1988; Schweiger & DeNisi, 1991) and is especially relevant given the international context of HRM (Bjorkman et al., 2007). We may also identify other challenges to post-CBMA integration such as the cultural distance (Chatterjee et al., 1992; Datta & Puia, 1995; Morosini et al., 1998; Stahl & Voigt, 2008; Weber et al., 1996) as well as the impact of integration on performance (Datta, 1991; Very et al., 1997). The second factor "Entry mode selection" includes works on the Uppsala evolutionary model of entry modes in the foreign markets (Johanson & Vahlne, 1977) as well as work delving into the choice between entry modes (Anderson & Gatignon, 1986; Hennart & Park, 1993; Hennart &

Reddy, 1997; Gatignon & Anderson, 1988). The cultural differences are arguably an important factor in selecting the entry mode (Barkema et al., 1996) and thus culture-related references also load in this factor (Hofstede, 1980; Kogut & Singh, 1988; Shenkar, 2001). The learning approach is also relevant in the entry mode selection (Barkema & Vermeulen, 1998) as firms may deploy a given entry mode, namely CBMAs, to learn and increase the likelihood of a subsequent successful venture (Vermeulen & Barkema, 2001) or a subsequent M&A deal (Hayward, 2002). The third factor includes a single work, Barney's (1991) seminal work on RBV.

Table 3. Factor analysis: 1994-2013

Post-deal integration: Challenges and outcomes	**Entry mode selection**	**RBV**
Birkinshaw et al. (2000) - 0.797; Bjorkman et al. (2007) - 0.854; Bresman et al. (1999) - 0.764; Buono & Bowditch (1989) - 0.861; Calori et al. (1994) - 0.894; Cartwright & Cooper (1993) - 0.926; Chatterjee et al. (1992) - 0.789; Datta & Puia (1995) - 0.769; Datta (1991) - 0.795; Haleblian & Finkelstein (1999) - 0.496; Hambrick & Cannella (1993) - 0.889; Haspeslagh & Jemison (1991) - 0.668; House et al. (2004) - 0.844; Jemison & Sitkin (1986) - 0.741; King et al. (2004) - 0.858; Larsson & Finkelstein (1999) - 0.864; Morosini et al. (1998) - 0.711; Nahavandi & Malekzadeh (1988) - 0.844; Olie (1994) - 0.909; Schweiger & DeNisi (1991) - 0.899; Shrivastava (1986) - 0.863; Stahl & Voigt (2008) - 0.869; Very et al. (1997) - 0.880; Weber et al. (1996) - 0.846	Anderson & Gatignon (1986) - 0.822; Barkema et al. (1996) - 0.749; Barkema & Vermeulen (1998) - 0.821; Cohen & Levinthal (1990) - 0.738; Gatignon & Anderson (1988) - 0.858; Hayward (2002) - 0.696; Hennart & Park (1993) - 0.870; Hennart & Reddy (1997) - 0.860; Hofstede (1980) - 0.534; Johanson & Vahlne (1977) - 0.892; Kogut & Singh (1988) - 0.650; Markides & Ittner (1994) - 0.754; Shimizu et al. (2004) – 0.743; Shenkar (2001) - 0.721; Vermeulen & Barkema (2001) - 0.671	Barney (1991) - 0.412

Notes: Values are the loadings in the factor.
Source: Authors computations.

Table 4 presents the factor analyses for each of the sub-periods (1994-2003; 2004-2008; 2009-2013). The first sub-period analysis has produced four factors which explain 63% of the variance, whereas for the other sub-periods three factors were identified (explaining 72% of the variance in the second sub-period and 67% in the third sub-period). Analyzing the different factors over time we may identify some common research interests, namely concerning "Entry mode selection" looked into from different perspectives (Anderson & Gatignon, 1986; Barkema et al., 1996; Barkema & Vermeulen, 1998; Johanson & Vahlne, 1977). The decision to perform CBMA or to opt for other entry mode is arguably influenced by a set of factors ranging from country-level factors such as cultural differences (Hofstede, 1980; Kogut & Singh, 1988) to firm-level factors such as experience (Barkema et al., 1996; Barkema & Vermeulen, 1998; Padmanabhan & Cho, 1999), often considered simultaneously (Brouthers & Brouthers, 2000; Chang & Rosenzweig, 2001; Johanson & Vahlne, 1977). The attention to the factors influencing entry mode selection and the alternatives to CBMA is widespread throughout the period we analyzed and is arguably paramount for scholars.

The scholars also devote research attention to post-deal issues in every sub-period delved into. The challenges firms face after performing a CBMA deal are numerous and the deals often fail to achieve the objectives (Kitching, 1967). Arguably the most arduous challenge firms face after a CBMA is integrating the two firms in a single unit (Shrivastava, 1986), especially integrating the different teams (Buono & Bowditch, 1989; Buono et al., 1985; Cartwright & Cooper, 1992; Napier, 1989), mainly due to differences in corporate culture (Nahavandi & Malekzadeh, 1988). The different national cultures may also lead to difficulties in integration, for instance due to the different control mechanisms acquirers deploy (Calori et al., 1994). The effect of post-deal integration also merits scholars' attention as firms' performance is an important outcome of an effective integration (Chatterjee et al., 1992; Datta, 1991; Datta & Puia, 1995).

We may also observe some shifts in the issues delved into. In earlier stages of the CBMA research we identified a factor which includes references dealing with economic and financial performance (e.g. Caves, 1982; Harris & Ravenscraft, 1991; Jensen & Ruback, 1983; Jensen, 1986). Although not focusing CBMA per se these works suggest earlier research sought to ascertain the performance of CBMA deals arguably using stock market data. In fact, the attention to economic and financial performance of merger and acquisition deals is frequent, despite the international or domestic setting of the deals (Ferreira et al., 2014; King et al., 2004). The earlier research on CBMA also deals with another frequent M&A issue, the diversification relatedness (Doukas & Travlos, 1988; Harrison et al., 1991; Markides & Ittner, 1994).

Examining more recent research allows us to identify some changes. The references on economic and financial performance are not as relevant and thus do not load in a specific factor, much in the same way as the diversification relatedness issue. However, in more recent periods we may observe an increase in CBMA research using a resource-based view approach (Capron et al., 1998; Capron, 1999). We may also identify the influence of works using an RBV variant, namely Knowledge-based view (Cohen & Levinthal, 1990; Kogut & Zander, 1992). Research using RBV and KBV approaches arguably focus on the role of resources as a determinant for CBMA (Anand & Delios, 2002): firms may seek to access new resources (explorative behavior) or to leverage the resources they already possess (exploitative behavior). Thus we may arguably identify an influence of strategy-related references in more recent years which have replaced the earlier influence of economics- and finance-related references.

Table 4. Factor analysis by sub-periods

1994-2003	**Post-deal integration: Challenges and outcomes**	Buono & Bowditch (1989) - 0.562; Buono et al. (1985) - 0.865; Calori et al. (1994) - 0.794; Chatterjee et al. (1992) - 0.701; Datta (1991) - 0.823; Haspeslagh & Jemison (1991) - 0.712; Jemison & Sitkin (1986) - 0.531; Kitching (1967) - 0.877; Nahavandi & Malekzadeh (1988) - 0.799; Napier (1989) - 0.783; Pablo (1994) - 0.776; Salter & Weinhold (1979) - 0.720; Shrivastava (1986) - 0.819
	Entry mode selection	Anderson & Gatignon (1986) - 0.552; Barkema et al. (1996) - 0.626; Barkema & Vermeulen (1998) - 0.787; Benito & Gripsrud (1992) - 0.793; Caves & Mehra (1986) - 0.810; DiMaggio & Powell (1983) - 0.761; Hennart & Park (1993) - 0.818; Hill et al. (1990) - 0.599; Hofstede (1980) - 0.404; Johanson & Vahlne (1977) - 0.713; Kogut & Singh (1988) - 0.610; Li (1995) - 0.755; Ouchi (1980) - 0.458; Penrose (1959) - 0.814; Schneider & De Meyer (1991) - 0.501; Zejan (1990) - 0.825
	Economic and financial performance	Caves (1982) - 0.608; Harris & Ravenscraft (1991) - 0.750; Jensen & Ruback (1983) - 0.779; Jensen (1986) - 0.628; Lubatkin (1983) - 0.487; Lubatkin (1987) - 0.610; Rumelt (1974) - 0.640; Singh & Montgomery (1987) - 0.730
	Related vs. Non related diversification	Doukas & Travlos (1988) - 0.628; Harrison et al. (1991) - 0.504; Markides & Ittner (1994) - 0.671
2004-2008	**Entry mode selection**	Anand & Delios (2002) - 0.658; Balakrishnan & Koza (1993) - 0.687; Barkema et al. (1996) - 0.596; Barkema & Vermeulen (1998) - 0.837; Brouthers & Brouthers (2000) - 0.915; Caves & Mehra (1986) - 0.852; Chang & Rosenzweig (2001) - 0.901; Gatignon & Anderson (1988) - 0.877; Harzing (2002) - 0.862; Hennart & Park (1993) - 0.825; Hennart & Reddy (1997) - 0.748; Hofstede (1980) - 0.415; Johanson & Vahlne (1977) - 0.770; Kogut & Singh (1988) - 0.718; Nelson & Winter (1982) - 0.501; Padmanabhan & Cho (1999) - 0.897; Shenkar (2001) - 0.648; Vermeulen & Barkema (2001) - 0.630; Zejan (1990) - 0.901
	Post-deal integration: Challenges and outcomes	Buono & Bowditch (1989) - 0.866; Calori et al. (1994) - 0.832; Cartwright & Cooper (1992) - 0.907; Chatterjee et al. (1992) - 0.795; Datta (1991) - 0.733; Eisenhardt (1989) - 0.686; Haspeslagh & Jemison (1991) - 0.701; Larsson & Finkelstein (1999) - 0.768; Morosini et al. (1998) - 0.705; Nahavandi & Malekzadeh (1988) - 0.797; Olie (1994) - 0.834; Shimizu et al. (2004) - 0.717; Shrivastava (1986) -

		0.765; Very et al. (1997) - 0.771; Weber et al. (1996) - 0.834
	Resource-driven CBMA	Capron et al. (1998) - 0.663; Capron (1999) - 0.753; Cohen & Levinthal (1990) - 0.793; Haleblian & Finkelstein (1999) - 0.795; Hayward (2002) - 0.762; Jemison & Sitkin (1986) - 0.722; Nelson & Winter (1982) - 0.649
2009-2013	**Post-deal integration: Challenges and outcomes**	Birkinshaw et al. (2000) - 0.823; Bjorkman et al. (2007) - 0.852; Bresman et al. (1999) - 0.675; Buono & Bowditch (1989) - 0.894; Chatterjee et al. (1992) - 0.821; Datta & Puia (1995) - 0.730; Datta (1991) - 0.846; Graebner (2004) - 0.805; Hambrick & Cannella (1993) - 0.887; Haspeslagh & Jemison (1991) - 0.715; Jemison & Sitkin (1986) - 0.813; King et al. (2004) - 0.835; Larsson & Finkelstein (1999) - 0.863; Morosini et al. (1998) - 0.687; Nahavandi & Malekzadeh (1988) - 0.879; Olie (1994) - 0.917; Ranft & Lord (2002) - 0.863; Schweiger & DeNisi (1991) - 0.906; Stahl & Voigt (2008) - 0.839; Weber et al. (1996) - 0.848; Zollo & Singh (2004) - 0.811
	Entry mode selection	Barkema et al. (1996) - 0.682; Barkema & Vermeulen (1998) - 0.795; Barney (1991) - 0.432; Gatignon & Anderson (1988) - 0.827; Haleblian & Finkelstein (1999) - 0.598; Hayward (2002) - 0.650; Hofstede (1980) - 0.528; House et al. (2004) - 0.493; Johanson & Vahlne (1977) - 0.776; Kogut & Singh (1988) - 0.553; Markides & Ittner (1994) - 0.746; Mathews (2006) - 0.520; Moeller & Schlingemann (2005) - 0.616; Shenkar (2001) - 0.663; Shimizu et al. (2004) - 0.768; Vermeulen & Barkema (2001) - 0.599
	Resource-driven CBMA	Anand & Delios (2002) - 0.517; Cohen & Levinthal (1990) - 0.664; Kogut & Zander (1992) - 0.732

Notes: Values are the loadings in the factor.

Source: Authors computations.

Discussion and concluding remarks

In this paper we sought to systematically analyze the extant literature on CBMA using bibliometric techniques. We offer a broad perspective of the CBMA published in the 1994-2013 period, namely presenting the intellectual structure of the field and the main issues and theoretical approaches. Our longitudinal analyses are especially useful since they allow us to observe eventual changes in focus and evolutions of the intellectual structure. Our paper contributes to the CBMA literature by making sense of the extant research on CBMA, which is often overlooked (e.g. Haleblian et al., 2009) or given little attention (e.g. Hitt et al., 2012) in other reviews. Thus, we complement and go beyond the scarce literature reviews on CBMA (e.g. Hitt & Pisano, 2004; Shimizu et al., 2004) to provide a comprehensive perspective of CBMA research.

The CBMA-specific literature arguably follows a pattern similar to M&A research (Ferreira et al. 2014). We notice a large upsurge in the number (and share) of CBMA articles in the 2008-2012 period which may arguably be explained by the sixth merger wave which occurred between 2003 and 2007 (Alexandridis, Mavrovitis & Travlos, 2012). The sixth merger wave may have spurred greater interest on CBMA researchers since a large number of deals involved firms from different countries (Alexandridis et al., 2012; Haleblian et al., 2009), and a significant number of deals involving multinational enterprises from emerging countries (Haleblian et al., 2009). Therefore an increase in the number of deals may have encouraged researchers to delve into the various intricacies of this phenomena.

CBMA is arguably the prevailing form to perform FDI (Kling et al., 2014). The OLI model (Dunning, 1981; 1988; 1993) has been used to analyzed entry mode selection (e.g. Hill et al., 1990) as it arguably encompasses influences from different theoretical approaches and offers a synthesis of internalization theory, with a special emphasis on TCT (Kling et al., 2014). Dunning's Eclectic Paradigm (Dunning, 1981; 1988; 1993) takes into account country-level effects as well as firm-level aspects. Other studies have used TCT approaches to analyze entry mode selection decisions as means to minimize uncertainty (Ahsan & Musteen, 2011; Hennart & Park, 1993). TCT posits CBMAs to be the most adequate entry mode to minimize the costs of a foreign transaction (Brouthers & Brouthers, 2000) when the transaction costs – costs of selecting, negotiating and controlling the partners overseas – are higher compared to using a local partner (Ahsan & Musteen, 2011). Firms are also posited to perform CBMA when the environment has low levels of uncertainty, for instance low cultural distance (Kogut & Singh, 1988).

The CBMA-related research is strongly influenced by the RBV (Barney, 1991; Penrose, 1959) and variants such as Knowledge-Based View (Kogut & Zander, 1992). The emphasis is on the resources which will arguably create and sustain competitive advantage (Barney, 1991), since often CBMA are the most effective manner to access non-trivial resources, and especially tacit or intangible resources (Kling et al., 2014). KBV is used to delve into knowledge transfer issues (Bresman et al., 1999) in the context of CBMA, a governance mode which has idiosyncratic characteristics and challenges (Gaffney, Karst & Clampit, 2015). CBMA are thus posited to be a more effective way to access valuable resources since, notwithstanding the difficulties in integrating the targets, it overcomes the shortcomings of market transactions (Gubbi et al., 2010). The RBV and KBV approaches are thus aligned with the process perspective of acquisitions (Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986), which stresses the importance of all stages of the M&A process (from the target selection to post-deal integration) on the performance of a deal. Therefore, the RBV and KBV perspectives may be arguably useful to analyze both the determinants of CBMA (Anand & Delios, 2002), the challenges firms face after the deal (Birkinshaw et al., 2000) and the effect on performance (Capron et al., 1999).

The host country environment poses challenges to a firm which performs a CBMA (Chatterjee et al., 1992; Morosini et al., 1998; Stahl & Voigt, 2008; Tihanyi et al., 2005). The extant research on the effect of cultural differences between home and host countries on performance has been inconclusive (Dikova & Sahib, 2013; Tihanyi et al., 2005). On one hand, a greater cultural distance is posited to have a negative impact on CBMA performance (Chatterjee et al., 1992) as the cultural collisions (Buono et al., 1985) and post-deal integration (Datta & Puia, 1995) are more difficult. On the other hand, cultural differences arguably allows access to novel routines which are intrinsic to a given foreign culture and may thus increase CBMA performance (Morosini et al., 1998). Recent endeavors (Dikova & Sahib, 2013) have sought to make sense of this conundrum taking into account the acquirer's prior experience: when the acquirer is more experienced in CBMA the firm is capable of reaping the benefits of integrating a target from a foreign culture, unlike an unexperienced acquirer (Dikova & Sahib, 2013).

The differences in the home and host countries environment pose further challenges when CBMA operations involve firms from emerging countries (Luo & Tung, 2007). Undertaking CBMA in emerging countries forces firms to face a different environment (Dikova & Sahib, 2013), often with important institutional imperfections which firms from developed countries are not familiar with (Dunning & Lundan, 2008). Nevertheless acquiring firms in emerging markets arguably has advantages, namely quickly accessing and controlling strategic resources and capabilities which would be difficult to develop in-house (Gubbi et al., 2010). Firms from emerging markets also face challenges when performing CBMA such as the liability of foreignness and liability of newness (Gubbi et al., 2010). However by acquiring firms abroad, especially in developed economies, MNE from emerging countries arguably overcome “their latecomer disadvantage in the global stage via a series of aggressive, risk-taking measures by proactively acquiring or buying critical assets from mature MNEs to compensate for their competitive weaknesses” (Luo & Tung, 2007: 482) in what is known as “springboard behavior”. Firms may thus integrate strategic assets and learn novel routines (Vermeulen & Barkema, 2001) which increase their overall performance both at home and abroad (Luo & Tung, 2007).

The performance of CBMA is posited to be influenced by national-level (Morosini et al., 1998; Schoenberg, 2001), firm-level (Vermeulen & Barkema, 2001; Zollo & Singh, 2004) and deal-specific issues (Birkinshaw et al., 2000; Nahavandi & Malekzadeh, 1988). The post-deal integration are arguably paramount in creating value (Kling et al., 2014) as firms are arguably capable of learning and develop capabilities which improve their performance (Hayward, 2002). However national-level factors such as cultural differences (Barkema et al., 1996) and firm-level factors such as poor location decisions and target selection (Kling et al., 2014) may hinder CBMA performance. Nevertheless research CBMA performance presents contradictory and incomplete results (Dikova & Sahib, 2013) as several mediator and moderator variables are not completely understood (King et al., 2004).

Limitations

This paper has some limitations, namely concerning the methodology selected. A bibliometric study relies on a sample of documents which are analyzed, since identifying every work in a given field of knowledge is a grueling procedure. Thus the sample selection procedures may fail to capture some papers, foremost from journals not covered in ISI Web of Knowledge, or other sources of knowledge such as books, theses, conference proceedings and book chapters. Nevertheless, not restricting the source of articles to one, or a few, top journals allows for a broader perspective of the CBMA field. We are therefore confident our sample of 256 articles published in 69 journals is representative of the extant knowledge. Future research may overcome this limitation by using sources other than ISI Web of Knowledge and including books and conference proceedings, for instance.

The bibliometric techniques we used also have some limitations. We have used commonly accepted procedures to perform citation, co-citation and factor analyses (Ferreira et al., 2014). However these techniques do not allow us to grasp the context in which a reference is used: are the authors using two references to contrast them or in a complementary manner? Are the authors criticizing or extending the work? Are the authors using the work as foundation of their paper or just as a ceremonial reference? This limitation may be arguably overcome by performing content analysis which may complement the findings of this study.

Future research avenues

Future research on CBMA may proceed in several directions. One possible avenue is to develop a theoretical framework specific to CBMA. The extant literature on CBMA relies on several theoretical approaches such as the RBV (Barney, 1991; Penrose, 1959), KBV (Kogut & Zander, 1992), organizational learning (Cohen & Levinthal, 1990; Hayward, 2002; Vermeulen & Barkema, 2001) and TCT (Anderson & Gatignon; Hennart & Park, 1993) to analyze and make sense of the phenomenon. Despite all the progress research has accomplished, the lack of a specific theoretical framework is arguably accountable for the contradictory results (King et al., 2004; Kling et al., 2014; Morosini et al., 1998; Shimizu et al., 2004) and incomplete understanding of CBMA. Thus, novel theoretical developments with consistent empirical validation would allow for a broader comprehension of CBMA (Shimizu et al., 2004).

CBMA research may also benefit from novel approaches. The understanding of CBMA phenomenon arguably requires for a better knowledge of the international business environment as CBMA face specific challenges which may hinder the success of the operation (Kling et al., 2014). The institutional approach may be useful to explain the home-host differences, for instance using the institutional distance approach (Gaffney et al., 2015). The institutional approach is arguably suited to analyze the context of CBMA as it is posited to be the third leg of the strategy tripod, together with RBV and industrial organization (Peng, Wang & Jiang, 2008). The institutional approach encompasses a larger array of dimensions, compared to the traditional literature on national differences which focus mainly on cultural differences (e.g. Barkema et al., 1996; Kogut & Singh, 1988; Morosini et al., 1998; Stahl & Voigt, 2008; Tihanyi et al., 2005). The institutional approach may be particularly useful to understand CBMA to and from emerging countries as the differences in institutions are arguably more evident than in developed countries.

One alternative avenue for CBMA research is to focus on other stages of the M&A process (Haspeslagh & Jemison). While substantial research on challenges to CBMA post-deal integration as well as for the motives for undertaking CBMA exist, little is known about the pre-completion stage of CBMA (Dikova, Sahib & Van Witteloostuijn, 2010): what causes firms to abandon an intended or announced deal? What and how national-level, firm-level and deal-level factors influence the decision to abandon the deal? The research opportunities are munificent and may arguably offer a different and more complete perspective of CBMA.

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26. Managers’ perceptions of psychic distance and the performance of cross-border mergers and acquisitions: A comparative case study of five Portuguese firms

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Abstract

This article reports a comparative case study of five Portuguese firms that conducted cross-border mergers and acquisitions (CBM&As). We analyzed the managers’ perception of psychic distance (PD) on CBM&As performance. PD must be applied at an individual level, since only the individuals within the firm perceive PD hazard. Accordingly, this paper seeks to contribute to a better understanding of the PD hazards on CBM&As performance. We present a conceptual model, hypothesizing the integrative impact managers’ perceptions of the different variables of the psychic distance on CBM&As performance. We found that not all the variables of psychic distance have the same impact on CBM&As performance. Moreover all the interviewed managers agree that managers’ individual characteristics, especially international experience, prior contacts with different cultures and experience and knowledge of different cultures, are essential to minimize psychic distance hazards. The findings of this study may be useful both for managers of firms that aim at internationalization and for those who have been finding difficulties in managing CBM&As due to differences between home and host countries.

Keywords: Psychic distance, managers’ perception, cross-border M&As, case study, performance, internationalization.

Introduction

Mergers and acquisitions (M&As) are one of the most used entry modes in international markets (Shimizu et al., 2004). M&As have received increasing attention from researchers of several academic disciplines such as international business, strategic management and industrial economics (Ferreira et al., 2014). Notwithstanding this scholarly attention, the understanding of M&A is still very limited and largely inconclusive, for instance in what pertains the effects on firms' performance (Morosini et al., 1998; Evans and Mavondo, 2002; Shenkar et al., 2008; Chang et al., 2012) and the high failure rates of M&As (Slangen, 2006; Haleblian et al., 2009; Hitt, et al., 2012; Gomes, 2013). According to King et al. (2004, p. 198) "despite decades of research, the impacts of the financial performance of firms engaging in M&As activity remain largely unexplained". Furthermore, the empirical research has either produced contradictory results (Stahl and Voigt, 2008) or has been difficult to compare because of differences in how performance was measured.

Firms' internationalization may be considered as an incremental process. Initially, firms select markets less psychologically distant, which allow them to learn and gain experience in carrying out international operations (Johanson and Vahlne, 1977; 2009; Bouthers and Hennart, 2007). Vahlne and Wiedersheim-Paul (1975) and Kogut and Singh (1988) argued that uncertainty about foreign markets is the degree of ignorance of a firm about the characteristics of a foreign market, i.e., psychic distance. Psychic distance (PD) is "the result of factors that prevent or hinder the flow of information between firms and the market" (Johanson and Wiedersheim-Paul, 1975, p. 307). The effect of psychic distance poses many unanswered questions concerning for instance how and how much firms learn about the international markets and the transferability of knowledge, from the environment to the firm and internally between the subsidiaries and the headquarters (Minbaeva, 2007).

Several researchers have argued that firms that undertake CBM&As are increasingly facing hazards in international markets because of psychic distance (Shenkar et al., 2008). In this article, we developed a comparative case study approach to analyze the impact of managers' perception of psychic distance on CBM&As performance, delving into the perceptions of different variables of psychic distance on CBM&As performance. Analyzing this question involves not only studying managers' responses to the problems caused by of psychic distance, but also investigating the process that firms use to respond to the hazards of psychic distance. To explore these issues, we compared the practices of five firms that have conducted CBM&As in several different markets and are from five different industries: General building contractors, Plastics product manufacturing, Computer and data processing services, Softwood veneer and plywood and Pharmaceutical preparations.

These five firms closely interacted with different environments and faced cultural surprises in their daily routine.

By analyzing the data collected in the interviews we found that not all the variables of the psychic distance construct the had the same impact on CBM&As performance. For example, differences in language were important and had a negative impact on CBM&As performance for 60% of the managers; differences in education levels have a negative impact for 80% of the managers; only 40% of the managers stated the negative impact of previous colonial ties and 60% stated no impact at all; differences in the degree of industrial development – for 80% of the managers is considered as an important issue and need special attention. All the managers interviewed acknowledged that differences in political systems, differences in religions and time zones had no impact on CBM&A' performance. However, all five managers interviewed agreed that managers' individual characteristics, such as international experience and previous contact with different cultures, played a meaningful role in CBM&As performance. That is, more international experience and knowledge of different cultures reduce the hazards managers perceived.

The paper is organized as follows. First, we review the core concepts of psychic distance and cross-border mergers and acquisitions. Second, we use analytic induction (Znaniecki, 1934; Robinson, 1951; Glaser and Strauss, 1967) to analyze five Portuguese firms that conducted cross-border mergers & acquisitions (CBM&As). From the case studies analysis we aim at building theoretical propositions that will allow us to present a conceptual model linking the managers' perceptions on the different variables of psychic distance with CBM&As performance. We conclude with a broad discussion of our findings, confronting our data with the extant research on PD and CBM&A. Finally we clarify some limitations and suggest avenues for future research.

Literature review and research framework

The concept of psychic distance was first mentioned by Beckerman (1956) as a set of factors that create a sense of dissimilarity between countries. Later, Johanson and Wiedersheim-Paul (1975, p. 307) defined psychic distance as those "factors preventing or disturbing the flow of information between firms and market". For Fletcher and Bohn (1998, p. 49) psychic distance is an individual phenomenon because it is associated to "the way the individual sees the world". Since psychic distance is subjective, distortions of the reality of the market information occur during the process of collecting and organizing market information. The way managers' mind processes information on the environment is the reason for the existence of the psychic distance. According to Smith et al. (2011, p. 12) psychic distance is “the perception a business person has of the level of difficulty they would encounter in a foreign market if they were to undertake business operations in that market” and for Dikova (2009, p. 39) psychic distance is “a result of differences in local consumers, preferences, cultures, and business systems which reduce the level of understanding of the local market conditions”.

Psychic distance should not be seen as a construct that influences equally every individual in a firm due to the different specific individual characteristics (Smith et al., 2011). The perceptions individuals hold of the differences between the home and the foreign market will be different because of different personal experiences. Hence, psychic distance construct must be examined at the individual level (Sousa and Bradley, 2006; Ellis, 2007), since it is the individuals that perceive psychic distance not the firms themselves (Smith et al., 2011). When examining psychic distance at the firm level, it is thus necessary to think in terms of the psychic distance held by the individuals, particularly the decision-makers (Evans and Bridson, 2005; Smith et al., 2011). The perception of the differences between the domestic market and the foreign market to a certain extent depends on prior managers experiences that occur at the individual level and not at the national or firm level (Sousa and Bradley, 2008; Dow and Ferencikova, 2010). The more appropriate unit of analysis for measure psychic distance is the individuals rather than macro-level factors (O'Grady and Lane, 1996; Petersen and Pedersen, 1997; Evans and Mavondo, 2002; Dow and Karunaratna, 2006; Sousa and Bradley, 2006, 2008; Ellis, 2007, 2008; Dow and Ferencikova, 2010; Smith et al., 2011). However, according to Sousa and Bradley (2008) the current indices measure psychic distance at a very high level of analysis. For O’Grady and Lane (1996, p. 313) “measuring distance at the national level may overlook regional differences within the countries; cultural and structural differences that may exist by industry; and individual differences and experiences”.

In this study we will analyze the managers’ perception of psychic distance on CBM&As performance. According to Dow and Karunaratna (2006) and Sousa and Bradley (2008), the decision of if, when, and how to enter international markets is made by individuals and the individuals are those who are affected by the psychic distance hazard. Therefore, the psychic distance hazard on the individuals’ decisions holds huge importance for understanding firms’ internationalization options (Smith et al., 2011). Hence, we will search information such as background, international experience and the impact of the different variables of psychic distance on managers that took part in the decision of the CBM&As for understanding the impact of managers' perception of psychic distance on CBM&As performance.

Psychic distance and cross border merger & acquisition performance

The impact of CBM&A on firms' performance is a controversial topic in academy (Bruner, 2002; Haleblian et al., 2009). Some scholars have argued that almost all CBM&A destroyed value. For instance, Grubb and Lam (2000, p. 9-12) stated that "[t]he sobering reality is that only about 20 percent of all mergers really succeed. Most mergers typically erode shareholder wealth (…) the cold, hard reality that most mergers fail to achieve any real financial returns (…) very high rate of mergers failure".

Firms that undertake CBM&As face hazards in international markets because of psychic distance (Shenkar, 2008, Stahl and Voigt, 2008). According to Haleblian et al. (2009) psychic distance has proven to have an impact on firms' performance in the international markets. The impact of PD is not, however, fully understood as several studies have produced contradictory results and it is difficult to compare studies because of differences in how performance was measured (Stahl and Voigt, 2008). For instance, Child et al. (2001) found that cultural differences are likely to have a negative impact on the firms' post-acquisition performance and Stottinger and Schlegelmilch (2000) found a negative relationship between psychic distance and firms' performance. However for Shimizu and colleagues (2004) CBM&As between firms from countries with greater cultural distance provide enhanced opportunities and may create value. Nevertheless, understanding the impact of managers' perception of PD hazard on CBM&As performance is, to the best of our knowledge, nonexistent.

We followed Yan and Gray (1994) and adopted a multidimensional approach to understand the impact of managers' perception of the different variables of psychic distance on CBM&As performance. We combined multiple dimensions of Dow's (2007) psychic distance stimuli (PDS) and two additional moderating dimensions – M&A experience in the target country and managers' background – which are often used (e.g., Stahl and Voigt, 2008). Specifically, we used each of the seven dimensions of PDS – differences in languages; differences in education levels; differences in the degree of industrial development; differences in political systems; differences in religions; time zone differences and previous colonial ties – and two moderating dimensions – Merger & Acquisition experience in the target country and Managers' background.

Method

This study aims at answering questions as such: what is the impact of managers' perception of psychic distance on Cross-Border Merger & Acquisition performance? Which are the variables of psychic distance managers perceive as most influential on CBM&As performance? Does managers' background reduce the psychic distance hazards? Does managers' M&As experience in the target country reduce the psychic distance hazard?. We used a multi-case inductive study approach based on a comparative analysis of five firms. Since distances are complex to describe and analyze and are not well delineated (Zaheer et al., 2012), as it is necessary to collect data from multiple resources instead of self-reported events, a case study approach is well suited for this research. (Yin, 1994; Birkinshaw et al., 2011; Welch et al., 2011).

Following suggestions by Eisenhardt (1989) and Yin (1994), the case-study methodology was selected for this study, due to the exploratory nature of the research question and also because it makes possible to explain the significance and cause-effect relationships of the examined phenomena. The case study is the preferred method when issues are "how" and "why" and "when" the analysis is focused on contemporary phenomena in which there is no clear definition of the boundaries between phenomenon and context (Yin, 1994). So the methodology will be qualitative, since the main objective of the study is to determine the psychic distance hazard on CBM&As performance. According to Pettigrew (1992) and Yin (1994), when the research aims at studying a contextualized phenomenon in-depth, you should opt for a qualitative and not quantitative approach. In fact, Richards and Morse (2012) observe that in areas where knowledge is not cemented or where the existing theories appear inadequate, case studies should be chosen. Furthermore, for Miles and Huberman (2002) the great advantage of choosing qualitative methodologies is that data collection occurs close to the situation under study and the phenomenon is analyzed in its natural context. It is also worth noting that qualitative methodologies have been applied in the field of management and international strategy since they provide access to information about the decision-making process and the management options may be examined in-depth (Pettigrew, 1990). According to Stottinger and Schlegelmilch (1998) we should use a qualitative methodology because it is important for capturing the various facets of the psychic distance construct.

In this study we conducted a five case study to capture different, or complementary, perspectives. According to Yin (1994) the choice of a single case is appropriate when a case is considered critical, in order to test a well-founded theory, extreme or unique or when it is inaccessible so far. However, the choice of a single case may become less appropriate if the case proves to be different from what we had originally expected (Yin, 1994; Ghauri, 2004). On the other hand, multi-case studies “are powerful means to create theory because they permit replication and extension among individual cases” (Eisenhardt, 1991, p. 620) and allow the construction of a theoretical description of a phenomenon. Thus, we follow the procedure put forward by Eisenhardt (1989; 1991) - the multi-case study (with two or more cases).

Data collection and validation

In this study, data collection was made through various channels. We began by collecting general information about the five firms under study using media content and archives of the firms. The main method of data collection were semi-structured interviews addressed to the heads of selected firms. The semi-structured and flexible interview guide which can be adapted during the interview is especially useful when the aims are to interpret complex relationships that develop slowly and are used to develop more detailed knowledge of the phenomena under study (Rubin and Rubin, 2012). So, they do not limit the field of research unlike what can happen when we choose more formal structures (Fontana and Frey, 1994). The interview script was developed based on the literature review and adjusted after having been scrutinized by three international business scholars. The interviews had an average duration of 90 minutes and in all cases the person interviewed was the manager that took part in the decision-making process of the CBM&As. For all the five managers, we ensured anonymity to encourage them to share the eventual failure stories of their CBM&As. The 90-minute- interviews were digitally recorded for later detailed analysis and transcribed verbatim with the help of a word processor, generally within 48 hours.

To validate the data and minimize possible biases we followed the ‘triangulation’ method proposed by Kumar et at. (1993) and Yin (1994). Triangulation is the practice of integrating multiple data sources in the development of a case study (Jick, 1979). According to Ghauri (2004) triangulation is necessary to reduce likelihood of misinterpretation, as the information is examined from different angles. For Yin (2003) triangulation is recognized as an important way of increasing the internal validity of a qualitative study. Therefore using information from different managers allowed us to triangulate their perceptions of PD and the impact on CBM&As.

Sample and procedure

Our sample is composed of five Portuguese firms that have conducted CBM&As in several different countries and are from five different industries: General building contractors, Plastics product manufacturing, Computer and data processing services, Softwood veneer and plywood and Pharmaceutical preparations. These five firms vary in dimension – the largest comprising a total of 5000 employees whereas the smaller one only 700. In what concerns age, one was founded in 1924, while the most recent is from 1996. In common is the fact that all of them have a sustainable economic situation.

The number of firms in our sample was defined in accordance with the criteria of Eisenhardt (1991) and Yin (2010) who believed that five replications are needed to increase the internal validity and reliability in complex case studies.

In this study, following the same procedure used by Yan and Gray (1994), we adopted the analytic induction (Znaniecki, 1934; Robinson, 1951; Glaser and Strauss, 1967) to analyze the five case studies. According to Yan and Gray (1994, p. 1487-1488), having as a basis Znaniecki (1934); Glaser and Strauss (1967) and Lindesmith (1947), "analytic induction is a method of extending or refining existing theories by constantly comparing them with crucial instances or typical cases". Lindesmith (1947, p. 12) adds that "The exceptional instance is the growing point of science. (...) Cumulative growth and progressive development of theory is obtained by formulating a generalization in such a way that negative cases force us either to reject the generalization or to revise it". Moreover, for Cressey (1953, p. 16) analytic induction involves the following steps: "First, a rough definition of the phenomenon to be explained is formulated. Second, a hypothetical explanation of that phenomenon is formulated. Third, one case is studied (...) with the object of determining whether the hypothesis fits the facts in that case. Fourth, if the hypothesis does not fit the facts, either the hypothesis is reformulated or the phenomenon to be explained is re-defined, so that the case is excluded. (...) Fifth, practical certainty may be attained after a small number of cases has been examined. (...) Sixth, this procedure (...) is continued until a universal relationship is established, each negative case calling for a redefinition or a reformulation. Seventh, for purposes of proof, cases outside the area circumscribed by the definition are examined to determine whether or not the final hypothesis applies to them".

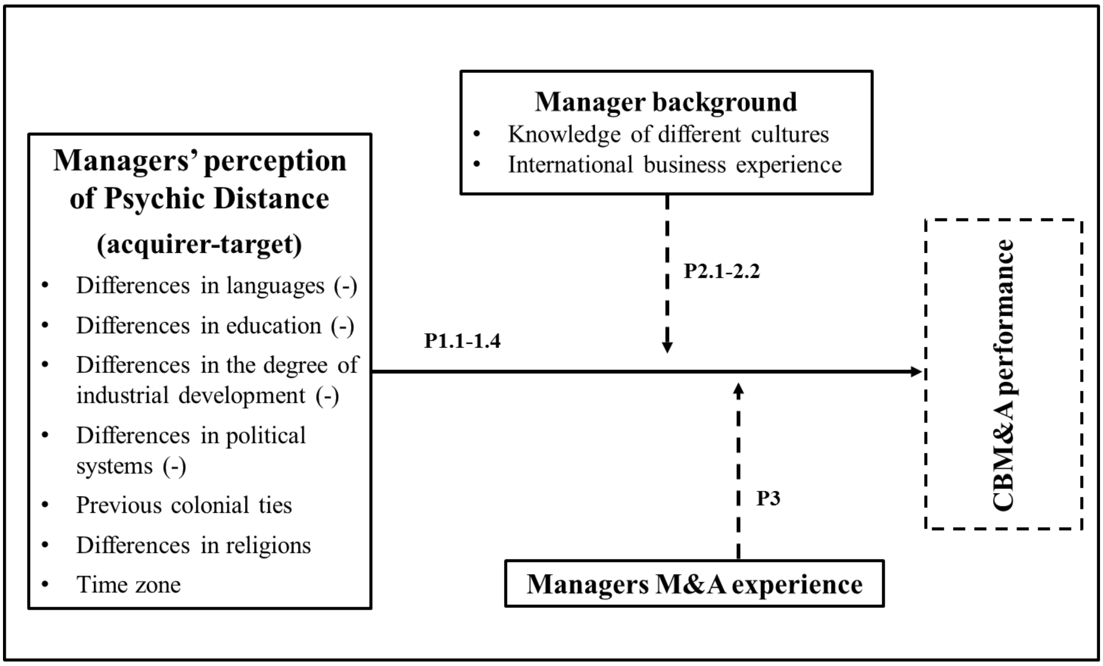
Following this procedure, we analyzed the managers' perceptions of the different variables of the PD construct and checked their effects on the CBM&As performance. We also sought to understand the influence of the two moderating variables which arguably minimize the managers' perception of PD impact on CBM&As performance. Then we contrasted the answers of our interviewees with the extant literature. The procedure was repeated for all the five cases. In the following section, we propose an integrative model of Managers' perception of psychic distance on CBM&As performance which is presented in figure 1.

Findings

Psychic distance is negatively related to the performance of the firm in the foreign markets (Sousa and Bradley, 2008). The firm's operations in similar markets should be easier to manage. Internationalization is often a recurring consequence of the growth process and it is seen as an incremental process (Hallen and Wiedersheim-Paul, 1993). The speed and sequence of the internationalization process depends on the degree of knowledge on foreign markets (external environment), experience, etc. The degree of knowledge will reduce the psychic distance between the domestic and external environment (Johanson and Vahlne, 1977). Many studies (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Cavusgil 1980; Reid 1981; Czinkota, 1982; Shoham, 1995; Lee 1998; Li et al., 2002; Pothukuchi et al., 2002) support the contention that firms perform best in foreign markets similar to their home market because of the degree of knowledge their managers possess. In sum, psychic distance will be negatively associated with the performance of the firms in foreign markets.

Figure 1 presents the integrative model of the impact of mangers' perception of PD on CBM&As performance. The propositions we advance are taken from the early work of the Johanson and Wiedersheim-Paul (1975), Johanson and Vahlne (1977) and from the work of psychic distance stimuli from Dow and Karunaratna (2006). According to Evans and Mavondo (2002) factors like differences in language, religion, education level, degree of industrial development and political systems are perhaps the most visible at the national level of the psychic distance construct and have been regularly cited as possible factors contributing to high levels of psychic distance (Boyacigiller, 1990; Shenkar, 2001; Dow and Karunaratna, 2006).

Figure 1. An integrative model of managers' perception of psychic distance and CBM&A performance



Source: Developed for this study

Differences in languages

Differences in languages are a component of the psychic distance construct, receiving endorsement from researchers (Johanson and Wiedersheim-Paul, 1975; Shenkar, 2001; Evans and Mavondo, 2002; Harzing, 2003; Sousa and Bradley, 2006; 2008). Similarities in languages present efficiencies in communication that minimize the hazard (Tushman, 1978). According to Welch et al. (2001), there is a tendency for firms to remain within their language groups during their initial expansion as a means of containing risk. Thus, differences in languages between countries tend to increase the costs of an international transaction: "the lack of understanding of Italian language has led to additional costs" (the interviewed manager in Case 5). The differences in language are also arguably negatively associated with the performance of the firm in foreign markets: "inaccurate translations have generated inefficiencies (...) we have invested in training in English to avoid surprises" (the manager interviewed in Case 5). "Those who don't speak English are out of our industry"(the manager interviewed in Case 3). Table 2 below presents a summary of the managers' perceptions on differences in languages.

The above leads us to the following proposition concerning the relationship between managers' perception of differences in languages and CBM&As performance:

Proposition 1.1: Managers' perception of differences in languages will be negatively associated with CBM&As performance.

Differences in education

The education levels influences the manner in which people communicate and interpret information (Dow and Karunaratna, 2006). Differences in education between countries have been identified as an underlying factor of the hazard of psychic distance (Johanson and Vahlne, 1977; Cavusgil, 1980). The higher level of education, the more skilled and more efficient people are. Hence, large differences in education between countries decrease the performance of the firms in foreign markets because of the increase of both risk and uncertainty in international markets: "we sold a business in a country in North Africa due to lack of qualified staff. The level of training was very low and as we had no possibility to send skilled expatriates we preferred to sell our participation" (the interviewed manager in Case 2). Table 3 summarizes our key findings on managers' perceptions on differences in education.

Table 3. Differences in education

Case 1	"That's why we use many expats with experience in other units of the group"
Case 2	"It was the main reason for the failure of an acquisition we made"
Case 3	"In our case it is no problem because we only select a firm to buy if it has qualified staff ..."
Case 4	"Normally we take our reliable employees for positions that require higher levels of training ... but it is an issue that has received particular attention in South Africa where workers have little or no training"
Case 5	"In Portugal it is easy to find skilled labor but in other countries it is an issue that most problems arise in our industry ... certainly an issue that negatively affects an acquisition"

The above leads us to the following proposition concerning the relationship between managers' perception of differences in education levels and CBM&As performance:

Proposition 1.2: *Managers' perception of differences in education will be negatively associated with CBM&As performance.*

Differences in the degree of industrial development

Differences in the degree of industrial development is a component of the psychic distance construct (Johanson and Wiedersheim-Paul, 1975 and Evans and Mavondo, 2002). The linkage between differences in the degree of industrial development between countries and the performance of the firms in international markets is not well documented in the literature (Dow and Karunaratna, 2006; Dow, 2007). However, the norms of business communication and interaction are heavily influenced by the degree of industrial development (Dow and Karunaratna, 2006). The business norms in less industrial development countries are likely to be dramatically different from those of highly industrialized countries: “The lack of infrastructures and organization of support services in Venezuela are causes of concern and eventually hinder business performance (...) the lack of modern infrastructures are a major cost to consider in our CBM&As in South America and North Africa” (the manager interviewed in Case 1). Costs and uncertainty in international markets are introduced by differences in infrastructures: “Uncertainty over supplies of raw-materials in South Africa results, at some extent, from obsolete or deficient infrastructures” (the manager interviewed in Case 4). In table 4 we present a summary of the main managers’ perceptions on the differences in the degree of industrial development.

Table 4. Differences in the degree of industrial development

Case 1	"I think it is related to differences in training ... it turns out to be another cost to be considered in M&A"
Case 2	"As our procedures are always equal in all group firms it has little influence."
Case 3	"we’ve never felt that those differences have an impact on M&A processes, perhaps the consultants who prepare the operation have a different opinion but we do not feel any problem with these differences ... "
Case 4	"A very important factor when it comes to choosing suppliers. We seldom achieve inputs with the quality standards that we pursue"
Case 5	"It can sometimes be even beneficial ... it enables us to acquire products and services at more competitive prices. For example, to test a medicine in a developed country like the USA. it is substantially more expensive than in a developing country like India "

The above leads us to the following proposition concerning the relationship between managers’ perception of differences in the degree of industrial development and CBM&As performance:

Proposition 1.3: *Managers' perception of differences in the degree of industrial development will be negatively associated with CBM&As performance.*

Differences in political systems

Differences in political systems share a common fate with differences in language and education (Dow and Karunaratna, 2006). Costs and uncertainty tend to increase in the international operations whenever two firms are from countries with significant differences in political systems: "in countries of the former Soviet bloc a large part of the problems / surprises that we are faced with result from the inheritance of a Soviet political system (...) very high levels of corruption that ultimately have consequences in the performance of our own companies" (the interviewed manager in Case 1).These unexpected events and decisions have the potential to increase the costs and risks of doing business in different countries. According to Dow and Karunaratna (2006) differences in political systems may lead governments to interfere in the way of doing business by the firms: "We have already abandoned an acquisition due to the influence the local government had in the administration of that company" (the interviewed manager in Case 4). Table 5 summarizes the main findings on managers' perceptions on the differences in political systems.

Table 5. Differences in political systems

Case 1	"Any company that does not note this issue will not survive ... issues related to corruption are complicated even to speak of ... in the countries of eastern Europe where acquisitions were made, changes in the political system were still very present and that had an effect on our operations"
Case 2	" we avoid any interference in the politics of the countries where we operate "
Case 3	" They are no problems if we know the way they operate ... we have few relationships with politicians in the countries where we buy firms"
Case 4	" we have as an internal principle not to mix business with politics ..."
Case 5	"In this matter we are completely neutral ... for example in Spain the Prince just opened our factory to give us greater visibility. Workers only took pictures with him if they showed interest "

The above leads us to the following proposition concerning the relationship between managers' perception of differences in political systems and CBM&As performance:

Proposition 1.4: *Managers' perception of differences in political systems will be negatively associated with CBM&As performance.*

Previous colonial ties

Former colonial ties have been a common variable used in international trade flow studies (Rauch, 1999). According to Ghemawat (2001), colonial links between countries increase trade by 900%. Previous colonial ties are a potential antecedent to factors such as differences in languages, religions and political systems. Colonial ties associated with the perception of familiarity arguably reduce the hazards of international operations (Dow and Karunaratna, 2006). However, the manager interviewed in Case 1 does consider previous colonial ties as decisive: "the impact of colonial issues on the performance of an M&A is null (...). It can help by speaking the same language, but it is not a major issue". Table 6 presents the main findings of managers' perception on previous colonial ties and CBM&A performance.

Table 6. Previous colonial ties

Case 1	"For example in Brazil they say that the Portuguese heritage is to blame for everything... that is a factor to consider when integrating in the new cultural reality ... in Angola we also had problems for being Portuguese but the opposite is also true"
Case 2	"Brazilians say we are to blame for current culture, but I quickly understand and make them understand that I do not have anything to do with the Brazilian culture. For Brazilians we are to blame for the major mistakes that the country has made ...
Case 3	"I never felt that that question was put ... nor even when we bought an English firm that had subsidiaries in India did I feet it "
Case 4	"I never felt any prejudice there ... "
Case 5	It doesn't have any influence ...,we've never had Angola and Mozambique negative feedback, neither with the population nor at an institutional level ... when it comes to do business there are other issues far more important "

The above does not entirely corroborate Rauch (1999) and Ghemawat (2001) arguments. In fact, only 40% of the managers consider that the relationship between colonial ties and CBM&As performance have a certain impact that is not considered as positive but, to some extent, as negative. Hence, the proposition, concerning the relation between managers' perception on previous colonial ties and CBM&As performance cannot be stated in this study.

Differences in religions

Researchers like Shenkar (2001) said that religious differences between countries are a potential factor that may increase psychic distance and is considered a factor of conflict between different countries (Boyacigiller, 1990): “Religion can be a problem if we are not neutral on this issue” (the interviewed manager in Case 5). Religion affects the communication and interaction between people. Therefore differences in religion increase the risk of misunderstandings (Dow, 2007) thus influencing the costs of controlling and managing the international operations of a firm performance. In table 7 we present a summary of the managers’ perceptions on differences in religions.

Table 7. Differences in religions

Case 1	“We never had problems with religious issues, nor do I believe it has an impact on the success / failure of M&A"
Case 2	"Never have I felt that differences of religion had an impact on the performance of our M&A operations”
Case 3	"Never had we a problem at that level"
Case 4	"Never have they been a problem in our M&A "
Case 5	"To avoid problems we respect all creeds and do not celebrate any religious day ... nor do we celebrate Christmas ... we are neutral on this issue "

The findings above arguably do not corroborate the arguments stated by researchers like Shenkar (2001), Boyacigiller (1990) and Dow (2007), as they do not comply with the conclusions drawn from the 5 cases in our study. Hence, the proposition, concerning the relationship between managers’ perception on differences in religions and CBM&As performance, may not be considered as mandatory.

Time Zone

The time zone difference between countries may be a problem for managers in international markets because these differences could generate uncertainty about the need for rapid communication (Dow and Karunaratna, 2006). However the information we gathered from the interviewees do not corroborate the arguments stated by Dow and Karunaratna (2006): “with the new technologies, communication is not affected by time differences (...) in the past it may have been a factor with negative impact (...) not today” (the manager interviewed in Case 3). Table 8 summarizes the findings on managers’ perceptions on time zone differences and CBM&As performance, emphasizing the lack of importance of these differences. Hence, the proposition, concerning the relationship between managers' perceptions on time zone differences and CBM&As performance cannot be considered as mandatory as well

Table 8. Time zone differences

Case 1	"Little or nothing relevant"
Case 2	"Only expatriates feel these differences but they are easily overcome"
Case 3	"I do not think it is a problem"
Case 4	"It's an issue that was never considered as a problem in our M&A"
Case 5	"No problem"

<u>Knowledge of different cultures and international experience</u>

According to Harzing (2003), managers make decisions based on their perceptions of the environment. Thus, the manager's perception of psychic distance is critical when investigating the hazards of psychic distance (REF). Researchers like Fletcher and Bohn (1998) and Sousa and Bradley (2008) suggest the managers' individual characteristics such as the knowledge of different cultures minimize the effect of managers' perceptions of psychic distance on CBM&A performance: "knowledge of other cultures are essential for the proper management of a CBM&A mainly in the phase of human resources integration"(the manager interviewed in Case 2). Also, international experience (e.g. contact to different cultures, experience in international business) arguably decreases the effect of managers' perceptions of psychic distance on CBM&A performance: "in our international operations we only use qualified staff with international experience" (the manager interviewed in Case 3); "our middle and top managers are required to work in different companies in the group across different continents" (the manager interviewed in Case 1). In table 9 we present the key findings of the role of knowledge of different cultures and international experience.

Table 9. Knowledge of different cultures and international experience

Case 1	It is a fundamental aspect! We always choose employees who have had experience in different cultures and with several years of work at the firm...we only hire employees with higher education for the middle and top positions.
Case 2	"All our employees have college degrees and are encouraged to spend several weeks a year in different offices spread throughout Europe ... but there are always surprises when we acquire a firm in a country with a different culture…
Case 3	"…we use expatriates with experience in different countries and cultures so as not to have so many surprises after the M&A operations ...even if the employees have a lot of experience, there are always surprises…"
Case 4	"Our middle and superior staff consist only of employees with higher education and only the best of the best take part in the negotiations before and after the M&A ... without training and experience it is much more difficult for a M&A to succeed ..."
Case 5	"We have highly qualified staff and we are committed in ongoing training ... it is one of our strengths ... whenever possible we hire local managers in order to make the integration of the two companies easier ... managers with little international experience were one of the factors for the failure of ours M&A"

The above leads us to the following propositions concerning managers' background effect on the relationship between managers' perceptions of psychic distance and CBM&A performance:

Proposition 2.1: *Managers' greater knowledge of different cultures will positively moderate the relationship between the perceived psychic distance and CBM&A performance, such that greater knowledge of different cultures reduces the impact of the perceived psychic distance on performance.*

Proposition 2.2: *Managers' higher level of international business experience will positively moderate the relationship between the perceived psychic distance and CBM&A performance, such that higher level of international business experience reduces the impact of the perceived psychic distance on performance.*

Managers' M&A experience

A firm's country-specific M&As experience may moderate the hazards of the psychic distance because of the better knowledge of country context. CBM&As experience allows firms to access to varied “routines and repertoires which are embedded in national culture” (Morosini et al., 1998, p. 137). Previous acquisition experience in a country will reduce cost since firms minimized the liabilities of foreignness and the differences of managing CBM&As (Barkema and Vermeulen, 1997): “Whenever possible our employees already with experience in M&A are part of the management teams responsible for the new M&A processes” (the interviewed manager in Case 3); “in our second acquisition in Spain the M&A team kept several members from the first acquisition team” (the manager interviewed in Case 4). According to Doukas and Travlos (1988) acquisitions in countries in which the firms have already performed CBM&As provide higher returns because managers already have knowledge about the business (i.e., clients, markets, other players and suppliers) and knowledge about the institutional environment (i.e., governments, laws and values): “To some extent the success of an acquisition we made in Africa was due to contacts we had made in a previous acquisition in that country” (the manager interviewed in Case 4); “we only use staff with experience (…) with high levels of training to manage the process of an M&A” (the interviewed manager in Case 1). Table 10 presents the main findings on the role of managers’ M&A experience in the target country.

Table 10. Merger & acquisition experience in the target country

Case 1	“Yes it is important, we always learn with either positive or negative experiences. It allows to get a broader understanding of the culture of this country ... even for M&A in other countries past experience is essential "
Case 2	“Definitely! However, that is not synonymous of success ... there are surprises in all operations of M&A "
Case 3	“I cannot answer you. We've never done M&A more than once in the same country ... but of course the experience can greatly help to minimize the impacts of cultural differences"
Case 4	“It is important but not decisive ... for example in our second acquisition in Spain, we kept on taking decisions which we now know were wrong ... we not always learn from past mistakes. If I went back to the past, I could eventually do everything the same way again ... all M&A are different even in the same country and industry "
Case 5	“Important yes, but we have always surprises ... all M&A are different. When we think we have already foreseen everything... we have more surprises in relation to procedures, bureaucracy and communication difficulties ... "

The above leads us to the following proposition concerning the influence of managers' M&A experience on the relationship between managers' perception of psychic distance and CBM&As performance:

Propositions 3: Managers' prior Merger & Acquisition experience in the target country will positively moderate the relationship between the perceived psychic distance and CBM&A performance, such that higher experience reduces the impact of the perceived psychic distance on performance.

Discussion and conclusions

In this study we intend to contribute for the understanding of the extent of the impact of psychic distance hazards in CBM&As performance, by analyzing the managers' perception of the different variables of the psychic distance construct as defined by Dow and Karunaratna (2006): differences in language, education, degree of industrial development, political system, previous colonial ties, religion and time zone. Unlike many of the previous researchers, we use data from 5 case study of firms that have performed CBM&A. Interviewing top managers, who were part of these operations, we inquired about their perceptions of the various difficulties caused by differences between countries. As stated by Harzing (2004), Sousa and Bradley (2008), Smith et al. (2011) and the managers themselves it is the individuals – and not the firms – which are influence by psychic distance. Hence, it is critical for business to understand the managers' perception of psychic distance for better planning and organizing to avoid risk and surprises when firms perform CBM&As.

We believe that our model, which we show in figure 1, presents an essential, albeit only partial, conceptualization of the effect of managers' perception of psychic distance on CBM&As performance. The model explains the role of the managers' perception and suggest the managers' background – knowledge of different cultures and international experience – and M&A experience moderate the effect of managers' perception of psychic distance on CBM&As performance.

From the analysis of 5 case studies we may conclude that not all variables of psychic distance construct, according to the perceptions of managers, have the same impact on the CBM&A performance. For example, 3 in 5 managers stated that differences in language have a negative impact on M&A performance, the others do not think it is an important issue related to CBM&As; differences in education are considered very important for 4 mangers and to have a negative impact on the CBM&As performance; previous colonial ties have a negative impact in one case, although it may be considered either positive or negative for the manager in case 1: "in Angola we had problems for being Portuguese but the opposite is also true"; differences in the degree of industrial development – only 1 in 5 considered this issue as negative for M&A performance; differences in political systems is of little importance since they had already had the perception of the system of the country where they perform M&As; differences in religions and time zone difference – is considered non troublesome for all the 5 managers.

All five managers interviewed agreed that managers' background and previous M&A experience influence the relationship between managers' perception of psychic distance and CBM&A performance. Therefore having a knowledge of different cultures and international experience – as well as having M&A experience – increases CBM&As performance by moderating the managers' perceptions of psychic distance: "the integration of human resources from different countries and the experience of managers is crucial to minimize the post-M&A problems" (the interviewed manager in Case 5).

This study confirms that managers' perceptions of psychic distance affect the CBM&A performance (for a summary of the findings, see table 11). It also confirms the studies of Sousa and Bradley (2008) and Dow and Karunaratna (2006), among others: it is essential to understand the managers' perceptions about the differences between countries, i.e. PD, when the firms decide to internationalize, specifically performing CBM&A. Before performing a CBM&A firms must understand the individual level of PD, i.e. managers' perceptions and individual features not just examine national differences, national level of PD and between firms, firm level of PD.

Table 11. A Summary of the findings

	Case 1	Case 2	Case 3	Case 4	Case 5
Merger & acquisition experience in the target country	+	+	+	+	+
Differences in languages	**ne**	-	**ne**	-	-
Differences in education levels	-	-	**ne**	-	-
Differences in the degree of industrial development	-	-	**ne**	-	-
Differences in political systems	-	**ne**	-	**ne**	**ne**
Differences in religions	-/+	**ne**	**ne**	**ne**	**ne**
Time zone differences	**ne**	**ne**	**ne**	**ne**	**ne**
Previous colonial ties	-/+	-	**ne**	**ne**	**ne**
Education and knowledge of different cultures	+	+	+	+	+

Note: ne – no effect

To conclude, understanding the impact managers' perception of psychic distance is critical to minimize the CBM&As hazards, since the managers are involved in every decision-making process both before and after a M&A operation. This knowledge may prove to be a valuable distinctive factor and one with the potential to provide a competitive advantage. It seems reasonable to suggest that the greater the knowledge about psychic distance, the lower the perceived psychic distance. The result may be a better performance in foreign markets.

Limitations. This study has some limitations worth noting. First, the study was based only CBM&As by acquiring Portuguese firms and all the five managers interviewed were Portuguese. The idiosyncratic characteristics of the Portuguese firms and national cultural of the managers might have affected the research results. Hence, generalization of this study findings to other CBM&A should be carefully considered. The conceptual model of this study requests further testing on a larger number of CBM&As and in other, different, countries.

A second limitation is related with the homogeneity of the 5 firms studied. All the five firms were strong performers and financially robust firms. A final limitation of this study is related to the provenience of the assembled data. Multiple sources of data in each of the firms in the sample were unavailable. So our data comes from only one informant from each firm, whose perceptions were based on memory and not on evaluation tools built for that purpose. This may lead to defective, even biased or rushed conclusions. This problem may be critical, as it does not allow a data triangulation procedure among different interviewed people in the same firm or comparing the interviews' information with objective data.

Future research. Lastly we put forward some suggestions for future research that will help to validate this research and mitigate some of its limitations. The integrated model resulting from this research must be empirically tested by using large samples of CBM&As from different countries and perform more case studies with managers from different countries.

between countries or if prior planning was sufficient to cope with all the surprises. For instance, it would be interesting to carry out case studies of CBM&As in countries of the former Soviet sphere of influence, or the emerging countries, where the economic and cultural realities are quite different from those found in other Western countries. It would also be important to interview managers who are currently managing the firms resulting from CBM&As and try to understand if they still face surprises arising from differences

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27. The psychic distance hazards in cross-border merger and acquisition performance: An empirical study of cross-border mergers and acquisitions from 26 countries

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Abstract

The internationalization strategies of multinational corporations (MNCs), more specifically through cross-border mergers and acquisitions (CBM&As), have warranted the research focus of many international business, strategic management and corporate finance scholars for decades. The CBM&As performance has also been widely addressed in the literature and has significant theoretical and practical importance. However, the knowledge about the variables that affect the CBM&As performance remains limited. Only a few studies have sought to examine the impact of cultural issues, such as cultural distance or psychic distance, on CBM&As performance. Therefore the findings on extant literature are not conclusive and often contradictory. Our findings suggest that psychic distance, as a whole, has a negative impact on CBM&As performance. Analyzing the different dimensions of psychic distance stimuli (PDS), we concluded three individual items - differences in language, education and political systems – are also significant. Thus, this paper seeks to contribute to a better understanding of the psychic distance hazards on CBM&As by breaking down the psychic distance stimuli developed by Dow and Karunaratna (2006) and test the effect of each dimension on CBM&As performance, using the event study methodology. The findings of this study may be useful for managers of firms that wish to undertake CBM&As as it denotes important dimensions which hinder post-deal performance.

Keywords: Psychic distance, cross-border M&As, performance, internationalization, event study, CAR.

1 Introduction

Firms use different strategies for growth and expansion of their business, their product and geographic scope. Albeit there are many possible paths for undertaking growth - organic or internal development, engaging in strategic alliances or joint ventures, among others - it is remarkable the extent to which firms use merger and acquisitions (henceforth M&As) for both domestic and international growth. M&As research is important because these transactions have significant implications for firms' performance (Laamanen and Keil, 2008) and account for nearly 70% of worldwide foreign direct investment (Yildiz, 2014). Given its high relevance, numerous studies have addressed M&As phenomenon both empirically and theoretically (see the overviews by Chi, 2000; Noe and Rebello, 2006; Shaver, 2006; Kacpperczyk, 2009; Wan and Yiu, 2009; Ferreira et al., 2014). However, even after decades of research on this issue, the research provides no clear consensus on the impact of these transactions on the firms' performance (Haspeslagh and Jemison, 1991; Very, 2004; Very and Gates, 2007). For instance, Chatterjee et al. (1992) and Stahl and Voigt (2008) found a negative impact of cultural differences on CBM&As performance and Morosini et al. (1998) found a positive relationship between cultural differences and CBM&As performance. King et al. (2004) perform a meta-analysis of 93 prior empirical studies on M&A performance and concluded: "our results indicate that post-acquisition performance is moderated by variables unspecified in existing research (…) An implication is that changes to both M&A theory and research methods may be needed" (King et al., 2004, p. 188).

Cross border mergers and acquisitions (henceforth CBM&As) are extensively scrutinized due to their long-term effects (Capron and Pistre, 2002). According to Morosini et al. (1998), CBM&As have become major strategic tools for corporate growth of multinational corporations. CBM&As increase the efficiency and effectiveness of whole industries in addition to affecting individual firms' competitive ability (Hitt et al., 2001). In most cases, CBM&As are the only way to acquire resources and knowledge that are not available in the market (Zahra et al., 2000). Firms choose to undertake CBM&As for different purposes. CBM&As may allow obtaining synergies that would not be acquired otherwise (Bradley et al., 1988), exploiting economies of scale (Homburg and Bucerius, 2006), overcoming the shortcomings of the financial markets (Brouthers and Brouthers, 2000) or achieving fast access to specialized technological assets (Chen, 2008; Elango et al., 2013). Managers' self-interest or merely the inadequate evaluation of the potential synergies may also lead to CBM&As (Seth et al., 2000). The outcome of CBM&As is contingent on the post- acquisition integration of the acquired firm. For instance, Child et al. (2001) found that cultural differences are likely to have a negative impact on the firms' post-acquisition performance.

The failure of CBM&A deals is arguably often due to cultural differences (Haspeslagh and Jemison, 1991; Morosini et al., 1998; Child et al., 2001; Bauer and Matzler, 2014; Yildiz, 2014).

The present study seeks to analyze the effect of psychic distance and their variables on CBM&As performance. In this study we contribute to the research of the psychic distance hazard on CBM&As performance by studying the performance of 415 CBM&A between 2005 and 2012, involving acquirers from United States and targets from 26 countries. We used an event study methodology to analyze the hazards of the psychic distance on CBM&As performance on the stock market performance of the acquiring firms available on the Security Data Corporation (SDC). We used the formative index based on five key dimensions of psychic distance stimuli taken from Dow and Karunaratna (2006) and Dow (2007) to determine 'psychic distance' hazard between the U.S acquirer firms and the target firms from other countries involved in the CBM&A. We examine whether CBM&As involving firms from countries with dissimilar cultures do worse than those between firms from countries with similar cultures, i.e., greater psychic distance between two countries worse will be acquirers firm's performance. Specifically we scrutinize the impact of differences in language, education, religion, industrial development and political systems on CBM&A performance.

This study contributes to international business and strategic management research in different ways. First, this study contributes to the literature on differences between countries by empirically testing the effect of psychic distance on CBM&As performance. Second, it contributes to a better understanding of Dow and Karanuratna (2006) psychic distance stimuli (PDS) construct by testing the individual effects of the 5 major variables: we investigate whether certain variables of the stimuli have a more significant impact than others on the CBM&As performance. Overall, this study extends the current understanding of the literature on differences between countries by scrutinizing the relevance of psychic distance on CBM&As operations.

This paper is organized in four main sections. First, we present a review of the concept of psychic distance and psychic distance and cross border mergers and acquisitions performance to provide the theoretical foundation of our conceptual model and research hypothesis that we put forward in the second part of our study. We conclude with a broad discussion, pointing implications and making suggestions for future research.

2 Literature review

2.1 Psychic distance and the internationalization of firms

According to Johanson and Vahlne (1977, 2009) the internationalization of firms may be examined as an incremental process. As firms internationalize they accumulate experience and knowledge and are likely to evolve to higher commitment foreign entry modes, namely mergers and acquisitions and greenfield investments (Johanson and Vahlne, 1977). A crucial element in this evolutionary model is firms' perceived risks that, according to Johanson and Wiedersheim-Paul (1975), leads firms to begin internationalizing to nearby markets - markets in close geographic proximity, with cultural, political and legal systems that resemble those found in the home country – and only later do they search for more distant markets. The initial expansion to proximate locations seeks to reduce perceived risks by avoiding unfamiliar spaces and by selecting entry modes that entail low commitment of resources. As firms deepen their internationalization they start expanding to more distant countries also assuming greater risks and deploying high involvement entry modes.

Psychic distance creates a sense of dissimilarity (in factors such as language, culture and personal relationships between entrepreneurs) that hinder firms' operations (Beckerman, 1956). According to the early study of Johanson and Wiedersheim-Paul (1975, p. 307) psychic distance was defined as "factors preventing or disturbing the flow of information between firms and market". Psychic distance was further defined in Johanson and Vahlne's (1977, p. 24) seminal work as "the sum of factors preventing the flow of information from and to the market". Kogut and Singh (1988, p. 413) defined psychic distance as "the degree to which a firm is uncertain of the characteristics of a foreign market", and for Ford (1984, p. 102) psychic distance is the "the extent to which the norms and values of the two companies differ because of their separate national characteristics". Evans et al. (2000, p. 375) conceptualized psychic distance as "the distance between the home market and a foreign market resulting from the perception and understanding of cultural and business differences". For Fletcher and Bohn (1998, p. 49) psychic distance "includes aspects other than culture, it is based on perceptions that are culturally influenced, if not determined". They defined psychic distance as "this willingness (or lack thereof) to undertake business in specific overseas markets". The psychic distance construct is also regarded as a measure of uncertainty. This uncertainty is driven by cultural and business difficulties that produce obstacles to learning about the foreign markets. According to Fletcher and Bohn (1998) psychic distance is also a function of cultural distance, learning in dealing with different markets and similarity in adopted values between the home and the foreign country. According to a study of Nordstrom and Vahlne (1994, p. 42) psychic distance is defined as the “factors preventing or disturbing firms' learning about and understanding a foreign environment”. Therefore it is clear that the construct of psychic distance entails those elements (observable or silent) that make home and host countries environments differ, including such aspects as language, religion, level of economic development, wealth distribution, level of education, degree of technological sophistication, geographic distance, pervasiveness of corruption and cultural differences (Johanson and Wiedersheim-Paul, 1975) and make the operations of firms difficult or more likely to fail. Consequently, understanding and learning became essential to the concept of psychic distance, rather than the simple flow of information (Smith et al., 2011).

The psychic distance is influenced by the cultural differences between two given countries (Dow and Larimo, 2009; Blomkvist and Drogendijk, 2013). According to Sousa and Bradley (2006) the cultural stereotyping and cultural filters that are shared by members of the people belonging to the same culture tend to have similar perceptions of cultural distance to foreign countries. So psychic distance is not only an individual phenomenon but also a collective phenomenon because culture determined haziness in the ways of seeing people belonging to other groups. This is why Buckley and Casson (1998) referred to culture as “collective subjectivity” and, even within the same culture, individuals from different firms may have different perceptions of other cultures, given their level of education, cultural background, specific organizational culture, and experiences (Eriksson et al., 2000; Smith et al., 2011). The international experience acquired by the individuals and a firm, is therefore accumulated in incomplete and a systematic way, providing a basis for future decisions to be taken when similar conditions present themselves (Eriksson et al., 2000). As a result psychic distance can be measured at an individual, firm or national level. The individual and collective perceptions of psychic distance tend to be related, but they generally differ on specific individual characteristics, such as cultural background, level of education, and managers’ international experience, among other factors (Dow and Karunaratna, 2006).

Most of the studies has found an impact of Psychic distance on firms’ international operations. Psychic distance is posited to have an impact on entry mode decision (Brouthers and Hennart, 2007, Ellis, 2007). According to Dow and Larimo (2007) a high degree of psychic distance between countries is expected to have negative impact on firms’ desires for high control of their operations in the foreign market, as in the case of CBM&A operations. This negative impact has been supported by several empirical studies which have found a significant negative correlation between psychic distance and entry mode selection (Zhao et al., 2004; Magnusson et al., 2006) and also negative influence on trust and satisfaction in international distribution (Obadia, 2013). The meta-analysis of Magnusson et al. (2008) also confirms the negative impact of PD in firm international performance. Håkanson and Ambos (2010, p. 195) observe that “the general assumption in most of these studies is that the more different a foreign environment is as compared to that of a firm’s (or an individual’s) country of origin, the more difficult it will be to collect, analyze and correctly interpret information about it, and the higher are therefore the uncertainties and difficulties – both expected and actual – of doing business there”.

On the other hand, the impact of Psychic distance on firms’ international operations may be positive. According to Evans and Mavondo (2002) a greater the psychic distance (and thus a greater uncertainty firms face) will compel firms to “work harder” to reduce this uncertainty instead of overestimating the similarities in close markets (O’Grady and Lane 1996; Pedersen and Petersen 2004).Several studies have also shown a positive impact of psychic distance on firms’ performance (e.g. O’Grady and Lane, 1996; Morosini et al., 1998; Evans and Mavondo, 2002; Sousa et al., 2010). O’Grady and Lane (1996) found that albeit the Canadian retailers perceived the US market psychically very similar their failure rates were extraordinarily high. Morosini and colleagues (1998) found a positive relation between CBM&As performance and psychic distance. Evans and Mavondo (2002) and Sousa et al. (2010), corroborated the conclusion about the positive Psychic distance impact on performance and by examining the Australian retailers and Spanish manufacturers respectively. Therefore, it appears to be a reasonable explanation that psychic distance positively impacts performance – the psychic distance paradox (O’Grady and Lane, 1996). The psychic distance paradox indicates managers fail to perceive the true psychic distance between countries when they neglect the differences between countries. This may lead managers to ‘see’ a country psychically close when it is not in fact (for a review of this literature see Stahl and Voigt, 2008). Therefore, “learning begins with the ability to see differences” (O’Grady and Lane, 1996, p. 325).

2.2 Psychic distance and cross border mergers and acquisitions performance

M&As have been studied in strategic management also under diverse lenses. The post-acquisitions integration of the acquired firms has warranted special attention (Zollo and Singh, 2004) the cultural hazards in integration different cultures (Jemison and Sitkin, 1986; Datta and Puia, 1995; Morosini et al., 1998; Clougherty, 2005; Nadolska and Barkema, 2007; Weber et al., 2011; Bauer and Matzler, 2014), the various human resource issues can be managed during M&As in order to reduce negative outcomes (Siehl and Smith, 1990; Schuler and Jackson, 2001; Bryson, 2003; Aguilera and Dencker, 2004) the impact of resource relatedness (Chatterjee, 1986; Singh and Montgomery, 1987; Seth, 1990b; Chatterjee et al., 1992; Healy et al., 1992), the loss of value post-acquisition (Dyer et al., 2004; King et al., 2004), the human resource management integration in different cultures (Calori et al., 1994; Lubatkin et al., 1998; Child et al., 2001; Very and Schweiger, 2001), the desire to gain access to new knowledge and transfer existing knowledge between the firms (acquiring and the acquired) (Bresman et al., 1999; Ranft and Lord, 2002; Bjorkman et al., 2007) and the target selection (Haspeslagh and Jemison, 1991) namely because of the exit of key personnel and clients partially explain this loss. The fact is that many acquisitions have negative impact on performance for reasons such as poor selection of the targets, no synergies are exploited and excessive debt (Haspeslagh and Jemison, 1991; Hitt et al., 2001). According to Hitt et al. (2001) only the M&As in which the managers of both the acquirer and the acquired work collaboratively to maximize the gains from synergies created by integrating the acquiring firm's resources with those of the newly acquired may improve performance. Another reason is reflected in Karim and Mitchell (2000) argument that M&As are opportunities for firms to reconfigure their businesses, altering their pool of resources and capabilities.

M&As operations are a mechanism to access critical resources, increase firm's power relative to other organizations and reduce competitive uncertainty created by resource dependencies among firms. Integration of complementary resources between an acquiring firm and a target may be difficult if not impossible for competitors to imitate (Teece et al., 1997). M&As as learning options or opportunities (Barkema and Vermeulen, 1998; Vermeulen and Barkema, 2001) may grow the firms' knowledge through acquiring or 'grafting' of external knowledge bases (Cohen and Levinthal, 1989; Huber, 1991). Indeed, obtaining know-how and developing capabilities are important motives for M&As (Link, 1988; Granstrand et al., 1992; Chakrabarti et al., 1994; Wysocki, 1997a, 1997b). Learning from a target firm and building new capabilities is a reason why firms acquire others (Amburgey and Miner, 1992). Moreover, M&As are a mode to access resources not yet held (Hitt and Ireland, 1986; Karim and Mitchell, 2000). Target firms often have unique employee skills, organizational technologies or superior knowledge that are available to the acquiring firm only through acquisitions. These are capability building acquisitions, which have been gaining explanatory power for why many acquisitions have occurred in the last decades (Gammelgaard, 2004). Furthermore, it is noteworthy that M&As are a means for a quicker access to valuable resources that are difficult to achieve by using internal development or other governance form (Pfeffer, 1972; Burt, 1980; Finkelstein and Boyd, 1998). For Olie (1994) and Vermeulen and Barkema (2001) M&As may supply firms with competitive advantage by giving them unique and potentially valuable resource that are embedded in a different cultural background. According to Stahl and Voigt (2008, p. 163) “these benefits can be realized only if the cultural differences between the merging firms are not so large that they interfere with the successful transfer of capabilities, resource sharing, and learning”.

Psychic distance has been demonstrated to have an impact on CBM&As performance (Morosini et al., 1998; Evans et al., 2000; Evans and Mavondo, 2002). Performance may be conceptualized and measured in several different ways. For example, financial indicators have been used to assess the influence of psychic distance in firms’ performance (Evans and Mavondo, 2002). Stahl and Voigt (2008) have also considered organizational performance and synergy realization to assess the hazard of cultural differences in CBM&As performance. Griffith (2011) have used combined measures of international performance, such as the EXPERF scale (Zou and Stan., 1998) which combines three dimensions - financial, strategic and satisfaction - of exports to measure performance. Even though the concept of performance is ambiguous and may comprise many different outcomes of firms’ operations (Cording et al., 2010).

Strategic management, international business and finance scholars often adopt the concept of financial performance to measure M&As (Venkatraman and Ramanujam, 1987; Meglio and Risberg, 2011). Financial performance includes market value of the firm and is commonly measured in terms of Cumulative Abnormal Returns (CAR) or Cumulative Average Abnormal Returns (CAAR) – event study methodology. According to Meglio and Risberg, (2011) the majority of the studies employed the event study method (e.g., Shelton, 1988; Wright et al., 2002; Chikh and Filbien, 2011).

Grounded in our review into how researchers measure M&As performance, we employed market-based measure for CBM&As performance. The cumulative abnormal returns (CARs) provide a realistic representation of the wealth effects in M&As (Stahl and Voigt, 2008) and are calculated as the difference between the actual stock return and the return that would be expected given the performance of the market (Datta et al., 1992).

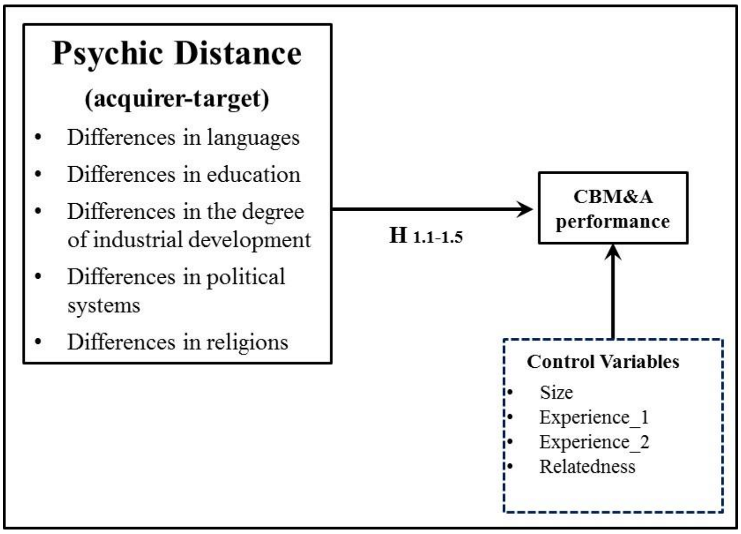
3 Conceptual model

As discussed in the psychic distance literature review, larger country psychic distance is expected for firms to involve in more difficulties. Therefore, firms select markets less psychologically distant, which allow them to gain experience in carrying out international operations generally and operations in a specific market particularly. With the purpose of minimizing risks and learning about customers, suppliers, bureaucratic procedures, exchange rates, taxation, customs barriers, and so forth, firms started to invest in countries with more favorable regulations, incentives, and developed institutions (Johanson and Vahlne, 1977; Xu and Shenkar, 2002; Dow and Karunaratna, 2006; Martín and Drogendijk, 2014).

According to Johanson and Wiedersheim-Paul (1975) the uncertainty about foreign markets is related to the psychic distance home-host countries. For instance, the psychic distance between Portugal and any given foreign market is determined by a number of factors such as level of development, level of education, business language, cultural differences, language and relationships of many kinds between the country of origin and the host. The greater the difference between such factors the greater the psychic distance between countries. A larger psychic distance will arguably lead to greater uncertainty in operating in those countries (Håkanson and Ambos, 2010; Dow and Larimo 2009). For instance, when a firm acquires a new firm in a different country the managers need to communicate with suppliers, customers, competitors and also with the political institutions. Thus, differences between countries, i. e, psychic distance, may increase the uncertainty and the cost of interaction and communication between firms and the environment (Hutzschenreuter et al, 2014). The more differences there are between the home country and host country, the less expected from CBM&As performance.

For a better understanding of the psychic distance hazards on CBM&AS performance we develop a conceptual model, depicted in Figure 3.1 below.

Figure 1 *Conceptual model: Hypothesized impact of the psychic distance on CBM&A performance*



Source: Developed for this paper

Firms operating abroad face hazards in international markets. Differences in languages, education, religion, industrial development and political systems (Johanson and Wiedersheim-Paul, 1975; Dow, 2000; Child et al., 2002; Dow and Karunaratna, 2006) arguably lead to social and economic costs. According to the Uppsala researchers Johanson and Wiedersheim-Paul (1975, p. 308) the sum of these factors that prevent or disturb the flows of information between firms and markets is the psychic distance. Firms prefer to do business in countries psychically closer, i.e., countries with similarity in respect to languages, religions, culture, level of education and political system and relented to select countries at larger psychic distance (Johanson and Wiedersheim-Paul, 1975; Dow, 2000; Brewer, 2007).

The impact of psychic distance on the CBM&As performance has been seen as negative since uncertainty becomes higher as the psychic distance between countries increases. (Evans and Mavondo, 2002; Dikova, 2009) Thus firms have more difficulties in gathering information about manage the M&As in the foreign market (Mayrhofer, 2004). Researchers suggests that greater psychic distance between two countries worse will be firm's performance in international markets (Child et al., 2002 and Ellis, 2008). According to Dow and Karunaratna (2006) psychic distance is an important factor of firms' internalization behavior and managers must take into account the psychic distance when they decided to acquirer a firm in different country. Psychic distance influences how people perceived information. Large psychic distance led to misinterpretation and miscommunication and may result in an inadequate understanding of the foreign market. Psychic distance may increase the costs of manage CBM&As.

This combined with our early discussions on the definition of psychic distance and CBM&As, leads us to a first hypothesis:

Hypothesis 1: Psychic distance will be negatively associated with the CBM&As performance.

The next set of hypotheses follow the psychic distance stimuli of Dow and Karunaratna (2006). According to these authors the psychic distance between two given countries is determined by the differences in language; religion; industrial development; education and political system, colonial ties and time zone. Following Larimo (2011) we focused on differences in language; religion; industrial development; education and political system; we leave “colonial ties” due to the idiosyncrasies of our sample (all the acquirers are US-based and the US did not have any colonies) and also “time zone” since it was considered to have no significant predictive power under most circumstances (Dow and Karunaratna, 2006; Larimo 2011). Therefore using a multi-dimensional approach to psychic distance arguably allows to explain the differences between countries.

Differences in languages among countries have received support from researchers (Johanson and Wiedersheim-Paul, 1975; Shenkar, 2001; Evans and Mavondo, 2002; Harzing, 2003; Dow and Karunaratna, 2006; Sousa and Bradley, 2006, 2008) as one of the barriers of doing business in the international markets. Managers that do not speak the same language will face difficulties in interpret and understand the information. The language similarity may explain the trade between countries and increase transaction risks and cost (Dow and Karunaratna, 2006). In CBM&As the differences in languages may advance additional problems due to the difficulties to successful integration of the human resources and communication with suppliers and institutions (Bjorkman et at., 2007). Thus, differences in languages between countries tend be negatively associated with the CBM&As performance.

Hypothesis 1.1: Differences in languages between countries will be negatively associated with the CBM&As performance.

Differences in education levels between countries tend to increase the risks and uncertainties of doing business in international markets since these differences may result in uncertainty of understanding and communicating in the international markets (Dow and Karunaratna, 2006). Managers and workers with different education level may have difficulty working in a team and understanding the new methods of work of the firms resulting from CBM&As. The communication itself between the different hierarchical levels and within the same levels can be compromised and negatively influence the CBM&As performance.

Hypothesis 1.2: Differences in education levels between countries will be negatively associated with the CBM&As performance.

Different level of industrial development also affect communication and interaction in international markets. According to Dow and Karunaratna (2006) different level of industrial development may increase costs and uncertainty. For instance, differences in transportation and communication infrastructures that exist between countries with different degrees of industrial development, have a negative impact on firms' performance (Evans and Mavondo, 2002; Malhotra et al., 2009). According to Ghemawat (2001) the business models may be more easily to be transferred to countries with similar level of industrial development. An M&A between firms from different countries, i.e., a CBM&As may have a deficient performance by not being able to adapt to these differences. Thus the level of industrial development will be associated with CBM&As performance.

Hypothesis 1.3: Differences in the degree of industrial development between countries will be negatively associated CBM&As performance.

Differences in political systems include political stability and democratic character (Dow and Karunaratna, 2006). Firms from relatively stable countries and democratic political system may face political hazard because of the unstable and non-democratic host country government (Hutzchenreuter et al., 2014). According to Johanson and Vahlne (2009) political distance may decrease firm's performance since costs and uncertainty tend to increase in the international markets. Different level of political stability may yield uncertainty concerning the conditions of doing business and manage the CBM&As in different governance system (Zurawicki and Habib, 2010). Thus the differences in political systems will be associated with CBM&As performance.

Hypothesis 1.4: Differences in political systems between countries will be negatively associated with CBM&As performance.

Differences in religion are related to cultural differences and have a huge influence on culture since religion affects the way people communicate and interact (Ghemawat, 2001; Blomkvist and Drogendijk, 2013; Ronen and Shenkar, 2013). According to Shenkar (2001) and Dow and Karunaratna (2006) religion differences are a factor of conflict between different countries and increase psychic distance hazard. Differences in religion may affect the way the workers, from the firm resulting of the CBM&A, interact. For instance the difference views of the Christian and the Muslim religion towards the role of men and women in society and business may affect the way of managing the CBM&As. The differences in religion may involve differences with regard to communication and interaction norms. Thus the difference in religion will be associated with CBM&As performance.

Hypothesis 1.5: *Differences in religions between countries will be negatively associated with the CBM&As performance.*

4 Methodology

The following section outlines the methodology used to test our hypotheses and understanding of the psychic distance hazards on CBM&AS performance. In this study we will perform an empirical study using the formative index based on five key dimensions of psychic distance stimuli taken from Dow and Karunaratna (2006) and Dow (2007). We collected data about CBM&As deals from Thomson Financials SDC Platinum database (SDC). Our sample comprises acquisitions of international firms by U.S. firms during the years 2005-2012.The SDC Platinum is commonly used in M&As research in strategy, international business, economics and finance (Aybar and Ficici, 2009; Ragozzino, 2009; Elango et al., 2013; Gaur et al., 2013).

4.1 Measures

4.1.1 Dependent variable

Event study (Cumulative Abnormal Returns)

In this study we used the standard event study methodology, as proposed by Fama and MacBeth (1973); Fama (1996) and Campbell et al. (1997) to examine acquirers' returns in U. S. CBM&As in the period surrounding the announcement of the deal. According to Kohli et al. (2012) event study allows scholars to scrutinize whether there are abnormal share price returns associated with an event and capture acquirers' value creation from CBM&As consistently (Zollo and Meier, 2008; Kohli et al., 2012). Most of the studies about CBM&As performance used the stock market event study (Campbell et al., 1997; Capron and Pistre, 2002; Shimizu et al., 2004; Schoenberg, 2006; Haleblian et al., 2009; Gaur et al., 2013). According to Gubbi et al. (2010, p. 404) "event study methodology is relatively unbiased compare to other measures, and invariant to the differences in accounting policies across nations and those adopted by firms". Thus in this study we use the event study to measure the performance of the acquirers.

The event date in this study is the announcement day of the CBM&A operation. According to McWilliams and Siegel (1997, p. 636) the length of event window is "possibly the most crucial research design issue" since the event window should be as short as possible to enhance the power of the analysis and long enough to capture the full effect of the event. Taking this argument and the previous research on CBM&As (Campbell et al., 1997; André et al., 2004; Dos Santos et al., 2008; Zhu et al., 2010 and Gaur et al., 2013), this study used one relatively short event windows (-5, 5) and one relatively long event windows (-20, 20).

4.1.2 Independent variables

Psychic distance stimuli (PDS)

In this study we used the psychic distance stimuli (PDS) to the USA, which is based on the formative index based on five major dimensions put forward by Dow and Karunaratna (2006) and Dow (2007): differences in (1) language, (2) religion, (3) industrial development, (4) education and (5) political system. The Dow and Karunaratna (2006) scales cover up a huge variety of the factors usually associated with psychic distance (Evans and Mavondo, 2002 and Harzing, 2002, 2003).

Following Dow and Ferencikova (2010), the psychic distance stimuli (PDS) index represented the aggregate PDS distance (the five dimensions) of the two acquisition parties. Algebraically:

$$PDS_j = \sqrt{\sum_{i=1}^{5} (I_{ij} - I_{il})^2}$$

Where:

PDSj is the psychic distance stimuli difference for the jth country to the USA;

I is fixed and relative to the USA;

Iij PDS's score: ith PDS dimension for the jth country.

4.1.3 Control Variables

In this study, following the previous research on CBM&As, we control for the most commonly used variables since firm-specific variables - dimension, operations/experience in international business - lead to different performances in international markets. Different firms deal with risk and uncertainty in different ways. Hence the hazard of psychic distance depends on those specifications. We used the following control variables:

Size - Specifies bidder firm's size as measured by three different variables: the natural logarithm of the firm's total assets, sales and number of employees (see for example Ahammad and Glaister (2013). We take into account the acquirer size as a control variable because according King et al. (2004) and Moeller et al. (2004) acquirer size shows the firm's ability to obtain economies of scale and scope that may provide the acquirer with higher returns. (Houston and Ryngaert, 1994; King et al., 2004; Moeller et al., 2004). Larger firms are likely to achieve a better performance simply due to their size (Finkelstein and Haleblian 2002). This information is obtained from SDC database;

Relatedness - Following the procedures of Morosini et al. (1998), the relatedness of the CBM&A will be measured based on the industry of the acquirer and the target firms. If a database indicates that the two firms are in the same industry, the CBM&A receives a score of 1. If a database indicates that the two firms are from different industries, the CBM&A receives a score of 0. This information is obtained from SDC.

Experience_1 – The previous experience in conducting CBM&A may affect the firm's value since prior experience in performing CBM&A helps firms to better understand all the CBM&A process and employing them to future deals (Levitt and March, 1988) and eventually avoiding or overcoming problems. Taking into account the learning theory perspective, firms experienced in CBM&As are more likely to engage in new CBM&As since acquirer firms learned from previous CBM&As (Nadolska and Barkema, 2007).

Takes the value of 1 if the acquirer has performed other CBM&A deal in the 5 years preceding the time of the CBM&A announcement, and 0 otherwise. This information is obtained from the SDC.

Experience_2 – The previous experience in conducting M&A in the target country influences the firm's perceived risk because it may decrease the liability of foreignness and therefore firm value (Eden and Miller, 2004; Zhu et al., 2010). Albeit each CBM&As may be different, firms with previous experience in the target country will decrease the hazard by increasing the knowledge about a specific market. According to Vermeulen and Barkema (2001) firms will develop target country-specific routines and capabilities that may help the firms manage the M&A process. Takes the value of 1 other CBM&A deal in the target country in the 5 years preceding the time of the CBM&A announcement and 0 otherwise. This information is obtained from the SDC.

4.2 Data and procedure

4.2.1 Sample and descriptive statistics

Our sample consists of 415 announced and completed CBM&As from 2005 to 2012 by U.S. publicly traded firms. A sample of over 400 observations is arguably large enough to satisfy the assumptions of normality (Gubbi et al., 2010), which have been argued to be critical concern in event study methodology (McWilliams and Siegel, 1997). We obtained the both the firms' and CBM&As operations' data from Thomson Financials SDC Platinum database. The SDC Platinum database comprises mergers and acquisitions of international firms and U.S. firms since 1990. Between 1990 and 2008 SDC had 187,841 M&As recorded, totaling $ 7.54 trillion and 56,978 CBM&As totaling $ 2.21 trillion. The SDC database collect sates information from over 200 English and foreign language news sources such as trade publications, newswire reports, proprietary surveys of investment banks, law and advisor firms, the Wall Street Journal, Reuters, Financial Times and other newspapers and press releases to assemble a robust and comprehensive listing of acquisition activity (Chari et al., 2004; Uhlenbruck, et al., 2006; Bhagat et al. 2011). The SDC is commonly used in M&As research in strategy, economics and finance (Ragozzino, 2009) since the SDC provides us with several essential characteristics about each M&A. Information on M&As include variables such as whether the operations were friendly or hostile, whether there was a cash purchase of shares, the date on which the transaction was announced and the date on which the transaction became effective. The SDC database also provides information about the acquirers and targets – for example name, industry sector, primary SIC and nation. This database represents one of the most comprehensive sources of information on CBM&As (Ragozzino, 2009; Zhu et al., 2010). We also used Datastream database to retrieve the firms' stock prices and the S&P500 index data to compute the returns.

To define the sample we followed the previous research, specifically the procedures put forward by Andre et al. (2004) and Fee and Thomas (2004) – (1) The transaction must be completed, (2) exclude public utility firms (SIC code 4900–4999), public administration (SIC code 9000-9999), (3) exclude the financial institutions (SIC code 6000–6999) from our sample since these industries are profoundly regulated, (4) the acquirer and target are from different countries, (5) the acquirer is publicly traded; (6) and where both the acquirer's and the target's nation are known, (7) acquires and target must be in one of 120 countries/areas that are in Douglas Dow's Psychic Distance Stimuli (PDS) database (Dow, 2007), (8) both the acquirer's and the target's Datastream code are known, to allow for reliable stock return data available for calculations' acquires' abnormal return (AR) and cumulative abnormal return (CAR) attributable to CBM&As announcements, (9) CBM&As announcement dates must be between 2005 and 2012. Finally, we exclude observations all the offshores countries (according to the International Monetary Fund classification – see appendix 1), to avoid including "shell" operations. Our final sample consists of 415 unique acquisitions from US acquirers and 26 different target nations. Tables 3.2 and 3.3 present an overview of the descriptive statistics of the sample. As shown in the table in table 3.3 most of the US acquirers acquisitions are in the developed countries (i.e., countries belonging to the OECD): United Kingdom with 124, Canada with 106 and Australia with 32 M&As represent more than 50% of all acquisitions. Only 4 acquisitions are targets in Africa and 8 acquisitions in South America. The average sum involved in each deal is 256,3 million USD and we the last three years (2010-2012) represent around 45% of the number of operations.

Table 2 Descriptive statistics per year

Year of Transaction	Mean	Sum	Standard Deviation	Number of M&As	% of M&As
2005	220,681	3.530,9	254,296	16	3,86%
2006	258,339	4.650,1	331,807	18	4,34%
2007	681,059	11.578,0	2172,521	17	4,10%
2008	106,732	8.431,8	265,481	79	19,04%
2009	376,625	21.091,0	1535,812	56	13,49%
2010	285,168	21.102,4	663,431	74	17,83%
2011	264,734	21.178,7	652,542	80	19,28%
2012	197,612	14.820,9	366,585	75	18,07%
All	256,347	106.383,8	844,550	415	100,00%

Note: Mean and sum values in millions of USD.

Table 3 Descriptive statistics per country

Target Nation	Mean	Number of M&As
Argentina	35,485	3
Australia	184,060	32
Bolivia	6,490	1
Brazil	33,323	2
Canada	329,588	106
Colombia	289,934	1
Denmark	398,934	10
Ecuador	6,595	1
Finland	59,040	2
France	108,193	30
Germany	439,963	25
Greece	619,893	1
India	250,161	20
Italy	142,439	10
Japan	252,602	14
Mexico	43,025	8
Morocco	35,000	1
Namibia	235,000	1
New Zealand	8,019	1
Poland	153,678	2
Portugal	22,526	1
Russia	67,175	4
South Africa	1084,448	2
Spain	159,292	5
Taiwan	219,248	8
United Kingdom	469,207	124
All	323,758	415

Note: Mean values in millions of USD.

4.2.2 Procedures

We use several models to ascertain the impact of psychic distance on cumulative abnormal returns of U.S. firms following a CBM&As. We test our hypotheses (following Campbell et al., 1997) using weighted least squares (WLS) estimators (Buckley et al., 2007 and Zhu et al., 2010).

Since the observations are cross section (different CBM&As) we should account for the diversity of firms included in the sample in financial capacity, dimension, number of employees, dividend policy, industry and so forth. Therefore, according to Gujarati and Porter (2010) and Greene (2011) the observations specificity should be dealt with considered the heteroskedasticity, meaning we do not use the classical hypothesis of constant variance. Therefore we assume heteroskedasticity where the variance is different in each observation and is dependent of the firms' dimension, i.e. $Var(\epsilon_i) = \sigma^2 Z_i^2$. In this study, the dimension variable (Z_i) is the sales volume of the acquirer.

The Weighted Least Squares (WLS) method ponders each observation with the inverse of the standard deviation (in this case, the acquirer net sales variable). This specific pattern of heteroskedasticity allows the WLS to produce efficient estimators (with higher precision of estimation) as well as unbiased and consistent (Gujarati and Porter, 2010; Greene, 2011).

The first regression, with control variables is as follows (Model 1):

$$CAR_{(-20,20)} = \beta_0 + \beta_1 Related + \beta_2 Exp_{Aq} + \beta_3 Exp_{Country} + \beta_4 Size + \varepsilon$$

Our second regression equation with PDS variables is as follows (Model 2):

$$CAR_{(-20.20)} = \beta_0 + \beta_1 Related + \beta_2 Exp_{Aq} + \beta_3 Exp_{Country} + \beta_4 Size + \beta_5 PDS_{Lang} + \beta_6 PDS_{Rel} + \beta_7 PDS_{Ind} + \beta_8 PDS_{Edu} + \beta_9 PDS_{Pol} + \varepsilon$$

Our third regression equation with PDS index is as follows (Model 3):

$$CAR_{(-20.20)} = \beta_0 + \beta_1 Related + \beta_2 Exp_{Aq} + \beta_3 Exp_{Country} + \beta_4 Size + \beta_5 PDS_{index} + \varepsilon$$

To assess the robustness of our results and analyze eventual differences in short-term and long-term effects, we repeated the procedure and used the same independent variables changing the event window of the dependent variable, using an event window (-5, 5). These three models are Models 4 to 6.

5 Results

Table 5 reports descriptive statistics (the means and standard deviations of the variables, as well as the correlation coefficients) of the dependent, independent, and control variables. A close observation of the correlations between independent variables suggest no multicollinearity issues arise. The highest correlations is -0,8164 between the variables differences in education level (6) and differences in the degree of industrial development (5), which is the only coefficient over 0.60 in absolute value. All other correlations present a low coefficient differences indicating no adverse effect in the models.

Table 5. Means, standard deviations and correlation coefficients of variables

		Mean	Std. dev.	1	2	3	4	5	6	7	8
1	PDS index	5.6793	1.5513	1.0000 --							
2	Differences in languages	2.4458	1.6681	0.004525 0.9291	1.0000 --						
3	Differences in education levels	0.3596	0.3876	-0.039109 0.4418	-0.57492 0.2580	1.0000 --					
4	Differences in the degree of industrial develop.	1.6925	0.4828	0.012267 0.8094	-0.287252 0.0000***	-0.820839 0.0000***	1.0000 --				
5	Differences in political systems	1.8849	0.3659	0.066794 0.1886	-0.269260 0.0000***	-0.396749 0.0000***	0.467073 0.0000***	1.0000 --			
6	Differences in religions	0.6528	0.6834	0.29399 0.5632	0.106468 0.0358**	0.527761 0.0000***	-0.499224 0.0000***	-0.199856 0.0001***	1.0000 --		
7	CAR (-5, 5)	0.023337	0.01241	0.034810 0.4936	0.43101 0.3966	-0.051727 0.3089	0.030533 0.5482	0.018582 0.7149	-0.059144 0.2445	1.0000 --	
8	CAR (-20, 20)	-0.027067	0.025923	0.019117 0.7070	-0.192971 0.0001***	0.060614 0.2330	-0.001518 0.9762	0.023836 0.6393	-0.068228 0.1793	0.208476 0.0000***	1.0000 --

*Significant at 10% l.s. (level of significance); **Significant at 5% l.s.; **Significant at 1% l.s.

__Table 6.__ Cumulative abnormal returns (CAR) and Standardized cumulative abnormal return (SCAR) for CBM&As announcements

Cumulative Abnormal Return (CAR)			Standardized Cumulative Abnormal Return (SCAR)		
Event Window	Means	t-tests[a]	Event Window	Means	t-tests[a]
$CAR_{(-5, 5)}$	0.023337	1.878918*	$SCAR_{(-5, 5)}$	1.152303	3.075533***
$CAR_{(-20, 20)}$	-0.027067	-1.043931	$SCAR_{(-20, 20)}$	-0.123970	-2.502770**

*Significant at 10% l.s.; **Significant at 5% l.s.; ***Significant at 1% l.s.

[a] t-test testing the null hypothesis that the mean of abnormal returns is zero

The sampling probability distributions for test of the average of CAR and SCAR are approximately normal (Campbell et al., 1997). The results on table 3.6 show the tests of CAR(-5,5), CAR(-20, 20), SCAR(-5,5) , CAR(-20, 20) and SCAR(-20, 20). Concerning CAR(-5,5) and SCAR(-5,5) tests show the average accumulated return is statistically significant (Significant at 10% level of significance (l.s.)) in both cases but also significant at 5% and 1% in SCAR statistics), suggesting the most immediate reactions of investors close to the operation date. CAR(-20, 20) and SCAR(-20, 20) show only statistically significance for SCAR statistic (Significant at 5%), whereas the CAR(-20, 20) statistics are not significantly different from zero.

The interpretation of these results should consider the statistics are averages and thus hide the diversity of behaviors among the 415 CBM&As. Therefore we may conclude the effects on accumulated returns are visible in the short term (the period from five days before until five days after the operation), whereas the longer period (-20, 20) the statistical results do not allow a conclusion.

We ran several models with the dependent variable – CBM&A Performance. Table 3.7 presents the results of these analyses. We jointly test the hypotheses to scrutinize the conceptual model put forward (Fig. 3.1) to. The control variables Size, Related and Experience in acquisition are significant in the three models, and Experience in acquisition country is also significant in model 2.

Model 2 includes as independent variables the five items of the PDS, which allow us to test hypotheses 1.1 to 1.5. We found Differences in languages to be negatively related to acquisition performance with a coefficient of -0.022963 (Significant at 1%), allowing us to support Hypothesis 1.1. Differences in education levels have been found to be negatively related to acquisition performance with a coefficient of -0.175739 (Significant at 1%) thus supporting Hypothesis 1.2. Differences in political systems have also been found to have a negative impact with a coefficient of -0.079096 (Significant at 5%) thus supporting Hypothesis 1.4. As for the impact of Differences in the degree of industrial development and Differences in religion on CBM&As performance, they have not been found significant and thus we may not support Hypotheses 1.3 and 1.5.

Model 3 allows us to test the PDS index which considers the five items simultaneously. PDS index is found to be negatively – quite strongly – associated to CBM&As performance with a coefficient of -0.44523 (Significant at 1%). Therefore, as predicted by Hypothesis 1, psychic distance is negatively associated to CBM&As performance.

Models 4 to 6 analyze the short-term effect of psychic distance. The five items of the PDS are not found to be significant (Model 5) thus not supporting Hypotheses 1.1 to 1.5 in the short-term. However the psychic distance stimuli index is found to be significant with a coefficient of -0.029669 (Significant at 1%) (Model 6) thus supporting Hypothesis 1 also in the short-term.

Table 7. Regression analysis: Determinants of Psychic distance on CBM&A performance (CAR $_{-20, 20}$)

	Model 1		Model 2		Model 3	
Variable	**Coefficient**	**p-value**	**Coefficient**	**p-value**	**Coefficient**	**p-value**
PDS index	-	-	-	-	-0.44523	0.0000***
Differences in languages	-	-	-0.022963	0.0001***	-	-
Differences in education levels	-	-	-0.175739	0.0000***	-	-
Differences in the degree of industrial develop.	-	-	0.053201	0.1010	-	-
Differences in political systems	-	-	-0.079096	0.0376**	-	-
Differences in religions	-	-	-0.008059	0.6433	-	-
Size	0.027684	0.0000***	-0.016530	0.0000***	0.033750	0.0000***
Related	0.147320	0.0000***	0.049531	0.0007***	0.057146	0.0002***
Experience in acquisition	0.59025	0.0000***	-0.035666	0.0002***	0.054248	0.0000***
Experience in acquisition country	0.005309	0.7675	0.051409	0.0000***	0.021200	0.1917
N° observations	390		389		388	
Adjusted R-squared	0.682315		0.883674		0.744789	
Log likelihood	-61.48938		136.8519		-18.63737	
F-statistic	168.0964		295.7457		189.2320	
Prob (F-statistic)	0.000000		0.000000		0.000000	
Akaike info criterion	0.346099		-0.647054		0.132151	
Schwarz criterion	0.407117		-0.534973		0.203613	
Hanna-Quinn criter	0.370287		-0.602620		0.160485	

*Significant at 10% l.s.; **Significant at 5% l.s.; ***Significant at 1% l.s.

__Table 8.__ Regression analysis: Determinants of Psychic distance on CBM&A performance (CAR $_{-5,\,5}$)

	Model 4		Model 5		Model 6	
Variable	**Coefficient**	**p-value**	**Coefficient**	**p-value**	**Coefficient**	**p-value**
PDS index	-	-	-	-	-0.029669	0.0013***
Differences in languages	-	-	0.021280	0,1979	-	-
Differences in education levels	-	-	0.013025	0,8745	-	-
Differences in the degree of industrial develop.	-	-	0.097207	0,3067	-	-
Differences in political systems	-	-	0.006382	0,9543	-	-
Differences in religions	-	-	-0.024803	0,6272	-	-
Size	0.030081	0.0000***	0.008697	0,2605	0.034243	0.0000***
Related	0.058005	0.0146	-0.052087	0,2215	-0.001845	0.9509
Experience in acquisition	0.008506	0.6836	-0.029025	0,2945	0.005143	0.8038
Experience in acquisition country	-0.012944	0.0381**	0.006429	0,8455	-0.002657	0.9348
Nº observations	390		389		388	
Adjusted R-squared	0.146726		0.182147		0.167439	
Log likelihood	-294.2580		-281.9680		-287.9670	
F-statistic	14.37823		9.641275		13.97181	
Prob (F-statistic)	0.000000		0.000000		0.000000	
Akaike info criterion	1.539784		1.506262		1.520448	
Schwarz criterion	1.600802		1.618343		1.591910	
Hanna-Quinn criter	1.563972		1.550696		1.548782	

*Significant at 10% l.s.; **Significant at 5% l.s., ***Significant at 1% l.s.

6 Discussion and conclusions

Firms do business in an increasingly heterogeneous, complex and uncertain environment (Johanson and Valhne, 2009; Azar and Drogendijk, 2014). The uncertainty arises from the differences in the international business environment, namely the home-host differences at several levels. The differences between countries may be measured from several perspectives and call for a multidimensional construct which permits gaining a more accurate portrayal of the differences. The psychic distance construct includes factors such as differences in language, religion, education, industrial development, and political systems (Johanson and Wiedersheim-Paul, 1975; Shenkar, 2001; Dow and Karunaratna, 2006; Dikova, 2009; Dow and Ferencikova, 2010) and may be operationalized using the psychic distance stimuli (PDS) developed by Dow and Karunaratna (2006). The psychic distance stimuli covers an extensive range of factors that may potentially affect the CBM&As performance. In our study we used the PDS to scrutinize the impact of psychic distance hazard on CBM&As performance, using a sample of 415 CBM&As operations by U.S. bidder firms that acquired non-U.S. target firms between 2005 and 2012.

The purpose of this study was to break down the psychic distance stimuli (PDS) developed by Dow and Karunaratna (2006) and test the effect of each dimension on CBM&As performance. Arguably this may produce more specific findings on the importance of the different variables of psychic distance rather than just testing for the psychic distance as a whole. Furthermore, we were interested in testing PDS effects on the CBM&As, focusing specifically on their effects on the CBM&As performance. Lastly, as the increasing speed of globalization is supposedly causing cultures to converge, we aimed at testing whether or psychic distance is still an important question in the second decade of the twenty first century.

Our findings suggest that psychic distance has a negative impact on CBM&As performance (thus broadly supporting Hypothesis 1). Both the aggregate index (Model 3) and three individual items (differences in language, education and political systems - Hypothesis 1.1; 1.2, 1.4) of the five items of the psychic distance stimuli (Model 2) have a significant impact on CBM&A performance. Our findings confirm that differences in language are still an issue as a potential source of problems when dealing with international acquisitions. According to Usunier and Lee (2005) language differences are a central obstacle to conducting business abroad, hindering the development of relationships between the different partners in a CBM&As and the ability to exploit opportunities. Thus, the managers' ability to speak foreign languages is a central issue and may increase the understanding on the foreign market and decrease the psychic distance hazard on CBM&A (e.g. Evans and Mavondo, 2002). Our findings are therefore consistent with past research from Evans and Mavondo (2002), Dichtl et al. (1990) and Holzmüller and Kasper (1990), who found that the ability to speak other languages decreases the psychic distance hazard.

Our study also suggests that differences in education levels hinder the CBM&As performance (Hypothesis 1.2). The education level has been posited to influence the individual's foreign orientation (Child et al., 2002). The managers' foreign orientation arguably influences the desire to operate abroad, either by exporting or other entry modes (Dichtl et al., 1990), as well as the openness to other cultures (Child et al., 2002) and may thus increase the overseas performance. The educational level has also been suggested to impact psychic distance: as the level of education increases the psychic distance decreases (Holzmüller and Kasper, 1990). Thus, differences in education level may affect the relationships between firms from different countries and may cause difficulties in the transfer of information and knowledge. The post-CBM&A integration may also have additional challenges, if firms face an increased difference in educational levels (Palmer and Barber, 2001). Our findings are consistent with past research on differences in political systems (e.g. Henisz and Williamson, 1999), which suggest differences in political systems may decrease the CBM&As performance (Hypothesis 1.4). Firms will face further political hazards caused by different taxation, regulation systems and property rights legislation (Henisz and Williamson, 1999). Differences in political systems may thus be a source of uncertainty that increase the costs of the operation (Delios and Henisz, 2003). Our results are also consistent with Brewer (2007) and Dow and Karunaratna (2006) that argued that low political difference between the acquirer and the acquired firms' countries are expected to reduce the psychic distance. Greater differences in political systems may obstruct the flow of information and knowledge transfer, thus reducing CBM&A performance (Dow and Karunaratna, 2006; Brewer, 2007).

In this study, we controlled for size, type of CBM&As (related or unrelated), experience in acquisitions and experience in acquisition in the country. The results indicated the three first control variables have a positive effect on CBM&As performance. Our results are consistent with previous research, which suggests that CBM&A performance increases as the size of the firms involved in M&A also increases (Seth, 1990a; Barkema and Vermeulen, 1998): larger firms typically provide brands with high awareness, leaders in their markets and economies of scale, thus having a higher potential to generate synergies (Seth, 1990a; Barkema and Vermeulen, 1998). Our results on firms' relatedness are also consistent with those of Salter and Weinhold (1979), Lubatkin

(1983), Datta (1991) and Morosini et al. (1998) which argued that related M&As perform better than unrelated ones. Our results regarding experience in acquisition are also consistent with previous research, which posited that firms with experience in acquisitions are likely to develop routines through experience to support future acquisition processes (Zollo, 1998; Haleblian et al., 2006). Moreover, previous acquisition experience in the focal country is suggested to improve the CBM&As performance, since firms gain knowledge on the target country idiosyncrasies (Barkema and Vermeulen, 1998).

Several theoretical contributions stem from the core findings to mergers and acquisitions and distance literature. First, this study uncovers the importance of analyzing the different variables of a psychic distance construct including differences in languages, political systems, education, religion and industrial development to CBM&As performance. Particularly, highlighting the importance of analyzing each of the different variables individually and not only as a single construct. Second, not all the differences in psychic distance stimuli are significant: only the differences in language, education and political systems have been found to negatively impact CBM&As performance, whereas differences in religion and differences in industrial development have not been found to be significant. Third, examining the effects of psychic distance on CBM&As performance provides new insights into hazards' sources influencing CBM&As performance, hence providing contributions to the M&A literature.

From a managerial perspective, our findings are also relevant. Contrary to what might be expected, psychic distance still matters: psychic distance impacts CBM&As performance and should be accounted for when undertaking those operations. Also, psychic distance is a multidimensional construct and its analysis should be done not only as a whole, but also for each individual dimension, as they pose different challenges managers have to deal with. For instance, language barriers are relevant, even nowadays when we tend to consider English as a lingua franca, since a large number of managers do not understand nor speak English. Thus, differences in language arguably hinder CBM&As performance and may have an impact on managerial practice in general. Differences in education level also have an impact on the management of CBM&As and on their performance. Therefore, managers should pay special attention to their training in order to facilitate the transfer of knowledge and information. By and large, this study reinforces the importance of training and hiring managers with multicultural perspective when conducting a CBM&As.

7. Limitations and future research

Arguably one of the main limitations of this study is the event study methodology. Although being widely used and able to detect the performance effects, its explanatory power is limited (Zollo and Meier, 2008). The methodological limitations have an impact in our results as the event window CAR(-20, 20) presents non-significant results – a limitation previously acknowledged in the literature (e.g. Madhavan and Prescott, 1995). On the other hand, event study methodology cannot accurately isolate long-term effects on financial performance (Capron and Pistre, 2002) thus may not be employed to analyze the effects of psychic distance on the long-term CBM&As performance. Future research may overcome this limitation using alternative performance measures, such as accounting-based measures (e.g. return on sales (ROS), return on equity (ROE) and return on assets (ROA)). Nevertheless, using accounting-based measures is also problematic, especially in CBM&As, since there are different accounting conventions that may bias the results (Hitt et al., 2001)

Another limitation of our study is the sample selected. We considered 415 CBM&A operations in 26 target countries over eight years. Despite being a considerable number of operations, the acquirer firms' country is the same (USA). Therefore, future research may benefit from using a broader sample to confirm and extend our study's findings. Increasing the number of operations and the number of countries analyzed will arguably provide a better understanding of the psychic distance impact on CBM&A performance. Emerging countries are increasingly important in the market for corporate control: for example, the value of Chinese CBM&As stood at $185 million dollars in 1991; in 2011, that number reached $34.4 billion (UNCTAD, 2012). Future studies may address the impact of psychic distance on CBM&A from and to emerging market economies, such as Brazil, China or India, since these countries have specific business contexts which may pose firms additional challenges.

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28. Networking for internationalization: The cases of Vitrocristal (Portugal) and Wines of Brasil (Brazil)

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Abstract

The study compares the development dynamics of two business networks created to promote the internationalization of its members: Vitrocristal (Portugal) and Wines of Brasil (Brazil). Data were collected by interviewing five representatives of the Brazilian business network and nine representatives of the Portuguese one. The results describe the development pattern of both business networks, showing that the Brazilian network is consolidated while the Portuguese one finished its activities in 2007 after a period of financial constraint and the end of governmental support. The study has theoretical implications as it describes the development dynamics of such cooperative agreements and the difficulties they may face in their life cycle. As a practical implication, the experience of the Portuguese business network may be useful for the Brazilian on

29. Paradox: New lenses to understand innovation in modern MNEs

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Abstract

Management involves dealing with contradictory demands. For instance, companies have to innovate. Innovation means that past successful behaviors to be discarded, and replaced by others for the company to forge ahead in a new environment. However, companies cannot easily forget the past: their present conditions are shaped by earlier trajectories. How can a company keep its identity, its *persona*, while changing?

This is the essence of paradox. Paradox is central in organization studies, being at the heart of innovation management. Schumpeter' s idea of "creative destruction" is paradoxical in itself. Yet, the use of paradox in international management is limited. This is surprising, having in mind the pervasive nature of dualities (local/global, headquarters/subsidiaries, standardization/adaptation, centralization/decentralization, core/periphery) in international management.

This paper is based on the idea that we might benefit a lot from using paradox lenses in addressing the key international management issues. To do so, an "appreciative theory" approach, in line with Richard Nelson's ideas, is followed. The paper provides four examples of paradox thinking to improve our understanding about innovation management in multinational companies (MNCs). These are the following: the paradox of capabilities as fate; the paradox of organizational structure; the paradox of coopetition; and the paradox of opening versus closing. It was found that the capability to address these paradoxes, through different approaches, plays a key role in promoting innovation. It is important to bear in mind, however, that solutions are inevitably temporary. Tensions and contradictions need to be addressed time and again.

The use of paradox lenses provided a new view of the challenges and opportunities of innovation in MNEs. The advantages of thinking in terms of dualities, and not just of single elements, have been underlined. Furthermore, as we have shown, such dualities are inter-related, and highlight the need to allow for diversity and fighting hubris in MNEs. This contributes to provide a more 'mixed' and complex view of innovation management in the MNE.

Keywords: Paradox, International management, Innovation, Multinational Companies, Conflicting tensions.

30. Internationalization and how it impacts over firms' capital structure

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Abstract

Internationalization is almost inevitable to the vast majority of companies. Its effects at company level have been the subject of much research, and there are several studies addressing the issue. Multiple studies address the impact of internationalization on various aspects, such as firm growth, productivity or innovation. In addition to these, the internationalization is likely to impact upon the capital structure of the company. The relationship between internationalization and capital structure has been however relatively neglected both by the IB and by the finance literature. The present work addresses this neglect, exploring the impact of internationalization upon firms' capital structure. Doing so, it confirms that involvement in export activities improves firms' debt ratios, even when we account also for other factors which are likely to mater. The empirical study is applied to a sample of 200 firms located in Portugal, using data from the SABI database.

Keywords: Capital Structure; Exports; Internationalization

1.Introduction

Internationalization is almost inevitable to the vast majority of companies. Its effects at company level have been the subject of much research, and there are several studies addressing the issue. Multiple studies address the impact of internationalization on various aspects, such as firm growth, productivity or innovation. In addition to these, the internationalization is likely to impact upon the capital structure of the company (e.g. Singh and Nejadmalayeri, 2004; Joliet and Muller, 2013). The relationship between internationalization and capital structure has been however relatively neglected both by the IB and by the finance literature.

The present work addresses this neglect, exploring the impact of internationalization upon firms' capital structure. Doing so, it confirms that involvement in export activities impacts upon firms' debt level, even when we account also for other factors which are likely to mater.

The empirical study is applied to a sample of 200 firms located in Portugal, using data from the SABI database.

The paper develops as follows. Section 2 presents the theoretical background. In the 3rd section it is described our empirical study. Finally, section 4 concludes.

2. Theoretical framework

We have witnessed to the emergence and development of several theories about company's capital structure. As a result, we developed greatly our knowledge regarding how numerous different business features, such as life cycle, composition and degree of financial leverage of a company and so on, impact upon firm's capital structure. Along these, a few authors have been exploring how (and if) internationalization activity impacts upon firms' capital structure (e.g. Singh and Nejadmalayeri, 2004). Despite these contributions, the relationship between internationalization and capital structure remains blurred. In this section we start be reviewing the fundamentals of capital structure theories in what matters for our topic. Next, we explore how internationalization is likely to affect the capital structure of a company, and its debt level in particular, and synthetize results of reference literature.

2.1 Capital structure theories

Several theories have been advanced to explain companies' capital structure and we can find in the literature numerous empirical studies on the matter. Indeed, since Modigliani and Miller (1958), (1963), academics have been exploring numerous determinants of capital structure, like taxes and fallacy costs, agency problems costs, asymmetric information, moral hazard and so on, abandoning the assumption of perfect markets (Aggarwal and Kyaw, 2010). Booth et al. (2001) argue that discussions with respect to companies' capital structure are dominated by theoretical foundations which come from trade-off, agency and pecking-order theories.

The trade-off theory (Kraus and Litzenberger, 1973) supports the argument that a company optimal capital structure results from a balance between costs and benefits from debt (Mishra and Tannous, 2010). Along this approach, several studies consider as main benefit the possibility to deduce interests related to debt, and as main debt costs the costs and risk of default (Chen et al., 1997; Homaifar et al., 1994; Mishra and Tannous, 2010; Fama and French, 2002).

Existent literature is inconsistent in the determination of the relationship between fiscal benefits and the indebtedness incurred by companies, mainly due to the difficulty in measuring the effective rate (Chen et al., 1997). The debt costs are the direct and indirect bankruptcy costs (Chen et al., 1997). The negative impact that the bankruptcy cost exerts over the debt degree maybe understood through the use of proxies: (1) company dimension – inverse proxy for the bankruptcy probability, where companies of higher dimension, with lower results volatility are less favorable to face financial difficulties and so declare bankruptcy, which may result in a higher indebtedness (De Jong et al., 2008; Fama and French, 2002); (2) growth opportunities – companies with more investment opportunities may have less debt, because they have strong incentives to avoid underinvestment and substitution of inefficient assets which may increase agency problems between shareholders and debtholders and also because they have no need to submit themselves to debt payments just to control free cash flow problems (Fama and French, 2002; De Jong et al., 2008); (3) return – at the time return decreases expected bankruptcy costs increase and the treat driven by the high bankruptcy costs takes less profitable companies in the direction of lower indebtedness goals (Fama and French, 2002); (4) tangible assets – the higher the quantity of tangible assets to serve as guarantee lower will be the risk to the creditor, as well as lower will be the direct costs of bankruptcy (De Jong et al., 2008); (5) volatility – a higher volatility of profits, indicates a higher risk for the company and so an higher bankruptcy probability, maybe leading to a lower debt (De Jong et al., 2008; Fama and French, 2002); This theory predicts that companies with higher bankruptcy costs and/or lower fiscal advantages present the tendency to use less external debt (Chen et al., 1997). The optimal debt level should be reached when the marginal benefit of one unit of additional debt equals its marginal cost (Antão and Bonfim, 2008).

Agency theory (Jensen and Meckling, 1976) is based on the principle that managers' actions are not object of observation in their integrity, being that they may not be perfectly detailed in established contracts (Chen et al., 1997). Agency costs result from conflicts of interest between the several stakeholders (managers, stockholders and creditors) once that managers can use free cash flow for their own benefit or in bad investments, deviating from the goal of maximizing the firm value (Jensen and Meckling, 1976). The free cash flow of a company is determined by the income generated by its assets and by the dimension of its profitable investments (Fama and French, 2002).

The agency conflicts between stockholders and the owners of the company titles emerge since the substitution of inefficient assets until underinvestment (De Jong et al., 2008; Fama and French, 2002). Myers (1977) considered the problem of underinvestment as a special case of an agency cost also arguing that the underinvestment problem results from the company that by using more risky loans, refuses to invest in certain low risk projects that besides being projects with positive net present value which could maximize the company value, will not generate enough return to face the debt payments owned to creditors and attribute the positive results which stockholders desire. In this way an agency problem between credit holders and stockholders emerges, when stockholders use high risk debt and refuse less risky investment which could offer a higher security in terms of reimbursement to credit holders, and so maximize their richness. In this situation debt exerts a positive effect over richness because it forbids investments which will not be benefic for the company value (Stulz, 1990).

The relationship between agency costs and debt level is possible to be interpreted through the following proxies: (1) size – companies of higher dimension tend to present higher agency costs and lower debt (Rajan and Zingales, 1995); (2) growth opportunities – it is predictable that agency conflicts grow with the intensification of growth opportunities and so a company with higher growth opportunities will use less external debt (Chen and Yu, 2011); (3) return – to control agency costs created by the availability of free funds, companies with more profitable assets have a tendency to look for external debt (Chang, 1992); (4) tangibility – a company with higher quantity of tangible assets presents lower agency conflicts and so should reveal an higher debt (De Jong et al., 2008). In accordance to this theory, agency costs decrease with the existence of periodic payments of debt, once that these reduce the excess of free cash flows (Antão and Bonfim, 2008).

In the pecking order theory, Myers (1984) and Myers and Majluf (1984) incorporate the impact of information asymmetry between the company stakeholders in the decision making process with respect to a company capital structure. The pecking order theory suggests that due to transaction costs and information asymmetry companies follow a specific hierarchy about the choice of its projects financing sources: first the company finances itself with non-distributed dividends, after with secure debt, followed by risky debt and finally with equity (De Jong et al., 2008; Fama and French, 2002; Aggarwal and Kyaw, 2010). As a result, in this theory a company debt composition isn't driven by the need of a balance between costs and benefits but yes, by the availability of internal resources. Debt increases when the investment value exceeds the internal accumulated profits (Fama and French, 2002).

In the simplified version of the pecking-order theory (Myers, 1984) predicts that companies with higher growth opportunities use more external debt, this in the condition that the necessary value to investment is higher than that owned internally (Aggarwal and Kyaw, 2010; Fama and French, 2002). The more complex version of the pecking-order theory (Myers and Majluf, 1984) suggests that companies with higher expected growth opportunities will use less external debt having into account the future and present costs of that same financing and the desire of having an higher capacity of available debt of low risk to finance expected investments (Aggarwal and Kyaw, 2010; Fama and French, 2002). To test the specific determinants of the capital structure in accordance with the considerations of the pecking-order theory, it is common to use proxies like: (1) dimension of the company – serving dimension as a proxy for financial information owned by external investors, the information asymmetry problem should be lower for high dimension firms and so these may show an higher indebtedness (Myers e Majluf, 1984); (2) liquidity – initially it will be used accumulated income and other net internal assets as a financing source, following the hierarchic order of debt choices (De Jong et al., 2008); (3) growth opportunities (De Jong et al., 2008; Mishra and Tannous, 2010); (4) return – the more profitable the companies lower must be their total debt ratio, given that they are more able to finance their projects with internal funds, avoiding an higher financing risk (Myers and Majluf, 1984; Fama and French, 2002; Doukas and Pantzalis, 2003).

Table A.1 at the appendix summarizes the predictions from the theories above.

2.2. Internationalization: how it matters

An issue of special interest is the impact of internationalization upon the capital structure of companies, especially with the intensification of commercial transactions and of direct foreign investments (Aggarwal and Kyaw, 2010). The literature gives particular attention to the impact of internationalization upon debt. On this regard, firms with international activities are expected to have different patterns of debt than those with no international activities. There are a number of reasons to support this expectation.

Lee and Kwok (1988) as also Burgman (1996) argue that due to differences between countries at the institutional, legal and sociocultural level, companies with international activity face higher information asymmetries, and, therefore, higher monitoring costs than those purely domestic. This fact, in turn, influence international companies' capital structure. Aliber (1984) concludes that companies with activities in foreign countries may be negatively evaluated by investors due to higher financial, business and sociopolitical risks they face. Reeb et al. (1998) suggest that, in addition to the exposure to political risk, companies with international activity face a higher risk associated to exchange rates volatility, which in turn may result in higher financial difficulties or even higher bankruptcy risk.

In this way, being that companies with international activity have higher bankruptcy risk, along with the trade-off theory (Kraus and Litzenberger, 1973), they should use less external debt. The lower transparency of international operations may create a higher conflict of interest between creditors and stockholders, as well as generate an agency conflict between managers and stockholders (Singh and Nejadmalayeri, 2004). Besides, as remarked by Singh and Nejadmalayeri (2004), in face of different preferences between the combination risk-return of creditors and stockholders, creditors tend to practice higher interest rates for loans to multinational companies due to the difficulties in monitoring international operations.

With respect to the conflict between managers and stockholders, company's managers with international activity may face a lower supervision from stockholders due to the harder information asymmetries between insiders (big stockholders; managers) and outsiders (lower stockholders; other financing categories) from the organization (Singh and Nejadmalayeri, 2004). Given this situation of high agency costs, companies with international activity become less attractive for creditors, which may explain their lower debt, when compared to domestic companies (Lee and Kwok, 1988; Doukas and Pantzalis, 2003; Chen et al., 1997).

From a different perspective, internationalization activities of companies are frequently motivated by higher growth opportunities in foreign markets (Singh and Nejadmalayery, 2004). Taking that the free cash flow hypothesis of Jensen (1986) suggests the existence of an inverse relationship between growth opportunities and debt, one can expect companies with international activity to show lower debt.

A number of studies addressed this issue empirically. In table 1 we report some of the most significant findings. Details of the studies are provided in what follows.

Table 5. Effects of International Activity over Debt Composition

	International Activity							
	Authors							
Debt Composition	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*
Total Debt	*(-)*	*(-)*		*(+)*	*(+)*	*(+)*	*(+)*	
Short Run Debt						*(+/-)*	*(+)*	
Medium and Long Run Debt			*(-)*			*(+)*	*(+)*	*(-)*

Legend: (1) Lee and Kwok (1988); (2) Burgman (1996); (3) Chen et al.(1997); (4) Chkir and Cosset (2001); (5) Mansi and Reeb (2002); (6) Singh and Nejadmalayery (2004); (7) Saito and Hiramoto (2010); (8) Chen and Yu (2011).

Lee and Kwok (1988) compare the debt agency costs, the bankruptcy costs and the long run debt ratios between companies with and without international activity. Their results suggest that international firms have higher agency costs but that there are no big differences with respect to bankruptcy costs between the two groups of firms. Lee and Kwok (1988) conclude that North American firms with international activity have lower debt than the others, even when the dimension effect is controlled for. However, the difference becomes insignificant when they control for sector of activity. Later, Burgman (1996) extends the work of Lee and Kwok (1988) and conducts an empirical study using data from 1987 to 1991 from a sample of 487 companies. He estimates the effects of exchange rate and politician risk over international companies' capital structure. Burgman (1996) concludes that companies with international activity present higher agency costs and lower debt ratios.

Chen et al. (1997) explored the relationship between international activity and companies' capital structure. On their study, Chen et al. (1997) applied multiple regression analysis with panel data to 18.495 observations for the period 1984-1997, taken from the Compustat database. The authors suggest that even after considering bankruptcy costs, company dimension, investment opportunities and return, companies with international activity present lower long run debt levels. However, the debt ratio of international companies increases with the level of international activity.

Chen and Yu (2011) developed a study with data from 2003 for 566 firms. They conclude that the higher the exporting intensity of a company, higher will be the agency costs for local creditors and so lower will be their debt ratio, namely, when these operations have as destiny emerging economies, characterized by insufficient and inefficient corporative laws (La Porta et al., 1998; Chen and Yu, 2011). In these situations, local creditors become less motivated in giving credit given the risk of a higher investment (Chen and Yu, 2011). In equal way, if the volume of exports is very high, it turns difficult for the companies to obtain credit from foreign institutions, given the reduced visibility in the destiny country and to the high monitoring costs and of auditing (Chen and Yu, 2011).

By contrast, Chkir and Cosset (2001) analyzed a sample of 219 North American companies between 1992 and 1996 using cross-section data and conclude that the debt level is higher in companies with international activity. They suggest that return and bankruptcy risk are negatively related with debt of multinational companies.

For Mansi and Reeb (2002), using a sample of 2.194 North American companies between 1993 and 1997 and panel data, the international activity of a company is on average associated with an increase of 30% in its debt level. These authors show that costs and benefits of the international activity of companies may change to different debt levels. In the same line, Singh and Nejadmalayeri (2004) studied 90 French companies between 1996 and 1999 through a panel data analysis. They conclude that the company debt level is positively related with its internationalization level. However, with respect to short term debt, this assumes a nonlinear relationship under the inverted U-shaped form with debt level. This study, along with the trade-off theory, suggests that companies establish a maximum debt level which allows them avoid an excessive operational risk when they face an unfavorable international environment (Kale and Noe, 1990).

Saito and Hiramoto (2010) analyzed the differences in the capital structure of 131 Brazilian companies between 2004 and 2008, with international activity and those with activity only destined to the national market. They conclude that companies with international activity use more external debt, presenting more 9,6% of debt, from which

5,8% are from long run debt sources. They conclude that the capital structure of a company with international activity is composed by 12,6% of foreign debt.

Hence, from the above we verify that although one may expect firms with international activity to have lower debt ratios, the empirical evidence obtained ambiguous results. The results may differ due to differences in methods, data, sectors and countries being analysed. Therefore, a general specification should not be derived.

Further studies should be conducted for different countries and sectors, so as our knowledge about this complex matter can be expanded.

3. Empirical study

In this section we conduct and empirical study about the impact of internationalization degree upon company's capital structure. Here it is presented the effect that international activity exerts over the level and composition of the debt ratio, with respect to the terms of its liquidation. Next we provide details about the data, methodology and the model, and the results obtained.

3.1 Data

Several studies consider as a measure of internationalization an aggregation between foreign direct investment activities and the level of exports (e.g. Chen and Yu, 2011). In our case we consider internationalization in terms of export activity, and explore how it impacts over company's capital structure.

As a starting point for this study, we had the challenge to analyze the specific case of a company kept anonymous due to confidentiality reasons. Hence, we conducted the empirical analysis for the sectors in which our focus company operates (Table 2). Initially, it were extracted data from 1.552 companies from SABI database, for the period 2008-2012. Then we selected firms registering sales for all years under analysis. With the model fitting we end up with a final sample of 200 firms. National oriented firms are those that have only national sales registered for the entire period under analysis. Table 2 summarizes the sample split.

Table 6. Companies by CAE's

CAE - Rev.3	Number of companies	Percentage
	Total	

	(Exporters; Non-Exporters)	
01470	54 (4; 50)	27% (2%; 25%)
10120	7 (4; 3)	3,5% (2%; 1,5%)
10912	27 (10; 17)	13,5% (5%; 8,5%)
46320	112 (35; 77)	56% (17,5%; 38,5%)
TOTAL	200 (53; 147)	100% (26,5%; 73,5%)

Legend: CAE - Rev.3 – Code of Economic Activity – Revision 3. **Source:** Own creation using SABI data.

3.2 Variables and model

Following previous studies (Burgman, 1996; Chen et al., 1997; Chkir and Cosset, 2001; Singh and Nejadmalayery, 2004; Joliet and Muller, 2013; Saito and Hiramoto, 2010; Mansi and Reeb, 2002; Mishra and Tannous, 2010) we consider the debts ratios as proxies for the company capital structure.

The total debt ratio compares a company's total debt to its total assets, which is used to gain a general idea as to the amount of leverage being used by a company, i.e., money borrowed from and/or owed to others. A low percentage means that the company is less dependent on leverage. The higher the ratio, the more risk that company is considered to have taken on.

Table 3. Debt Indicators

Name	Formula	Authors
Total Debt (TD)	$TotalDebt_i = \left(\frac{Total\ Liabilities_i}{Total\ Assets_i}\right)\times 100$	Reeb et al. (2001); Mansi and Reeb (2002); Saito and Hiramoto (2010); Joliet and Muller (2013); Sing and Nejadmalayeri (2004).
Average Total Debt in 5 years	$TotalDebt_5 = \frac{\sum_{i=1}^{5} TotalDebt_i}{5}$	Reeb et al. (2010); Saito and Hiramoto (2010); Joliet and Muller (2013); Sing and Nejadmalayeri (2004).
Short Run Debt	$SRD_i = \left(\frac{SRLiabilities_i}{Total\ Assets_i}\right)\times 100$	Saito and Hiramoto (2010); Sing and Nejadmalayeri (2004).
Average Short Run Debt in 5 years	$SRD_5 = \frac{\sum_{i=1}^{5} SRD_i}{5}$	Saito and Hiramoto (2010); Sing and Nejadmalayeri (2004).
Medium and Long Run Debt	$MLRD_i = \left(\frac{LiabilitiesMLP_i}{Total\ Assets_i}\right)\times 100$	Saito and Hiramoto (2010); Joliet and Muller (2013); Sing and Nejadmalayeri (2004); Mishra and Tannous (2010).
Average Medium and Long Run Debt in 5 years	$MLRD_5 = \frac{\sum_{i=1}^{5} MLRD_i}{5}$	Saito and Hiramoto (2010); Joliet and Muller (2013); Sing and Nejadmalayeri (2004).
Financial Autonomy	$AF_i = \left(\frac{Equity_i}{Total\ Assets_i}\right)\times 100$	Sing and Nejadmalayeri (2004).
Average Financial Autonomy in 5 years	$AF_5 = \frac{\sum_{i=1}^{5} AF_i}{5}$	Sing and Nejadmalayeri (2004).

Note: i – corresponds to the year into analysis. **Source:** Own creation.

Beyond the overall debt degree of a company, it is also relevant to analyze the composition of debt in terms of liquidation. In this sense we considered two additional ratios, one accounting for short run liabilities and another for medium and long run liabilities.

Also relevant to analyze firms' capital structure is the equity ratio. This is a financial ratio indicating the relative proportion of equity used to finance a company's assets. The higher the proportion of equity with respect to assets the higher will be the autonomy with respect to third parties, resulting in less financial charges. The opposite happens when the value of the indicator is low, which means that there is a strong dependency from creditors (liabilities), and this is disadvantageous in the process of negotiation with banks when new investment opportunities emerge.

Being our main focus the impact of internationalization upon firm's capital structure, we consider as main explanatory variable the internationalization degree of the company. In addition, we account for other variables which accordingly to the literature are also likely to impact upon firm's capital structure.

Previous literature suggests three measures of the degree of internationalization: foreign sales over total sales, percentage of foreign assets over total assets and the number of geographic segments where the company operates (Sullivan, 1994; Hiramoto and Saito, 2010; Reeb et al., 2001; Singh and Nejadmalayeri, 2004). The first indicator is considered as a proxy based over internationalization performance, the second is a structural measure of internationalization and the last is usually seen as a proxy for structural or cultural diversification (Reeb et al., 2001).

However the choice of the indicator to be used is many times limited by the inexistence of data (Hiramoto and Saito, 2010). In already performed studies are found justifications for the preference given to the indicator of exports (Mansi and Reeb, 2002; Johanson and Vahlne, 1977). The analysis of the internationalization degree in the present work is performed through the ratio that relates sales for the foreign market and the total volume of sales in the present work.

Table 4 shows the adopted measures for the internationalization degree and respective authors which also use them, while Table 5 presents the ways of measuring different return indicators according to the literature.

Table 4. Measuring the Internationalization degree

Name	Formula	Author

Internationalization Degree	$ID_i = \left(\frac{Exports_i}{TotalSales_i} \right) \times 100$	Joliet and Muller (2013); Reeb et al. (2001); Saito and Hiramoto (2010); Mishra and Tannous (2010); Singh and Nejadmalayeri (2004).
Average Internationalization Degree in 5 years	$ID_5 = \frac{\sum_{i=1}^{5} ID_i}{5}$	Joliet and Muller (2013); Reeb et al. (2001); Saito and Hiramoto (2010); Mishra and Tannous (2010); Singh and Nejadmalayeri (2004).

Note: i – corresponds to the year in analysis. **Source:** Own creation.

Other variables that have been used in the literature are size, growth, and return.

The first measure of return is an indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest, in percentage of company sales (MEBIT).

The indicator return on assets (ROA), or return on investment, is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. It is calculated by dividing a company's annual earnings by its total assets.

Return on equity (ROE) is the amount of net income a company generates in relation to its shareholders' equity. It is calculated by dividing a company's net income by its shareholders' equity.

Table 5. Measuring Return Indicators

Name	Formula	Authors
Earnings Before Interest and Taxes Margin	$MEBIT_i = \frac{EBIT_i}{\text{Total Sales}_i} \times 100$	Mishra and Tannous (2010); Singh and Nejadmalayeri (2004); Delen et al., (2013).
Earnings Before Interest and Taxes Margin average in 5 years	$MEBIT_5 = \frac{\sum_{i=1}^{5} MEBIT_i}{5}$	Mishra and Tannous (2010); Singh and Nejadmalayeri (2004); Delen et al., (2013).
Return on Assets	$ROA_i = \left(\frac{Net\ income_i}{Total\ \ Assets_i}\right) \times 100$	Mishra and Tannous (2010); Singh and Nejadmalayeri (2004); Delen et al., (2013).
Return on Assets average 5 years	$ROA_5 = \frac{\sum_{i=1}^{5} ROA_i}{5}$	Mishra and Tannous (2010); Singh and Nejadmalayeri (2004); Delen et al., (2013).
Return on Equity	$ROE_i = \left(\frac{Net\ \ Income_i}{Equity_i}\right) \times 100$	Singh and Nejadmalayeri (2004). Delen et al., (2013).
Return on Equity av. 5 years	$ROE_5 = \frac{\sum_{i=1}^{5} ROE_i}{5}$	Singh and Nejadmalayeri (2004); Delen et al., (2013).

Note: i – corresponds to the year in analysis. **Source:** Own creation.

In Table 6 we summarize these variables and the results obtained in previous research.

Table 6. Explanatory variables and expectations from the literature

	Name	Formula	Effect a)	b)	c)	Authors
Size	Size	Log of total sales.	+ +	+ -	+ + -	Singh and Nejadmalayery (2004); Saito and Hiramoto (2010); Mishra and Tannous (2010).
Internationalization Degree	IG	Ratio between international sales and total sales.	+ + +	+ +	+ + -	Singh and Nejadmalayery (2004); Saito and Hiramoto (2010); Mansi and Reeb (2002); Chen and Yu (2011).
Internationalization Degree^2	IG^2	Square of IG to control for non-linearity's.	- - +	- -	- +	Saito and Hiramoto (2010); Singh and Nejadmalayery (2004); Mansi and Reeb (2002).
Return	MEBIT ROA ROE	Ratio between EBIT and total sales; ratio between current results and total assets; Average ratio between liquid result and equity.	-	-	+ - -	Mishra and Tannous (2010); Chen et al. (1997); Singh and Nejadmalayery (2004).
Growth Opportunities	GO	Calculous of the growth rate of average sales of the five years.	-	-	-	Singh and Nejadmalayery (2004);
Volatility	V	Standard deviation of EBIT adjusted by the average of EBIT in the five years.			+ -	Burgman (1996); Chen and Yu (2011).
Activity Sector	CAE10120_Dummy CAE20912_Dummy CAE46320_Dummy	Binary variable for each activity sector.		(*)		Singh and Nejadmalayery (2004); Reeb et al. (2001); Joliet and Muller (2013); Saito and Hiramoto (2010).

Notes: [a)] Total Debt (TD) [b)] Short Run Debt (SRD); [c)] Medium to Long Run Debt (MLRD); (*) Different Activity Sectors.

Based upon the variables suggested in the literature, the models below take into account the *trade-off* and agency theories, incorporating the variables volatility and growth opportunities, used as *proxies* for bankruptcy costs and agency costs, respectively. The models (I), (II) and (III) were estimated using OLS.

Total Debt = $\boldsymbol{\beta}_0$ + $\boldsymbol{\beta}_1$ Size + $\boldsymbol{\beta}_2$ ID + $\boldsymbol{\beta}_3$ Return + $\boldsymbol{\beta}_4$ GO + $\boldsymbol{\beta}_5$Volatility + $\boldsymbol{\beta}_6$ CAE10120_*Dummy* + $\boldsymbol{\beta}_7$ CAE10912_*Dummy* + $\boldsymbol{\beta}_8$ CAE46320_*Dummy* + µ

SRD = $\boldsymbol{\beta}_0$ + $\boldsymbol{\beta}_1$ Size + $\boldsymbol{\beta}_2$ ID + $\boldsymbol{\beta}_3$ Return + $\boldsymbol{\beta}_4$ GO + $\boldsymbol{\beta}_5$Volatility + $\boldsymbol{\beta}_6$ CAE10120_*Dummy* + $\boldsymbol{\beta}_7$ CAE10912_*Dummy* + $\boldsymbol{\beta}_8$ CAE46320_*Dummy* + µ

MLRD = $\boldsymbol{\beta}_0$ + $\boldsymbol{\beta}_1$ Size + $\boldsymbol{\beta}_2$ ID + $\boldsymbol{\beta}_3$ Return + $\boldsymbol{\beta}_4$ GO + $\boldsymbol{\beta}_5$Volatility + $\boldsymbol{\beta}_6$ CAE10120_*Dummy* + $\boldsymbol{\beta}_7$ CAE10912_*Dummy* + $\boldsymbol{\beta}_8$ CAE46320_*Dummy* + µ

where, $\boldsymbol{\beta}_0$ is the constant, $\boldsymbol{\beta}_1$ is the parameter related to size/dimension, $\boldsymbol{\beta}_2$ the parameter associated with the internationalization degree, $\boldsymbol{\beta}_3$ the parameter related with return with the possibility of being measured under the form of MEBIT, ROA or ROE, $\boldsymbol{\beta}_4$ the parameter associated to growth opportunities, $\boldsymbol{\beta}_5$ the parameter associated with the risk associated to results volatility, $\boldsymbol{\beta}_6$, $\boldsymbol{\beta}_7$ and $\boldsymbol{\beta}_8$ correspond to the parameters of the *dummy* variables associated to the three CAE's in analysis and the variable **µ** is the error term. Given that the return variable associated to $\boldsymbol{\beta}_3$ presents three different calculus alternatives for it has been estimated in total nine models, considering for each of the three above models the different return indicators – MEBIT, ROA and ROE.

Models (I), (II) and (III) are treated through a cross-section analysis for the period 2008-2012. In line with previous literature, the values used for the proxies under study are computed as averages of the last five years (Burgman, 1996; Chkir and Cosset, 2001, Singh and Nejadmalayeri, 2004; Saito and Hiramoto, 2010).

3.3 Empirical Results

3.3.1 Descriptive analysis

Descriptive statistics are presented on Table 7. The results show that firms have reached relatively high debt ratios. The long-term averages for long-term, short-term and total debt ratio are, respectively, 17,29%, 47,96% and 60,42%. Short term debt ratio is more than twice of long-term debt ratio for the total number of companies. Moreover, exporting company's medium to long term debt is higher than non-exporting ones and similarly short term debt is twice higher than MLRD.

When comparing exporters with non-exporters, the results are in line with Singh and Nejadmalayery (2004) for French companies, a higher total debt from non-exporting companies, given the average of total debt corresponds to 60,66% and at 59,72% for exporting ones. However, the difference is scarcely significant. With respect to the capital structure composition in terms of debt liquidity, non-exporting companies present a higher medium and long run debt. But, in what respects short run debt, exporting companies are those which present on average the highest values, whereas 49,42% of its assets are financed by short run debt.

Table 7. Sample Descriptive Statistics

	Total Companies			Non-Exporting			Exporting		
	Average	Mean	St. Dv.	Average	Mean	St. Dv.	Average	Mean	St. Dv.
TD	60,42	66,10	23,49	60,66	66,08	23,59	59,72	69,68	23,42
SRD	47,96	46,06	22,19	47,44	46,67	21,55	49,42	42,83	24,03
MLRD	17.29	12.63	17.70	17,54	13,37	18,09	16,61	9,42	16,71
Size	13.82	13.47	1.95	13,38	13,23	1,65	15,06	15,27	2,18
IG	36,85	9,30	44,20	0,00	0,00	0,00	36,85	9,30	44,20
ROA	3,88	3.00	6,81	4,11	3,13	7,44	3,22	2,92	4,65
MEBIT	3.26	2,31	10,13	3,54	2,74	11,72	2,46	1,48	2,45
ROE	7,65	8,26	19,64	8,01	8,32	18,16	6,64	8,21	23,43
GO	2,61	0,27	15,40	0,66	-0,39	13,56	8,02	2,73	18,74
V	49,19	54,13	37,64	45,20	50,56	41,29	60,25	61,35	21,56
Observations	200	200	200	147	147	147	53	53	53

Legend: TD – Total Debt; SRD – Short Run Debt; MLRD – Medium to long run debt; IG – Internationalization degree; ROA – Return on Assets; MEBIT – Margin of Earnings before interest and taxes; ROE – Return on Equity; GO – Growth Opportunities; V - Volatility. **Source:** Own creation using data from SABI.

Results show that companies with no exporting activity have higher average returns. The sample of exporting companies' appear with higher growth opportunities and higher operational risk given their higher results for volatility. The higher growth opportunities which characterize exporting companies create more agency problems and so it is justified their lower indebtedness (Chen and Yu, 2011).

The factors which may justify the higher results for volatility and the lower total debt from companies with international activity are the presence of information asymmetries in higher scale (Burgman, 1996), the higher difficulty in activity monitoring (Lee and Kwok, 1988) and/or the higher offered interest rates (Singh and Nejadmalayeri, 2004).

It is observed that larger companies (exporters) present a lower total debt ratio, this resulting in conformity with the agency theory, where larger companies tend to present higher agency costs and so lower debt.

In sum, in terms of capital structure, unconditionally, the differences between exporting and non-exporting companies are less significant, by opposition to some differences presented by specific characteristics for companies which show themselves expressive as suggested also by Singh and Nejadmalayeri (2004).

3.3.2 Econometric results

Taking into account the results generated by the variable return measured by the three return indicators computed, we have selected the models which incorporate the ROA indicator, as the one which attributes more significance to the variable IG and better adjustment measure (R^2) presents.

Table 8 reports these results of linear multiple regressions which correspond to models (I), (II) and (III) empirical findings.

Results from regression analysis show that internationalization degree has a negative and significant impact at the 1% significance level over total debt and of short run debt, which are in line with those obtained by Lee and Kwok (1988), Burgman (1996), Chen et al. (1997) and Chen and Yu (2011). The non-significance of the variable internationalization degree over the medium and long run debt may be due to the existence of non-linearity (Singh and Nejadmalayeri, 2004) and this aspect will be explored below.

Variable size, measured through sales log has a positive and significant impact over total debt and of short run one.

Table 8. Relationship between Debt and Internationalization Degree: OLS results, cross-section analysis

	TD	SRD	MLRD
Constant	16,1957 (0,14)	-3,5938 (0,74)	38,4084 (0,00)*
Size	3,2898 (0,00)*	3,5554 (0,00)*	-1,3381 (0,07)***
IG	-0,2939 (0,00)*	-0,2057 (0,00)*	-0,0485 (0,31)
ROA	-1,4662 (0,00)*	-1,1082 (0,00)*	-0,5356 (0,00)*
GO	0,2396 (0,01)*	0,0947 (0,31)	0,3082 (0,00)*
V	0,0802 (0,05)**	0,0781 (0,06)***	0,0429 (0,23)
CAE10120_DUMMY	-7,0133 (0,41)	-15,7121 (0,06)***	5,5580 (0,44)
CAE10912_DUMMY	0,2471 (0,96)	-3,2054 (0,54)	0,6259 (0,89)
CAE46320_DUMMY	5,2214 (0,13)	9,9839 (0,00)*	-5,8057 (0,05)**
Observations	200	200	200
R^2	0,3424	0,2909	0,1424
Test F	12,43	9,79	3,96
P-value	0,00	0,00	0,00
Durbin Watson	1,74	1,93	2,16

Observations: *P-value* found among parenthesis. *, **, *** indicate the significance level of 1%, 5% and 10%, respectively. **Legend:** TD – Total Debt; SRD – Short Run Debt; MLRD – Medium to long run debt; IG – Internationalization Degree; ROA – Return on Assets; GO – Growth Opportunities; V - Volatility. **Source:** Own creation based over SABI data.

We find that size is positively related to total and short run debt ratios, at 0.01 level of significance. The coefficient for MLRD significant but only at 10%. Hence, the positive correlation between size and debt ratios seem to support the hypothesis that larger firms tend to be more diversified and less prone to bankruptcy and the direct cost of issuing debt or equity is smaller. This is consistent with the trade-off theory.

The negative relationship estimated for return (ROA) and the debt level is explained by the pecking-order theory (Myers and Majluf, 1984), where it is suggested that a company possesses an order of preferences with respect to its financing sources, assuming that a more profitable company has a higher availability of internal resources and will present an initial preference for using this funds for financing itself. The variable ROA is shown significant for the levels of total debt, of short run debt and medium to long term debt. Moreover, the negative relationship between profitability and debt ratios contradict the tax shield hypothesis.

Growth opportunities are positively related with external debt of a company. The variable growth opportunities reveals to be significant for the levels of total debt and medium to long run debt. So, in accordance with the simple version of the pecking-order theory (Myers, 1984) a company with higher growth opportunities will have a higher external debt ratio.

The coefficients of the variable volatility do not sustain the theoretical arguments suggested by the trade-off theory, where it is weighted a negative relationship between operational risk, measured by results volatility and debt due to the weighting of total risk20. Burgman (1996) equally estimates a positive relationship between volatility and debt. Thus, our results reveal a positive significant relation between risk, total debt and short-term debt ratios. This finding indicates the view that high variability shifts financing from long-term debt to short-term debt and equity (Thies and Klock, 1992).

The dummy variable corresponding to the sector of activity reveals significant.

To guarantee that the insignificance of the independent variable, internationalization degree for the dependent medium to long run debt is not due to the imposition of a linear function in a nonlinear relation, we inserted in the model the quadratic variable internationalization degree. Singh and Nejadmalayeri (2004) indicate as plausible reasons to justify the existence of nonlinearity the following: in initial stages of internationalization activity the financing needs may only be suppressed with short run debt, given that companies should find higher difficulties in using medium and long run

[20] Total risk results from the weight between operational risk and financial risk (Chen and Yu, 2011).

debt from creditors due to the higher asymmetry information conflicts. Once that as time goes by creditors fell safer in providing credit to these companies, the ratio of medium to long run debt should increase and its dependency over short term debt should decrease. In this way it would result in a positive relationship between debt of medium and long run and internationalization degree. By opposition, the results of the initial estimation show that the relationship between the internationalization degree and the several debt ratios is negative.

Rewriting models (I), (II) and (III), inserting the quadratic variable internationalization degree (IG2) we get:

$$TD = \boldsymbol{\beta}_0 + \boldsymbol{\beta}_1 \text{ Size} + \boldsymbol{\beta}_2 \text{ IG} + \boldsymbol{\beta}_3 \text{ IG}^2 + \boldsymbol{\beta}_4 \text{ Return} + \boldsymbol{\beta}_5 \text{ GO} + \boldsymbol{\beta}_6 \text{ V} + \boldsymbol{\beta}_7 \text{ CAE10120\_}\textit{Dummy} + \boldsymbol{\beta}_8 \text{ CAE10912\_}\textit{Dummy} + \boldsymbol{\beta}_9 \text{ CAE46320\_}\textit{Dummy} + \mu$$

$$SRD = \boldsymbol{\beta}_0 + \boldsymbol{\beta}_1 \text{ Size} + \boldsymbol{\beta}_2 \text{ IG} + \boldsymbol{\beta}_3 \text{ IG}^2 + \boldsymbol{\beta}_4 \text{ Return} + \boldsymbol{\beta}_5 \text{ GO} + \boldsymbol{\beta}_6 \text{ V} + \boldsymbol{\beta}_7 \text{ CAE10120\_}\textit{Dummy} + \boldsymbol{\beta}_8 \text{ CAE10912\_}\textit{Dummy} + \boldsymbol{\beta}_9 \text{ CAE46320\_}\textit{Dummy} + \mu$$

$$MLRD = \boldsymbol{\beta}_0 + \boldsymbol{\beta}_1 \text{ Size} + \boldsymbol{\beta}_2 \text{ IG} + \boldsymbol{\beta}_3 \text{ IG}^2 + \boldsymbol{\beta}_4 \text{ Return} + \boldsymbol{\beta}_5 \text{ GO} + \boldsymbol{\beta}_6 \text{ V} + \boldsymbol{\beta}_7 \text{ CAE10120\_}\textit{Dummy} + \boldsymbol{\beta}_8 \text{ CAE10912\_}\textit{Dummy} + \boldsymbol{\beta}_9 \text{ CAE46320\_}\textit{Dummy} + \mu$$

where, $\boldsymbol{\beta}0$ is the intercept, $\boldsymbol{\beta}1$ the parameter associated to size, $\boldsymbol{\beta}2$ the parameter associated with the internationalization degree, $\boldsymbol{\beta}3$ the parameter associated with the quadratic term of the internationalization degree, $\boldsymbol{\beta}4$ the parameter associated with assets return measured under the form of ROA, $\boldsymbol{\beta}5$ the parameter associated to growth opportunities, $\boldsymbol{\beta}6$ the parameter associated with the inherent risk to results volatility, $\boldsymbol{\beta}7$, $\boldsymbol{\beta}8$ and $\boldsymbol{\beta}9$ correspond to the parameters of the dummy variables associated with the three CAE's under analysis and variable μ is the error term. Table 9 presents the results obtained from models (IV), (V) and (VI) models.

Table 9: Relation Between Debt and Linearity of the Internationalization Degree

	TD	SRD	MLRD
Constant	17,0046 (0,14)	-5,3281 (0,64)	41,3481 (0,00)*
Size	3,2181 (0,00)*	3,7091 (0,00)*	-1,5986 (0,04)**
IG	-0,1860 (0,67)	-0,4370 (0,30)	0,3436 (0,36)
IG^2	-0,0010 (0,80)	0,0023 (0,58)	-0,0039 (0,29)
ROA	-1,4648 (0,00)*	-1,1068 (0,00)*	-0,5379 (0,06)***
GO	0,2404 (0,01)*	0,0931 (0,32)	0,3109 (0,00)*
V	0,0802 (0,05)**	0,0779 (0,06)***	0,0433 (0,23)
CAE10120_DUMMY	-6,9478 (0,41)	-15,8524 (0,06)***	5,7959 (0,43)
CAE10912_DUMMY	0,3395 (0,94)	-3,4036 (0,51)	0,9617 (0,83)
CAE46320_DUMMY	5,3348 (0,13)	9,7408 (0,00)*	-5,3937 (0,07)***
Observations	200	200	200
R^2	0,3426	0,2921	0,1474
Test F	11,00	8,71	3,65
P-value	0,00	0,00	0,00
Durbin Watson	1,73	1,93	2,15

Observations: *P-value* inside parenthesis. *, **, *** indicate the significance level of 1%, 5% and 10%, respectively.

Legend: TD – Total Debt; SRD – Short Run Debt; MLRD – Medium to Long Run Debt; IG – Internationalization Degree; IG^2 – Square of the Internationalization Degree; ROA – Retur non Assets; GO – Growth Opportunities; V - Volatility.

The estimation of the models including variable IG^2, to control for possible non linearity's, is insignificant. Table 9 indicates that the internationalization degree does not presents non-linearity effects over the three debt ratios, given the insignificance of the variable IG^2. It is still possible to see the change in variable IG for non-significant for all debt levels. Results obtained are showed contradictory to those documented by Saito and Hiramoto (2010) and Singh and Nejadmalayery (2004) which observe the presence of non-linear effects of the internationalization degree over the debt ratio.

It is important to mention that the properties of the OLS multiple regression model are fulfilled. So, in all estimated models we assume randomness, independence and constant residuals variance and also non-correlated independent variables (Wooldridge, 2006). The independence of residuals was confirmed through the Durbin-Watson statistic, where the presented values for all estimations have proximity to the value two, confirming the existence of null autocorrelation among residuals. The validity of the homogeneity of the variances of residuals was assured by the White test (White, 1980), for all models at the significance level of 5%.

4. Conclusion

From the analysis we conclude that internationalization degree impacts upon firms' capital structure in what regards debt ratios. The internationalization degree is found significantly and negatively related with the total debt level and with short run debt ratios. However, the internationalization degree seems to have no impact upon long run debt ratios when other variables are controlled for.

With the inclusion of other explanatory variables, volatility and growth opportunities, our results also allow to test the predictions from other theories dealing with firms' capital structure.

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Appendix

Table A. 1 The theories of Capital Structure and Debt levels : Effects over companies debt

	Trade-off theory (Kraus and Litzenberger, 1973)	Agency theory (Jensen and Meckling, 1976)	Pecking-Order theory (Myers, 1984) and (Myers and Majluf,1984)
Size	**(+)**	**(-)**	**(+)**
Liquidity			**(-)**
Growth opportunities	**(-)**	**(-)**	**(+)[1]/(-)[2]**
Return	**(+)**	**(+)**	**(-)**
Tangibility	**(+)**	**(+)**	
Volatility	**(-)**		

Notes: [1] (Myers, 1984); [2] (Myers and Majluf, 1984).

31. Nations competitiveness: The Portuguese case

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Abstract

This study analyzes factors that influence the competitiveness of countries and the Portuguese competitiveness in comparison with European Union countries, in particular with Greece and Ireland. We also present a formal model of Porter Diamond model and its generalization. The data come from Global Competitiveness Index from 2006 to 2013 for 144 countries. The methodology is based on principal components analyses, regression analyses and cluster analyses. The methodology used is innovative and the regression analysis allows us to estimate competitiveness levels. The results shows that political institutions, social infrastructure and microeconomic competitiveness have an impact on competitiveness and monetary and fiscal policies are irrelevant for the competitiveness of the countries. Portugal lies in the group of middle-high competitiveness countries and Portuguese competitiveness is average in the European Union, however it is inferior to Ireland and superior to Greece. The main limitation of this research article is that the dataset is limited to the Global Competitiveness Index.

Keywords – Portuguese Competitiveness; Porter diamond; Global Competitiveness Index; Business Competitiveness Inde

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