UNIVERSITAT RAMON LLULL

Impact of International Diversification on the Performance of Spanish Multinationals: The Moderating Role of the Firm's Sector and the Firm's Geographical Focus

Luis Araya Castillo

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DOCTORAL THESIS

Title **IMPACT OF INTERNATIONAL DIVERSIFICATION ON THE PERFORMANCE OF SPANISH MULTINATIONAL ENTERPRISES: THE MODERATING ROLE OF THE FIRM´S SECTOR AND THE FIRM´S GEOGRAPHICAL FOCUS**

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ABSTRACT

The thesis investigates why some Spanish multinational companies perform better than others by focusing on the relationship between international diversification and performance (ID-P). The existence of a theoretical basis for a generic relationship between international diversification and performance has been strongly questioned in recent years, hence most recent studies adopt a contingency perspective as does this thesis.

Although academic research on the ID-P relationship has a long history, empirical studies examining this relationship in Spanish companies are very scarce and almost entirely centered on exporting firms. Therefore, the research question of this thesis refers to how the strategy of international expansion by establishing foreign affiliates impacts the performance of Spanish firms. To this end, and based on a comprehensive database with information on 197 Spanish companies for a period of 9 years (2004-2012), a panel data analysis is performed. Econometric models are estimated using the Generalized Method of Moments (GMM) proposed by Blundell and Bond (1998).

The results show that in the case of Spanish companies the ID-P relationship adopts a non-linear relationship, specifically an inverted S-shaped and an M-shaped, showing in both cases a positive performance when the number of foreign and countries is low. When the moderating effect of the firm's geographical focus is considered, our findings suggest that firms with a regional focus are those that benefit more from an international diversification strategy, while those adopting a global focus worsen their performance. Moreover, the firm's sector also moderates the ID-P relationship since the Spanish service sector multinationals achieve greater performance with the adoption of a strategy of international diversification than their counterparts in the industrial sector.

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The following four years were full of learning and personal growth. Not only did I learn how to do research but also, and more importantly, I acquired values that have helped me to grow as a person. I still remember the first test that I took for the MRes in an epistemology class. It was the first time I took a test in English and Professor Eduard Bonet noticed. I remember how Dr. Bonet came to me and said "Luis, relax, you can do it". In this moment I understood that I was not only in a Business School, but also in an institution with values and principles. I realized I was in an institution that not only focused on academic prestige, but that also valued all of its members with their virtues and defects. I also observed this in other professors, such as Dr. Batista, Dr. Agell, Dr. Aguilera and Dr. Gimenez.

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LIST OF ABBREVIATIONS

AFI: Analistas Financieros Internacionales

AFS: Absolute Foreign Sales

AGE: Firm Age (control variable)

BGA: Business Group Affiliation (control variable)

CEECs: Central and Eastern Europe Countries

CEO: Chief Executive Officer

DGCI: Dirección General de Comercio e Inversiones, Ministerio de Industria, Turismo y Comercio (Directorate General of Foreign Trade and Foreign Investments, Ministry of Industry, Tourism and Trade)

D.O.C.: Qualified Designation of Origin

DOI: Degree of Internationalization

EBIT: Earnings before interest and taxes

EBITDA: Earnings before Interests, Taxes, Depreciations and Amortizations

EC: European Community

EEC: European Economic Community

EM: Entry Mode

EMU: Economic and Monetary Union

ESEE: Survey of Business Strategies

ESR: Exports Sales Ratio

EU: European Union

FATA: Foreign Assets to Total Assets

FBTB: Foreign Business to Total Business

FETE: Foreign Earnings to Total Earnings

FBs: Family Business Firms

FETE: Foreign Employees to Total Employees

FETN: Foreign Employee Number to Total Firm Employee Number

FDI: Foreign Direct Investment

FI: Focus of Internationalization

FITI: Foreign Net Income over Total Net Income

FL: Financial Leverage

FOPC: Foreign Ownership on Parent Company

FOTO: Foreign Offices to Total Offices

FPTP: Foreign Profits to Total Profits

FS: Foreign Subsidiaries (independent variable)

FSAs: Firm Specific Advantages

FSR: Foreign Subsidiary Ratio

FSTS: Foreign Sales to Total Sales

GDP: Gross Domestic Product

GLM: General Linear Model

GLS: General Least Squares

GMD: Global Market Diversification

GMM: Generalized Method of Moments

GNI: Gross National Income

GNP: Gross National Product

IB: International Business

ICEX: Instituto Español de Comercio Exterior (Spanish Institute for Export and Investment Promotion)

ID: International Diversification

ID-P: International Diversification – Performance Relationship

INE: Instituto Nacional de Estadística (Spanish National Institute of Statistics)

INTDIV: International Diversification (independent variable)

INVs: International New Ventures

IR: Internal Ratio

IND: Industry Sector

ISI: Institute for Scientific Information

ISO: International Organization for Standardization

M: Multinationality

MINECO: Ministerio de Economía y Competitividad (Ministry of Economy and Competitiveness)

MNCs: Multinational Corporations

MNEs: Multinational Enterprises

M-P: Multinationality – Performance Relationship

NACE: Statistical classification of economic activities in the European Community

NAFTA: North American Free Trade Agreement

NC: Number of Countries (independent variable)

NFS: Number of Foreign Subsidiaries

NNS: Number of Nations in which firm has foreign subsidiaries

OCTS: Operating Costs to Total Sales

OECD: Organization for Economic Co-operation and Development

OEME: Observatory of Spanish Multinational Companies

OLI: Ownership-Location-Internalization

OLS: Ordinary Least Squares

OSTS: Overseas Subsidiaries in Relation to Total Subsidiaries

P: Performance

PDIO: Psychic Dispersion of International Operations

PEP: Profits per Equity Partner

PERFORM: Performance (dependent variable)

R&D: Research and Development

RBV: Resource Based View

ROA: Return on Assets

ROE: Return on Equity

ROI: Return on Investment

RONA: Return on Net Assets

ROOA: Return on Operating Assets

ROR: Sales in the rest of the home-region

ROS: Return on Sales

ROW: Sales to the rest of the world

SABI: Sistema de Análisis de Balances Ibéricos (Analysis System of Iberian Balance sheets)

SBS: Survey of Business Strategies

SD: Standard Deviation

SIC: Standard Industrial Classification

SIZE: Firm Size (control variable)

SMEs: Small and Medium Sized Enterprises

TCE: Transaction Costs Economics

TCI: Transaction Cost or Internationalization Theories

TF: Firm's Sector (moderating variable)

TGD: Total Global Diversification

TMIE: Top Managers' International Experience

TP: Time Period (control variable)

UK: United Kingdom

UNCTAD: United Nations Conference on Trade and Development

US: United States

USA: United States of America

WTO: World Trade Organization

INTRODUCTION

CHAPTER 1. Introduction

The internationalization of firms is considered one of the main areas of study of international business (Sapienza et al., 2006; Laanti et al., 2007). Entering foreign markets has become an attractive option for enterprises, whether small or large (Lu and Beamish, 2001). Furthermore, the internationalization of firms has become in recent decades a phenomenon that has spread throughout the world, and that has notably facilitated the growth of firms, even in nations that are industrially behind (Binda, 2009).

During the past 30 years the phenomenon of globalization has received considerable attention and some scholars have argued that it has induced many companies (including SMEs and even new ventures) to internationalize as a way of being more competitive (Oviatt and McDougall, 1994). Internationalized firms conceive international expansion as a key strategy for competing successfully (Aguilera et al., 2011) and thus the presence in foreign markets becomes a necessary reference in their strategic decision-making (Mendoza and Vives, 2008). This is because internationalization allows firms to enhance their competitive advantages and performance (Chen et al., 2014).

Spain is a case in point. During the past three decades Spanish firms have started to invest massively abroad, mainly in other EU countries but also elsewhere, particularly in Latin American countries (Barrios and Benito-Ostolaza, 2008; Puig, 2008; Puig and Fernández, 2009). Spanish Foreign Direct Investment (FDI) outflows has increased in a pronounced way in the last 30 years. The country has evolved from being a net receiver of FDI flows to a net sender, and some of its multinational firms have achieved leadership positions in world markets (retail banking,

telecommunications, etc.) (Jiménez-Palmero and Benito-Osorio, 2011). According to the UNCTAD data (2014), the value of the stock of Spanish Outward FDI at the end of 2013 placed Spain as the 12th largest investing economy at a world level and the 6th among countries in the European Union (EU-27), with a participation of 2.44% of the world stock of foreign direct investment (Mendoza, 2015, p. 53).

One of the most visible signs of improvement in firm competitiveness in a country is the number and the relevance of its multinational enterprises (MNEs) (Camisón, 2007b). In that respect, empirical studies conclude that MNEs are on average more productive than domestic firms (Añón and Manjón, 2009; Bellak, 2011) and respond better to the changes in the competitive environment of global markets (Andersen, 2011, 2012). Also, MNEs contribute to the economic development of countries in which they operate (Bellak, 2011), fulfilling an important role in the transfer and diffusion of technology and at the same time promoting international trade (Keller, 2000).

Given this, researchers became interested in analyzing why some firms perform better than others when operating in foreign markets (e.g., Hitt et al., 1997; Ruigrok and Wagner, 2003; Capar and Kotabe, 2003; Hult et al., 2008; Banalieva and Robertson, 2010), studying the relationship between international diversification and firm performance (e.g., Geringer et al., 2000; Lu and Beamish, 2004; Contractor et al., 2007; Chen-Ho and Kumar, 2010; Kirca et al., 2012). In these studies, the existence of a positive relationship between international diversification (independent variable) and firm performance (dependent variable) is considered the basic assumption (Bobillo et al., 2008; Jung and Basal, 2009). The same occurs with the postulate that growing levels of internationalization are positive for the performance of firms (Contractor et al., 2003).

However, the existence of a theoretical basis for a *generic* relationship between the variables of international diversification and performance has being strongly questioned in recent years (Hennart, 2007; Verbeke et al., 2009; Powell, 2014). Although there is a rich stream of emprirical studies, there is no consensus on the impact that the strategy of international diversification has on the performance of firms (e.g., Hennart, 2007, 2011; Bobillo et al., 2010; Yang and Driffield, 2012; Chen et al., 2014; de Jong and van Houten, 2014).

This lack of consensus is manifested in the different shapes of the international diversification-performance (ID-P) relationship that have been reported in the literature: positive linear (e.g., Miller and Pras, 1980; Delios and Beamish, 1999; Hitt et al., 2006b; Pangarkar, 2008; Gaur and Kumar, 2009), negative linear (e.g., Chang and Thomas, 1989; Geringer et al., 2000; Denis et al., 2002; Lin et al., 2011; Singla and George, 2013), U-shaped (e.g., Gomes and Ramaswamy, 1999; Lu and Beamish, 2001; Ruigrok and Wagner, 2003; Li and Yue, 2008; Chen and Yu, 2012), inverted U-shaped (e.g., Geringer et al., 1989; Hitt et al., 1997; Li and Qian, 2005; Chen-Ho and Kumar, 2010; Lampel and Giachetti, 2013), S-shaped (e.g., Contractor et al., 2003; Lu and Beamish, 2004; Li, 2005; Kumar and Singh, 2008; Bobillo et al., 2010), M-shaped (Lee, 2010; Almodóvar, 2012; Lee, 2013; Almodóvar and Rugman, 2014), and even without relationship (e.g., Dess et al., 1995; Gerpott and Jakopin, 2005; Genthon, 2008; Kahloul and Hallara, 2010; Lee et al., 2012).

Considering the aforementioned, it can be argued that a contingency perspective on the international diversification-performance relationship may contribute to address prior mixed results (de Jong and van Houten, 2014). The large quantity of divergent results implies that there may be factors outside the examined nexus of internationalization-performance that affect the nature of this relationship (Chen et al.,

2014). In that sense, a series of factors and/or moderators have been reported to explain the different findings (e.g., Contractor, 2007; Qian et al., 2008; Garbe and Richter, 2009; Verbeke et al., 2009; Kirca et al., 2012). Similarly, recent lines of research are focused on understanding the factors underlying the ID-P relationship in specific contexts rather than on finding a *generic* shape of the curve resulting from the interaction between both variables (Hennart, 2007; Venzin et al., 2008; Ray, 2009).

Although multinational firms constitute a key strategic group for the present and future of the Spanish economy as well as for the international projection of Spain as a country (Guillén, 2006; Mendoza and Vives, 2010), the relationship between their international diversification strategy and their performance constitutes an underresearched area. Only ten studies have been published so far and they have reached different conclusions regarding the existing relationship between international diversification and performance (Sánchez, 2001; Ramírez-Alesón and Espitia-Escuer, 2000, 2001; Jiménez-Palmero and Benito-Osorio, 2011; Muñoz-Bullón and Sánchez-Bueno, 2011; Bobillo, López-Iturriaga and Tejerina-Gaite, 2008, 2010; Almodóvar, 2012; Almodóvar and Rugman, 2014; Fernández-Olmos and Díez-Vial, 2015; Fernández-Olmos, Gargallo-Castel and Giner-Bagüesa, 2015). Furthermore, all studies except one (Jiménez-Palmero and Benito-Osorio, 2011) use samples of exporting firms, not necessarily multinational ones. Lastly, most of these studies utilize data prior to 2008, thus not considering the possible effects of the economic crisis experienced by Eurozone countries and Spain in particular.

Considering the aforementioned, the central research question of the present dissertation refers to *how the strategy of international diversification impacts the performance of Spanish multinational firms*. This study is in line with calls for further multinationality-performance (M-P) research in Europe (Harzing and Sorge, 2003;

Buckley and Ghauri, 2004; Stoian et al., 2011; Almodóvar and Rugman, 2014; Oh and Contractor, 2014). The decision to build a sample with only Spanish enterprises is based on the studies that find significant differences in the results according to the country of origin of multinationals (Contractor, 2012; Kirca et al., 2012). In studies with samples from various countries the results may be biased; in as much as particular conditions in some of these countries might determine the shape of the M-P curve.

This dissertation aims to contribute to the extant literature on the topic. Firstly, because of the interest and relevance of its research setting: the internationalization of Spanish firms has taken place basically in the last 25 years, from the beginning of the 90s of last century, and has been developed by a significant number of companies in practically all sectors of the Spanish economy. Given that Spanish firms have experienced a late internationalization process (in comparison to its counterparts in the EU-15), their recent evolution can provide insights to better understand the behavior of multinational firms originating in emerging countries (especially countries with similar cultural and/or industrial background).

Secondly, the present study uses a very complete panel data based on 197 Spanish multinational firms over a period of 9 years (2004 - 2012) that allows for robust statistical results.

Thirdly, bearing in mind that the resulting shape of the ID-P relationship may vary according to the sample and the variables used, this thesis analyzes the moderating effect of the firm's geographical focus of internationalization as well as the type of firm according to the sector it belongs (manufacturing versus service multinationals). Interestingly enough, both variables have seldom been used as moderators in previous studies. Furthermore, the present research analyzes whether the moderating effect of these variables is represented in a non-linear relationship.

The thesis is structured in three parts plus appendices. The reader should note that its format is a kind of a hybrid between the traditional monograph and the increasingly popular three-paper format. Overall the thesis follows a monograph format, although the third part devoted to presenting and discussing the research results obtained is structured in a more paper-like form (having in mind the future publication of the findings).

The First Part of the thesis is devoted to the review of the relevant literature for our topic. The factors that drive international expansion and the costs and benefits of international diversification strategy are the starting point (chapter 2). Next, the theoretical approaches used by researchers to explain how internationalization, and more specifically different levels of international diversification, is expected to influence performance (chapter 3) as well as the main empirical findings reported in the ID-P literature (chapter 4). This is followed by a focused literature review on the two moderating variables of the ID-P relationship employed in the present study, the firms's geographical focus of internationalization (chapter 5) and the specific aspects of the internationalization of service firms compared to manufacturing ones (chapter 6). The First Part concludes with a descriptive analysis of our research setting, Spanish multinational companies (chapter 7).

The Second Part is devoted to the development of the research model. We begin with the development of the hypotheses to be tested (chapter 8) and then we proceed detail the research methodology applied (chapter 9).

The Third Part presents and discusses the findings obtained from the econometric models relative to the impact of international diversification on the performance of Spanish multinational firms (chapter 10) and the moderating effect on the ID-P relationship of the firm's geographical focus (chapter 11) and the type of firm

according to the sector it belongs (chapter 12). This Part concluds with a final chapter that summarizes the main conclusions obtained and discusses the limitations of the present study, its theoretical and managerial implications and potential avenues for further research.

The Appendices deal with methodological aspects related to the measurement of corporate performance (appendix A), degree of international diversification (appendix B) and contingency factors that may moderate the impact of international diversification on firm performance (appendix C).

FIRST PART: LITERATURE REVIEW

CHAPTER 2. International Diversification

2.1 Definition of international diversification

International diversification is a research area that has elicited a great level of interest in recent years (e.g., Cieslik et al., 2010; Hall and Lee, 2010; Muzyrya, 2010; Kirca et al., 2012; Pan and Tsai, 2012). In the literature on International Business a diversity of terms have been used to make reference to the international diversification of firms (e.g., Capar and Kotabe, 2003; Hitt et al., 2006a; Brock and Yaffe, 2008; Kirca et al., 2012; Almodóvar and Rugman, 2014). Some of the most commonly used terms are: internationalization, geographic diversification, and multinationality.

Internationalization has been defined as the process through which firms stop acting only at a local level in order to operate in international markets (Bilkey and Tesar, 1977; Johanson and Wiedershein-Paul, 1975; Johanson and Vahlne, 1977, 1990; Cort et al., 2007). In a similar vein, internationalization is understood as the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future and establish and conduct transactions with other countries (Beamish, 1990, p. 77). Internationalization is also defined as the extent to which a firm depends on foreign markets for customers, factors of production, and the capacity to create value (Lu and Beamish, 2004, p. 565).

In a similar view, it is held that geographic diversification refers to the involvement of a firm in markets beyond the national borders of its home country (Beleska-Spasova and Glaister, 2010, p. 535). In accordance with this definition, it is held that international diversification corresponds to the decision of a firm to expand the scope of their activities beyond its domestic market (Hitt et al., 1977) and increase its participation in operations developed across borders (Welch and Luostarinen, 1998).

Thus, international diversification can be understood as the enlargement of the scope of a firm beyond the borders of its country of origin, in not only commercial activities, but also in all activities related to its value chain (Mendoza and Vives, 2008). A more recent definition notes that international diversification is a strategy through which a firm expands the sales of its goods or services across the borders of global regions and countries into different geographic locations or markets (Hitt et al., 2007, p. 251).

Another related concept is multinationality that refers to the share of foreign operations (sales, assets, subsidiaries, or profits) within the MNE's business portfolio, thus capturing the firm's level of international involvement (Tihanyi et al., 2005, p. 272). In agreement with this, it is argued that multinationality refers to the state of internationalization of a firm at any moment in time (Kirca et al., 2012), more than to a process of internationalization that happens gradually (Johanson and Vahlne, 1977, 1990, 2009).

Considering the different definitions presented, international diversification appears as a multidimensional concept (Sullivan, 1994a). Wiersema and Bowen (2011, p. 155) argue that ideally the construct of international diversification includes all foreign aspects of a firm's value chain, from the geographic markets where it sells its products/services to the global locations where it produces its products/services and the geographic locations where its capabilities reside.

2.2 Factors that motivate international expansion

Factors that motivate the internationalization of firms can be divided between those that emanate from the firm itself and those that refer to its country of origin (Wrigley, 1989; Alexander, 1995). In relation to this, Hsu et al. (2012a, p. 1) indicate that numerous studies argue that a firm's internationalization is not only driven by the

exploitation of its existing advantages, but also its desire to explore and capture resources in overseas markets that strengthen corporate global competitiveness and long-term performance (e.g., Almeida, 1996; Chen & Chen, 1998; Hsu & Chen, 2009; Makino, Lau, & Yeh, 2002; Shan & Song, 1997).

Factors related to the home country such as the saturation of domestic markets, small growth prospects, or better profitability of foreign markets in comparison to domestic ones (Treadgold and Davies, 1988; Alexander, 1990, 1997) appear as triggers of the internationalization of firms. This explains why in the majority of cases (although not always) internationalization is understood as "a second step", once the domestic market is already dominated or starts to become small (Sánchez et al., 2011, p. 11). Furthermore, it is argued that national competitiveness of a country is synonymous with productivity (Porter, 1998), which is why those firms that have developed strong advantages in their local markets can make the decision to amplify their operations to foreign markets (Bartlett and Ghoshal, 1989).

It is also argued that specific factors of firms encourage internationalization processes such as the state of internationalization that they have reached and the age and international experience of their employees (Sambharya, 1996; Eriksson and Johanson, 1997; Tihanyi et al., 2000; Herrmann and Datta, 2005). Also, it is postulated that firms can opt to diversify their operations internationally based on strategic motivations such as the development of unique products, technological advantages, overproduction or capacity excess, or the desire to be close to clients (Kirca et al., 2012). In this line it is suggested that firms expand their operations internationally with the aim of optimally exploiting their intangible assets such as brands and technology (Guillén, 2004).

Finally, it is noted that the globalization of markets has favored the internationalization of firms through the elimination of restrictions on international

flows of capital, the greater mobility of people and products, the tendency towards an integrated world economy, the creation of areas of free trade, the convergence of per capita income in industrialized nations, the establishment of global brands, the continual pressure for scale economies, the acceleration of technological innovations, the creation of regional trading blocs, the arrival of new competitors with global aspirations, the improvement of information systems, the relative stability of currency exchange rates, the homogenization of preferences and lifestyles, the reduction of the costs of transport and communication and the increase of the minimum efficient size in many industries (e.g., Dunning, 2001a, 2002; Vallejo, 2005; Bobillo et al., 2008; Gaur and Kumar, 2009; Lin et al., 2011).

2.3 Benefits of international diversification

Firms that follow an international diversification strategy can take advantage of diverse types of benefits that come from operating in foreign countries (e.g, Ghoshal, 1987; Contractor et al., 2003; Chari et al., 2007; Aguilera et al., 2011; Pan and Tsai, 2012). These benefits allow multinational firms to improve their financial outcomes (Barkema and Vermeulen, 1998; Lu and Beamish, 2001; Brock and Alon, 2009) and obtain profitability levels adjusted to the levels of risk (Kim et al., 1989; Kim et al., 1993; Heston and Rouwenhorst, 1994; Gomes and Ramaswamy, 1999).

The benefits derived from international diversification can be classified by the possibility of exploiting imperfections in the markets of products and factors, the different systems of existing taxation and the imperfections in the international financial market (Hsu and Liu, 2008; Muzyrya, 2010). In another classification, Contractor (2012) notes that the benefits derived from international expansion are those that originate in scale economies, economies of scope, lower costs of supply, access to

strategic assets abroad, risk reduction, transfer costs that lead to fiscal benefits, market power and international experience.

The exploitation of market imperfections is considered one of the main causes that motivate the international expansion of firms (Rugman, 1979). Firms that operate in multiple countries can minimize the adverse effects that are generated in the markets in which they operate, such as those that originate in fluctuations of exchange rates, wage increases and price volatility of raw materials (Kim et al., 1993). The managers of firms that operate in multiple countries can make the decision to move production activities to those countries at lower costs (Helpmann, 1984; Porter, 1990; Jung, 1991), at the same time avoiding intense competition in local markets (Elango, 2000).

Meanwhile, the exploitation of imperfections in the international financial market can be seen through capital transfers, which allows multinational firms to acquire greater negotiation power in front of host governments (Bobillo et al., 2008). Also, multinational firms can transfer income generated by the diverse subsidiaries to those countries that present lower tax rates (Bodnar and Weintrop, 1999).

Relating to the aforementioned, international diversification offers firms greater opportunities to practice price discrimination, and thereby increase their market power (Hymer, 1976; Hamel et al., 1985). In this context, firms can acquire production factors at a lower cost and spread the business risk between the different countries in which their subsidiaries are located (Shaked, 1986; Kim et al., 1993). This situation can be seen as favorable by using the reputation these firms have acquired in their markets of origin (Cyrino and Barcellos, 2006).

Additionally, companies that operate in foreign markets can leverage their firm specific advantages (FSAs) developed at home by transferring them to the foreign markets in which they operate (e.g., Hymer, 1960, 1967, 1976; Kogut, 1983; Bartlett

and Ghoshal, 1989; Kobrin, 1991, Rugman, 1981). These FSAs are the unique capabilities possessed by the company such as R&D and marketing capabilities, experience and firm size (Rugman et al., 2011).

Furthermore, multinational firms can benefit from the knowledge they obtain in foreign markets (Lu and Beamish, 2004), since this situation increases their international experience (Contractor et al., 2003; Hennart, 2007) and allows them to develop certain capabilities that can be used to manage their operations (Scordis, 1998) and better satisfy the needs of their clients (Zahra et al., 2000; Kostova and Roth, 2002; Cyrino and Barcellos, 2006).

Also, internationalization allows firms to obtain advantages derived from scale economies, economies of scope and economies of knowledge (e.g., Buckley and Casson, 1976; Rugman, 1986; Dunning, 1988; Kim et al., 1989, 1993; Tallman and Li, 1996). Firms that expand their operations to foreign markets can acquire new knowledge and develop strategic capabilities in the different market segments and regions in which they participate (Hamen, 1991; Ghoshal, 1997; Zahra et al., 2000).

Furthermore, firms that operate in foreign markets can integrate activities that occur in different locations, through the standardization of marketing activities, the rationalization of production and the allocation of resources, all in a more efficient way (Kobrin, 1991). Multinational firms can maximize the localization economies through the efficient configuration of the activities of the value chain (Porter, 1985, 1990) that allow them to achieve operational efficiency in their global operations (Kogut, 1985). Moreover, the location of value-adding activities in different countries by MNEs tend to increase their levels of operational flexibility, placing them in better conditions to exploit the levels of uncertainty in the environments of foreign markets (Kogut, 1983, 1985a, 1985b; Kogut and Kulatilaka, 1994; Allen and Pantzalis, 1996; Trigeorgis,

1996). This explains how multinational firms are capable of changing production in response to market changes (Kogut and Kulatilaka, 1994) and at the same time can spread their fixed costs between different subsidiaries (Markusen, 1984; Kobrin, 1991). In relation to this point, it is argued that multinational firms have a better capacity to monitor the activities of the competitors that act globally, such as the capacity to detect market opportunities that present themselves in different geographic markets (Contractor et al., 2003).

In addition to the aforementioned, when firms operate in multiple countries they can reduce income volatility (Amihud and Lev, 1981; Stulz, 1990) and create internal capital markets (Gertner et al., 1994; Stein, 1997; Matsusaka and Nanda, 2002). Likewise, multinational firms can extend the life cycle of products and manufacture products at a global scale (Vernon, 1966; Buckley, 1988).

Finally, it is argued that international expansion can favor the capacity of innovation of firms (e.g., Bartlett and Ghoshal, 2000; Hitt et al., 2006b; Aw et al., 2007; Girma et al., 2008; Salomon and Jin, 2008), in terms of both products and processes (Craig and Douglas, 2000). This is because in the process of internationalization firms may discover new lines of business, incorporate new technological advances and integrate new organizational cultures (Aguilera et al., 2011).

2.4 Costs of international diversification

When firms expand their operations to foreign markets not only do face the possibility of obtaining additional benefits, they must also respond to the existence of related costs (e.g., Tallman and Li, 1996; Lu and Beamish, 2004; Dastidar and Weiner, 2007; Dastidar, 2009; Pan and Tsai, 2012). The joint conceptualization of internationalization-related benefits and costs can lead to different inferences about the

performance that firms obtain from expanding internationally (Sullivan, 1994a, 1994b; Hitt et al., 1997).

According to Contractor (2012), the costs incurred as a consequence of expanding firm's activities across borders refer to: duplication and organizational change; coordination costs; costs of managing complex supply chains and growing inventories; risk of disruption in global supply chains as a consequence of specialization; costs of monitoring external providers; costs of cultural and institutional distance; and incremental costs of entering smaller, riskier and less developed markets.

Multinational firms face higher transaction and coordination costs, which arise from managing operations in different geographic places (e.g., Buckley and Casson, 1976; Hofstede, 1980; Geringer et al., 1989; Hitt et al., 1997; Thomas and Eden, 2004). In this scenario, multinational firms also face higher information costs when operating in countries that are distant culturally and geographically (e.g., Hymer, 1976; Hennart, 1991; Hitt et al., 1994; McDougall and Oviatt, 1996; Ghemawat, 2003).

Relating to this, the existence of distribution and management costs that arise when working with different product categories in different geographic regions is postulated (Hsu and Liu, 2008). Also noted are costs related to the complexity of managing currency exchange rate fluctuations (Sundaram and Negro, 1992; Kostova and Zaheer 1999; Guisinger, 2001). Moreover, multinational firms can be faced with political uncertainty, in that governments of the countries in which they operate can make unexpected changes in the business environment (Garbe and Richter, 2009).

Other authors classify the difficulties that firms face in their international processes as "liabilities of newness" and "liability of foreignness" (Cuervo-Cazurra et al, 2007; Penido et al., 2010; Son et al., 2011). These difficulties can be caused by the novelty or uncertainty of operating in other markets and countries as a new player

(liabilities of newness), since there are costs derived from the purchase and installing of facilities, such as commissioning internal management systems and external businesses networks (e.g., Hymer, 1976; 1970; Zaheer, 1995; Lu and Beamish, 2004; Peng, 2005; Daamen et al., 2007). This can be explained by the difficulty that firms face by being foreign (liability of foreignness), since in this case costs are derived from the lack of knowledge and the difficulty of dealing with cultural and market contexts that are different from the country of origin (Stinchcombe, 1965; Zaheer and Mosakowski, 1997; Lu and Beamish, 2004; Li, 2007).

Furthermore, when firms opt for a strategy of international diversification they experience an increase in uncertainty and in the complexity of activities that may be detrimental to firm performance (Tsao and Chen, 2012). This can be explained by the inability of managers to cope with the growing complexity of an increasingly geographically diversified firm (Grant, 1987; Hitt et al., 1994; Natrum, 2004) and/or by the difficulty of the Board in communicating and controlling the decisions and actions of top executives (Casson, 1995; Sanders and Carpentier, 1998; Bodnar et al., 2000). This case is more likely to occur in firms that lack experience in internationalization processes (Mudambi et al., 2011), and can lead to a lack of alignment between the incentives that are pursued by management from headquarters and that of the subsidiaries (Harris et al., 1982; Denis et al., 2002).

From another angle, Castañer and Kavadis (2013) argue that corporate diversification also has the potential to be value destroying when the motives for diversification are purely revenue growth or risk diversification for revenue-smoothing, leading to entry into unrelated businesses or very different geographical markets. These actions are largely considered as ‘empire-building’ by top managers and are often

attributed to agency problems (Jensen and Meckling, 1976; Amihud and Lev, 1981; Eisenhardt, 1989).

Given the existence of internationalization-related costs, the success of multinational firms is determined by the characteristics of their strategic resources (George, 2005; Tseng et al., 2007; Bobillo et al., 2010) and by the way in which these are exploited in foreign markets (Morck and Yeung, 1991; Buckley and Casson, 2002; Kirca et al., 2012). Thus in the process of internationalization firms must possess and exploit intangible assets and organizational capabilities that are: a) relevant to the desired market; b) transferable to subsidiaries in these markets; and c) the value created by said assets and capabilities can be appropriated by the firm (Lessard, 2003).

In short, firms make use of the strategy of international diversification with the objective of creating value (Hitt et al., 2006b). For that goal, firms must expand their operations to foreign markets when the benefits derived from a strategy of international diversification are superior to the costs that must be incurred (e.g., Glaum and Oesterle, 2007; Li, 2007; Verdier et al., 2010; Lin et al., 2011; Son et al., 2011).

CHAPTER 3. The Relationship between International Diversification and Performance: Theoretical Approaches

The study of the relationship between international diversification and performance in multinational firms has important theoretical implications for several academic disciples, among which are strategic management, international business and finance. It has also received attention in other disciplines, such as marketing, entrepreneurship, industrial organization and accounting (Aulakh, 2009; Belaounia and Nekhili, 2014).

Research on the topic has been developed using diverse perspectives, among others, internalization theory, the eclectic paradigm (OLI), resource-based view of the firm (RVB), organizational learning theory, internationalization process theory (Uppsala model), agency theory, finance theory of portfolio diversification, the industrial organization approach, the network perspective, social capital theory, information processing theory, or the organizational evolution perspective. These theories offer different (although often complementary) explanations of why the decision of international expansion adopted by firms can result in greater financial returns (Hitt et al., 2006a; Kirca et al., 2011).

Based on the aforementioned, it can be argued that there is no consensus in the literature about the theoretical focus that should be adopted in empirical research. With few exceptions (e.g. Hennart, 2007), most researchers have tended to explain the diversity of findings in terms of the methodological weaknesses of empirical studies rather than in its theoretical foundations. Thus, theory testing remains ambiguous precisely because we cannot ascertain whether the acceptance or rejection of a hypothesis is the result of excessive error in measurement or the adequacy or inadequacy of prevailing theories of the internationalization of the firm (Sullivan 1994a,

p. 338). Not surprisingly, several authors suggest that there is a theoretical and empirical gap in the study of the relationship between international diversification and performance which continues to bedevil researchers (Genc and Castañer, 2004; Thomas and Eden, 2004; Zhou et al., 2007).

International business scholars have endorsed a few well-reasoned economic and organizational-based theories to explain the international diversification-performance relationship, which differ to a varying extent in terms of their intellectual heritage, research focus and fundamental arguments (Li, 2007). Baush and Krist (2007) distinguish between three lines of prevalent research to explain the decisions of internationalization, namely, theories of foreign direct investment and the multinational enterprise (MNE) (Buckley and Casson, 1976; Hymer, 1976; Dunning, 1981), organizational learning theories (Kogut and Zander, 1993; Johanson and Vahlne, 1977, 1990), and the resource-based view of the firm (Teece, 1977; Wernerfelt, 1984; Barney, 1991). These theories offer theoretical mechanisms to explain the existence of a relationship between international diversification and performance.

3.1 Theories of foreign direct investment and the multinational enterprise

The theories of foreign direct investment (FDI) have established a solid base to explain the rationale and the patterns that are observed in the expansion of firms across borders (Li, 2007). These theories explain the conditions under which it could be beneficial for a firm to have operations abroad and become an MNE (Bausch and Krist, 2007).

3.1.1 Internalization Theory

The theories of foreign direct investment begin with the premise that monopolistic advantages are necessary since multinational firms will find themselves

with liabilities of foreignness and newness (Zaheer, 1995; Kostova and Zaheer, 1999), and with other difficulties that could become important barriers to the success of their activities abroad (Bausch and Krist, 2007). Several scholars started to develop in the 1970s a number of separate versions of what has come to be called transaction cost or internalization theories of the MNE (Buckley/Casson 1976, Rugman 1981, Hennart 1982, 2001).

During the past three decades, internalization theory has been a leading perspective in the international business and management strategy literatures (Thomas, 2006; Li, 2007; Kirca et al., 2011). This theory was conceptualized by Buckley and Casson (1976) and was based on the central ideas of the Coasian transaction cost theory (Coase, 1937) and Penrosian firm growth theory (Penrose, 1959).

Internalization theory provides an explanation for the motivation and existence of multinational enterprises (MNEs). The theory has as its premise that the maximization of benefits is the only objective that firms pursue in systematically imperfect external markets (Kirca et al., 2011, p. 48). Internalization theory postulates that market imperfections – structural or transaction-specific – raise the transaction costs across national borders of idiosyncratic, firm-specific assets and lead to the internalization of markets and the creation of MNEs (Hennart, 2007, p. 428). In this sense, multinational firms can be seen as an effective means of transferring superior resources to foreign markets (Baush and Krist, 2007)

Firms seek to respond to the natural and structural imperfections that markets may present, such as a lack of future markets, asymmetry of buyer–seller information and knowledge, government intervention, etc. (Buckley and Casson, 1976; Rugman and Verbeke, 2003). The existence of inefficient external markets stimulates firms to exploit their intangible assets using internal markets (Verbeke et al., 2009). More specifically,

external markets are largely inefficient regarding knowledge-based assets such as technological knowledge, brand names, and organizational skills (Kirca et al., 2012). In that regard, Rugman and Verbeke (2008) note that internalization is an alternative to the external markets for developing and exploiting knowledge.

Considering these arguments, firms would likely prefer to internationalize their operations via subsidiaries when the costs of managing subsidiaries are less than the external transaction costs of coordinating alliance partners or granting licenses (Rugman, 1981, 2010). Through foreign direct investment, firms can safeguard their intangible assets. Further, they can maintain, control and create monopolistic power by transferring their intangible assets to their foreign subsidiaries and by eliminating competition among them (Hitt et al., 2006a).

Thus, according to the theory of internalization, multinational firms exist because they internalize in an optimal way certain transactions (those that present a high asset-specificity), which leads to increase performance results (Thomas, 2006). According to Kirca et al. (2011, p. 48), "an MNE is created when a firm can increase its value by internalizing markets for certain of its intangible assets across national borders (Buckley and Casson, 1976; Morck and Yeung, 1991)".

Internalization theory postulates that intangible assets play an important role in the creation of value through an international diversification strategy (Morck and Yeung, 1991). These assets are characterized by being tacit and not easily tradable (Chari et al., 2007), which allow multinational firms to obtain benefits through internalizing their transfer and application across country borders. Among these resources are capabilities in R&D and marketing, as well as superior processes, routines, know-how and capabilities in other activities (Chari et al., 2007).

Internalization theory also recognizes the existence of limits to the efficiency of this organizational arrangement (Bausch and Krist, 2007) because firms are faced with organizational restrictions such as limits in the absorptive capacity of foreign subsidiaries (Cohen and Levinthal, 1990) or the difficulty and expense of processing a large amount of information (Simon, 1955). That is, firms grow through internalizing markets up to the point in which the benefits of further internalization are exceeded by the costs (Kirca et al., 2011, p. 48).

In spite of its prevalent position in the international business literature, there are discrepancies among researchers on the use of internalization theory when studying the relationship between international diversification (or multinationality) and performance. As noted by Kirca et al. (2011, p. 48), "perhaps the most central divide among scholars regarding internalization theory concerns the nature of the influence of asset specificity in internalization models". Thus, in the traditional internalization models (Buckley & Casson, 1976, 2002), high levels of firm-specific assets will generate high levels of multinationality and this in turn will translate into higher levels of performance, that is, firm multinationality mediates the relationship between firm-specific assets and firm performance. The contrasting view (e.g. Morck and Yeung, 1991; Lu and Beamish, 2004) suggests that increasing levels of multinationality will increase the value of a firm in the presence of valuable firm-specific assets, that is, that the level of intangible assets that a firm owns have a moderating role on the relationship between international diversification and performance.

3.1.2 The Eclectic Paradigm

The majority of the research that explains the impact that international diversification has on performance has been done with the theoretical perspective of internalization or with the related eclectic paradigm (Thomas, 2006).

The eclectic paradigm or OLI model (Dunning, 1977, 1980, 1988) incorporates several theories of foreign direct investment into a unified framework (Goodnow, 1985; Ekeledo and Sivakumar, 1998; Leme et al., 2007). It combines economic theories of monopolistic competition, location, transaction costs and internalization and has as objective giving a full-fledged explanation of the firm's foreign operations (Johanson and Vahlne, 1990), with a special emphasis on foreign production.

The eclectic paradigm or OLI model postulates that in addition to the ownership of firm-specific assets (the O advantage) and the benefits of internalization (the I advantage), the specific advantages of location (the L advantage) also underscore the internationalization of a firm (Dunning, 1977, 1980, 1988) due to the opportunities offered by the prospective market and its country specific endowments (Li, 2007). Thus, the extent, form and pattern of the international production of the MNE will be determined by the configuration of these three types of advantages.

3.2 The Resource-Based View of the Firm (RBV)

The resource-based view of the firm (RBV) is based on the concept of ownership advantage (Penrose, 1959; Barney, 1991). This theory complements the theoretical foundations of internalization, since it emphasizes the use of unique firm resources (Chiao et al., 2006).

This perspective postulates that the heterogeneity that exists between firms is explained by the possession and deployment of unique resources which allow them to obtain sustainable competitive advantages (Wernerfelt, 1984). Thus, according to this perspective the success of the firms is related to the successful acquisition and exploitation of resources that are valuable, rare, inimitable and non-substitutable (Barney, 1991; Grant, 1996).

According to Lampel and Giachetti (2013, p. 2013), the RBV argues that it is more optimal for firms to diversify their operations by transferring resources from the core to other activities than to sell or rent them on the open market (Fladmoe-Lindquist and Tallman, 1994). These resources include all the assets, capabilities, organizational processes, information and human competencies (Yang and Martins, 2010). In other words, the main source of benefits that international diversification offers to firms with this kind of unique resources is the opportunity to leverage them through its transfer to international markets (Chiao et al., 2006; Baush and Krist, 2007).

The RBV postulates that the possibility of global dispersion and the exploitation of core competencies generate economic rents *if* these resources maintain their value (Bausch and Krist, 2007). This perspective focuses on how internationalization can promote global resources and arbitrage and leverage opportunities (Assaf et al., 2012), since internationalization makes it possible to tap otherwise locked resource pools and offers unique opportunities for the creation of new resources (Baush and Krist, 2007).

Considering all this, Li (2007, p. 118) argues that the essential emphasis on firm-specific intangible assets indicates that internalization theory is largely isomorphic to a resource- or knowledge-based view of the firm in the context of international expansion.

3.3 Organizational learning theory and the Uppsala model

Organizational learning theory begins with the premise that the degree to which firms acquire knowledge through experience determines their success (Fiol and Lyles, 1985). That is, knowledge and experience are important predictors of a firm's performance (Thomas, 2006). In fact, the ability to use knowledge is a fundamental determining factor of a firm's performance (Assaf et al., 2012). In addition, this

perspective assumes that the complexity of managing widespread business units increases with the heterogeneity in markets (Baush and Krist, 2007).

In that regard, one can consider the Uppsala model of internationalization as a precursor of the knowledge-based view and organizational learning theories of MNEs. Baush and Krist (2007) note that the Uppsala model (Johanson and Vahlne, 1977, 1990) sees internationalization as an incremental process that foments organizational learning based on experiential knowledge that is not available for firms that operate domestically (Hamel, 1991; Barkema and Vermeulen, 1998). Through the gradual acquisition, integration and use of knowledge on foreign markets, the process of internationalization offers the opportunity of providing an advantage over competitors that are less active internationally (Baush and Krist, 2007).

The Uppsala internationalization process model (Johanson and Vahlne, 1977, 1990) has played an influential role in shaping the way international business scholars look at how the multinational enterprise (MNE) chooses its initial mode of entry into a foreign market and subsequently decides whether to increase its involvement there (Hennart, 2009). Contractor et al. (2007, p. 403) notes that the notion of the liability of foreignness and the additional burden or cost that the internationally expanding firm must initially endure (Tallman & Li, 1996; Zaheer & Mosakowski, 1997) are implicit in the incremental internationalization theory proposed by Johanson and Vahlne (1977). This model proposes that internationalization is an accumulative and path dependent process, due to the fact that the behavior pattern of a firm is based on its past international experience and knowledge base (Eriksson et al., 2000). In this model, internationalization is seen as a product of a series of incremental decisions and of additional resource commitments to foreign markets, which affects the perception the firm has about opportunities and risks (Yang and Martins, 2010).

The Uppsala model predicts that a company's foreign expansion will not occur before the costs of acquiring knowledge about the foreign market are first incurred (Contractor et al., 2003) and that the firm would not enter markets where there is not some demand for its output (Johanson and Vahlne, 1990). For these reasons, multinational firms will carry out the process of internationalization gradually, from near and familiar places to more distant places (Johanson and Vahlne, 1977, 1990). In this process, firms should benefit from the economies of scale, economies of scope and economies of localization when they undertake their initial international expansion in a relatively homogenous business environment, in which the liability of internationalization can be minimized (Li, 2007). Nevertheless, when firms enter unfamiliar countries, the environmental and organizational complexities begin to emerge, and as a result administrative costs will increase.

Finally, it is worthwhile to mention that Johanson and Vahlne (2009) revisited the Uppsala model in the light of changes in business practices and theoretical advances that have been made since 1977 and proposed a business network model of the internationalization process. The core argument of the revisited Uppsala model is based on business network research and has two sides. The first is that markets are networks of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns. Second, relationships offer potential for learning and for building trust and commitment, both of which are preconditions for internationalization (Johansen and Vahlne, 2009).

3.4 Other relevant theories

In this section, we will briefly refer to other theories that offer relevant insights to our understanding of the relationship between international diversification and performance.

Firstly, agency theory is widely used in the research on diversification performance (Lee et al., 2012). This theory treats the firm as a highly specialized surrogate market where shirking and self-interest seeking by managers can bring about substantial costs (Alchian and Demsetz, 1972; Dunning, 2003; Rugman and Verbeke, 2003). According to agency theory, agency costs caused by the separation of ownership and control may arise when the interests of shareholders and managers diverge (Amihud and Lev, 1981; Denis et al., 1997); or when the divergence occurs between majority shareholders (with the ability to be owner and manager) and minority shareholders (Lins and Servaes, 2002; Chen and Yu, 2012).

This is particularly relevant for multinational firms (Li, 2007) since the complexity of organizational processes and the international environment can challenge any sophisticated governance system (Kim and Mauborgne, 1993). Dastidar (2009, p 72) notes that, according to agency theory, management's choice to diversify internationally could result in an international diversification discount: a poorly performing firm may decide to diversify internationally in order to avoid greater scrutiny by shareholders in its home market, because monitoring managers internationally is more difficult. Further, weak governance in host countries may facilitate value-destroying investments, resulting in lower firm values and a higher probability to diversify (Dastidar & Weiner, 2007). This may happen when the potential personal benefits from international diversification exceed the personal costs managers may incur (Denis et al., 1997).

Secondly, there is the behavioral theory of the firm (Cyert and March, 1963). From this perspective, there are six basic elements that define firm behavior: (1) performance, (2) slack (the difference between total resources and the minimum resources necessary to produce a given output), (3) aspirations (desired level of

performance), (4) expectations (anticipated level of actual performance), (5) risk (uncertainty), and (6) the size of the organization (Lin et al., 2011, p. 83). This is relevant in the context of multinational firms since the slack of resources of an organization is considered an antecedent of the relationship between internationalization and performance.

Finally, among other theoretical perspectives that have been less developed in the literature on international business it is worthwhile to mention the organizational evolution perspective (Chandler, 1962; Tushman and Romanelli, 1985). This perspective postulates that internationalization is a natural stage of the development of firms and that the relationship between international diversification and performance reflects a cycle of "convergence, decline, reorientation and convergence". In other words, that this evolutionary process is characterized by a "punctuated equilibrium" (Li, 2007) in which extended phases of consistency are intermittently interrupted by radical organizational changes (Eldredge and Gould, 1972).

CHAPTER 4. The Relationship between International Diversification and Performance: Empirical findings

The first empirical studies focused on exploring the differences in the performance of multinational and domestic firms (e.g., Vernon, 1971; Hughes et al., 1975; Brewer, 1981; Shaked, 1986; Collins, 1990), but as the field evolved research focused only on exporting and multinational firms with the aim to understand how company performance evolves with growing levels of internationalization (e.g., Chin-Chun and Boggs, 2003; Thomas and Eden, 2004; Hitt et al., 2006a; Hejazi and Santor, 2010, Verbeke and Brugman, 2009).

The number of empirical studies that analyze the relationship between international diversification and firm performance has grown significantly in the last two decades. Hult et al. (2008) examined 96 articles published in the main journals of strategy and international business between the years 1995 and 2005, and Ruigrok and Wagner (2005) analyzed 62 articles in the their meta-analysis on the extant research.

However, in spite of the sheer number of studies published, there is no consensus in the literature on the shape and direction of the relationship between international diversification and performance of multinational firms (e.g., Capar and Kotabe, 2003; Glaum and Oesterle, 2007; Gaur and Kumar, 2009; Singla and George, 2013; de Jong and van Houten, 2014).

Thus, some of the initial studies found a positive linear relationship (e.g., Miller and Pras, 1980; Kim and Lyn, 1986; Delios and Beamish, 1999; Hitt et al., 2006b; Gaur and Kumar, 2009), while others found a negative linear relationship (e.g., Chang and Thomas, 1989; Geringer et al., 2000; Denis et al., 2002; Brock and Yaffe, 2008; Singla and George, 2013) or no relationship at all (e.g., Kumar, 1984; Sambharya, 1995; Katrishen and Scordis, 1998; Gerpott and Jakopin, 2005; Lee et al., 2012). Later on, the

existence of non-linear relationships was proposed and tested. Among the non-linear models are those that found a U-shape relationship (e.g., Gomes and Ramaswamy, 1999; Lu and Beamish, 2001; Capar and Kotabe, 2003; Brock et al., 2007; Chen and Yu, 2012), an inverted U-shape relationship (e.g., Geringer et al., 1989; Nehrt, 1999; Kotabe et al., 2002; Hall and Lee, 2010; Lampel and Giachetti, 2013), an S-shape curve relationship (e.g., Contractor et al., 2003; Li, 2005; Contractor, 2007; Kumar and Singh, 2008; Bobillo et al., 2010), and recently an M-shaped curve relationship (Lee, 2010; Almodóvar, 2012; Lee, 2013; Almodóvar and Rugman, 2014).

On account of this, Li (2007) notes that some scholars even doubt whether research focusing on the macrolevel ID-P relationship would be fruitful. The main criticism is that ID-P research has not yet offered a clear theoretical argument on how or why absolute levels of international diversification (or multinationality) should influence performance (Verbeke and Forootan, 2012; Powell, 2014). Nonetheless, researchers in the field of strategy consider the importance of continuing to research the effect that international diversification can have on firm performance but the purpose and the perspective have changed in comparison to previous studies. It is no longer about proposing a general model but to analyze the ID-P relationship in specific contexts (e.g., service firms, family businesses, international new ventures).

4.1 Linear Relationships

4.1.1 Linear Positive Relationship

The first studies postulated that when firms decide to expand their operations, they can take advantage from a set of benefits, which surpass the costs derived from carrying out activities in distinct geographical markets (e.g., Ruigrok and Wagner, 2003; Lu and Beamish, 2004; Chang, 2007; Gaur and Kumar, 2009; Yang and Martin, 2010). In fact, Hejazi and Santor (2010) argue that the hypothesis of a positive

relationship between international diversification and performance goes back at least to Vernon (1971).

Initial studies in the field of international business began with the assumption that high levels of internationalization are good for firm performance (e.g., Contractor et al., 2003; Hennart, 2007; Bowen and Wiersema, 2009; Hejazi and Santor, 2010; Pan and Tsai, 2012). Several empirical studies found the existence of a linear and positive relationship between the degree of international diversification and the performance of multinational firms (e.g., Kim and Lyn, 1987; Geringer et al., 1989; Delios and Beamish, 1999; Hitt et al., 2006b; Loncan and Meucci, 2010).

4.1.2 Linear Negative Relationship (and no relationship)

The strategy of international expansion can have not only positive effects on firm performance, but also negative effects. This implies that multinational firms are not always profitable, nor will one particular firm always incrementally improve its financial performance by expanding into one more country (Contractor, 2012, p. 318). This can be explained by the disadvantages that arise when firms operate in foreign markets (e.g., Thomas and Eden, 2004; Chiao et al., 2006; Dastidar and Weiner, 2007; Dastidar, 2009; Lin et al., 2011). In this case, the complexity of coordinating businesses that are located in distinct geographical regions results in the costs of carrying out a strategy of international expansion surpassing the benefits (Hsu and Liu, 2008; Loncan and Meucci, 2010). This is especially relevant in those cases in which multinational firms have operations in markets with a high level of distance (cultural, institutional, geographical and/or legal) (Hennart, 2007; Qian et al., 2008). Likewise, this is also commonly found in those firms with a low level of experience in operating in foreign markets (Mudambi et al., 2011), such as those of a small and medium size (Lu and Beamish, 2001).

In that sense, some empirical studies conclude that there exists a negative relationship between the degree of international diversification and firm performance (e.g., Michel and Shaked, 1986; Geringer et al., 2000; Majocchi and Zucchella, 2003; Brock and Yaffe, 2008; Chen and Tan, 2012). Furthermore, other authors haven't found any significant relationship between the levels of international diversification and firm performance (e.g., Hoskisson and Hitt, 1990; Sambharya, 1995; Balabanis, 2001; Genthon, 2008; Li et al., 2011).

4.2 Non-Linear Relationships

Recent studies have proposed the existence of a nonlinear relationship between internationalization and firm performance, since they have focused on analyzing the net impact that costs and benefits of international expansion may have on the performance of multinational firms (e.g., Lu and Beamish, 2004; Baush and Krist, 2007; Bowen and Wiersema, 2009; Hejazi and Santor, 2010; Yand and Driffield, 2012). Under this perspective the process of internationalization (captured by the degree of internationalization or DOI) represents a trade-off between the benefits and costs of expanding abroad (Almodóvar and Rugman, 2014). These studies propose different explanations about how the benefits and costs derived from the process of international expansion change over time (Genthon, 2008) or according to the different internationalization stages (e.g., Contractor et al., 2003; Ruigrok and Wagner, 2003; Lu and Beamish, 2004; Kumar and Singh, 2008; Garbe and Richter, 2009).

Recent empirical studies have provided significant evidence suggesting the existence of a nonlinear relationship between the variables of international diversification and performance (Bowen and Wiersema, 2009), although different researchers have found that the ID-P relationship adopts different shapes, namely a U-shaped, an inverted U-shaped, sigmoid (S-shaped) and M-shaped curve.

4.2.1 U-Shaped

Some authors propose the existence of a U-shape relationship between the degree of international diversification and firm performance (e.g., Qian, 1997; Ruigrok and Wagner, 2003; Capar and Kotabe, 2003; Thomas, 2006; Contractor et al., 2007), even when this stance has received limited theoretical development and empirical validation (Contractor et al., 2003). These studies postulate that in the early stages of internationalization, firms face negatives effects on their performance levels (Son et al., 2011; Pan and Tsai, 2012). However, once they pass this stage, firms experience positive returns when internationally expanding their activities (Yang and Martin, 2010).

In the early stages of the process of internationalization the costs can increase due to the complexity of managing subsidiaries located in distinct geographic markets (Chen and Tan, 2012). Also, in this period firms must make high levels of investment in installations, the implementation of subsidiaries, positioning the brand, creating a corporate image and adapting the product or service to a local market, while the income coming from these operations is limited at the beginning (Genthon, 2008; Son et al., 2011). However, once past this stage, firms acquire the level of experience and operational efficiency needed to operate in foreign markets (Katrishen and Scordis, 1998) and this allows them to have positive returns from their strategy of international expansion (Hitt et al., 2006a; Contractor et al., 2007; Pan and Tsai, 2012).

4.2.2 Inverted U-Shaped

In some studies the existence of an inverted U-shape relationship between the degree of international diversification and firm performance has been found (e.g., Daniels and Bracker, 1989; Ramaswany, 1993; Gomes and Ramaswamy, 1999; Brock et al., 2006; Garbe and Richter, 2009). This is also known as an inverted J curve

(Geringer et al., 1989; Ruigrok and Wagner, 2003; Leem et al., 2007). According to these authors, there are limits to the positive performance that firms can achieve when expanding their operations to foreign markets (e.g., Geringer et al., 1989; Palich et al., 2000; Lu and Beamish, 2004; Hsu and Liu, 2008; Lee and Gaur, 2012). These limits are caused by the inability of managers in handling (very) high levels of complexity in internationally diversified firms which affects negatively the firm's performance (Grand, 1987; Hitt et al., 1994). The complexity stems from both the growing number of countries where the firm operates and the fact that each one of the geographic markets requires a certain degree of adaptation and different types of strategic responses and action plans (Genthon, 2008).

Therefore, at the beginning when the degree of international diversification of a firm increases, the performance does as well. However, the benefits of internationalization increase up until a point called the "internationalization threshold" (Hitt et al., 2006a; Pan and Tsai, 2012). At this point the costs of international expansion surpass the benefits (Hitt et al., 1997; Gomes and Ramaswamy, 1999), and as a consequence the firm experiences decreasing yields from international diversification (Thomas and Eden, 2004; Yang and Martins, 2010; Son et al., 2011).

4.2.3 S-Shaped

The authors that propose an S-shaped curve relationship (e.g., Gomes and Ramaswamy, 1999; Contractor et al., 2003; Lu and Beamish, 2004; Chang and Wang, 2007; Kumar and Singh, 2008), argue that the benefits and costs of internationalization change between the different stages of the process of international expansion of firms (Verbeke and Brugman, 2009; Son et al., 2011).

These studies propose the existence of three stages in the process of internationalization (three stage model), since they conclude that the existing

relationship between the degree of internationalization and performance is negative at very low and high levels of internationalization, and positive at intermediate levels (e.g., Hitt et al., 2006a; Gaur and Kumar, 2009; Verbeke and Brugman, 2009; Mudambi et al., 2011; Chen and Tan, 2012). In the initial stage firms must deal with the liabilities of newness and foreignness with a negative impact on their performance level, due to the costs derived from starting a strategy of international expansion surpassing the benefits. However, after this initial stage, firms enjoy positive returns from foreign markets, since they acquire a level of knowledge and experience that allows them to improve their efficiency levels through a better localization of resources, at the same time as they acquire legitimacy in foreign markets and are capable of better exploring the opportunities of the market, extending the life cycle of products and exercising global market power. However, after this growth stage firms surpass the optimal level of internationalization, and are unable to respond to the demands of foreign markets and deal with cost increases in transactions, communication, control and coordination, and consequently face negative returns from the international expansion of their operations.

Considering these results, Contractor et al. (2003) and Lu and Beamish (2004) propose that the three stage model is a model or general theory of the relationship between the levels of international diversification and firm performance, because it integrates conflictive and divergent results (e.g., Hitt et al., 2006a; Contractor, 2007; Ruigrok et al., 2007; Bowen and Wiersema, 2009; Chen and Tan, 2012). After this, diverse authors concluded that there is an S-shaped relationship. For example, Chang and Wang (2007) concluded that firms in the United States had an S-shaped curve, while Outreville (2010) came to the same conclusion with a sample of firms in the United States, Canada, Europe, Japan and China.

The S-curve relationship combines a U-shaped and an inverted U-shaped relationship between DOI and performance (Almodóvar and Rugman, 2014). Depending on which part of the curve we examine we can find U-shaped and inverted U-shaped segments (Contractor, 2007; Outreville, 2010). However, the empirical evidence of the existence of an S-shaped curve is limited and inconclusive (e.g., Hitt et al., 2006a; Bausch and Krist, 2007; Hennart, 2007, 2011; Bowen and Wiersema, 2009; Verbeke et al., 2009), because a significant portion of recent studies have not found this type of relationship (e.g., Lin et al., 2011; Chen and Yu, 2012; Hsu et al., 2012; Lampel and Giachetti, 2013; Singla and George, 2013).

It is argued that this model does not consider in its theoretical development the analysis of the context of internationalization, especially in reference to the cultural or institutional environment. Likewise, it is noted that the three stage model is not capable of showing the nature of the impact of the dispersion of internationalization on performance (Son et al., 2011). This would explain why Contractor et al. (2003) did not find support for the existence of an S-shaped curve in capital intensive service firms, but only for knowledge intensive firms (Bowen and Wiersema, 2009). Likewise, Lu and Beamish (2004) only found an S-shaped curve when using the performance measure Tobin's Q, but not when using the ROA indicator (Bowen and Wiersema, 2009).

Recently, Contractor (2012) responded to the criticism over the three stage model, noting that firms that opt for an international strategy will not always be profitable. Nonetheless, the author holds that the most frequent case is that in which firms benefit from the strategy of international expansion, which is what encourages firms to decide to operate in foreign markets. Thus, Contractor (2012) argued that the authors have not validated the existence of the three stage model due to an improper operationalization of the studies. However, Verbeke and Forootan (2012) hold that

Contractor (2012) does not explain how the list of benefits and costs derived from the process of international expansion apply in general to all firms that operate in foreign markets.

4.2.4 M-Shaped

Studies that find the existence of an M-shape curve in the relationship between international diversification and performance, do not consider multinational firms in their sample, but rather international new ventures (INVs). This is relevant because the growing role of entrepreneurial new ventures considered born-global has increasingly become one of the most important phenomena in international business over the past decade (Zahra and George, 2002). The international new ventures (INVs) are young small and medium sized enterprises (SMEs) with little international experience as a company and very limited financial commitments abroad. These enterprises basically engage in exports, rather than in FDI (Almodóvar and Rugman, 2014).

Lee (2010) notes that the home-region orientation of a company's international expansion is expected to be stronger for small and young firms, because they are subject to insufficient resources and capabilities compared to large and established companies (Oviatt and McDougall, 1994). In that regard, Almodóvar and Rugman (2014) consider that the traditional S-curve logic fails to explain how INVs can tolerate, at inception, the extra costs of doing business abroad and the investments needed to improve their firm specific advantages (FSAs). This is so because there is an earlier, initial stage of the internationalization process when the new ventures first initiate international sales (Lee, 2013). This first stage is called the "born-global illusion," since the INVs are responding in an opportunistic (rather than strategic) manner to foreign export orders mostly taking place within their home-region of the Triad (Almodóvar and Rugman, 2014). Thus, taken together, the initial born-global illusion yields an additional turning

point to the S-curve relationship resulting in the M-curve fit between multinationality and performance of INVs (Lee, 2013, p. 217).

In recent years other shapes for the resulting curve in the relationship between the variables of international diversification and performance have been proposed. According to Almodóvar and Rugman (2014, p. S7), there is also discussion of an inverted S curve (Chiang and Yu, 2005; Contractor, Kundu and Hsu, 2003; Ruigrok, Amann and Wagner, 2007), an M curve (Almodóvar, 2012; Lee, 2010) and an inverted M-curve relationship (Almodóvar, 2012).

* * *

In summary, Table 1 presents the main results that have been obtained by empirical studies that analyze the relationship between international diversification and performance. In these studies, performance is categorized as a dependent variable and international diversification as an independent variable. A revision of the table allows one to argue that the predominating stance is that the degree of diversification has an effect on firm performance, more so than studies that argue for the lack of a relationship between both variables. Likewise, it is noted that recent studies focus primarily on the formulation of non-linear relationships between international diversification and performance.

Table 1. Results of studies that analyze the relationship between international diversification and performance

Result	**Author (s) and Year**
No relation	Horst, 1972; Kohers, 1975; Buckley et al., 1977; Buckley et al., 1978; Brewer, 1981; Christensen & Montgomery, 1981; Rugman, 1983; Buckley et al., 1978, 1984; Fatemi, 1984; Kumar, 1984; Dunning, 1985; LeCraw & Booth, 1985; Montgomery, 1985; Rugman et al., 1985; Shaked, 1986; Geringer et al., 1989; Haar, 1989; Collins, 1990; Hoskisson & Hitt, 1990; Morck & Yeung, 1991; Dess et al., 1995; Sambharya, 1995; Tallman et al., 1996; Gomez-Mejia & Palich, 1997; Katrishen & Scordis, 1998;

	Balabanis, 2001; Bodnar et al., 2003; Gerpott & Jakopin, 2005; Hennart, 2007; Genthon, 2008; Kahloul & Hallara, 2010; Hua & Upneja, 2011; Jiménez-Palmero & Benito-Osorio, 2011; Lee et al., 2011; Li et al., 2011; Lee et al., 2012.
Linear and Positive	Vernon, 1966; Grubel, 1968; Levy & Sarnat, 1970; Vaupel, 1971; Vernon, 1966, 1971; Lefwich, 1974; Severn & Laurence, 1974; Hughes et al., 1975; Rugman, 1976; Jacquemin & Berry, 1979; Rugman, 1979; Miller & Pras, 1980; Rugman, 1981; Rumelt, 1982; Errunza & Senbet, 1981, 1984; Errunza et al., 1984; Michel & Shaked, 1984; Kogut, 1985; Rugman et al., 1985; Jose et al., 1986; Kim & Lyn, 1986; Benvignati, 1987; Bühner, 1987; Ghoshal, 1987; Grant, 1987; Kim & Lyn, 1987; Doukas & Travlos, 1988; Grant et al., 1988; Kim et al., 1989; Jung, 1991; Dunning, 1993; Kim et al., 1993; Sambharya, 1995; Allen & Pantzalis, 1996; Tallman & Li, 1996; Ramaswamy et al., 1996; Riahi-Belkaaoui, 1996; Han & Lee, 1998; Han et al., 1998; Mishra & Gobeli, 1998; Berry & Sakakibara, 1999; Delios & Beamish, 1999; Bodnar et al., 2000; Ramírez-Aleson & Espitia-Escuer, 2001; Pantzalis, 2001; Christophe & Pfeiffer, 2002; Dragun, 2002; Quian, 1996, 2002; Qian & Li, 2002; Goerzen & Beamish 2003; Qian et al., 2003; Mathur et al., 2004; Nachum, 2004; Andersen, 2005; Jung & Chan-Olmsted, 2005; Luo et al., 2005; Tongli et al., 2005; Chiao et al., 2006; Hitt et al., 2006b; Gonenc & Aybar, 2006; Bausch & Krist, 2007; Castellani & Zanfei, 2007; Delios et al., 2008; Hsu & Pereira, 2008; Pangarkar, 2008; Gaur & Kumar, 2009; Gande et al., 2009; Jang & Tang, 2009; Hejazi & Santor, 2010; Loncan & Meucci, 2010; Yang & Martin, 2010; Hua & Upneja, 2011.
Linear and Negative	Horst 1973; Hymer, 1977; Miller & Pras, 1980; Siddharthan & Lall, 1982; Fatemi, 1984; Michel & Shaked, 1986; Shaked, 1986; Amit & Livnat, 1988; Chang & Thomas, 1989; Ramaswamy, 1992; Cantwell & Sanna-Randaccio, 1993; Lang & Stulz, 1994; Berger & Ofek, 1995; Markides, 1995; Zaheer & Mosakowski, 1997; Chen & Ho, 2000; Click & Harrison 2000; Geringer et al., 2000; Palich et al., 2000; Denis et al., 2002; Lamont & Polk, 2002; Riahi-Belkaoui, 2002; Riahi-Belkaoui & Alnajjar, 2002; Majocchi & Zucchella, 2003; Tallman et al., 2004; Ebneth & Theuvsen, 2006; Chakrabarti et al., 2007; Brock & Yaffe, 2008; Colpan, 2008; Bakay et al., 2011; Lee et al., 2011; Lin et al., 2011; Muñoz-Bullón & Sánchez-Bueno, 2011; Bobillo et al., 2012; Chen & Tan, 2012; Singla & George, 2013.
U Shape	Qian, 1997; Khanna & Palepu, 2000; Lu & Beamish, 2001; Mathur et al., 2001; Sánchez, 2001; Ruigrok & Wagner, 2002; Capar & Kotabe, 2003; Baek, 2004; Ruigrok & Wagner, 2003, 2005; Rugman & Kudina, 2006; Thomas, 2006; Yip et al., 2006; Bobillo et al., 2007; Brock et al., 2007; Contractor et al., 2007; Bobillo et al., 2008; Lee, 2008b; Li & Yue, 2008; Pangarkar, 2008; Endo & Ozaki, 2010; Tang & Jang, 2010; Hagemejer & Kolasa, 2011; Assaf et al., 2012; Chen & Yu, 2012.

Inverted U Shape	Daniels & Bracker, 1989; Geringer et al., 1989; Ramaswany, 1993; Hitt et al., 1994; Sullivan, 1994a, 1994b; Al-Obaidan & Scully, 1995; Ramaswamy, 1995; Hitt et al., 1997; Katrishen & Scordis, 1998; Gomes & Ramaswamy, 1999; Nehrt, 1999; Aulakh et al., 2000; Palich et al., 2000; Kotabe et al., 2002; Narasinham & Kim, 2002; Qian, 1997, 2002; Li & Qian, 2005; Brock et al., 2006; Chiao et al., 2006; Hitt et al., 2006b; Elango & Sethi, 2007; Leme et al., 2007; Li et al., 2007; Driffield et al., 2008; Qian et al., 2008; Bouquet et al., 2009; Garbe & Richter, 2009; Pattnaik & Elango, 2009; Chao & Kumar, 2010; Hall & Lee, 2010; Qian et al., 2010; Singh et al., 2010; Hsu et al., 2012b; Pan & Tsai, 2012; Lampel & Giachetti, 2013.
S Shape	Riahi-Belkaoui, 1998; Contractor et al., 2003; Lu & Beamish, 2004; Thomas & Eden, 2004; Li, 2005; Chiang & Yu, 2005; Chang, 2007; Chang & Wang, 2007; Contractor, 2007; Richter, 2007; Ruigrok et al., 2007; Vilas-Boas & Suárez-González, 2007; Andersen, 2008; Bae et al., 2008; Kumar & Singh, 2008; Johnson et al., 2009; Kudina et al., 2009; Bobillo et al., 2010; Outreville, 2010, 2012; Tsai, 2014.
M Curve	Lee, 2010; Almodóvar, 2012; Lee, 2013; Almodóvar & Rugman, 2014.

Source: Own elaboration

CHAPTER 5. Geographical Focus of International Diversification Strategies

Qian et al. (2010, p. 1018) note that at the intersection of strategic management and international business there exists a significant debate regarding the appropriate level of geographic diversification and the limits of international expansion (Contractor, 2007; Goerzen and Beamish, 2003; Hennart, 2007; Lee and Chung, 2007; Tallman and Li, 1996). This debate have looked at the effect on performance levels of the different types of strategies adopted by firms regarding the number of countries in which they operate (few or many) and where are these countries located (in a single region or in several).

5.1 Market concentration versus market spreading

In the literature on international marketing two international expansion strategies are studied, which are market concentration and market spreading or diversification (Navarro, 2002; Mas et al., 2006; Losada et al., 2007). This has led to a debate, especially in the literature of export-management, on the strategy that firms should adopt in search of better results (Crick et al., 2000; Katsikea et al., 2005; Cieslik et al., 2010).

In the market concentration strategy, firms opt to focus their efforts and allocate their resources to carefully selected markets, while the market spreading strategy involves the decision to export to many countries (Katsikeas and Leonidou, 1996).

Researchers that recommend adopting a concentration strategy claim that large market participation in few key markets leads to greater benefits in the long run (e.g., Buzzel et al., 1975; Tookey, 1975; Day, 1976; Tessler, 1977; Attiyeh and Wenner, 1981). On the other hand, firms follow a spreading strategy under the premise that lower

participation in many markets leads to achieving the desired levels of international growth (e.g., Hirsch and Lev, 1973; Hamermesh et al., 1978; Piercy, 1981; Airakinsen, 1982; Jung, 1984). According to Mas et al. (2006), small firms that have a small market share in many markets adopt a diversification strategy with the objective of avoiding direct competition with large firms.

Continuing with the debate, Son et al. (2011) note that market concentration allows firms to ensure themselves significant market share, achieve market specialization and acquire a greater knowledge of the market and a greater degree of control (Piercy, 1982; Albaum et al., 1989). And, that firms that adopt a strategy of market spreading (or global dispersion) can achieve economies of scale and scope, which allow them to maintain their conquered traditional market shares and at the same time reduce their dependence on a particular market and smooth revenue fluctuations (Albaum et al., 1989; Kim et al., 1993; Olusoga, 1993).

However, there is no consensus on whether market concentration or market spreading leads to better performance (e.g., Lee and Yang, 1990; Donthu and Kim, 1993; Nicolau et al., 2000; Mas et al., 2002; Katsikea et al., 2005). Some studies conclude that the strategy of market concentration leads to better returns (Madsen, 1989; Beamish et al., 1993; Bodur, 1994), while others note that a strategy of market spreading does (e.g., Lee and Yang, 1990; Czinkota and Ursic, 1991; Alonso and Donoso, 1994, 1998; Aulakh et al., 2000; Navarro, 2000, 2002). Furthermore, it is argued that in the long term firms can obtain similar results using either strategy, concentration or spreading (Alonso and Donoso, 1994, 1998).

Mas et al. (2006) note that the contradictory results about the impact that market concentration and market diversification strategies have on firm performance have been explained through the existence of operational problems in performance measures.

Nonetheless, these authors observe that these studies have been carried out in the context of export market expansion, but not in the context of foreign direct investment (FDI). Moreover, the authors point out that the strategies of market concentration and diversification are not sufficient to explain the variations that are observed in exporting firms, because it is also necessary to consider the impact that a set of moderating variables such as product, market or firm characteristics may have on this relationship.

To make things more complex, in practice exporting firms can pursue both strategies simultaneously (Losada et al., 2007; Cieslik et al., 2010) following a mixed strategy, which means that they move to a large number of markets but concentrate their efforts in a small number of those (Bradley and O'Reagain, 1998). This situation was studied by Aspelund et al. (2007) who concluded that the success of firms that initiate operations in foreign markets depends on the adequate implementation of both types of strategies. Relating to this point, it is argued that firms that operate in foreign markets employ a spreading strategy in search of market opportunities at a global level, but at the same time focus their resources on those markets they consider priority (Crick and Jones, 2000). This allows firms to adopt strategies of international expansion that are less risky (Morgan-Thomas and Jones, 2009).

Considering these results, Cieslik et al. (2010) note that a more refined formulation of the strategies of market concentration and market spreading is the concept of *ambidexterity*. This concept was originally applied to the international operations of large multinational firms, and makes reference to the need to simultaneously following exploratory strategies in new markets, while exploiting existing opportunities in established markets (March, 1991; Barkema and Drogendijk, 2007; Cellard and Prange, 2008). This means that firms seek to integrate the exploitative and explorative strategies during the process of internationalization, since

this allow them to be in better conditions to survive and compete against global rivals (e.g., Barkema and Drogendijk, 2007; Tseng, 2007; Han and Celly, 2008; Luo and Rui, 2009; Prange and Verdier, 2011). Hsu et al. (2012a, p. 1) found that multinational enterprises show a significant tendency towards "international ambidexterity" in their strategic decisions.

5.2 The globalization-regionalization debate

Salmon (2001) notes that economic liberalization, technological change and globalization, are three interrelated processes that influenced the change in structure of the world economy during the last decade of the 20th century. Globalization is a process that is essentially driven by economic forces (Sideri, 1997), that is not only changing the world in which we live, but also the way we view it (Guillén and García-Canal, 2009a). Likewise, other researchers argue that globalization is a macro-level phenomenon of great importance that goes beyond trade or economic events and has acquired a multidimensional character, impacting practically all fields of human activity (Flores and Aguilera, 2007).

The causes of economic globalization are the spatial reorganization of production, international trade and the integration of financial markets (Buckley and Ghauri, 2004). Other factors that have influenced the globalization of markets and industries are technological change via information technology, lower costs of international transportation, reductions in trade barriers, and homogenization and convergence of consumer spending patterns across countries (Konya and Ohashiz, 2004). It is important to highlight the political dimension of globalization given that it has been favored by the integration of the institutions necessary to hold and facilitate international trade and investment and by greater global competition (Daniels and Radebaugh, 2000). Meanwhile, Dejo-Oricain and Ramírez-Alesón (2009, p. 53) note

that in recent decades, there has been a gradual opening and interdependence of economic and political systems that have led to economic globalization.

The changes brought about by globalization forces, firstly in the most developed countries and subsequently in developing countries, has attracted the attention of international business scholars on how best should firms, and especially multinational companies, respond to this new scenario.

5.2.1 The Globalization Approach

In his seminal article, *The globalization of markets*, Theodore Levitt (1983) argued that advances in communications technology were increasingly inspiring consumers around the world to want the same things and were creating "a new commercial reality – the emergence of global markets for standardized consumer products on a previously unimagined scale of magnitude" (p. 92). Therefore, international companies should cease to act as "multinationals" that customized their products to fit local markets and tastes –at a high cost. Instead, firms should become "global" by standardizing the production, distribution, and marketing of their products across all countries –at a low cost. In the words of Levitt (1983, p. 92-93): "The global corporation operates with resolute constancy – at low relative cost - as if the entire world (or major regions of it) were a single entity; it sells the same things in the same way everywhere". In his view, selling the same product meant efficiency and would be more profitable than product adaptation, that is, competitive advantage will flow from economies of scale (Emmons, 2003).

Another influential contribution to the globalization approach was the book entitled *Triad Power: The Coming Shape of Global Competition* by Kenichi Ohmae (1985) where he expounded that companies which did not have a full presence in the

world's three main trading blocs (United States, Western Europe and Japan) were dangerously vulnerable to competition from those that did. According to Ohmae (1985), the triad regions share a number of commonalities: low macroeconomic growth; a similar technological infrastructure; the presence of large capital- and knowledge-intensive firms in most industries; a relatively homogenization of demand (with convergence of key product attributes); and protectionist pressures (Rugman and Verbeke, 2004, p. 4). Large companies with innovative and differentiated products (especially if they have large expected demand across the triad) face a strategic dilemma given that, in spite of patents and brand names, technology diffuses more rapidly to rivals that the time required to build the distribution capabilities in the other triad markets, hence making it difficult to recover innovation costs (Rugman and Verbeke, 2004, p. 4). Therefore, in Ohmae's view deep penetration into each triad market is imperative to capitalize on firm's innovations and stay ahead of competitors.

In fact, Ohmae (1985) added an important specific geographical dimension, the Triad, to similar but more generic definitions of what a global company was about. A good example is Hamel and Prahalad's (1985) definition of a global company as a firm with distribution systems in key foreign markets that permit cross-subsidization, international retaliation, and world-scale volume. Following a similar line of reasoning to that of Ohmae, Hamel and Prahalad (1985) stress the importance of having strong brands and distribution channels in key foreign markets while mere cost advantages through offshore sourcing and rationalized manufacturing have limited value in isolation (Rugman and Verbeke, 2004, p. 4).

In essence, the globalization approach is based on the assumptions that: i) the world is converging in terms of cultural preferences, national tastes and standards, and business institutions (Levitt, 1983) and ii) in an increasing number of industries the

dynamics of competition no longer occur on a national basis but extend beyond national borders (Porter, 1986) making it imperative to have a strong presence in the key world markets (Ohmae, 1985; Hamel and Prahalad, 1985).

For the proponents of the globalization approach, a firm's key strategic challenge is how best it can become global. In that regard, George Yip (1989, 1992) proposes five strategy levers that can help companies to globalize their strategy, namely, significant market share in major markets, product standardization, uniform marketing, concentration of activities in the best locations, and global competitive moves. While the use of these levers will depend on the firm's position and resources and on its industry globalization potential, Yip assumes that global companies have no restrictions in deploying their firm-specific advantages (FSAs) in any location. In its own words (Yip, 2003, p. 216): "The global company does not have to be everywhere, but it has the capability to go anywhere, deploy any assets, and access any resources. And it maximizes profits on a global basis".

Finally, Ohmae (1991) as well as Yip (1992) consider that a global firm needs to develop a global identity that replaces its national identity and allow it to operate as a stateless entity at a global scale, in line with Perlmutter's (1969) prescription of developing a geocentric mentality in multinational corporations.

5.2.2 The Regionalization Approach

Although the globalization approach received some early criticisms (e.g. Douglas and Wind, 1987) it was not till the first years of the 2000s that several scholars questioned the main assumption underpinning the globalization approach that the "earth was flat" (Levitt, 1983). Thus, convergence of cultural preferences and national tastes was considered a "myth" and global product standardization just one choice out of

many (Douglas and Wind, 1987). At the same time, the convergence of business institutions also had "limits" and contrary to what was expected it generates diversity in organizational forms instead of homogeneity (Guillén, 2001).

Moreover, the globalization process was far of having achieved a complete integration of markets across borders. At best, the world economy was –using Ghemawat's (2003) expression- in a state of "semiglobalization" that he defined as a condition where "neither the barriers nor the links among markets in different countries can be neglected" (Ghemawat, 2003, p. 139). In this context, national and regional differences will persist and continue to be a source of significant costs as well as advantages for firms (Ghemawat, 2007).

In his influential article, *A perspective on regional and global strategies of multinational enterprises*, Rugman and Verbeke (2004) analyzed the geographical distribution of the sales of the 500 world's largest companies (Fortune 500) in 2001. The authors used an expanded definition of Ohmae's core triad regions, namely NAFTA, the European Union and Asia, and classified MNEs into four types: home region oriented (at least 50% of their sales were made in their home region of the triad), bi-regional (at least 20% of their sales in each of two triad regions), host region oriented (more than 50% of their sales in a triad market other than their home region) and global (at least 20% of their sales in all three triad regions, but less than 50% in any one region).

Rugman and Verbeke (2004) noted that the majority of the world's largest 500 companies, a total of 380, were multinationals whose average intra-regional sales represented 71.9%. Furthermore, the authors found that 320 (or 84.2%) were home region oriented, another 25 (6.6%) were bi-regional, 11 (2.9%) were host region oriented and only 9 (2.4%) were global. Hence, according to the data, there is no

evidence that the world's largest firms operate globally –except in very few cases–, instead they mainly produce and sell on a regional basis.

The authors (Rugman and Verbeke, 2004; Rugman, 2005, 2006) present several reasons why multinational firms tend to be regional rather than global in their geographical scope. Firstly, on top of geographical closeness, institutional and cultural proximity makes it easier to do business in countries within the same region (informal determinants). Secondly, intensification of regional trade agreements provide formal, intra-regional mechanisms to facilitate more business between proximate countries.

Their findings also have several theoretical implications. Firstly, they can be interpreted as a reflection of the limits that MNEs have to the international transferability and deployment of their firm-specific advantages (Rugman and Verbeke, 2004, p. 6). The fact that countries within a region are culturally close and firms face similar market demands and similar o even the same competitors, facilitates that the experience and knowledge of one country can be applied to another country within that region. However, when multinational companies diversify across regions they do not benefit from such sharing and face the costs of 'inter-regional' distance and the 'liability of inter-regional foreigness' (Rugman and Verbeke, 2004, 2007).

Secondly, Rugman and Verbeke (2004, p. 13) observe that many large MNEs have a strong geographical dispersion of their sourcing and production, but don't appear able or willing to capitalize on this position to achieve global sales penetration. This asymmetry suggests that firm-specific advantages required in upstream activities (sourcing and production) are of a different nature and more easily deployable across regions than those required in downstream activities to achieve a global distribution of sales.

Thirdly, multinational firms face in their strategic decisions an inherent tension between the pressures to globalize and the need to stay local and serve individual customers (Buckley and Ghauri, 2004). The regionalists note that a regional strategy offers a more efficient solution to the dilemma of balancing local responsiveness and global integration (Rugman and Verbeke, 2004; Rugman, 2005; Li et al., 2010). Because the administrative and management costs, relating to the cultural and geographic distance, can be reduced by the firms that decide to expand mainly in their home region (Rugman, 2005). Likewise, firms that operate with a regional strategy can reduce transportation costs and more easily develop coordination of their activities (Chen and Tan, 2012). Qian et al. (2010, p. 1019) note that a regional diversification strategy allows an MNE to more readily build, integrate, and reconfigure different resources and capabilities that are located in different geographically close countries and distribute the accumulated costs of learning elsewhere within the region (Goerzen and Beamish, 2003; Qian, Li, Li, and Qian, 2008).

Lastly, recent empirical research has questioned the unlimited benefits that firms supposedly get when increasing the geographical scope of their operations. Thus, firms that follow a global strategy are vulnerable to economic and financial contractions of foreign markets (Beleska-Spasova and Glaister, 2010), learn less from internationalization (Ruigrok and Wagner, 2003) and are exposed to greater psychic distance (Contractor, 2007; Hutzschenreuter and Voll, 2008). Hence, firms that operate in foreign markets have difficulty in implementing a full-scale global strategy and reaping the benefits of complete standardization and market integration (Beleska-Spasova and Glaister, 2010). Thus firms that follow a global strategy will likely have a greater risk of failing to adapt to new regional environments (Tallman and Li, 1996; Vermeulen and Barkema, 2002).

To sum up, according to Ghemawat (2005, p. 102) the disappointment with strategies that operate at a global level may explain why companies that do perform well internationally apply a regionally oriented strategy in addition to – or even instead of – a global one.

5.2.3 The 'more than regional but less less than global' or semi-global approach

Rugman and co-authors' empirical work has drawn attention to an important phenomenon: that most MNEs' sales take place largely in their home region and that MNEs with a global sales presence are much more elusive that previously considered (Osegowitsch and Sammartino, 2008). However, the nature of their classification system has received relevant criticisms that question the claimed huge predeominance of home-region oriented multinationals.

Some authors argue that the regional categorization might be misleading given that geographic segment data reported by large multinationals is to a large extent a managerial decision of each company. For example, in Rugman and Verbeke's (2004) Europe region, is not uncommon that countries located in Africa and the Middle East are included, likewise with the Asia region that often times includes countries from Oceania (Flores and Aguilera, 2007).

Also, Dunning et al. (2007) suggest that in order to validate the postulates of the regionalization approach it is necessary to use country-level data. Dunning et al. (2007, p. 178) note that Rugman and Verbeke (2004) allocate sales originating from the home region of the firms analyzed (whether these are intended to serve domestic or foreign markets) to their home region. Inevitably, in the case of companies originating from large and richer countries such as the United States (US) and Japan, this noticeably lowers their (relative) propensity for globalization.

More recently, several researchers have analyzed in greater detail the distribution of total sales of multinational firms, and concluded that sales in the rest of the home-region (ROR) are not always greater than sales to the rest of the world (ROW) thus questioning the criteria for classifying a MNE as home-region oriented (Osegowitsch and Sammartino, 2008; Seno-Alday, 2009).

Considering the aforementioned, Osegowitsch and Sammartino (2008, p. 184) conclude that the original results of Rugman and Verbeke lack robustness. After retesting, with different classification schemes, the same database used by Rugman and Verbeke, they find that a significant share of firms attain bi-regional or global status while further longitudinal analysis shows that large firms increasingly extend their sales beyond the home region.

In the debate about the current globalization of multinational firms, a new intermediate vision called semi-globalization is emerging (Flores and Aguilera, 2007; Arregle et al., 2009). Banalieva and Eddleston (2011, p. 1062) observe that overall, there is some consensus that modern business is, at best, "semi-global". Hence, both the global focus and the regional focus can be useful to explain the richness and complexity of the patterns of internationalization of multinational firms (Flores and Aguilera, 2007; Asmussen, 2009). Recent empirical research has provided support to the semi-globalization approach.

In their study on Japanese MNEs, Delios and Beamish (2005) conclude that the size and international experience of firms is a determining factor in the performance of the internationalization strategy adopted. Thus, well internationalized MNEs (those with more than 50 FDIs projects) that adopted a tri-regional or quad-regional strategy had a significantly higher performance than those with a regional expansion strategy (either home-oriented or host-oriented).

Likewise, Flores and Aguilera, 2007 point out that even though the Triad countries continue to be important, countries that are not in this category have become attractive locations for multinational firms. In that regard, Kim and Aguilera (2012) note that those multinational firms that have expanded their international operations beyond their home regions achieve greater competitive success than those firms that only operate in their home region (Elango, 2004; Delios and Beamish, 2005; Banalieva and Santoro, 2009). Additionally, Qian et al. (2008) conclude that firms with better performance are those with a geographical scope that is broader than their home region although fall short of being global, since firms of developed countries maximize their performance when they operate across a moderate number of developed regions and a strictly limited number of developing regions.

Finally, Flores and Aguilera (2007, p. 1188) note that the globalization–regionalization debate is stalled because these two schools of thought use different conceptual frameworks and operationalization of globalization, region and MNE activities. Kim and Aguilera (2012) point out that it is time to leave behind the globalization-regionalization debate, given its overemphasis on ontological discussions (in defining regions or measuring regionalization), and turn to studying more empirically driven questions on how firms expand their geographical scope.

5.3 Influence of geographical focus on the performance of multinational firms

The literature that analyzes the existing relationship between the levels of international diversification and performance of multinational firms has only recently started paying attention to the role played by geography (Yang and Martins, 2010).

Some authors hold that the differences observed of the impact that international diversification has on the performance of multinational firms can be explained by the

country/region of origin and by the geographical scope of the international diversification strategies adopted (Chen and Tan, 2012). On the one hand, firm performance is influenced by the conditions that prevail in the home region of the firm, such as factors of production, institutions and agglomeration (Ma et al., 2013). On the other, there are good reasons to believe that the shape of the international diversification-performance curve may vary with the country of origin of the firm and the destination countries (Chang, 2007, p. 338), which is why not only the number of foreign markets matters (Cieslik et al., 2012), but also whether the firm expands its operations within a relatively homogenous group of countries or between heterogeneous geographic regions (Vachani, 1991).

Qian et al. (2013, p. 635) note that there is an interesting debate among international strategy researchers on the merits of intra- and inter-regional diversification. However, they note that the results are contradictory, because some authors conclude that intra-regional diversification is more effective than inter-regional diversification (e.g. Rugman and Verbeke, 2004, 2008; Asmussen, 2009; Arregle et al, 2009), while others arrive at opposite conclusions (e.g. Delios and Beamish, 2005; Osegowitsch and Sammartino, 2008; Qian et al, 2008).

More recent empirical studies have shown that regional diversification moderates the relationship between international diversification and performance (Pan and Tsai, 2012). Likewise, Qian et al (2013) found that the liability of regional foreignness (LRF) increases with inter-regional diversification and that it mediates the relationship between inter-regional diversification and performance. While inter-regional diversification increases MNEs' growth potential (because it helps to maximize market opportunities and to successfully arbitrage production factors and consumer

market differences), it also increases the costs of LRF and thus erodes firm performance.

CHAPTER 6. The Specificity of Service Internationalization

6.1 Definition and Characteristics of Services

Services are defined as "an activity or series of activities of a more or less intangible nature that normally, but not necessarily, take place in interactions between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems" (Grönroos, 1990, p. 27). Similarly, services are defined as intangible economic activities that are designed to provide benefits to clients through the creation of value for specific times and places (Lovelock, 2000). Or also as any activity or benefit that one part offers another that is essentially intangible and does not result in the property of some item (Kotler and Armstrong, 2003). Likewise, a service is an application of specialized competencies (abilities and knowledge) through acts, processes or performances for the benefit of another entity or the entity itself (self-service) (Vargo and Lush, 2008).

Considering these definitions, services appear as fundamentally different from manufactured goods (e.g., Hill, 1977; Nusbaumer, 1987; Contractor et al., 2003; Blomstermo et al., 2006; Majkgård and Sharma, 2011). The characteristics that define services are intangibility, inseparability, heterogeneity and expiration (e.g., Rathmell, 1966; Zeithaml et al., 1985; Clark et al., 1996; Kotler and Keller, 2007; Brock and Alon, 2009). Also, service firms are characterized by having a high ratio of fixed costs in relation to variable costs (Hauknes, 2001; Bowen and Ford, 2002; Segal-Horn and Dean, 2007) and by being more government-related than manufacturing (Campbell and Verbeke, 1994).

The specific characteristics of services are challenging for firms. Service firms respond to the particularities of their intangibility with the search for higher levels of

reputation that they can achieve through investments made in branding and promotion (Brock and Alon, 2009). The perishable nature of services and the fact that service firms tend to have a high proportion of fixed costs in relation to total costs creates a high pressure to sell (Porter, 1980). Also, in many services storage and management of inventory is not possible, due to the characteristics of intangibility and that the consumption and production of the service occur simultaneously (Habib and Victor, 1991).

The specific characteristics of services are fundamental in the analysis of the internationalization process of service firms (e.g., Bradley, 1995; Aharoni, 2000; Bouquet et al., 2004; Hitt et al., 2006b; Goerzen and Makino, 2007) and why they appear to be different from the internationalization process observed in manufacturing firms (e.g., Aharoni, 2000; Bouquet et al., 2004; Hitt et al., 2006b; Goerzen and Makino, 2007; Rubalcaba and Maroto, 2008).

6.2 Internationalization of the Service Sector

The service sector began a growth stage in the 1960s (Kundo and Merchant, 2008). In this period, the developed economies experienced a growth in the participation of the service sector in their gross domestic product, employment, foreign direct investment and balance of payments. This growth has continued over time, and the international trade of services have become a fundamental aspect of a country's competitiveness and economic development (e.g., Mattoo et al., 2001; Rubalcaba et al., 2005; Contractor et al., 2007; Endo and Ozaki, 2010; Francois and Hoekman, 2010).

In this context, the service sector is considered to be the segment with the largest size and the highest rate of growth (Bradley, 1995; Cardone-Riportella and Cazorla-Papis, 2001; La et al., 2009; Majkgård and Sharma, 2011), which has contributed the

most to the growth of jobs in industrialized nations (Capar and Kotabe, 2003) as well as the most dynamic sector in international trade (Sánchez-Peinado and Pla-Barber, 2006; WTO, 2009). Nowadays international trade of services represents more than 20% of world trade (WTO, 2014). Likewise, the growth of the service sector has produced profound changes in countries, especially in those categorized as having medium or highly developed economies (Molero and Boueri, 2003; Pla-Barber et al., 2011).

Pla-Barber et al. (2011, p. 140) note that both the opportunity and the need for international delivery of a wide array of services have grown dramatically in recent years, either displacing or complementing parallel delivery of similar services by purely domestic operations. Several reasons explain the boom of service internationalization.

At a macro level, the internationalization of service firms has occurred within the general trend towards the globalization of the economy (Barcenilla, 2005). On the one hand, the important wave of technological innovations experienced by the world has reinforced the growing importance of tertiary activities in a large number of economies (Díaz and Molero, 2005). On the other hand, the recent liberalization processes that have facilitated the international trade of commercial services (Endo and Ozaki, 2010) and the growth of their demand from developing economies (Martín and Rodríguez, 2011).

At a firm level, an important factor for firms offering services to other companies has been the internationalization of their corporate clients and the need to follow them (e.g., Weinstein, 1977; Nigh et al., 1986; Terpstra and Yu, 1988; Vandermerwe and Chadwick, 1989; Roberts, 1999). The global integration of product markets (Ojasalo, 2010; Li et al., 2011) and the emergence of global supply chain networks (Netland and Alfnes, 2007) have given rise to a growing trend of service outsourcing in international markets (Camacho and Rodríguez, 2008; Liu et al., 2011).

The advances in telecommunications and information technologies has enhanced service and business model innovations (Javalgi and Martin, 2007). Love and Mansury (2009) point out that 30 years ago services were seen as residuals, technologically behind, most of them not tradable, dependent on the manufacturing sector, and having to adapt to local conditions. Features that would explain the relatively low degree of internationalization compared to manufacturing firms (Deans et al., 2003). Nevertheless, this perspective on the service sector has changed, since it is now generally accepted that services are frequently innovative, with more attention paid to how service innovation differs from that of manufacturing (Love and Mansury, 2009, p. 630). Likewise, Miozzo and Soete (2001, p. 159) note that the idea that services are labor-intensive activities with little scope for rapid productivity growth, is clearly a notion of the past. Service business model scalability and replicability has thus facilitated the international expansion of service firms.

6.3 Types of Services

The distinction between products and services is not to sufficient to explain the diversity that exists within the service sector (Berthon et al., 1999; Driver and Johnston, 2001). Services vary in their characteristics (Venzin et al., 2008) because they cover a wide range of activities, from management consulting to software development or facility management, each one with different attributes (Liu et al., 2011). Thus, the different types of services can be differentiated by attributes such as intangibility, perishability and simultaneity (Boddewyn et al., 1986). There can also be significant differences in the way in which the different services are affected by globalization (Campbell and Verbeke, 1994).

Several researchers have pointed out that the diversity and complexity of services does not allow for the development of generalized theories encompassing all

(Clark and Rajaratnam, 1999), instead there is a need to develop research on the processes of internationalization followed by different types of services (Hipp, 1999; Knight, 1999; Bryson, 2001; Merchant and Gaur, 2008). Based on this, different service classifications have been proposed (e.g., Schmenner, 1986; Silvestro et al, 1992; Thakor and Kumar, 2000; Blomstermo et al., 2006; Doh et al., 2009), although none in particular have been generally accepted (Clark et al, 1996).

The most widely used classification, proposed by Erramili (1991), distinguishes between hard and soft services (Patterson and Cicic, 1995; Lovelock and Yip, 1996; Ekelondo and Sivakumar, 1998; Majkgård and Sharma, 1998). This classification is relevant because each type of services have different strategic behaviors in the process of international expansion.

Hard services are those that are more tangible, more standardized and less personalized and can be produced totally or partially in the firm's home country (Lommelen and Matthyssens, 2005; Blomstermo et al., 2006; Ball et al., 2008; Majkgård and Sharma, 2011). Consequently, hard services are internationally tradable. Examples of this type of service are the design and engineering of software, some financial services such as investment funds, architecture services, engineering design, and research and development services.

Meanwhile, soft services are not tradable and cannot be exported, which is why producers have less alternatives to servicing foreign markets because firms need to be physically present there (Lommelen and Matthyssens, 2005; Blomstermo et al., 2006; Ball et al., 2008; Majkgård and Sharma, 2011). In this type of service the production and use of the service is done simultaneously. Examples of this would be management consulting, advertising agencies and hotel and restaurant services.

Another classification that has gained importance distinguishes between capital-intensive and knowledge-based services (e.g., Erramilli and Rao, 1993; Windrum and Tomlinson, 1999; Hertog, 2000; Contractor et al., 2003; Li et al., 2011). Capital-intensive services include among others hotels, restaurant chains, retail trade, construction, transportation or retail banking. Knowledge-based services include among others strategic consulting, engineering, education and information technology (Styles et al., 2005). This sub-sector is characterized by possessing characteristics such as high personalization, high uncertainty and high-risk results. Also, by high educational levels of the employees and by involving expert knowledge acquired through practice (Arkel, 2008). In comparison to capital-intensive services, knowledge-based services are more driven by intangible and idiosyncratic assets and have much lower fixed costs.

In addition to the above, other classifications of services have also been proposed (Sanchez-Peinado et al., 2007; Ball et al., 2008). For example, services can be distinguished according to the degree to which they are internationally tradable (Boddewyn et al., 1986), by the ability of their output to manifest in space (Berthon et al., 1999), by the degree of customer interaction that is required (Driver and Johnston, 2001), according to the relative participation (relative involvement) of physical resources or goods and the degree of interaction between the producer and the customer (Vandermerwe and Chadwick, 1989) or whether they are equipment- or people- based (Thomas, 1978).

6.4 Research on the internationalization of service firms

In spite of the rapid growth and importance of the service sector, relatively little has been studied about the processes of internationalization of the firms that comprise it (e.g., Lovelock and Yip, 1996; Grönroos, 1999; Javalgi et al., 2003; Kundu and Merchant, 2008; Li et al., 2011). Research on the internationalization of services began

in the mid-1980s (Knight, 1999), however, only during the last two decades have researchers focused their interest in explaining the growth of international trade and foreign investment in services (Kundu and Merchant, 2008).

According to the review of the emerging body of literature on service internationalization carried out by Li et al. (2011, p. 4), the thematic issues that have been examined theoretically and/or empirically can be broadly grouped into three categories: the drivers of service internationalization (Li and Guisinger, 1992; Dunning, 1993; Clark et al., 1997); the selection of appropriate entry modes (Erramilli, 1991; Erramilli and Rao, 1990, 1993; Agarwal and Ramaswami, 1992; Anand and Delios, 1997; Contractor and Kundu, 1998; Coviello and Martin, 1999; Bouquet et al., 2004; Peinado and Barber, 2006; Pla-Barber et al., 2010); and, more recently, the performance impact of such international expansion (Capar and Kotabe, 2002; Contractor et al., 2003; Brock et al., 2006; Hitt et al., 2006b).

One of the key questions that the first researchers on service internationalization had to face was whether internationalization theories developed by observing the behavior of manufacturing firms could also be applied to service firms (Boddewyn et al., 1986). In that regard, it was argued that service firms expand their operations to foreign markets for the same reasons that manufacturing firms do (e.g., Boddewyn et al., 1986; Guile, 1988; Dunning, 1989; Li and Guisinger, 1992; Campbell and Verbeke, 1994). It was also argued that both manufacturing and service firms incur in fixed costs when entering a foreign market that are independent of the level of production of a firm (Katrishen and Scordis, 1998).

Nowadays, most authors agree that services have characteristics that differentiate them from products, and that these differences help explain the different patterns of behavior of service firms compared to manufacturing ones when expanding

internationally (Lee et al., 2011), particularly the characteristics of inseparability and intangibility of services (Zeithmal et al., 1985; Patterson and Styles, 2005). As early as 1990, in their well-known article about the Uppsala model, Johanson and Vahlne (1990, p. 15) already noted that their internationalization process model was not applicable to service firms.

Regarding the specificity of their internationalization process, several authors observe that service firms have fewer barriers to start such process (Love and Mansury, 2009; Deprey and Lloyd-Reason, 2010). Service firms tend to require lower levels of financial investment since they are less capital intensive (Erramilli and Rao, 1993; Campbell and Verbeke, 1994; Gronroos, 1999; Brouthers and Brouthers, 2003). In the case of manufacturing firms, entering a new country demands a greater level of investment in installations, equipment and inventory, with a relatively low level of investment in people. Related to their lower financial investment needs, Contractor et al. (2007) found that Indian service firms achieved benefits derived from internationalization in a shorter time span than their manufacturing counterparts.

Another relevant difference refers to entry modes selected by service firms in comparison to manufacturing firms (Coviello and Martin, 1998; Mathyssens et al., 1998; Sánchez-Peinado et al., 2007). Service firms tend to be more people intensive, facing a greater level of difficulty when managing operations abroad (Boddewyn et al., 1986; Bowen and Jones, 1986; Erramilli and Rao, 1993). Further, their competitive advantage is derived from intangible and idiosyncratic assets, especially in the case of knowledge-based services (Brouthers and Brouthers, 2003). Relating to the prior points, services that are offered in foreign markets very often require a greater degree of adaption than goods (Zeithaml et al., 1985; Patterson and Cicic, 1995; Lindsay et al., 2003). These three characteristics point in the same direction, service firms tend to

prefer high-control entry modes that represent high resource commitments and higher risk levels (Capar and Kotabe, 2003; Javalgi and Martin, 2007).

Finally, the geographical scope of the international diversification strategies of service firms also presents differences when compared with manufacturing firms (Beleska-Spasova and Glaister, 2010). The prevailing stance in the literature is that the markets for service firms tend to be much more local than for manufacturing firms. Beleska-Spasova and Glaister (2010) studied small and medium (SMEs) British exporters and concluded that the manufacturing sector is more global than the service sector. In a similar perspective, Rugman (2005) concludes that service multinationals are significantly more host-region oriented than manufacturing ones.

6.5 Relationship between international diversification and performance in service firms

Although the relationship between international diversification and firm performance has been widely studied in the literature (e.g., Hitt et al., 1997; Geringer et al., 2000; Kotabe et al., 2002; Hitt, et al., 2006a; Verbeke and Brugman, 2009), very few of these studies have focused on the service sector (e.g., Habib and Victor, 1991; Bryson, 2001; Contractor et al., 2003; Genthon, 2008; Endo and Ozaki, 2010).

Almost all empirical studies on the ID-P relationship in the past 30 years have used in their samples either manufacturing firms or all firms available but without considering the unique factors of each sector (Rhoua and Kohb, 2014, p. 43). In that regard Hennart (2007, p. 446) argues that the multiplicity of motives for international expansion, the limited evidence on global learning, and the difficulties of empirically modeling the efficient exploitation of scale economies means that studies examining the relationship between international diversification and performance should be performed at a much lower level of aggregation, for example at a detailed industry level.

However, research on the impact that international diversification strategy has on the performance of service firms can still be considered in a developmental stage. In the past thirteen years several studies have been carried out, some of them including both service sector and manufacturing firms as a set in their samples (e.g., Li, 2003; Contractor et al., 2007; Driffield et al., 2008; Muzyrya, 2010; Bobillo et al., 2012) and others focusing only on service firms (e.g., Capar and Kotabe, 2003; Contractor et al., 2003; Li, 2005; Brock and Yaffe, 2008; Endo and Ozaki, 2010). Furthermore, studies that have examined the service sector do not provide strong evidence to support that the relationship between international diversification and performance is similar to that of manufacturing firms (Endo and Ozaki, 2010, p. 134).

In their seminal study, Capar and Kotabe (2003) concluded that in manufacturing firms the relationship between the degree of international diversification and performance adopts an inverted U-shaped curve, but in service firms the relationship takes the form of a U-shaped curve. Similarly, Elango (2006) found that in manufacturing firms the ID-P relationship adopts an inverted U-shaped curve, while service firms have a positive linear relationship. In their study of European manufacturing and service firms, Bobillo et al. (2012) found an S-shaped ID-P relationship for industrial firms, while for service firms it was a U-shaped ID-P relationship.

Other authors suggest that service multinationals achieve the benefits of internationalization at an earlier stage than manufacturing firms do (Contractor et al., 2003; Contractor et al., 2007), since they have fewer tangible assets to manage, more international clients established, require lesser levels of investment when they decide to operate in foreign markets (Bowen and Jones, 1986; Gatignon and Anderson, 1988; Erramilli and Rao, 1993; Campbell and Verbeke, 1994), and privileged access to certain

markets can represent a competitive advantage (Genthon, 2008) since they follow the international expansion of their national clients (Dunning, 1989).

According to this position, service firms have lower costs and investment requirements during the first stages of the internationalization process (Hughes and Wood, 2000), which allow them to have a smaller decline in their profitability levels (Contractor et al., 2007). This happens not only because service firms are less capital intensive than manufacturing ones (Contractor et al., 2003), but also because they can benefit more quickly from social and relational capital (Hitt et al., 2006a).

On the other hand, in their review of the literature, Kirca et al. (2012) argue that the relationship between international diversification and performance must be weaker in the service industry compared to the manufacturing sector, since service firms can benefit to a lesser degree from scale economies, have higher costs of transferring and exploiting specific assets, require a greater control over the operations of subsidiaries and require a high level of local adaptation. Additionally, service multinationals face higher costs of liability of foreignness due to greater regulatory constraints regarding ownership of foreign subsidiaries and bias of local policies in favor of local firms such as differential tax treatment and employment rules (Feketekuty, 1988; Knight, 1999).

Table 2 shows the results obtained from studies done on samples of non-financial service firms. Although studies on financial services have also been done (e.g., Venzin et al., 2008; Hejazi and Santor, 2010; Hayden et al., 2011; Outreville, 2010, 2012; Bolaji and Chris, 2014), their particular characteristics recommend to take them apart from the rest of service firms.

From the results shown in Table 2 we can conclude the predominance of two different patterns, namely the existence of an S-shaped curve and of a U-shaped curve. Although these results can be considered as contradictory (Brock et al., 20006;

Genthon, 2008), it is interesting to notice that the majority of the studies agree that the performance of service firms in the first stages of internationalization present negative yields are observed, while in advanced stages yields are positive (Endo and Ozaki, 2010). Moreover, these two different patterns may plausibly be reconciled if the U-shaped curve is considered to represent a portion of the studies that propose the existence of an S-shaped ID-P relationship in the service sector (that is, the U-shaped curve seen as the first two sections of the S-shaped curve).

Table 2 also shows that the ID-P relationship presents a different shape according to the type of service firms. Knowledge-based service firms achieve benefits derived from internationalization at an earlier stage than capital-intensive service firms do (Contractor et al., 2003; Contractor et al., 2007). Contractor et al. (2003) conclude the existence of an S-shaped curve for service multinationals that are knowledge-intensive, and a U-shaped curve for those that are capital-intensive. Subsequent studies on capital-intensive specific service segments such hotels and restaurant chains have mainly found a U-shaped curve (Lee, 2008b; Tang and Jang, 2010; Rhou and Koh, 2014).

Table 2. Results of main studies that analyze the ID-P relationship in service firms

Author (s) and Year	**Sector**	**Sample**	**Result**
Capar & Kotabe (2003)	Service firms	Germany	U-Shaped
Contractor, Kundu & Hsu (2003)	Capital-intensive and knowledge-intensive services	US and non-US	S-Shaped (KI) U-Shaped (CI)
Gerpotty & Jakopin (2005)	Mobile network operators	Europe	No relationship
Li (2005)	Service firms	US	S-Shaped
Brock, Yaffe & Dembovski (2006)	Law firms	US and non-US	Inverted U-Shaped
Elango (2006)	Service firms	12 emerging	Linear positive

		countries	
Hitt, Hoskisson & Kim (2006b)	Law firms	US	Linear positive
Contractor, Kumar & Kundu (2007)	Service firms (in Construction, Trading, Engineering services, and Computer Software)	India	U-Shaped
Brock & Yaffe (2008)	Law firms	US and non-US	Linear negative
Genthon (2008)	Computer services companies	US and non-US	No relationship
Lee (2008b)	Hotel chains	US	U-Shaped
Endo & Ozaki (2010)	Service firms	Japan	U-Shaped
Tang & Jang (2010)	Hotel chains	US	U-Shaped
Hua & Upneja (2011)	Restaurant chains	US	Linear Positive
Lee, Koh & Heo (2011)	Restaurant chains	US	Linear Negative and No Relationship
Bobillo, Lopez-Iturriaga & Tejerina-Gaite (2012)	Service firms	12 European countries	Linear Positive
Rhou & Koh (2014)	Restaurant chains	US	U-Shaped

Source: Own elaboration

CHAPTER 7. Spanish Multinationals

7.1 Internationalization of Spanish firms and evolution of their Outward FDI

During the last three decades the Spanish economy has experienced a significant internationalization process that has been reflected in the number of firms that operate in foreign markets and in the expansion of direct investments abroad (Martín and Rodríguez, 2011). The emergence of an important group of Spanish multinationals has contributed significantly to strengthening the Spanish economy and the country's international projection in the world (Guillén and García-Canal, 2007; Puig and Fernández, 2009; Mendoza and Vives, 2010).

The evolution of inward and outward foreign direct investment (FDI) flows in Spain has followed a similar pattern of those countries that today make up the most advanced economies in the world (Casilda and Llopis, 2009). Thus, till the mid-1990 inward FDI flows were predominant and had an important role in the modernization and catching-up of the Spanish economy (Barrios and Benito-Ostolaza, 2008). In the last twenty years the Spanish economy has noticeably increased its integration into the world economy and it has gone from being a net receiver to a net foreign investor (e.g., Mejía, 2005; Ruiz, 2005; Guillén and García-Canal, 2007; Chislett, 2008; Mendoza and Vives, 2008). According to UNCTAD (2014), the value of Spanish Outward FDI stock at the end of 2013 placed Spain as the 12th largest investing economy in the world and the 6th among European Union countries, with a participation of 2.44% of the world stock of Outward FDI (Mendoza, 2015, p. 53).

Villaverde and Maza (2012, p. 722) note that over the last 40 years, Foreign Direct Investment (FDI) has been a prominent driver of Spanish economic growth. The process of modernization of the Spanish economy has been influenced by a gradual

opening to international competition, first of a commercial nature and as a net recipient of foreign direct investment and, later on, by the international expansion of domestic companies turning Spain into a net sender of FDI flows (Casilda and Llopis, 2009; Alonso Pérez and Furió-Blasco, 2010).

Binda (2009) notes that in the 1950s the strategy of international diversification was substantially unknown among the largest Spanish firms, since during the 40s and 50s only a few firms invested in foreign markets, mainly in Morocco and Latin America, in projects related to extractive industries and construction. This is explained by the strong isolation of the Spanish economy until 1959 (Binda, 2009). This situation changed in 1959, when a macroeconomic stabilization plan was implemented with the goal of undoing the autarchic policies prevalent since the end of the Civil War (1936-1939) and of inspiring trust in the international community (Puig and Fernández, 2009).

As a result, the Spanish economy opened internationally in the 60s, after which it underwent profound changes and a process of rapid industrialization in certain regions. Foreign direct investment played a key role in developing certain industries such as the automotive sector (Jiménez, 2010). During the 70s public investments in education and transportation infrastructures contributed to solve some structural deficiencies, which allowed Spain to create a relatively more solid competitive industry (Jiménez, 2010). Also, during the 60s Spain massively exported agriculture products, while in the 70s exports were mainly manufacturing products (Alonso Pérez and Furió-Blasco, 2010).

In the 1980s inward and outward FDI stocks were low, which represented no more than 5 percent of the gross domestic product (GDP) (Alonso Pérez and Furió-Blasco, 2010). This changed in 1986 when Spain became a member of the European Union, since the stock of inward FDI grew over 15 percent of GDP by the mid-1990s

(Guillén and García-Canal, 2010), that is, a large proportion of the multinationals currently active in Spain established their affiliates during the years following the country's accession to the European Economic Community (today known as the European Union) (Barrios and Strobl, 2002; Mendoza and Vives, 2010). After Spain joined the EEC in 1986, the levels of public investment in education, health, R&D and infrastructure increased (Durán, 2002), attracting high flows of inward FDI but also motivating a key modernization of the Spanish industry that in turn started investing abroad (Jiménez, 2010, p. 620). Valdaliso (2004, p. 15) notes that since Spain became a member of the EEC, and in a context of progressive and irreversible opening of its economy, an increasing number of Spanish firms started developing an export orientation and a more systematic strategy of international diversification.

By the end of the 1990s, the stock of outward FDI had grown to more than 20 percent of the gross domestic product (GDP). In 1999 Spain's outward FDI stock had surpassed the average value of developed countries in terms of percentage of the GDP (Guillén and García-Canal, 2010). Also, it was during the 90s when the growth of Spanish direct investment abroad transformed some Spanish firms from national players to leading multinationals in their respective industries (Durán, 2006). This process occurred especially among large firms (Guillén, 2001, 2005) (see next section for further detail).

The presence of Spain as one of the largest foreign investors in the world continued during the first years of this century. Thus, in 2005 the inward and outward FDI stocks grew over the 40 percent of GDP (Guillén and García-Canal, 2010). However, this situation changed with the global financial crisis that began in 2008. After the drastic falls of 2008 and 2009, Spanish outward FDI flows recover slightly but remained significantly below the preceding pre-crisis years (2006 and 2007) when they

achieved exceptionally high levels. Thus, net outward FDI flows in the period 2009-2013 accounted for only a fifth of the volume achieved in the previous five years (2004-2008) (Mendoza, 2015, p. 54). In absolute terms, the level of outward FDI flows in recent years position Spain as a medium-size foreign investor country, the fifteenth in the world in 2013, in line with its weight in the international economy (Mendoza, 2015, p. 57). In spite of a difficult national and international scenario, Spanish companies –in aggregate terms- have continued the process of international expansion although at a much lower pace. At the end of 2013, Spain's outward FDI stock reached 47 percent of GDP (OECD, 2014).

From an organizational perspective, the most recent statistics from the Spanish Registry of Foreign Direct Investments show that Spanish firms had 7,757 first- and second-level foreign affiliates in 2013 (excluding Special Purpose entities) (Mineco, 2015). The weighted turnover of these affiliates amounted to 338,427 million euros in 2013 (Mineco, 2015), exceeding the total value of Spanish exports of goods and services that reached 329,545 million euros (INE, 2015). Moreover, these subsidiaries employed a total of 1,226,501 people in 2013 (Mineco, 2015), which would represent -based on UNCTAD (2015) estimates- 1.7% of the jobs created worldwide by foreign affiliates of multinational companies in that year.

7.2 Profile of Spanish Multinationals

As seen in chapter 3, it is through foreign direct investment that a domestic company becomes a multinational firm. Following the definition of "transnational corporation" employed by UNCTAD (2009) we define a Spanish multinational firm as a company resident in Spain and owned by Spanish investors (which requires more than 50% of shareholders' voting rights) that controls or continuously influence the

management of at least another firm resident in a foreign country (which requires owning 10% or more of shareholders' voting rights).

There are different estimates about the number of Spanish multinationals. Based on their own database, Guillén and García-Canal (2010) note that at the end of 2008 there were a total of 2,604 Spanish multinationals, or 1,835 if counting firms that belong to the same business group (e.g., Telefónica or Ferrovial). According to the Spanish Registry of Foreign Direct Investments, the number of parent companies resident in Spain and having foreign affiliates (excluding those that are Special Purpose entities) have been growing year after year. Thus, it has risen from 1,476 in 2004 to 2,170 in 2008, reaching at the end of 2012 the number of 2,700 companies, of which 2,051 were controlled by Spanish investors (Mendoza, 2015).

Based on their size, industry and ownership it is possible to classify Spanish multinational firms into three groups (Durán, 1996, 1997, 1999; Guillén, 2001). These are the large firms that operate in oligopolistic sectors, small and medium sized firms (mainly family owned) and cooperatives. Similarly, Buisán and Espinosa (2007) note that there are two large groups of Spanish multinational firms. The first group is composed of large, publicly-held firms, which operate mainly in the services sector (financial, telecommunications, construction and energy) and represent a large part of Spain's outward FDI stock; while, the second group is composed of small and medium sized firms, which have carried out more modest, but growing, investments abroad. Additionally, Puig and Fernández (2009, p. 27) note that almost half of the thousand largest Spanish multinationals are family run, defined as those whose ownership and strategic management is in the hands of one or various families that intend to pass it to subsequent generations (Ward, 1997).

Regarding their age, Spanish multinationals are quite mature organizations. Based on a sample of 1,658 Spanish multinational firms with data for the year 2007, Mendoza and Vives (2010) found that around 18% were incorporated more than 40 years ago, 34% were between 20 and 40 years ago, 36% between 10 and 20 years ago and the remaining 12% were incorporated less than 10 years ago. Two important aspects can be inferred from the above data. First, the positive impact of Spain's accession to the EEC (European Economic Community) given than almost half of the firms in the sample were incorporated after January 1, 1986. Second, the data suggests that Spanish firms accumulate a high level of experience in the domestic market before expanding internationally, in line with the findings of other studies (e.g. Losada et al., 2007).

The internationalization process of Spanish firms has developed in virtually all economic sectors and by firms of all sizes (Camisón, 2007b). In that regard, Mendoza and Vives (2010) found that 70% of the Spanish multinationals in their study were SMEs (with less than 250 employees) while 12% were very large firms (with more than 1,000 employees) that accounted for 90% of total employment in the sample. Likewise, the main protagonists of Spanish direct investments abroad are the large multinationals in the following industries (in parenthesis the % of Spain's outward FDI stock on 31/12/2012): banking and insurance (29,5%), manufacturing (21,1%), telecommunications (13,8%), energy and extractive industries (10,5%) and construction (3%) (Mendoza, 2015, p. 53).

Guillén and García-Canal (2010) note that only few Spanish firms are known as formidable global competitors in certain market niches. Spanish companies in electricity, transport infrastructure concessions, telecommunications, banking, and hospitality are among the largest in the world in their respective areas of activity. According to marketing studies, the best-known Spanish brand abroad is Inditex-Zara

(Puig and Fernández, 2009), and three of the Spanish multinationals – Iberdrola, Telefónica and Repsol-YPF - were among the top 100 non-financial transnational corporations in 2013 classified by their foreign assets (UNCTAD, 2014). However, Spanish firms are not global leaders in capital intensive manufacturing industries such as chemistry, metals, electronics or automobiles.

The rise of Spanish multinationals can be explained as a response to the changes in the business environment of Spain and host countries (Salmon, 2001) as well as due to the development of firm-specific advantages. Muñoz-Bullón and Sánchez-Bueno (2011) note that the adoption of product diversification and international strategies in Spanish firms has been influenced by both the European economic integration process, the wave of privatization experienced in Spain, and the Euro that provided easy and cheaper access to international capital markets. Likewise, Puig and Fernández (2009) note that the transformation of Spanish firms can be explained by the dismantling of the barriers that protected the Spanish market from foreign competition, and the privatization process and deregulation the world economy has experienced since late 1980s. At the firm level, Camisón (2007a) points out that the most important factors in the internationalization of Spanish firms have been the high productivity levels of large and medium-sized companies, technological progress, the professionalization of management and organizational innovation.

The nature of the competitive advantages of Spanish multinationals has been debated in the scarce literature on Spanish multinationals. On the one hand, there is a quite broad consensus that the competitive advantages of manufacturing multinationals are based on the type of intangible assets identified by the theory of the multinational enterprise: technological assets (mostly related to process technology and often initially developed through partnerships with foreign companies in Spain); design, superior

brands and marketing; and in some cases vertical integration or integration in the customer's global supply chain (Campa and Guillén, 1996; Galán et al., 2000; Pla, 2001). On the other hand, García-Canal et al. (2012) argue that the international expansion of Spanish service multinationals has been based on the ownership of other types of intangible assets, especially those related to political negotiations and the ability to organize, manage, implement and finance large projects (such as construction or upgrading of large infrastructure projects/networks and acquiring, merging and restructuring large companies).

As companies in both sectors compete in more sophisticated markets, the scale and experience gained from international expansion help create new technological assets as well as reputation and/or brand advantages. Furthermore, at the beginning of their internationalization process most Spanish firms were more prone to use shared-control entry modes such as joint ventures or alliances, but over time and as they gain experience in managing foreign subsidiaries they started to use full acquisitions and wholly owned greenfield investments more often (Guillén and García Canal, 2010).

7.3 Location of the foreign activities of Spanish multinationals

An important feature of the international expansion of Spanish firms refers to the location of their activities abroad and how it has evolved over time. Given that the Spanish Registry of Foreign Investments does not provide the geographical breakdown of the foreign affiliates of Spanish firms, we have to look at the evolution of outward FDI flows and stock.

International investment activity by Spanish companies started to be visible at the beginning of the 1960s, although outward FDI flows were very low. In the period 1960-1985, FDI flows went mostly to Latin America (mainly in manufacturing

activities) and in second place to Europe (mainly in distribution and financial services) (Duran, 2006, p. 16). Thus, the very few Spanish firms that invested abroad in those years first carried out most of their operations in countries like Portugal, Argentina or Mexico (Guillén and García-Canal, 2007).

In the immediate years after Spain's accession to the EEC, the destination of international investments by Spanish firms changed. Duran (2006, pp. 16-17) points out that in the period 1986-1990 Europe received 54% of Spain's outward FDI flows while Latin America only received 9%, a clear demonstration of the effects of the economic integration of the Spanish economy into the EEC. At the same time, it was during the 1980s, especially in the second half, when what are today the largest Spanish multinationals (financial services, telecommunications, energy distribution, oil and gas) developed their competitive advantages.

During the 90s, the destination of international investments by Spanish firms changed again. Spanish large firms invested mainly in Latin America due to the process of liberalization that many countries in the region began in the 90s (Duran, 2006; Guillén and García-Canal, 2010). Alonso-Pérez and Furió-Blasco (2010, p. 16) note that the primary investment targets were countries such as Mexico, Argentina, Chile and Brazil; in other words, large markets with a lot of potential due to their population size, low consumption rates at the time but significant expected growth of the economy, regional integration processes and lower adaptation costs due to language, culture and cooperation. The linguistic and cultural closeness was key to quickly establishing organizational mechanisms for the management and control of the subsidiaries, such as centralization and formalization (Casilda and Llopis, 2009). Meanwhile, medium-sized companies (most of them manufacturing ones) keep investing mainly in Europe in order to consolidate their commercial positions in these markets (Ruiz, 2005).

The presence of Spanish companies in Latin America is a well-known fact. Without going too far, in 2009 seven Spanish firms were then the largest companies in their respective activity sectors (Casanova, 2009) and Spain was one of the most important investors in the region. Also, Barrios and Benito-Ostolaza (2008) note that between the years 1999 and 2004, Spain became the top investor in Latin American countries, while the United States came in second place.

In the 2000s the international expansion of Spanish firms gained new momentum and many of the Spanish largest multinationals expanded their operations to new markets in the European Union and started investing in the United States (e.g., Barrios and Strobl, 2002; Santiso, 2007; Puig, 2008; Guillén and García-Canal, 2010; Mendoza and Vives, 2010). Once firmly positioned in Latin America, Spanish largest multinationals turned their attention towards Europe. During the period 2001-2006 the European Union represented approximately 65% of the total outward FDI flows, while the participation of Latin America decreased markedly, representing less than 20% (Alonso Pérez and Furió-Blasco, 2010).

European countries appeared as attractive locations for the large Spanish service multinationals operating in highly regulated industries due to not only the greater purchasing power of consumers and the EU large market size but above all due to their political and social stability, more developed institutions and lesser regulatory risks (Mendoza and Vives, 2010; Jiménez et al., 2011b). Meanwhile, medium-sized Spanish manufacturing multinationals began to increase their presence in Eastern Europe (EU enlargement countries) and Latin America, and also -but to a lesser extent- in the United States, China and North Africa (e.g., Mendoza et al., 2002; Buisán and Espinosa, 2007; Cámaras, 2007; Guillén and García-Canal, 2007; Mendoza and Vives, 2010).

The global financial crisis in 2008 and the subsequent economic crisis of the Spanish economy and the Eurozone also brought significant changes in the geographical destinations of the international investments of Spanish firms. According to Mendoza (2015), the most notable example is the loss of the primacy of EU-28 countries as a major destination that represented 32% of total net outward FDI flows in the period 2009-2013 versus 64% in the period 2004- 2008. Along with this, we must highlight the growing importance, in relative terms, of North America and Latin America (especially Brazil) who received 23.5% and 23.3% respectively, almost half of total net flows. Finally, the investments directed to the rest of Europe (especially Turkey) and Asia Pacific (especially China) also gained relative weight, while particularly intense divestment processes occurred in the countries of the EU enlargement and in Africa resulting in net negative FDI flows.

Considering all aspects presented so far, we can draw some important conclusions. Firstly, the international investments of Spanish multinationals since the early 1990s has shown a bi-regional pattern, with a high concentration in the EU-15 and Latin America. However, since 2008 onwards, North America appears as a growingly important third destination region transforming the prior location pattern into a tri-regional one. Secondly, very large Spanish multinationals (that operate in capital intensive and highly regulated industries) show a different location pattern than middle-sized multinationals (mostly in manufacturing and tradable services), the first group with a strong presence in Latin America followed by Europe and the US, while the second group has a broader geographical scope. Thirdly, the international expansion of Spanish firms can be explained through the Uppsala model (international investments have followed a clear pattern of geographic and cultural proximity in the early stages) or

as a salient illustration of internalization theory and Duning's OLI paradigm (Galan et al., 2007), especially when we consider the rise of the largest Spanish multinationals.

7.4 International Diversification-Performance relationship in Spanish firms

Previous research on ID-P relationship has focused almost exclusively on firms in the United States (e.g., Morck and Yeung, 1991; Qian, 2002; Thomas and Eden, 2004; Errunza and Miller, 2008; Park and Jang, 2011), some European countries such as UK, Germany, France, Denmark or Sweden (e.g., Grant et al., 1988; Ruigrok and Wagner, 2003; Castellani and Zanfei, 2007; Bobillo et al., 2010; Nguyen et al., 2011) or some Asian countries such as Japan and South Korea (e.g., Delios and Beamish, 1999; Lu and Beamish, 2004; Chiao et al., 2006; Pangarkar, 2008; Shen et al., 2011).

In fact, Yang and Driffield (2012) did a meta-analysis with a sample size of 54 papers, which allowed them to conclude that more than 70% of the included studies considered data from the United States. However, there are scarce studies developed in other economies such as those that analyze multinationals of Canada (Mathur et al., 2001; Hejazi and Santor, 2010), Australia (Graves and George, 2014) and Mexico (Thomas, 2006). Other studies published in journals that are not indexed in ISI have considered multinationals from Brazil in their samples (Leme et al., 2007; Loncan and Meucci, 2010). Moreover, studies looking at ID-P relationship in developing economies are even scarcer (Nachum, 2004).

There are also studies that consider multinationals from multiple countries in their sample. Among these studies, most of them consider samples coming from different regions, or in other words, world databases (e.g., Geringer et al., 1989; Contractor et al., 2003; Li and Yue, 2008; Bakay et al., 2011; Lampel and Giachetti, 2013). To a much lesser degree there are studies that consider firms from different

countries in Europe (e.g., Wan and Hoskisson, 2003; Mathur et al., 2004; Gerpotty and Jakopin, 2005; Matraves and Rodriguez, 2005; Bobillo et al., 2012) or Asia (Chang, 2007) (see Table 3).

Table 3. Empirical studies that analyze the ID-P relationship by country or region of origin of the firms considered in their samples

Region	**Author (s) and Year**
United States	Vaupel, 1971; Vernon, 1971; Leftwich, 1974; Severn & Laurance, 1974; Rumelt, 1974; Hughes et al., 1975; Wolf, 1975; Rugman, 1976; Agmon & Lessard, 1977; Aggarwall, 1979; Mikhail & Shawky, 1979; Miller & Pras, 1980; Senchack & Beedles, 1980; Brewer, 1981; Caves, 1981; Errunza & Senbet, 1981; Siddharthan & Lall, 1982; Kim & Lyn, 1986; Michel & Shaked, 1986; Shaked, 1986; Daniels & Bracker, 1989; Geyikdagi & Geyikdagi, 1989; Kim et al., 1989; Collins, 1990; Soenen, 1990; Morck & Yeung, 1991; Mitchel et al., 1992; Kim et al., 1993; Sullivan, 1994a; Ramaswamy, 1993, 1995; Sambharya, 1995; Allen & Pantzalis, 1996; Tallman & Li, 1996; Hitt et al., 1997; Qian, 1997; Mishra & Gobeli, 1998; Qian, 1998; Riahi-Belkaoui, 1998; Riahi-Belkaoui & Picur, 1998; Bodnar et al., 1999; Doukas et al., 1999; Gomes & Ramaswamy, 1999; Click & Harrison, 2000; Palich et al., 2000; Zahra et al., 2000; Pantzalis, 2001; Christophe & Pfeiffer, 2002; Denis et al., 2002; Dragun, 2002; Kotabe et al., 2002; Qian, 2002; Qian & Li, 2002; Riahi-Belkaoui, 2002; Riahi-Belkaoui & Alnajjar, 2002; Contractor et al., 2003; Hsu & Boggs, 2003; Li, 2003; Majocchi & Zucchella, 2003; Qian et al., 2003; Singh et al., 2003; Carpenter & Sanders, 2004; Christophe & Lee, 2004; Li & Qian, 2004; Thomas & Eden, 2004; Annavarjula et al., 2005; Andersen, 2005; Li, 2005; Li & Qian, 2005; Rieck et al., 2005; Berry, 2006; Hitt et al., 2006b; Chang & Wang, 2007; Chari et al., 2007; Li, 2007; Li et al., 2007; Andersen, 2008; Errunza & Miller, 2008; Lee, 2008b; Qian et al., 2008; Bowen & Wiersema, 2009; Jang & Tang, 2009; Tang & Jang, 2010; Hua & Upneja, 2011; Lee et al., 2011; Park & Jang, 2011; Rhou & Koh, 2014.
Asia	Yoshihara, 1985; Wan, 1998; Berry & Sakakibara, 1999; Delios & Beamish, 1999; Geringer et al., 2000; Dastidar, 2002; Goerzen & Beamish, 2003; Bouquet et al., 2004; Lu & Beamish, 2001, 2004; Chiang & Yu, 2005; Li, 2005; Tongli et al., 2005; Chiao et al., 2006; Ito & Rose, 2006; Contractor et al., 2007; Goerzen & Makino, 2007;

	Pangarkar, 2008; Chiao & Li, 2009; Gaur & Kumar, 2009; Jung & Bansal, 2009; Pattnaik & Elango, 2009; Endo & Osaki, 2010; Lin et al., 2011; Shen et al., 2011; Chen & Tan, 2012; Hsu et al., 2012b; Lee et al., 2012; Pan & Tsai, 2012; Lee, 2013; Singla & George, 2013; Tsai, 2014.
Europe	Kumar, 1984; Dunning, 1985; Buhner, 1987; Grant, 1987; Grant et al., 1988; Riahi-Belkaoui, 1996; Grant et al., 1998; Balabanis, 2001; Ramírez-Alesón & Espitia-Escuer, 2001; Sánchez, 2001; Fuentes, 2002; Capar & Kotabe, 2003; Majocchi & Zucchella, 2001, 2003; Ruigrok & Wagner, 2003; Wan & Hoskisson, 2003; Gerpott & Jakopin, 2005; Rugman et al., 2006; Castellani & Zanfei, 2007; Chang, 2007; Ruigrok et al., 2007; Kahloul & Hallara, 2010; Singh et al., 2010; Jiménez-Palmero & Benito-Osorio, 2011; Muñoz-Bullón & Sánchez-Bueno, 2011; Nguyen et al., 2011; Almodóvar, 2012; Almodóvar & Rugman, 2014; Fernández-Olmos & Díez-Vial, 2015; Fernández-Olmos et al., 2015.
Various Countries	Grubel, 1968; Levy & Sarnat, 1970; Solnik, 1974; Hughes et al., 1975; Buckley et al., 1978; Jacquillat & Solnik, 1978; Siddharthan & Lall, 1982; Rugman, 1983; Rugman et al., 1985; Madura & Rose, 1987; Geringer et al., 1989; Haar, 1989; Roth & Morrinson, 1990; Johansson & Yip, 1994; Sullivan, 1994a, 1994b; Al-Obaidan & Scully, 1995; Gedajlovic & Shapiro, 1998; Han et al., 1998; Katrishen & Scordis, 1998; Nehrt, 1999; Langendijk et al., 2000; Berry, 2001; Contractor et al., 2003; Wan & Hoskisson, 2003; Genc & Castaner, 2004; Mathur et al., 2004; Nachum, 2004; Gerpotty & Jakopin, 2005; Matraves & Rodriguez, 2005; Brock et al., 2006; Ebneth & Theuvsen, 2006; Elango, 2006; Nehrt & Phene, 2006; Chang, 2007; Elango & Sethi, 2007; Genthon, 2008; Brock & Yaffe, 2008; Li & Yue, 2008; Dastidar, 2009; Garbe & Richter, 2009; Chen-Ho & Kumar, 2010; Hall & Lee, 2010; Muzyrya, 2010; Outreville, 2010; Yang & Martins, 2010; Bakay et al., 2011; Assaf et al., 2012; Bobillo et al., 2007, 2008, 2010; Bobillo et al., 2012; Lampel & Giachetti, 2013; Belaounia & Nekhili, 2014; de Jong & van Houten, 2014.

Source: Own elaboration

Although in the last decade a growing number of empirical studies on Spanish multinational firms have been published (e.g., Guillén, 2006; Cámaras, 2007; Casilda (ed), 2008; Puig (ed), 2008; Afi, 2010), their internationalization process continue to be

a phenomenon over which our knowledge is quite incomplete, especially in reference to small and medium-sized firms (Mendoza and Vives, 2010, p. 88). More specifically, in a recent article García-Canal et al. (2012, p. 68) point out that "the relationship between the internationalization of Spanish firms and their performance is a research subject that has not been sufficiently studied, and presents a significant development potential".

According to the best of our knowledge, only six works studying ID-P relationship in Spanish firms have been published in ISI indexed journals. These are: Ramírez-Alesón and Espitia-Escuer (2001); Muñoz-Bullón and Sánchez-Bueno (2011); Almodóvar (2012); Almodóvar and Rugman (2014); Fernández-Olmos and Díez-Vial (2015); and Fernández-Olmos et al. (2015). There are also three more studies published in non-indexed journals. These are: Sánchez (2001); Ramírez-Alesón and Espitia-Escuer (2000); and Jiménez-Palmero and Benito-Osorio (2011). Furthermore, some multiple country studies include Spanish firms in their samples (e.g., Al-Obaidan and Scully, 1995; Chen-Ho and Kumar, 2010; Dastidar, 2009; Outreville, 2010; Bobillo et al., 2007, 2008, 2010, 2012). Finally, Buisán and Espinosa (2007) in a survey to 300 Spanish multinational firms find that 89 per cent of the respondents are satisfied with their international expansion and believe their firm's competitive position has improved. This survey study provides qualitative evidence of the positive impact that international diversification has on the performance of Spanish firms.

The above mentioned studies note that the degree of internationalization of Spanish firms is low, even though in recent years there have been increases in their participation in foreign markets (e.g., Durán and Sánchez, 1981; Bueno et al., 1989; Durán, 1996, 2002; Ramírez-Alesón and Espitia-Escuer, 2001; Ramírez, 2005). Muñoz-Bullón and Sánchez-Bueno (2011, p. 72) also note that Spanish firms have not yet reached the levels of international diversification recorded in firms from more

developed countries (USA, France, Germany, Italy or UK) (Mayer and Whittington, 2003). In that sense, the degree of international diversification and the exporting intensity of Spanish firms are lower to what would be expected considering the level of development of the Spanish economy (Cuadras and Puig, 2008).

In relation to the performance of Spanish multinational firms, Sánchez (2001) studied the international strategy of the 5 main Spanish banks by business volume and international presence between the years 1998-1999, concluding that the banks with more international diversification don't obtain greater benefits nor those with less international diversification obtain less results. In the same period, Ramírez-Alesón and Espitia-Escuer (2000, 2001) examined the relationship between international diversification and performance of 103 publicly held Spanish firms during the years 1991-1995, concluding that there is a positive relationship between economic performance and international diversification, but only when performance is measured with Tobin's Q. According to these authors, the international diversification strategy contributes more value to the firm than product diversification, and firms with a lower degree of product diversification improve their results if they expand internationally.

Subsequently, Jiménez-Palmero and Benito-Osorio (2011) worked with a sample of 119 Spanish multinational firms with data from 2000 to 2007 and did not find statistical evidence for the existence of an S-shaped relationship between the variables of international diversification and performance. At the same time, Muñoz-Bullón and Sánchez-Bueno (2011) studied 2,446 small and medium sized (SMEs) Spanish exporting firms in the manufacturing sector between 1993 and 2006, and found the existence of a negative relationship between the degree of international diversification and firm profitability. Further, they also found that the adoption of both product and international diversification is not associated with higher performance.

More recently, Almodóvar (2012) found that the resulting shape of the ID-P relationship depends on the product marketing strategy followed by the firm. This author worked with data from Spanish exporting firms in the manufacturing sector for the period 2000-2008, and concluded that an M-shaped curve was observed for product standardization firms and a W-shaped curve for product customization firms. Along the same line is the research developed by Almodóvar and Rugman (2014), who worked with a sample of 100 international new ventures (INVs) for the period 1994-2008. Contrary to what is expected in the three stage model (or S-shaped curve), these authors found an M-shaped relationship as newly born firms would experience a "born global illusion" when they start their internationalization process, despite not having much knowledge about foreign markets, to follow –after this initial phase- the path predicted by the three stage model.

Finally, there are two very recent studies. The first one was carried out by Fernández-Olmos and Díez-Vial (2015), based on a sample of 138 wineries (SMEs) in La Rioja which internationalize through exporting. They found that the internationalization – export performance relationship is characterized by a U-shaped curve for firms with a gradual internationalization path and an S-shaped curve for firms with an accelerated internationalization path. The second study was developed by Fernández-Olmos et al. (2015), who worked with an unbalanced sample of Spanish family-owned exporting SMEs (with a minimum of 424 and a maximum of 560 firms in a single year), all from the manufacturing industry, with data for the period 2006-2011. The authors concluded that the family dimension moderates the relationship between internationalization and firm performance and provide strong support for the existence of a W-shaped curve.

Considering all the results mentioned, it appears –as suggested by García-Canal et al (2012)- that there is a need to study in greater detail the effect that international diversification has on the performance of Spanish firms, and more specifically on the performance of Spanish multinationals for several reasons. Firstly, the nine studies carried out so far have reached different results and there is no conclusive evidence on the existing ID-P relationship in the case of Spanish firms. Secondly, most studies have used only samples including manufacturing firms. Thirdly, all except the two most recent studies used data before or up to the year 2008, which is relevant if we want to consider the possible effects of the economic crisis. Lastly, and most important, most studies have used data from the Survey of Business Strategies that offers information on export revenues but not on whether a firm has or not foreign affiliates (see section 9.1 for a detailed explanation of this database). Thus, the sample of these studies was made up of exporting firms being the measure for ID the export intensity ratio, that is, these studies actually studied the relationship between *sales international diversification* and performance. In other words, there are no studies, with the exception of Jiménez-Palmero and Benito-Osorio (2011), based on a sample of Spanish multinationals that have studied the existing relationship between *investment international diversification* and performance (see Table 4).

Table 4. Empirical studies about the ID-P relationship in the case of Spanish firms

Author (s) and Year	Sector (s)	Period	Number of firms	Data source	Method	Result
Sánchez (2001)	Banks	1998-1999	5	Annual reports of banking entities chosen for the study, the newspapers Expansión, La Gaceta de los Negocios, and prior oublished articles and case studies on these banks	Case Study	No relationship and Linear negative
Ramírez-Alesón & Espitia-Escuer (2000, 2001)	Non-financial firms listed in , Spanish stock exchanges	1991-1995	103	Annual report of each firm	General Least Squares (GLS)	Linear positive
Jiménez-Palmero &	All type of firms, with the exception	2000-2007	119	Database SABI (Sistema de Análisis de Balances Ibéricos)	Ordinary Least	Non existence of a S-shaped curve

Benito-Osorio (2011)	of financial companies			and firms' annual reports	Squares (OLS)	
Muñoz-Bullón & Sánchez-Bueno (2011)	Exporting firms from the Spanish manufacturing Industry	1993-2006	2,446	Survey on Business Strategies (SBS), which is carried out by SEPI Foundation with the support of the Ministry of Industry of Spain	Panel data	Linear negative
Almodóvar (2012)	Exporting firms from the Spanish manufacturing Industry	2000-2008	1,067	Survey on Business Strategies, SEPI Foundation	Panel data	M-shaped curve for product standardization firms Inverted M curve (W) for product customization firms
Almodóvar & Rugman (2014)	Manufacturing International new ventures (INVs)	1994-2008	110	Survey on Business Strategies, SEPI Foundation	Panel data	Inverted U-shaped curve in the very short term. M-shaped curve once learning takes place.
Fernández-Olmos & Díez-Vial (2015)	Exporter wineries. These firms have the Rioja wine Qualified Designation of Origin	2011	138	The data were collected through the use of a survey	Multiple group confirmatory factor analysis	U-shaped curve for firms with a gradual internationalization path. S-shaped curve for firms with an accelerated internationalization path.
Fernández-Olmos, Gargallo-Castel & Giner-Bagüesa (2015)	Exporting firms from the Spanish manufacturing Industry	2006-2011	424 - 526 (unbalan-ced sample)	Survey on Business Strategies, SEPI Foundation	Panel data	W-shaped curve

Source: Own elaboration

SECOND PART: THE RESEARCH MODEL

CHAPTER 8. Development of Hypotheses and Propositions

In this chapter we develop seven hypotheses on the relationship between international diversification and performance that will be tested using a sample of Spanish multinational firms. These hypotheses refer to the shape of the ID-P relationship and to the moderating effects that the firm's geographical focus and the firm's sector have on said relationship. Additionally, we offer a series of propositions related to the expected effects that the internal and external control variables used in our econometric models have on the ID-P relationship.

8.1 Dependent and independent variables

8.1.1 Impact of international diversification on the performance of Spanish multinationals

As discussed in chapter 4, there is no clear consensus on the effects of internationalization on firm performance (e.g., Glaum & Oesterle, 2007; Verbeke & Brugman, 2009; Kirca et al., 2011; de Jong & van Houten, 2014; Gaur & Delios, 2015). Considering this situation, Contractor et al. (2003) and Lu and Beamish (2004) propose a three-stage model or general theory of the relationship between international diversification and firm performance, in an effort to integrate conflictive and divergent prior results. These authors suggest that the relationship between international diversification and performance is made up of three stages that form an S-shaped curve. Depending on which part of the S curve we examine, we can find a U-shaped or an inverted U-shaped segment thus been able to reconcile the results of previous studies (Contractor, 2012).

Authors that propose an S-shaped relationship (e.g., Contractor et al., 2003; Lu & Beamish, 2004; Kumar & Singh, 2008; Outreville, 2010, 2012; Tsai, 2014) argue that the benefits and costs of internationalization change between the different stages of a

company's international expansion process (e.g. Contractor, 2007;Verbeke & Brugman, 2009; Outreville, 2010; Son et al., 2011; Oh & Contractor, 2014). In this model, the relationship between international diversification and performance is negative at very low and very high levels of internationalization, and positive at intermediate levels.

In stage 1, the firms that initiate the internationalization process face costs of learning about a new market as well as local adaptation costs (Doz et al., 2001). These learning costs are due to a lack of knowledge of the foreign market, especially of the country culture and its regulatory and political environment (Contractor et al., 2003). Thus, the liability of foreignness, insufficient international experience and, initially, only one or a few countries over which to spread the costs of early internationalization (Oh & Contractor, 2014), explain why the expansion into foreign markets generate at the beginning greater costs than the incremental benefits or revenues (Outreville, 2010).

In stage 2, further international expansion begins to yield incremental benefits that exceed the firm's incremental costs (Outreville, 2010). In this stage, firms develop their operations at a greater geographic scale, which allows them to improve their performance because multinational firms can distribute their costs over a greater number of countries (Kogut, 1985; Porter, 1985). In addition, in this stage multinational firms learn how to deal with national differences and exploit them in their favor (Rugman, 1981). Further, geographical diversification can be an advantage in reducing revenue volatility (Outreville, 2010). Thus, with additional geographical coverage and experience, multinational firms are in conditions to enjoy the net positive effects on performance of further internationalization because of economies of scale and scope, learning, and risk diversification (Oh & Contractor, 2014).

In stage 3, the performance of multinational firms decreases because they find themselves "over-expanded" beyond the optimal level when the complexity of

managing foreign operations escalates with further internationalization (Contractor et al., 2003; Oh & Contractor, 2014). The multiplicity of different legal, tax and cultural environments that the firm has to deal with may increase transaction and governance costs (Hitt et al., 1997; Gomes & Ramaswamy, 1999). As geographical, cultural and institutional distances increase, the organizational costs and complexity associated with global coordination will increase significantly. Therefore, the costs of internationalization may overwhelm the associated benefits when the level of internationalization increases beyond a certain threshold (Gongming, 2002; Tsai, 2014), especially if excessive international expansion occurs in distant, tertiary or peripheral markets (Oh & Contractor, 2014). Consequently,

> **Hypothesis 1a:** The relationship between international diversification and performance is non-linear and adopts the shape of an S curve, with the slope negative at low levels of international diversification, positive at medium levels and negative at high levels of international diversification

Although the proposal that currently predominates in most studies, for both emerging and developed country multinational firms, is the existence of an S-shaped relationship between international diversification and performance (Garbe & Richter, 2009), the empirical evidence on its existence is limited and inconclusive. In fact, in recent years, several authors have found the existence of an inverted S curve (Bae, Park and Wang, 2008; Bowen, 2007; Brock, Yaffe and Dembovski, 2006) or an M curve (Lee, 2010; Almodóvar, 2012; Lee, 2013; Almodóvar & Rugman, 2014). These two new relationships are also non-linear and have in common a positive slope at low levels of international diversification (instead of a negative one as implied in the S curve).

These divergent results imply that there may be factors outside the examined nexus of internationalization-performance that affect the nature of this relationship

because it may be context dependent (e.g. Chen et al., 2014; Hennart, 2007; Qian et al., 2008; Garbe and Richter, 2009; Verbeke et al., 2009; Kirca et al., 2012). In comparison to most of the studies on the ID-P relationship in the case of Spanish firms, which are based on exporting firms, in this investigation our sample is made exclusively of firms that have at least one foreign affiliate and are thus in a more advanced stage of internationalization (see chapter 9 for further details about our sample). This feature means that, at the starting point of our analysis on the relationship between international diversification (through FDI) and performance, most of the firms of our sample have already a significant international experience, thus affecting at the shape of the ID-P relationship. Specifically, we hypothesize that in our case it could possibly be either an inverted S-shaped or an M-shaped relationship.

There is ample empirical evidence that foreign direct investments tend to be made once firms have had prior positive experiences in the host country (e.g. Johanson and Vahlne, 1977; 1990). In this sense, one would expect that the first countries in which a firm decides to have a direct presence through foreign affiliates would be those that present the most attractive business opportunities, probably because they are already important exporting markets in which the firm could more thoroughly deploy its competitive advantages. Prior experience and established business relations in a foreign country would contribute to sensibly mitigating the costs derived from the liabilities of foreignness and newness. Moreover, in the initial stage -when the number of countries and foreign affiliates is very low- the firm can take advantage of its existing organizational infrastructure, without the need of significant adjustments, in order to control and coordinate its incipient network of foreign affiliates. All of this would account for a positive relationship between international diversification and

performance in the initial stage of multinationality, since the associated benefits would be superior to the incurred costs.

To the extent that a firm is stimulated by its initial success and continues establishing itself in new foreign markets, it will likely face greater geographical, cultural and institutional distances which will negatively affect its performance due to the additional costs derived from a greater liability of foreignness, especially if it starts operations in a new geographic region. In addition, as the number of foreign subsidiaries increases the firm must face greater internal organizational complexity, accentuated by cultural and institutional differences with the host countries. This would bring an increase in the information flows and in the coordination and control demands that would end up forcing the parent company to redesign its initial organizational infrastructure and develop appropriate systems for managing its network of foreign subsidiaries (an effort that requires significant time and investments). Thus, the second descending section of the inverted S curve would then reflect the costs originated by this internal restructuring process as well as the higher internationalization costs (greater liability of foreignness) incurred in the process of international expansion.

However, with continued internationalization, performance increases as the level of international diversification increases because new knowledge and capabilities are developed (Ruigrok & Wagner, 2003). Once a firm's organizational capabilities for managing a network of foreign subsidiaries are developed, it would be in a position to support the growth of its network, especially if it takes place in countries with similar characteristics, thus explaining the third ascending section of the inverted S curve. Therefore, the following hypothesis is formed:

Hypothesis 1b: The relationship between international diversification and performance is non-linear and adopts the shape of an inverted S curve, with the

slope positive at low levels of international diversification, negative at medium levels and positive again at high levels of international diversification

However, it should not be assumed that, once new knowledge and organizational capabilities are developed, a firm would be assured greater levels of performance by increasing its international diversification. As the firm expands into increasingly dissimilar markets and grow in more complexity, the costs of international activities escalate and beyond a certain threshold exceed the benefits of entering new foreign markets, therefore explaining the fourth descending section of the M curve. Therefore, the following hypothesis is formed:

Hypothesis 1c: The relationship between international diversification and performance is non-linear and adopts the shape of an M curve, with the slope positive at low levels of international diversification, negative first and positive after at medium levels and negative at high levels of international diversification

8.2 Moderating variables

Although many previous studies discuss the advantages and disadvantages of internationalization, they rely on a simplistic assumption that the calculation of the costs and benefits associated to the different stages of internationalization or multinationality is sufficient to derive the shape of the international diversification–performance relationship (Tsai, 2014, p. 1244). Nowadays, recent lines of research focus on understanding the moderating factors underlying the ID-P relationship in *specific contexts* rather than on finding a *generic* shape of the curve resulting from the interaction between both variables (Hennart, 2007; Venzin et al., 2008; Ray, 2009). In this thesis we focus on the specific context of Spanish multinational firms.

A moderator is ‘‘a variable that affects the direction and/or strength of the

relation between an independent, or predictor, variable and a dependent, or criterion, variable'' (Baron & Kenny, 1986, p. 1174). An interaction term is the product between a moderator and an independent variable. Baron and Kenny (1986) conclude that whether the interaction term is a significant predictor or not is the test of whether significant moderation occurred or not (de Jong & van Houten, 2014).

8.2.1 The moderating effect of the firm's geographical focus on the international diversification-performance relationship

Despite the widespread view in favor of globalizing the firm's operations, recent research has questioned the boundaryless benefits of increasing geographic scope (Banalieva & Eddleston, 2011). Rugman (2000, 2005) and Rugman and Verbeke (2004, 2005) provide considerable evidence that most of the multinational firms do not distribute their activities in an even manner across the globe (Wolf et al., 2012). Under this perspective, some authors argue that the international economic activity is regional rather than global (e.g., Rugman, 2001, 2005; Rugman & Verbeke, 2004, 2007, 2008; Oh & Rugman, 2006; Collinson & Rugman, 2008; Rugman et al., 2009). Mohr et al. (2014, p. S100) point out that this regional concentration of firms' activities is explained by the fact that countries within a region are more homogeneous in terms of economic development, institutions and culture than countries in different regions (Ghemawat, 2005; Rugman & Verbeke, 2005). That would explain why the world's largest multinationals tend to concentrate most of their sales in their home regions (Banalieva, 2007).

Although Rugman (2000, 2005) and Rugman and Verbeke's (2004) original work did not refer to the implications of regionalization on performance, several follow-up studies have explored this question (Hitt et al., 2006a; Rugman et al., 2008; Banalieva & Dataram, 2013). However, the empirical literature has not provided a clear

answer as to whether a regional or global strategy is better with regard to enhancing a firm's performance (Banalieva & Dhanaraj, 2013; Oh & Contractor, 2014). Some authors have found that region-oriented firms obtain better performance (Rugman et al., 2007; Oh, 2010; Qian et al., 2010), while other studies have found a negative effect of geographic orientation (Elango, 2004; Delios & Beamish, 2005). More recent studies have advanced contingency perspectives (Li, 2005; Sukpanich & Rugman, 2007; Banalieva & Eddleston, 2011). Additionally, some authors hold that the impact of the firm's geographical focus on the international diversification-performance relationship is not linear, but rather exhibits distinct behaviors in different stages of the internationalization process (e.g., Qian et al., 2008; Lee, 2010; Rugman & Oh, 2010; Pan & Tsai, 2012; Banalieva & Dhanaraj, 2013; Ruigrok et al., 2013; Oh & Contractor, 2014).

The dominant theoretical argument offered by Ruigrok et al. (2013) to explain the superior performance of firms with a regional focus is that, by expanding mainly within their home region, firms can significantly reduce managerial and administrative costs related to cultural and geographic distance (Rugman, 2005) and benefit from legal, economic, and customer-related proximity across countries in the same region (Qian et al., 2008). Consequently, the following hypothesis is formed:

> **Hypothesis 2a**: Firms with a regional internationalization focus obtain greater performance with the adoption of an international diversification strategy (than firms with presence in two or more regions)

Qian et al (2013) differentiate between the liabilities of country foreignness (LCF) and regional foreignness (LRF) that represent different associated costs and benefits. In that respect, it is important to highlight that the liability of country foreignness diminishes over time through accumulated experience in the host country

(Lu and Beamish, 2004) and tend to decrease with intra-regional diversification (geographical, cultural and institutional proximity facilitates that the experience from one country be more easily applied to another country and that some firm-specific assets such as brand awareness can be spread more rapidly within a region). However, as stated by Qian et al (2013, p. 636), when multinational firms "diversify across regions, they do not benefit from such sharing, so LRF will increase with inter-regional diversification. Moreover, inter-regional diversification exposes MNEs to both LCF and LRF, and they may strengthen each other". Therefore, while inter-regional diversification increases MNEs' growth potential (because it helps to maximize market opportunities and to successfully arbitrage production factors and consumer market differences), it also increases the costs of LRF and thus erodes firm performance. Considering all that, the following hypothesis is formed:

> **Hypothesis 2b**: Firms with a bi-regional internationalization focus obtain lower performance with the adoption of an international diversification strategy (than firms with a regional focus)

Some authors suggest that it may be possible to identify distinct boundary conditions at the firm and industry levels that increase the likelihood of MNEs being successful beyond their regional home base (Thomas, 2005; Hitt et al., 2006a). Richter (2007) showed that regional operations reduce the liability of foreignness during the initial international expansion phase but that regional activity impedes the firm when attempting to exploit all the potential international benefits (Oh & Contractor, 2014). In this same line of argumentation, we find the work on semi-globalization by Asmussen (2009), Ghemawat (2003, 2007) and Flores and Aguilera (2007). These authors argue that firms that have adopted a "semi-global" internationalization focus, or similarly an international expansion strategy that is "intermediate" or of "international

ambidexterity" (with aspects of the strategies of diversification and concentration), are those that more greatly benefit from international diversification. On the one hand, firms that operate with a regional (or bi-regional) strategy have more limited performance possibilities in markets that have low growth rates. This position is shared by Hsu et al. (2012) in the case of Taiwanese firms. Firms can deploy a strategy of international ambidexterity to respond to changes in heterogeneous international markets (Prange & Verdier, 2011), since it has been found that this strategy significantly fosters a firm's success in terms of foreign market expansion (Vermeulen & Barkema, 2001; Han, 2007; Han & Celly, 2008). On the other hand, the adoption of a global strategy also implies an elevated level of risk for multinational firms. Considering the aforementioned, the following hypothesis is formed:

> **Hypothesis 2c**: Firms with a semi-global internationalization focus obtain better performance with the adoption of an international diversification strategy (than firms with a regional, bi-regional or global focus)

As the firm increasingly enters into new regions and more dissimilar markets, it grows in complexity and the costs associated to the liabilities of inter-regional foreignness as well as to the coordination and control of international activities escalate and, beyond a point, exceed the benefits of entering new additional foreign markets. This point is known as the 'threshold of internationalization' and occurs when international operations start to drain managerial and organizational capacity resulting in decreased performance (Geringer et al., 1989; Gomes & Ramaswamy, 1999; Hitt et al., 1997). Therefore, the following hypothesis is formed:

> **Hypothesis 2d:** Firms with a global internationalization focus obtain lower performance with the adoption of an international diversification strategy (than firms with a regional, bi-regional or semi-global focus)

8.2.2 The moderating effect of the firm's sector on the international diversification-performance relationship

In its seminal article, Capar and Kotabe (2003) suggested that the earlier theoretical rationale used to explain the relationship between multinationality and performance in manufacturing firms needs to be somewhat modified to account for the differences inherent to service firms. Other authors argue that service industries are fundamentally different from manufacturing ones because of its unique characteristics (Contractor et al., 2007; Rhou & Koh, 2014) in terms of relative intangibility, perishability, heterogeneity, and inseparability of production and consumption (Zeithaml et al., 1985; Bodewyn et al., 1986; Clark et al., 1996; Kotler & Keller, 2007). Similarly, it is held that services are usually characterized as being intangible, invisible, non-fungible, ephemeral, non-storable, having high fixed-to-variable cost ratio, and characterized by intense interaction between producer and user (Hauknes, 2001; Bowen & Ford, 2002).

The studies that have examined the relationship between multinationality and performance in the service sector (e.g., Capar & Kotabe, 2003; Li, 2005; Brock & Yaffe, 2008; Hua & Upneja, 2011; Rhou & Koh, 2014) do not provide strong evidence to support it is similar to that of manufacturing firms (Endo & Ozaki, 2010). Furthermore, the findings of these studies are contradictory, underscoring the ups-and-downs facing service firms in internationalization (Javalgi et al., 2003; Brock et al., 2006). Moreover, some scholars also argue that the single distinction between manufacturing and services is not specific enough to account for the large variety of the service sector (Berthon et al., 1999; Driver & Johnston, 2001).

The extant literature suggests that the impact of international diversification on the performance of service firms may not be linear and it might present distinct

behaviors at different stages of the internationalization process (e.g., Capar & Kotabe, 2003; Contractor el at., 2003; Li, 2005; Endo & Ozaki, 2010; Rhou & Koh, 2014).

Research on service firms suggest that the decline in their profitability during the initial international expansion phase might be smaller than for manufacturing firms due to the knowledge-intensity of the service under consideration (Contractor et al., 2007). Further, service sector firms have comparably low-entry barriers to internationalization (Deprey & Lloyd-Reason, 2010), and tend to require substantially lower levels of financial investment than manufacturing firms (Erramilli & Rao, 1993).

Thus, in comparison to manufacturing firms, where entry into a new country requires greater investments in plant, equipment and inventory with relatively low investments in people, most services are less capital intensive (Bowen & Jones, 1986; Campbell & Verbeke, 1994; Contractor et al., 2003; Erramilli & Rao, 1993; Gatignon & Anderson, 1988). Further, service sector firms also have a higher potential to benefit more quickly from social and relational capital (Hitt et al., 2006b).

However, under a different perspective, it is suggested that service firms in comparison with manufacturing ones are likely to face declining performance with initial attempts at international diversification (Capar & Kotabe, 2003). In the initial stages of international expansion, service firms often make a relatively substantial investment, resulting in typically higher costs and lower profitability, relative to manufacturing firms that can proceed more gradually through exports (Endo & Ozaki, 2010, p. 138). Additionally, Brouthers and Brouthers (2003) argue that service firms' people-intensive nature results in greater difficulty in managing foreign operations (incurring higher internal organizational costs) than in the case of manufacturing firms (Bowen & Jones, 1986; Carney & Gedajlovic, 1991; Erramilli & Rao, 1993; Fladmoe-Lindquist & Jacque, 1995).

Nevertheless, most of the empirical studies have found that service sector firms tend to gain the positive benefits of internationalization sooner than manufacturing companies (Contractor et al., 2003; Contractor et al., 2007). This is because service sector firms face fewer entry barriers to foreign markets, fewer capital requirements, and characteristically tend to opt for entry modes that allow a greater degree of control over foreign affiliates (as a means to protect the firm's proprietary knowledge and reputation). Based on all that, the following hypothesis is formed:

> **Hypothesis 3:** International diversification has a greater impact on the performance of service firms in comparison to manufacturing ones

8.3 Control variables

Muñoz-Bullón and Sánchez-Bueno (2011, p. 67) note that recent studies recommend controlling for a number of variables that are likely to have an impact on the firm's performance (Chang & Wang, 2007; Geringer et al., 2000; Kim et al., 2004) in order to account for potential confounding effects (Andersen, 2012). Thus, control variables are used in the literature to distinguish between firms in the sample (Assaf et al., 2012) or to moderate the effects of other factors that have been shown to have a significant impact on a firm's performance (Kudina, 2012). In that regard, Kirca et al. (2012, p. 108) note that a fundamental issue in corporate strategy is the examination of factors that determine the success or failure of firms in international settings (Rumelt, Schendel, & Teece, 1994).

8.3.1 Internal control variables

Firm performance is influenced by a variety of strategically important resource variables other than market and product diversification (Hall & Lee, 2010). Among these variables are firm size, firm age and financial leverage, all of which have been

widely used in previous studies as control variables in the analysis of the international diversification-performance relationship. Recently, affiliation with a business group has been considered as a control variable. Furthermore, we also consider two other control variables that have received less attention in prior research, which are the degree of control over foreign affiliates (entry mode) and foreign participation in the capital of the parent firm.

Firm size represents the physical and financial resources of a firm (Qian et al., 2008) or the amount of resources under managerial control (Chang & Wang, 2007). This variable is used as a proxy for firm resource endowment and economies of scale (Hitt et al., 1997; Choi & Krause, 2006), as a proxy to capture firm-specific advantages (Lu & Beamish, 2004), or as a proxy for competitive positioning within an industry, including market power and scale economies (Grant et al., 1987; Qian, 2002). Brock and Yaffe (2008, p. 605) note that firm size, via its association with market power, is generally considered to be related to profitability (Buzzell & Gale, 1987).

The size of the firm influences the international diversification process (Dass, 2000) and it is found to be positively related to extensive international activities (Lin et al., 2011). According to Outreville (2010), the size of the firm is a control variable used in almost all studies following the work of Gomes and Ramaswamy (1999). Larger firms are likely to exhibit higher degrees of internationalization due to available managerial and financial resources (Pangarkar, 2008), because small firms usually lack the financial resources or economies of scale needed for investing extensively in internationalization, or to overcome barriers such as the liability of foreignness (Zaheer, 1995; Coviello & McAuley, 1999). Contractor et al. (2007, p. 407) argue that in the internationalization process, access to capital is more difficult for smaller firms, a factor that can affect performance negatively (Coviello & McAuley, 1999).

Large firms can face the costs inherent in exploratory activities with less difficulty and are more prone to risk-seeking when operating in international markets (Brewer, 1993; Buisán & Espinoza, 2007; Aguilera et al., 2011; Martín & Rodríguez, 2011), and have a large capacity and an abundance of resources for dealing with complex external information (Quer et al., 2007). Moreover, international diversification would likely generate more value for larger firms, as they possess more substantial intangible assets than small firms (Kirca et al., 2012). In short, it is expected that larger firms experience greater performance levels (Thomas & Eden, 2004). Therefore, the following proposition is formed:

Proposition 1: Firm size has a positive effect on the impact that an international diversification strategy has on performance levels

Contractor et al. (2007, p. 408) argue that age is considered an important determinant of firm performance because of its implicit impact on the number of stable business relationships and amount of resources a firm can possess after a given time period (Baum, Calabrese, & Silverman, 2000). In the international business literature, previous research has shown that the age of the firm influences both short and long-term performance (e.g., Decarolis & Deeds, 1999; Bausch & Krist, 2007; Galbreath & Galvin, 2008; Qian et al., 2008; Shinkle & Kriauciunas, 2010). Firm age can affect internationalization performance as it may facilitate the accumulation of knowledge and experience (Chen et al., 2014), thus it is representative of the resources that firms accumulate over time and the difficulties associated with compressing the time required (Singla & George, 2013). Hence, it is possible to argue that firm age depicts the path dependency of these resources (Singla & George, 2013) and affects the relationship between the degree of internationalization and performance (Bausch & Krist, 2007; Qian et al., 2008; Shinkle & Kriauciunas, 2010).

However, there is little consensus in the literature about the effects of firm age on internationalization (Contractor et al., 2007; Serrano et al., 2015). Young firms are not as rigid as established ones, and they have the advantages of the learning effect (Autio et al., 2000; Sapienza et al., 2006). It is also argued that younger firms exhibit a higher level of risk-taking, which in turn influences the internationalization-performance relationship (Lin et al., 2011). Relating to this, it is held that older firms are more hesitant to expand into international markets, especially if the particular firm has had strong success and geographic presence in its own domestic market (Autio et al., 2000), because an older firm is less willing than a younger firm to shift its major focus and resources to a completely new market (Assaf et al., 2012). Additionally, it is suggested that older, well-established firms are less willing and able to acquire new knowledge, and to adjust their current working practices based on such knowledge (Cohen & Levinthal, 1990; Hu & Wang, 2010).

Nevertheless, under a different perspective, it is held that older companies have more capacity since they are usually more stable than younger ones in their provision of resources (Zahra & George, 2002), and that the older the company, the better the product development and marketing techniques (Agarwal & Gort, 2002). Following this line of reasoning, Contractor et al. (2007) note that older firms are more experienced, command greater reliability and legitimacy, receive the benefits of learning, and are associated with first mover advantages (Douma et al., 2006). This is because established (i.e., old) firms are more likely to be able to garner the requisite resources for international operations and build the infrastructure needed for internationalization than new firms (Singla & George, 2013).

Also, it is argued that age could result in deeper knowledge stocks and improved performance (Powell, 2014), and that older firms could also be better equipped to learn

from their experiences in the past and would possess more skills to implement their learning in new undertakings (Singla & George, 2013). Given this, it could be expected that young firms will typically have high failure rates due to the liability of newness (Stinchcombe, 1965; Carroll, 1983; Freeman et al., 1983). Thus, considering the arguments of both positions, it can be argued that firms with a higher level of success in foreign markets are those that have been in operation during more years. Given this, the following proposition is formed:

> **Proposition 2:** A firm's age has a positive effect on the impact that an international diversification strategy has on its performance levels

The financial or capital structure of the firm plays an important role in its performance (Hitt et al., 1997), and leverage is argued to affect the firm's value (Buhner, 1987; Hitt et al., 1994). Financial leverage is likely to affect corporate performance (Tallman & Li, 1996; Delios & Beamish, 1999; Geringer et al., 2000), since it gauges the extent to which non-equity capital is used to finance the assets of a firm (Qian et al., 2008), thus affecting returns while at the same time increasing a firm's risk (Chang & Thomas 1989).

The firm's debt-equity ratio is an indicator of financial leverage that is used to control for any negative association with firm performance due to the debt burden carried by the firm (Endo & Ozaki, 2010), or in order to control for changes in a firm's capital structure (Chang, 2007). Considering this, a negative relationship between debt-equity ratio and performance is suggested (Elango & Sethi, 2007), because debt costs would adversely influence the earnings of a firm (Geringer et al., 2000). Furthermore, the debt-equity ratio may affect a firm's ability to expand (Singh et al., 2010; Hsu et al., 2012b), in as much as it gauges the resource availability and constraints of each firm (Pan & Tsai, 2012). This argument could be transferred to firms expanding

internationally, so those with a lower debt level would obtain greater benefits from international expansion. In this context the following proposition is formed:

> **Proposition 3:** A firm's financial leverage has a negative effect on the impact that an international diversification strategy has on performance levels

Group-affiliated firms are embedded in a network mode of governance (Singla & George, 2013). These networks are not only channels of resources but also mechanisms to search and monitor the firms' strategies and actions (Lin et al., 2009). Affiliation to business groups provides firms with these capabilities as group-affiliated firms can rely on group-wide reputation and resources (Gaur & Kumar, 2009, p. 177). Also, group-affiliated firms get opportunities to learn from other firms in the network (Singla & George, 2013), and also have broader and relatively easy access to capital, both internal and foreign, and are able to access labor and product markets more easily than firms that are not part of any business group (Khanna & Rivkin, 2001). Some studies have also found that firms that belong to a business group obtain better exporting rates (Donoso, 1998). This is because business groups can help to overcome any imperfections of foreign markets and facilitate the effects of internationalization (Gaur & Kumar, 2009). Thus, it can be expected that firms that are part of a business group may obtain a higher level of benefits derived from international expansion. Given this, the following proposition is formed:

> **Proposition 4:** Business group affiliation has a positive effect on the impact that an international diversification strategy has on performance levels.

The choice of entry mode constitutes one of the most critical decisions for a firm's success in that market (Sanchez-Peinado et al., 2007; Pla-Barber et al., 2010), because different entry modes have distinct and important consequences for the firm

(Chang & Rosenzweig, 2001). Almodóvar and Rugman (2014) suggest that different modes of internationalization should result in different patterns over time in the relationship between multinationality and performance.

Foreign presence through direct investment can take the form of either a high control mode (e.g. wholly owned subsidiary, majority owned subsidiary) or a low control mode (e.g. minority owned affiliate). Hautz et al. (2013, p. 106) note that more substantial ownership stakes will both incentivize and enable more effective monitoring leading to a closer alignment between the interests of the parent company and the strategy pursued by affiliated firms (Amihud & Lev, 1999; Denis, Denis & Sarin, 1997). Thus, it can be expected that firms that maintain a higher degree of control over their foreign affiliates will likely have higher levels of performance, given that this reduces the probability of encountering opportunistic behaviors and differences in interests. Considering this, the following proposition is formed:

> **Proposition 5:** Firms with a higher control over foreign affiliates will likely obtain a better performance from their international diversification strategy compared to those that have a lower degree of control.

The network model proposes that markets are a set of networks between firms, which allow them to benefit from each other (Johanson & Mattson, 1988). The current network relationships that a firm has and the resource exchange among network firms influence its internationalization behavior and strategies (e.g., Turnbull & Valla, 1986; Håkansson, 1989; Axelsson & Johanson, 1992; Sharma, 1993; Iacobucci, 1996). In that sense, internationalization means that the firm develops business relationships in networks in other countries (Johanson & Mattsson, 1988). Thus, internationalization is a result of the exploitation of the benefits of the networks a firm belongs to (Haro et al., 2014). Regarding international markets, these relationships can help firms to

internationalize without necessarily passing through certain stages, thanks to the contacts and experiences that other firms in the network possess (Etchebarne, 2007).

Johanson and Vahlne (2009) revisited the Uppsala process model in light of changes in business practices and theoretical advances made since 1977 and proposed a business network model of the internationalization process. In their model, "the existing business relationships have a considerable impact on the particular geographical market a firm will decide to enter and on which mode to use" (Johanson & Vahlne, 2009, p. 1423). So, the core argument of the revisited Uppsala model has two sides. The first is that markets are networks of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns. Second, relationships offer potential for learning and for building trust and commitment, both of which are preconditions for internationalization (Johansen & Vahlne, 2009).

Consequently, we argue that companies with participation of foreign firms in their capital may obtain benefits that are not available to those firms whose shareholders are only national. Companies with larger foreign shareholdings in their capital presumably have superior access to technical and financial resources (Douma et al., 2002). Along this line, Kavadis and Castañer (2014) argue that the institutional origin of owners shapes their conception of corporate goals, and thus matters in determining their strategic outlook (Ramaswamy et al., 2002; Fiss & Zajac, 2004; Lubatkin et al., 2005).

Thus, considering the network perspective, it is possible to argue that companies that have foreign firms participating in their capital can better take advantage of the experience, know-how, strategic resources and networks of foreign associates. This allows firms to internationalize more quickly, to have greater control of the risks inherent in the internationalization process and to have a greater chance of having competitive advantages. Considering all this, the following proposition is formed:

Proposition 6: Parent companies with a higher percentage of foreign participation in their capital will likely obtain better performance in their international diversification strategy than companies that have lower levels of foreign participation

8.3.2 External control variables

The relationship between international diversification and performance is dependent on contextual factors (Ruigrok et al., 2007). The country-of-origin literature "is still in its nascent stages" (Elango & Sethi 2007), even though there are good reasons to believe that the internationalization-performance relationship may vary depending on the country or geographic region of origin of the firm (Chen & Tan, 2012). A company cannot isolate itself from the home country effects as it incurs a complex set of costs and benefits from its home base operations (Outreville, 2010), and the home environmental conditions significantly affect a firm's international strategic behavior (Chen-Ho & Kumar, 2010).

Relating to this, it is argued that country differences affect the outcome of internationalization (Assaf et al., 2012), since the home country of a firm is where its strategy is set, its product and process development usually take place, and its essential skills reside (Chen-Ho & Kumar, 2010). In this context, it is held that the size of the effect is significantly affected by country environment context (Bausch & Krist, 2007). Given this, we incorporate one contextual variable related to the time period, more specifically we distinguish between the years before and after the economic crisis of the Spanish economy that started in 2008, using time-period dummies (pre-crisis and post-crisis), in order to control for unobserved macroeconomic characteristics (Hitt et al., 1997; Geringer et al., 2000; Chang & Wang, 2007; Yang & Driffield, 2012).

Yang and Driffield (2012, p. 26) argue that given the current global financial crisis, there is now serious concern about its impact on MNEs that rely on international activity as their engine of growth. This is relevant to Spain, because the economic crisis affected significantly not just its domestic market but also the levels of foreign direct investment made by Spanish firms (Martín & Rodríguez, 2011; Mendoza & Pellegrini, 2012; Mendoza, 2015). After the drastic falls of 2008 and 2009, Spanish outward FDI flows has been well below the levels of 2004 and 2005, prior to the investment boom years of 2006 and 2007 (Mendoza, 2015). Therefore, it can be expected that the performance level of Spanish firms has been affected since the beginning of the economic crisis in 2008. In this context, the following proposition is formed:

> **Proposition 7:** On average, Spanish firms experienced higher performance levels in the period prior to the beginning of the economic crisis in 2008

Firm performance may be significantly influenced by industry-specific factors (McGahan & Porter, 1999). In that regard, several authors have recognized the importance of industry effects for explaining firm performance in a multi-industry study (Schmalensee, 1985; Grant et al., 1988; Montgomery & Porter, 1991; li & Li, 1996). Different industries have different structural characteristics and those characteristics result in different average and potential long term profits (Qian et al., 2003). This situation has been corroborated in the literature on international business, since prior research has shown that industry effects have important impacts on the variance of firm performance (Contractor et al., 2003; Hsu & Boggs, 2003). Thus, it is argued that industry dummies control for unobserved industry characteristics (Geringer et al., 2000; Hitt et al., 1997). Considering this situation, the following proposition is formed:

Proposition 8: The industry of a firm has an impact on the performance obtained with an international diversification strategy.

CHAPTER 9. Research Methodology

9.1 Data and Sample

The sample of Spanish firms considered in our study has been extracted from SABI (*Sistema de Análisis de Balances Ibéricos*), which is a database that contains company financials (balance sheet and income statement in a simplified format plus financial ratios), date of incorporation, main office location, company industry classification, total number of employees, ownership data related to company's shareholders, as well as information on the company's affiliates (name, location and direct and equity stake). Data on foreign affiliates was only available from 2004 onwards. SABI is compiled by Informa, the Spanish subsidiary of Bureau van Dijk, and includes more than 95% of the Spanish companies that deposit their annual report and financial statements at the Mercantile Registry Offices (roughly two million companies).

The main advantages of using SABI are that it allows the researcher to: a) have information on companies from all industries, excluding banks; b) identify each company with accuracy (based on its unique tax identification number); c) access each company financial and employment information for the last 10 consecutive years; and d) obtain information about foreign affiliates (company name, city and country, direct and total participation of the Spanish parent company as a percentage of voting rights). These features allow the researcher to build a *truly longitudinal* data set. The main limitations of using SABI are: i) the information provided for variables such as sales, number of employees and assets, only refers to the parent company in Spain, which does not allow us to measure the relative size of international operations for any given firm (e.g., foreign sales to total sales, foreign employees to total employees or foreign

assets to total assets); ii) the disaggregated information on R&D and advertising expenses is not available; and iii) there is no indication on the type of affiliate (R&D, operations/production, logistics/distribution, marketing/selling, or a combination of the former).

It has to be noted that the data of prior studies on ID-P relationship using samples of Spanish firms have been obtained either from SABI or from the Survey of Business Strategies (SBS). SBS is a panel survey conducted by the SEPI Foundation, a Spanish government-supported institution, and covers a wide range of relevant company characteristics. The main advantages of using SBS are that it is a higly representative panel of Spanish manufacturing firms with ten or more employees, has multiple respondents for each company, guarentees anonymity, asks mostly for non-perceptual measurements, and different criteria are applied for content validity (Almodovar and Rugman, 2013). The financial information (balance sheet and income statement) provided by SBS is very similar to the one offered by SABI with the additional feature that SBS offers information on export revenues. However, from the point of view of our research, SBS only covers manufacturing firms and it doesn't offer any information on foreign affiliates. Further, the companies participating in the survey vary every year (although it is fair to acknowledge that SEPI Foundation makes specific efforts to preserve representativeness with respect to the population of reference).

All except one of the published articles studying the ID-P relationship in the case of Spanish firms have used data from SBS and their sample was composed by exporting firms, being the measure for ID the export intensity ratio (exports over total sales), that is, these studies actually looked at the relationship between *sales international diversification* and performance. SABI allow us to clearly identify and build a data set of Spanish multinational companies, including their affiliates abroad, and to study the

existing relationship between *investment international diversification* (or multinationality) and performance.

For operational purposes, we define as Spanish multinationals those firms that meet the following criteria: a) to be incorporated in Spain; b) controlled by Spanish investors, thus excluding the Spanish subsidiaries of foreign multinationals; c) to have at least one foreign affiliate; and d) to have ten or more employees.

Following the criteria established by UNCTAD (2014), we use the term *foreign affiliate* for an incorporated firm in a host country in which a Spanish parent company owns at least 10% of the shareholders' voting rights. According to the degree of control exerted by the parent company on its foreign affiliates we can distinguish between *associate firms* (in which the Spanish parent company owns at least 10% but not more than half of the shareholders' voting rights) and *subsidiary firms* (in which the Spanish parent company owns more than half of the shareholders' voting rights).

Regarding ownership, SABI provides the name of the main shareholders of the company and indicates when the Spanish parent company is the Global Ultimate Owner (GUO) of the affiliates of the multinational group or, conversely, its GUO is a foreign company.

The number of firms that makes up our sample amounts to 197 for which we have accounting and affiliates data for the nine-year period from 2004 to 2012 resulting in 1,773 potential observations.

9.2 Method

This research analyzes how the ID-P relationship in Spanish multinational firms evolves over time. Due to the temporal correlation of the companies over the time horizon (Majocchi et al., 2014), the best statistical method to be applied appears to be

the Panel Data Model (Wooldridge, 2010). The advantage of this approach is that it smoothes annual transient errors in the data (Chang and Wang, 2007). This is because a cross-sectional sample of company information can bias empirical results, which applies to financial performance, because the financial results of MNEs typically fluctuate from one year to the next (de Jong and van Houten, 2014).

Panel data or longitudinal data typically refer to data sets containing time series observations of a number of individuals. Therefore, observations in panel data sets involve at least two dimensions; a cross-sectional dimension, indicated by subscript i, and a time series dimension, indicated by subscript t (Hsiao, 2007). This is relevant because panel data analysis allows for the measurement of effects and behaviors that are not possible to identify in pure data of temporary series or of transversal cuts (Cobacho and Bosch, 2005). As mentioned, the panel data is a data set that combines temporal series with units of cross-section or transversal cuts, such that a study of the data considering these two dimensions separately would leave unanswered questions (Cobacho and Bosch, 2005). Thus, panel data sets have benefits over pooled data, with more variability and less colinearity among the regressors (Hsiao, 1986; Baltagi, 2001). Further, the panel data methodology allows for control of the so-called unobservable constant heterogeneity (Bobillo et al., 2012).

In order to maintain generalizability and assume normal conditions and operations of firms, the sample was collected for the period 2004-2012. This period also allows us to construct nine-year averages for the measurements of firm's characteristics. This is of methodological relevance because a five-year period is generally accepted to rule out exceptionally superior or inferior company performance (e.g., Gomez-Mejia and Palich, 1997; Hutzschenreuter and Voll, 2008; Chao and Kumar, 2010; de Jong et al., 2011; de Jong and van Houten, 2014). Also, with the time period considered (2004

to 2012), the potential distorting effects of the financial crisis of 2008 can be controlled. In this way more adequate and stable estimates can be obtained than with a set of data referring to only one year (Wiggings and Ruefli, 2005; Brouthers et al., 2008).

9.3 Modeling procedure

We estimated the following models with the methodology proposed by Blundell and Bond (1998). To investigate the shape of the relationship between international diversification and performance:

$$PERFORM_{i,t} = \beta_0 + \beta_1*INTDIV_{i,t} + \beta_2*INTDIV^2_{i,t} + \beta_3*INTDIV^3_{i,t} + \beta_4*INTDIV^4_{i,t} + \beta_5*SIZE_{i,t} + \beta_6*AGE_{i,t} + \beta_7*FL_{i,t} + \beta_8*BGA_{i,t} + \beta_9*EM_{i,t} + \beta_{10}*FOPC_{i,t} + \beta_{11}*TP_{i,t} + \beta_{12}*IND_{i,t} + \mu_{i,t} \quad (1)$$

To investigate how the firm's geographical focus of internationalization impacts the relationship between international diversification and performance:

$$PERFORM_{i,t} = \beta_0 + \beta_1*FI_{i,t} + \beta_2*FIFORINTDIV_{i,t} + \beta_3*INTDIV_{i,t} + \beta_4*INTDIV^2_{i,t} + \beta_5*INTDIV^3_{i,t} + \beta_6*INTDIV^4_{i,t} + \beta_7*SIZE_{i,t} + \beta_8*AGE_{i,t} + \beta_9*FL_{i,t} + \beta_{10}*BGA_{i,t} + \beta_{11}*EM_{i,t} + \beta_{12}*FOPC_{i,t} + \beta_{13}*TP_{i,t} + \beta_{14}*IND_{i,t} + \mu_{i,t} \quad (2)$$

Finally, to investigate how the type of firm according to the sector it belongs impacts the relationship between international diversification and performance:

$$PERFORM_{i,t} = \beta_0 + \beta_1*TF_{i,t} + \beta_2*TFFORINTDIV_{i,t} + \beta_3*INTDIV_{i,t} + \beta_4*INTDIV^2_{i,t} + \beta_5*INTDIV^3_{i,t} + \beta_6*INTDIV^4_{i,t} + \beta_7*SIZE_{i,t} + \beta_8*AGE_{i,t} + \beta_9*FL_{i,t} + \beta_{10}*BGA_{i,t} + \beta_{11}*EM_{i,t} + \beta_{12}*FOPC_{i,t} + \beta_{13}*TP_{i,t} + \beta_{14}*HOLD_{i,t} + \mu_{i,t} \quad (3)$$

Where (see Table 5):

Table 5. Variables of Econometric Models

Variables	Measures
Dependent Variable: PERFORM = Performance	ROA = Return on Assets ROE = Return on Equity
Independent Variable: INTDIV = International Diversification	NC = Number of Countries FS = Foreign Subsidiaries
Moderating Variables	FI = Firm's Geographical Focus (Regional, Bi-regional, Semi-global, Global) TF = Firm's Sector (Manufacturing, Service)
Control Variables	SIZE = Number of Employees AGE = Number of Years FL = Financial Leverage BGA = Business Group Affiliation EM = Entry Mode FOPC = Foreign Ownership on Parent Company TP = Time Period IND = Industry Sector (Manufacturing, Services) HOLD = Holding company
Error	μ = Error

Source: Own elaboration

The methodology followed for the formulation of the econometric models has ample backing in the international business literature. It is the commonly used by researchers to study the ID-P relationship (e.g., Capar and Kotabe, 2003; Hitt et al., 2006b; Bobillo et al., 2012; Almodóvar and Rugman, 2014; Gaur and Delios, 2015) and to analyze the effect of moderating variables (e.g., Lu and Beamish, 2004; Pangarkar, 2008; Gaur and Kumar, 2009; Hsu et al., 2013; Xiao et al., 2013).

The dependent variable corresponds to firm performance (PERFORM). The independent variable is international diversification (INTDIV). The moderating variables are the firm's geographical focus of internationalization (FI) and the type of firm defined by the sector it belongs to (TF). The control variables are the firm size (SIZE), firm age (AGE), financial leverage (FL), the business group affiliation (BGA), the entry mode (EM), the foreign ownership on parent company (FOPC), the time

period (TP), the industry (IND) and whether the firm is a holding company (HOLD). Please note that in models 1 and 2 the industry (IND) is included as a control variable. In model 3, the industry (IND) is excluded as control variable because the type of firm (TF) is considered as moderating variable. Also in model 3, we control for firms whose primary activity code is 'activities of holding companies' (HOLD) because in most cases they combine manufacturing and service activities.

In order to observe the shape of the curve, or in other words, to prove the shape as lineal, quadratic, sigmoid or M-shaped for the relationship between the independent and dependent variables, as is common in the literature, we square it, cube it, and then raise it to the fourth (e.g., Lu and Beamish, 2004; Chang and Wang, 2007; Kumar and Singh, 2008; Bobillo et al., 2007, 2008, 2010; Almódovar and Rugman, 2014).

The estimated coefficients [z statistic] of the equation estimates (1), (2) and (3) are obtained through the Generalized Method of Moments (GMM) developed by Blundell and Bond (1998). Also, we have controlled for the temporary and sectorial effects. Wald Chi2 is a test for the joint significance of coefficients. *** indicates a level of significance for a contrast of two tails less than 1%, ** less than 5% and * less than 10%. The standard errors are in parenthesis.

Finally, only one dummy variable is needed to obtain different constant terms. Given this, if two dummy variables are included we would have perfect multicollinearity, since both variables are a linear combination of the other. In this case we are in the presence of a dummy trap that appears when too many variables are used to describe a given number of groups. Thus, if the qualitative variable has m categories, it is only necessary to introduce (m-1) dummy variables. Not following this rule means falling into the trap of the dummy variable. Considering this, one category should always be chosen as a base, in order to compare the estimates made with respect to this

category. The effect of the excluded dummy variable is collected by the constant (Calatraba and Cañero, 2000; Riascos, 2005).

9.4 Endogeneity

An extensive body of literature has highlighted the existence of problems of endogenous selection in corporate diversification models, such as diversification of business lines, ownership of other companies, and performance (Campa and Kedia, 2002; Villalonga, 2004; Miller, 2006; Jara-Bertin et al., 2015). On the other hand, business literature has reported that the strategy of international diversification is a decision that the company makes with the intention that it will take advantage of the opportunities offered by foreign markets (Capar and Kotabe, 2003; Bobillo et al., 2007, 2008, 2010), thus the possibility of having competitive advantages sustainable over time (Chin-Chun and Boggs, 2003; Nachum and Zaheer, 2005; Hitt et al., 2006a; Delios et al., 2008), thereby improving its performance. Therefore, it could be considered that the adoption of an international diversification strategy and the increase in company performance are closely related, inferring an endogenous relationship between these variables. Given this endogenous relationship, we can expect that both NC (number of countries) and FS (foreign subsidiaries) are correlated with the error term of equations (1), (2) and (3), respectively, and because of this, estimated coefficients β_i may present some bias derived from the presence of the model's endogenous selection problems.

To address such problems, we estimated the equation (1, 2 and 3) through panel data methodology. This methodology allows us to control unobservable heterogeneity, given estimators with a high efficiency compared to other estimation models (Baltagi, 1995; Alonso-Borrego and Arellano, 1999; Arellano, 2003). Specifically, to address endogenous problems, we used the GMM estimator system developed by Blundell and Bond (1998) and Bond (2002). The GMM System (GMM-sys) is the augmented version

of GMM outlined in Arellano and Bover (1995), and fully developed by Blundell and Bond (1998) who more precisely articulated the necessary assumptions for this augmented estimator and tested it with Monte Carlo simulations.

Lagged levels are often poor instruments for first differences, especially for variables that are close to a random walk. Thus, in levels, the original equations can be added to the system, and the additional momentary conditions could increase efficiency. In these equations, predetermined and endogenous variables in levels are instrumented with suitable lags of their own first differences. This corresponds to the standard methodology that is used to work with panel data correcting for endogeneity.

Blundell and Bond (1998) developed a systematic estimator. This is relevant in how ordinary least squares (OLS) is applied to this model, or general linear model (GLM) of a panel with fixed or random effects provokes standard errors in the estimations of the inconsistent parameters, because, by construction, the unobservable effect is correlated with the delays of the dependent variable (Montero, 2010).

In effect, a laggard variable is considered in a period, or, the variable takes on the value of t-1. We used independent variables with delay as differential instruments for the equations in levels. With this estimation method, the estimators' consistency critically depends on the absence of second-order serial autocorrelation of residues and instrument validity (Arellano and Bond, 1991). Consequently, we calculate in our estimations a statistical test of absence of second-order serial autocorrelation.

An important restriction of the estimator is that autocorrelation of a second order cannot exist in the first error differences. To evaluate the possible existence of autocorrelation the Arellano-Bond test is done. It is intended that the first differences be correlated by first order, because otherwise it would indicate that dynamic effects do not exist and the estimator GMM would not be adequate. However, said differences cannot

exist at the second order. The invalid hypothesis is that there is no autocorrelation, because a p-value < 0.05 indicates that the invalid hypothesis is rejected and that said autocorrelation does exist.

In addition to the aforementioned, it is useful to apply the Sargan test of over identification. In this model it is appropriate that the equations are over identified (in fact the estimator GMM could be interpreted as a linear combination of all the possible estimations of an over identified model). The null hypothesis is that the equations are correctly over identified, so that a p-value > 0.05 indicates that the specification is correct.

9.5 Variables and Measures

9.5.1 Dependent Variable (Performance)

The performance of firms is measured by the financial ratios of ROA (e.g., Lu and Beamish, 2001; Contractor et al., 2003; Qian et al., 2008; Singla and George, 2013; Tsai, 2014) and ROE (e.g., Hitt et al., 2000; Thomas and Eden, 2004; Contractor et al., 2007; Lee, 2013; Belaounia and Nekhili, 2014). SABI calculates these ratios as: $ROA = \frac{P/L\ Before\ Tax}{Total\ Assets}$ and $ROE = \frac{P/L\ Before\ Tax}{Shareholders'\ Equity}$. The information that SABI provides only allows us to work with accounting measures. Nevertheless, scholars of international business and management tend to use accounting-based measures of performance (Chen et al., 2014). Although some researchers criticize the accounting-based measures (Benston, 1985; Aaker and Jacobson, 1987), most scholars regard them as acceptable since their use facilitates the comparison of previous studies (e.g., Hitt et al., 1997; Wan and Hoskisson, 2003; Lu and Beamish, 2004; Chang and Wang, 2007; Chen et al., 2014).

For this study, the most relevant variable is ROA, since the investment in foreign subsidiaries is reflected in the assets of a firm and the possible dividends and increases in patrimonial value in its income statement. We also use ROE to evaluate the robustness of the results. In Appendix A we present and discuss the most commonly used measures of corporate performance in ID-P studies.

9.5.2 Independent Variable (International Diversification)

International diversification has typically been measured in terms of the intensity of international involvement and/or in terms of the geographic scope of international operations (e.g., Tallman and Li, 1996; Hsu and Boggs, 2003; Lu and Beamish, 2004; Chang and Wang, 2007; Fernández-Olmos and Díez-Vial, 2015). In the present study the degree of international diversification is measured by the number of foreign countries where the firm has affiliates (NC) and the number of foreign subsidiaries it has (FS). Both variables capture the essential elements of the cost/benefit dynamics associated with the level of international diversification (or multinationality). The number of foreign subsidiaries captures important aspects, such as the scale of international operations, while the number of foreign countries captures the scope of international operations for a particular firm. According to Tallman and Li (1996, p. 188), ‘‘as most discussions of competitive advantage derived from the scope of international operations address tax, currency, economic, and political arbitrage, and as various firms structure their country operations differently, a country count seems to address scope issues better and less arbitrarily than a subsidiary count’’.

The number of countries (NC) is built with the information on the localization of the foreign affiliates of each firm (e.g., Morck and Yeung, 1991; Tallman and Li, 1996; Delios and Beamish, 1999; Andersen, 2005; Qian et al., 2008). The number of foreign subsidiaries (FS) is obtained by taking into account the degree of control of the parent

company over its foreign affiliates (e.g., Morck and Yeung, 1991; Qian, 1997; Lu and Beamish, 2001, 2004; Pantzalis, 2001; Christophe and Lee, 2004). As explained in section 9.1, the number of subsidiaries abroad is a subset of the number of affiliates abroad and is possibly the most significant variable when measuring advanced internationalization processes that comprise foreign direct investment. The variable FS is built as a natural logarithm of the number of foreign subsidiaries, in this way we seek to resolve problems of a lack of normalcy and heteroscedasticity, and thereby achieve a better adaptation.

The information that SABI provides only allow us to work with so-called "structural variables". However, these types of indicators are the most utilized in the literature. In our study we use two indicators in order to evaluate the robustness of the results. In Appendix B we present and discuss the most commonly used measures of international diversification in ID-P studies.

9.5.3 Moderating Variables

Recent literature questions the existence of a *generic* relationship between the variables of international diversification and performance, because the impact that international diversification has on the performance of firms is influenced by internal and external moderating variables. Taking this into account, the present research analyzes whether the ID-P relationship is moderated by the sector the firm belongs to (external variable) and by the firm's geographical focus (internal variable).

Different types of industries -manufacturing versus services- are controlled by using a dummy variable (e.g., Brouthers, 2002; Ruigrok and Wagner, 2003; Thomas and Eden, 2004; Contractor, 2007; Oh and Contractor, 2014). Thus, the firm's sector (TF) is considered a dichotomous variable (0 = manufacturing, 1 = services). This

variable is built with the information that is collected from SABI based on the first two digits of the Primary Code of Activity (NACE Rev. 2 classification for 2009 and following years and NACE Rev. 1 for 2008 and prior years). Given their very limited number, firms from the primary sector (agriculture, livestock, forestry and fishing as well as extractive activities such as mining, petroleum and gas) are grouped together with manufacturing firms. For the same reason, construction firms are grouped together with service firms. The following table shows the correspondences between the classifications NACE Rev 2 and NACE Rev 1 (see Table 6).

Table 6. Firm Classification according to NACE

Data base	**2007 to 2012**	**2004 to 2006**
Classification used	NACE Rev 2	NACE Rev 1
Manufacturing (includes primary and mining sector)	Codes 01 to 33	Codes 01 to 37
Services (includes construction and electrical and water supply sector)	35 to 96 (except 84: Pub Adm.)	40 to 93 (except 75: Pub Adm.)

Source: Own elaboration

Regarding the firm's geographical focus, researchers have been grouping countries into global regions for the past few decades (e.g., Grant, 1987; Hitt et al., 1997; Rugman and Verbeke, 2004, 2007; Qian et al., 2008, 2010; Ruigrok et al., 2013). However, in the international business and international marketing literatures there is no uniform or single typology for grouping countries into regions (Wolf et al., 2012). In our study, the firm's geographical focus of internationalization (FI) is a variable that is built through a classification of countries into eight regions (see Table 7): 1) Europe; 2) Latin America and the Caribbean; 3) USA and Canada; 4) Sub-Saharan Africa; 5) Asia (South, East and Southeast); 6) Northern Africa and Middle East; 7) Oceania; and 8) Community of Independent States and Southeast Europe (former communist countries). Our classification closely mirrors the localization of Spanish Outward FDI stock and the

classification of regions used by the Spanish Registry of Foreign Investments (which coincides greatly with the classification of UNCTAD 2014).

Every foreign affiliate reported in SABI has an ISO Country Code, which allows its classification in an international geographic region. The classification that is proposed is largely related to the UNCTAD classification of the World Investment Report, which is the international reference publication for foreign direct investment flows and multinational firm activity. The small adjustments that were made are explained by the need of avoiding a too large number of regions relative to the size of the sample.

Table 7. Geographical Zone Classification

Europe	**Latin America and the Caribbean**
European Union: Austria; Belgium; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Ireland; Italy; Latvia; Lithuania; Luxembourg; Malta; Netherlands; Poland; Portugal; Romania; Slovakia; Slovenia; Spain; Sweden; United Kingdom. **Other developed Europe:** Bermuda; Gibraltar; Iceland; Norway; Principality of Andorra; Switzerland.	**South America:** Argentina; Plurinational State of Bolivia; Brazil; Chile; Colombia; Ecuador; Guyana; Paraguay; Peru; Suriname; Uruguay; Bolivarian Republic of Venezuela. **Central America:** Belize; Costa Rica; El Salvador; Guatemala; Honduras; Mexico; Nicaragua; Panama. **Caribbean:** Anguilla, Antigua and Barbuda; Aruba; Bahamas; Barbados; British Virgin Islands; Cayman Islands; Curaçao; Dominica; Dominican Republic; Grenada; Haiti; Jamaica; Montserrat; Saint Kitts and Nevis; Saint Lucia; Saint Vincent and the Grenadines; Saint Maarten; Trinidad and Tobago.
North America	**Sub-Saharan Africa**
Canada, United States	Angola; Benin; Botswana; Burkina Faso; Burundi; Cabo Verde; Cameroon; Côte d'Ivoire; Chad; Djibouti; Eritrea; Ethiopia; Gabon; Gambia; Ghana; Guinea; Equatorial Guinea; Guinea-Bissau; Comoros; Seychelles; Kenya; Lesotho; Liberia; Madagascar; Malawi; Mali; Mauritania; Mauritius; Mozambique; Namibia; Niger; Nigeria; Central African Republic; Congo; Congo, Democratic Republic of the; Rwanda; São Tomé and Principe; Senegal; Sierra Leone; Somalia; Swaziland; South Africa; United Republic of Tanzania; Togo; Uganda; Zambia; Zimbabwe.

Asia (South, East and Southeast)	Northern Africa and the Middle East
East Asia: China; Democratic People's Republic of Korea; Hong Kong (China); Japan; Macao (China); Mongolia; Republic of Korea; Taiwan Province of China. **South-East Asia:** Brunei Darussalam; Cambodia; Indonesia; Lao People's Democratic Republic; Malaysia; Myanmar; Philippines; Singapore; Thailand; Timor-Leste; Viet Nam. **South Asia:** Afghanistan; Bangladesh; Bhutan; India; Islamic Republic of Iran; Maldives; Nepal; Pakistan; Sri Lanka.	**North Africa:** Algeria; Egypt; Libya; Morocco; Sudan; Tunisia. **Middle East:** Bahrain; Iraq; Israel; Jordan; Kuwait; Lebanon; Oman; Qatar; Saudi Arabia; State of Palestine; Syrian Arab Republic; Turkey; United Arab Emirates; Yemen.
Oceania	**Community of Independent States and Southeast Europe (former communist countries).**
Oceania: Australia; Cook Islands; Fiji; French Polynesia; Kiribati; Marshall Islands; Nauru; New Caledonia; New Zealand; Niue; Palau; Papua New Guinea; Samoa; Solomon Islands; Tonga; Vanuatu.	**Southeast Europe:** Albania; Bosnia and Herzegovina; Montenegro; Serbia; The former Yugoslav Republic of Macedonia. **CIS:** Armenia; Azerbaijan; Belarus; Georgia; Kazakhstan; Kyrgyzstan; Republic of Moldova; Russian Federation; Tajikistan; Turkmenistan; Ukraine; Uzbekistan.

Source: Own elaboration

A firm's geographical focus is a discreet variable based on the number of regions where its foreign affiliates are located as follows: 1 = regional, all located in the same region; 2 = bi-regional, when they are in 2 regions; 3 = semi-global, when they are in 3 or 4 regions; and 4 = global, when foreign affiliates are in 5 or more regions. This classification is similar to the one proposed by Rugman and his colleagues (e.g., Rugman, 2005; Rugman and Verbeke, 2004, 2007; Collinson and Rugman, 2008; Rugman et al., 2009; Oh and Rugman, 2012). These authors identify three broad regions of the triad – the EU, North American Free Trade Agreement (NAFTA) and Asia Pacific – and, as a consequence, they define four types of multinational enterprises: (1) home-region oriented; (2) bi-regional; (3) host-region oriented; and (4) global. However, in the present research we have incorporated the semi-global category proposed by some authors (e.g., Flores and Aguilera, 2007; Arregle et al., 2009; Asmussen, 2009; Banalieva and Eddleston, 2011; Kim and Aguilera, 2012).

9.5.4 Control Variables

The control variables considered in our study can be divided between internal and external variables.

The external control variables correspond to time periods (TP) (e.g., Hitt et al., 1997; Geringer et al., 2000; Chang and Wang, 2007; Li et al., 2011; Oh and Contractor, 2014) and industrial sector (IS) (e.g., Hsu and Boggs, 2003; Contractor et al., 2007; Yang and Martins, 2010; Hoon et al., 2012; Oh and Contractor, 2014). Time period (TP) works as a dichotomous variable (0 = pre crisis, until 2008 inclusive; 1 = post crisis, starting with 2009). We use a dummy variable to control the temporal trend, or in other words, to control for unobserved seasonal and macroeconomic trends in the economy (Oh et al., 2014). Industry (IND) also works as a dummy variable (0 = Services, 1 = Manufacturing) that is obtained from the firm's primary activity codes NACE Rev 1 and NACE Rev 2 (see Table 6).

Among the internal control variables we consider the size of the parent company (SIZE) that is measured as a natural logarithm of the number of employees (e.g., Richter, 2007; Bobillo et al., 2010; Qian et al., 2013; de Jong and van Houten, 2014; Serrano et al., 2015). In the present research only firms that have 10 or more employees have been included in the sample. Firm age (AGE) is calculated as a natural logarithm of the years the firm has operated in the country of origin (starting with the founding date) (e.g., Anderson and Reeb, 2003; Li et al., 2011; Singla and George, 2013; Chen et al., 2014; Gaur and Delios, 2015). Log transformation makes the results easy to interpret because the changes in the logarithm domain represent relative changes in the original metric (Contractor et al., 2007).

The financial leverage (FL) is calculated by the ratio of indebtedness (%) (Total Liabilities/ Total Assets) (e.g., Li, 2005; Li and Yue, 2008; Lee, 2010; Bobillo et al.,

2012; Gaur and Delios, 2015). The participation of foreign investors in the capital of a Spanish firm (FOPC) is a continuous variable that is measured as the percentage of voting rights in the hands of foreign investors (Almodóvar and Rugman, 2014). The predominant entry mode (EM) (Zahra et al., 2000; Chang and Wang, 2007; Contractor, 2007; Lee, 2010) is calculated as the average percentage of voting rights that the parent company has over its foreign affiliates. The holding company (HOLD) is a dichotomous variable (0 = primary activity other than holding; 1 = primary activity as holding) that is obtained from NACE Rev 1 (code 7415 for holdings) and NACE Rev 2 (code 6420).

Finally, the business group affiliation (BGA) is a dichotomous variable (0 = not affiliated; 1 = affiliated) (Singla and George, 2013; Karthik et al., 2015). To build this variable we use the BvDEP independence indicator provided by SABI, where firms with values of "C" and "D" count on an investor that directly or indirectly controls 50% or more of voting rights; in almost all cases this investor is another firm – either the group's holding company or another firm of the same business group.

THIRD PART: RESEARCH RESULTS

CHAPTER 10. Impact of the international diversification strategy on the performance of Spanish firms

10.1 Descriptive analysis of the sample

In this study two different measures are used to represent the variable international diversification (ID): the number of countries (NC) and the number of foreign subsidiaries (FS). It is important to note that the sample size for each variable differs slightly.

The sample of the study consists of 197 Spanish parent companies, 2 of which had only associate firms and no subsidiaries abroad. Therefore, when the measure for ID is NC the sample size of the study is 197 and when the measure is FS the sample size is 195. Also, when ID is measured by NC there are 1,569 observations, and when measured by FS there are 1,412.

The variable NC measures the number of countries in which *foreign affiliates* are located for each of the firms of the sample. Table 8 shows general statistics obtained for the performance, international diversification, and moderating and control variables when NC is used in estimating the econometric models. The information provided refers to the mean, median, standard deviation, and minimum and maximum value for each variable. When estimating the different models, Stata excludes observations without data and deletes outliers.

When dealing with a longitudinal study that covers a period of 9 years, from 2004 to 2012, the maximum number of possible observations will be 1,773, the result of multiplying the 197 sample firms by 9. Given that the number of observations reported is 1,569, we can say that our data panel is pretty well balanced.

Table 8. Descriptive Information of the variables of the econometric models with NC as a variable of international diversification

Variables	Mean	Median	Std. Dev.	Min	Max
ROA	0.0599	0.0457	0.0950	-0.299	0.842
ROE	0.171	0.115	0.331	-1.919	4.028
NC	4.399	3	4.021	1	28
SIZE	1,902	328	6,846	10	97,328
AGE	38.34	35.02	17.88	12.18	114.9
FL	0.557	0.559	0.215	0.0159	0.988
BGA	0.656	1	0.475	0	1
EM	0.796	0.874	0.237	0.1	1
FOPC	0.0110	0	0.0669	0	0.5
TP	0.444	0	0.497	0	1
IND	0.507	1	0.500	0	1

Number of companies: 197; Number of observations: 1,569
Source: Own elaboration

The data in Table 8 allows us to obtain a profile of the sample firms and compare them to the profile of the set of Spanish firms for those dimensions in which the information is given.

When one considers the number of countries (NC), the sample firms do not have high levels of international diversification, since on average they have foreign affiliates in 4.4 countries. The sample contains some large firms that affect the average value, since the median is 3 countries. However, if one considers the minimum and maximum values, from 1 to 28 countries, these firms have significant differences in the scope of their international diversification. Nevertheless, if one considers the range according to the standard deviation (where 67% of the cases are concentrated) it can be appreciated that the number of countries in which these firms operate does not exceed 8. This data is quite similar to that obtained by Mendoza and Vives (2010) for a sample of 1,452 firms, which on average had foreign affiliates in 3.8 countries.

With respect to the performance of the sample firms, it can be observed that ROA and ROE have values of 5.99% and 17.1%, respectively. Some firms in the sample have high levels of profitability and affect the average values, since the median ROA and ROE are 4.57% and 11.5% respectively. The minimum and maximum for the

ROA and ROE values have a large variation, given that ROA oscillates between -29.9% and 84.2% while ROE ranges from -191.9% to 402.8%. Nevertheless, when the dispersion range is analyzed according to the standard deviation, ROA varies between 3.51% and 15.49%, and ROE varies between -16% and 50.2%.

With respect to the size of sample firms (SIZE) it can be observed that on average they have 1,902 employees. However, the sample contains a considerable number of small firms, resulting in a median value of 328 employees. The minimum size is 10 employees (minimum value established in the methodology) and the maximum is 97,328. The dispersion in firm size is quite large given that the standard deviation is 6,846.

In terms of age (AGE), the sample firms are on average 38.34 years old and the median has a value of 35.02 years. The minimum age is 12.18 years, and the maximum age is 114.9 years. Given that the standard deviation is 17.88 years, the age of two thirds of the sample companies is between 20.46 and 56.22 years old. In summary, most of the firms of the sample are well established and mature.

Furthermore, the firms of our sample present a uniform data distribution with respect to the financial leverage (FL). The average value of the ratio of Total Liabilities/Total Assets is 55.7%, and the median is 55.9%. The minimum and maximum values of this ratio are 1.59% and 98.8%. Since the standard deviation of financial leverage is 21.5%, the deviation range is between 34.2% and 77.2%.

Likewise, it is observed that the sample firms have an average participation in the capital of foreign affiliates (EM) of 79.6%. Since the median is 87.4%, it can be deduced that some firms in the sample have low levels of participation in the capital of foreign affiliates, and this affects the observed average. The minimum value of the percentage of control over foreign affiliates is 10% (minimum value established in the

methodology), and the maximum value is 100%. If one considers the standard deviation of the average value of EM, 23.7%, the sample firms show a clear propensity to maintain high percentages of control over foreign affiliates.

Continuing with this analysis, the participation of foreign investors in the capital of parent companies (FOPC) is limited and not very significant. This participation represents on average 1.1% of the voting rights of the parent company. Even when the minimum value of FOPC is from 0% and the maximum value is 50% (maximum establish value in the methodology), if one considers that the standard deviation is 6.69%, in two thirds of the sample firms the percentage of foreign participation does not exceed 7.79%, lower than the 10% threshold from which an investor can be considered to have influence.

Another characteristic of the profile of the sample firms is that practically two thirds are connected to a business group (BGA), more specifically 129 firms which represent 65.6% of the total.

In terms of the industry (IND) of the firms in the sample, 49.3% of the observations correspond to the service sector and 50.7% to the manufacturing sector.

Finally, in relation to the time period variable (TP), 56% of the observations refer to the years 2004-2008, before the crisis, and the remaining 44.4% to the years 2009-2012, which are characterized as an economic crisis situation in Spain.

As mentioned at the beginning of this section, when using the number of foreign subsidiaries (FS) as a measure of international diversification the sample size varies slightly to what it is when using the number of countries (NC). Table 9 shows general statistics obtained for the dependent, independent, moderating and control variables when FS is used in estimating the econometric models.

Table 9. Descriptive information of the variables of the econometric models with FS as a variable of international diversification

Variables	Mean	Median	Std. Dev.	Min	Max
ROA	0.0605	0.0459	0.0940	-0.299	0.842
ROE	0.170	0.116	0.320	-1.919	4.028
FS	6.489	1.098	7.070	1	56
SIZE	1,961	349.5	7,008	10	97,328
AGE	38.15	35,01	17.88	12.18	114.9
FL	0.558	0.561	0.214	0.0159	0.988
BGA	0.665	1	0.472	0	1
EM	0.835	0.892	0.181	0.1	1
FOPC	0.0114	0	0.0686	0	0,5
TP	0.453	0	0.498	0	1
IND	0.514	1	0.500	0	1

Number of companies: 195; Number of observations: 1,412
Source: Own elaboration

Since the values are practically identical with those from Table 8, the descriptive analysis given there is considered reproduced. The only new data that Table 9 offers over Table 8 refers to the foreign subsidiaries that on average reach a value of 6.5 per firm. The minimum and maximum range is between 1 and 56 foreign subsidiaries. If one considers the range according to a standard deviation (the value of which is 7.07), two thirds of the sample firms have no more than 14 foreign subsidiaries. This data differs from that given by the Registry of Foreign Investments at the Spanish Ministry of Economy and Competitiveness (DGCI, 2014), which indicates that the 2,700 firms incorporated in Spain had a total of 8,057 foreign affiliates in 2012, or an average of 2.98 foreign affiliates per firm.

In summary, compared to the generic profile of internationalized Spanish firms, those in the sample have a larger size, more foreign subsidiaries and are older.

10.2 Result Analysis

Table 10 shows the results of the different econometric models when using ROA as a measure of performance.

Table 10. Relationship between International Diversification and Performance with ROA

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
ROA	0.429*** (0.0501)	0.427*** (0.0498)	0.418*** (0.0472)	0.423*** (0.0474)	0.474*** (0.0454)	0.476*** (0.0458)	0.461*** (0.0436)	0.479*** (0.0458)
NC	0.00167** (0.000788)	0.00365** (0.00149)	0.00710** (0.00323)	0.0152*** (0.00430)				
NC2		-0.000122* (7.14e-05)	-0.000616 (0.000412)	-0.00237*** (0.000817)				
NC3			1.60e-05 (1.30e-05)	0.000139** (5.71e-05)				
NC4				-2.60e-06** (1.28e-06)				
FS					0.00593** (0.00266)	0.0120** (0.00578)	0.0269** (0.0108)	0.0169 (0.0202)
FS2						-0.00253 (0.00210)	-0.0194** (0.00869)	0.00540 (0.0289)
FS3							0.00391** (0.00173)	-0.00959 (0.0136)
FS4								0.00208 (0.00198)
SIZE	0.0139*** (0.00277)	0.0136*** (0.00274)	0.0152*** (0.00257)	0.0153*** (0.00255)	0.0119*** (0.00256)	0.0119*** (0.00255)	0.0130*** (0.00249)	0.0118*** (0.00256)
AGE	-0.0291 (0.119)	-0.0317 (0.115)	-0.0357 (0.112)	-0.0336 (0.112)	-0.125 (0.0986)	-0.126 (0.0981)	-0.128 (0.0944)	-0.148 (0.102)
FL	-0.123*** (0.0259)	-0.118*** (0.0258)	-0.113*** (0.0249)	-0.114*** (0.0248)	-0.112*** (0.0289)	-0.112*** (0.0285)	-0.107*** (0.0271)	-0.116*** (0.0284)
BGA	-0.0140** (0.00616)	-0.0145** (0.00616)	-0.0148** (0.00600)	-0.0140** (0.00595)	-0.00876 (0.00640)	-0.00892 (0.00641)	-0.00750 (0.00630)	-0.00866 (0.00642)
EM	-0.00178 (0.00812)	-0.00114 (0.00805)	-0.00199 (0.00796)	-0.000639 (0.00804)	-0.0346** (0.0139)	-0.0345** (0.0138)	-0.0420*** (0.0128)	-0.0336** (0.0137)
FOPC	0.111* (0.0653)	0.108* (0.0639)	0.107* (0.0627)	0.0901* (0.0621)	0.0815 (0.0615)	0.0761 (0.0610)	0.0904 (0.0601)	0.0719 (0.0609)
TP	-0.0168*** (0.00434)	-0.0164*** (0.00438)	-0.0193*** (0.00452)	-0.0199*** (0.00441)	-0.0133*** (0.00443)	-0.0131*** (0.00443)	-0.0143*** (0.00446)	-0.0136*** (0.00453)
IND	-0.104*** (0.0392)	-0.102*** (0.0391)	-0.102*** (0.0389)	-0.104*** (0.0386)	-0.0647* (0.0361)	-0.0640* (0.0360)	-0.0602* (0.0343)	-0.0599 (0.0366)
Constant	0.173 (0.174)	0.169 (0.170)	0.165 (0.165)	0.154 (0.166)	0.321** (0.150)	0.320** (0.149)	0.322** (0.143)	0.352** (0.153)
Observations	1,569	1,569	1,569	1,569	1,412	1,412	1,412	1,412
Number of firms	197	197	197	197	195	195	195	195
Wald Chi2	240.75	237.76	274.00	282.00	271.35	277.84	327.10	299.73
Wald Chi2p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sargan	31.51821	30.51664	34.28128	34.3243	27.25186	27.57168	33.08755	27.33237
Sarganp	0.1394	0.1682	0.1918	0.1904	0.2929	0.2785	0.2325	0.2892
Ar1	-5.8221	-5.8066	-5.8269	-5.9098	-5.3066	-5.338	-5.3409	-5.4367
Ar1p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Ar2	1.7874	1.7821	1.7763	1.8165	1.6304	1.6552	1.7171	1.7536
Ar2p	0.0739	0.0747	0.0757	0.0693	0.1030	0.0979	0.0860	0.0795

Source: Own elaboration

In models (1) to (4) the relationship between the number of countries (NC) and ROA is evaluated under different assumptions of the shape that the ID-P relationship

adopts. The results indicate that models (1), (2) and (4) have statistical validity, and therefore that in the sample firms the relationship NC-ROA adopts a positive linear shape as well as a non-linear shape, or more specifically, an inverted U shape and an M shape, respectively.

In models (5) to (8) the relationship between the number of foreign subsidiaries (FS) and ROA is evaluated. The results indicate that models (5) and (7) have statistical validity, and therefore that in the sample firms the relationship FS-ROA adopts, respectively, a positive linear shape and an inverted S shape, with the first section showing increasing performance, the middle section showing decreasing performance while the number of foreign subsidiaries increases, and the final section showing a return to increased performance.

In Table 11 (see following page) similar results are obtained when using the ROE as a measure of the performance variable. In models (1) to (4) the relationship between the number of countries (NC) and ROE is evaluated, validating models (1) and (4), which indicate that the relationship NC-ROE adopts a linear positive shape and an M-shaped curve, respectively. At the same time, in models (5) to (8) the relationship between the number of foreign subsidiaries (FS) and ROE is evaluated, validating models (5) and (7) in which it is concluded that the relationship FS-ROE adopts a positive linear shape and an inverted S-shaped curve, respectively.

Table 11. Relationship between International Diversification and Performance with ROE

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
ROE	0.443***	0.428***	0.426***	0.431***	0.409***	0.408***	0.409***	0.408***
	(0.0356)	(0.0298)	(0.0296)	(0.0294)	(0.0337)	(0.0336)	(0.0341)	(0.0345)
NC	0.00471*	0.00835*	0.0212**	0.0485***				
	(0.00250)	(0.00426)	(0.00900)	(0.0140)				
NC2		-0.000211	-0.00198*	-0.00784***				
		(0.000235)	(0.00113)	(0.00263)				
NC3			5.62e-05	0.000467***				
			(3.51e-05)	(0.000173)				
NC4				-8.70e-06**				
				(3.61e-06)				
FS					0.0138*	0.0276	0.0818**	0.0717
					(0.00735)	(0.0191)	(0.0369)	(0.0588)
FS2						-0.00542	-0.0568**	-0.0390
						(0.00689)	(0.0290)	(0.0824)
FS3							0.0113*	0.00223
							(0.00580)	(0.0390)
FS4								0.00140
								(0.00578)
SIZE	0.0315***	0.0414***	0.0414***	0.0415***	0.0327***	0.0327***	0.0329***	0.0328***
	(0.00737)	(0.00665)	(0.00655)	(0.00656)	(0.00848)	(0.00848)	(0.00851)	(0.00845)
AGE	-0.0877	-0.260	-0.235	-0.230	-0.439	-0.454	-0.464	-0.469
	(0.412)	(0.372)	(0.368)	(0.357)	(0.279)	(0.277)	(0.281)	(0.286)
FL	-0.136	-0.122	-0.131	-0.144	-0.0438	-0.0492	-0.0663	-0.0688
	(0.127)	(0.107)	(0.107)	(0.105)	(0.134)	(0.135)	(0.136)	(0.136)
BGA	-0.0147	-0.0119	-0.0144	-0.0127	-0.0151	-0.0155	-0.0158	-0.0172
	(0.0201)	(0.0189)	(0.0190)	(0.0186)	(0.0218)	(0.0218)	(0.0216)	(0.0219)
EM	0.00236	0.00449	0.00658	0.0126	-0.0803	-0.0781	-0.0735	-0.0742
	(0.0257)	(0.0236)	(0.0237)	(0.0237)	(0.0545)	(0.0548)	(0.0547)	(0.0547)
FOPC	0.405**	0.290*	0.283*	0.233*	0.372*	0.359*	0.370*	0.373*
	(0.197)	(0.159)	(0.157)	(0.156)	(0.202)	(0.204)	(0.202)	(0.202)
TP	-0.0421***	-0.0509***	-0.0539***	-0.0576***	-0.0365***	-0.0365***	-0.0389***	-0.0392***
	(0.0107)	(0.00953)	(0.00962)	(0.00937)	(0.0112)	(0.0113)	(0.0114)	(0.0115)
IND	0.0442	0.0861	0.0827	0.0781	0.0772	0.0733	0.0766	0.0720
	(0.0579)	(0.0714)	(0.0703)	(0.0723)	(0.115)	(0.116)	(0.118)	(0.118)
Constant	0.191	0.397	0.348	0.315	0.737	0.761*	0.776*	0.789*
	(0.664)	(0.599)	(0.591)	(0.569)	(0.450)	(0.448)	(0.453)	(0.459)
Observations	1,569	1,569	1,569	1,569	1,412	1,412	1,412	1,412
Number of firms	197	197	197	197	195	195	195	195
Wald Chi2	263.28	411.69	440.27	453.11	281.32	281.79	281.69	281.05
Wald Chi2p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sargan	40.41977	42.10172	40.90125	20.42538	22.04779	20.42336	20.26738	20.23003
Sarganp	0.2078	0.1331	0.1623	0.6723	0.5764	0.6725	0.6815	0.6836
Ar1	-3.7115	-3.6758	-3.6721	-3.6713	-3.2658	-3.2586	-3.2387	-3.237
Ar1p	0.0002	0.0002	0.0002	0.0002	0.0011	0.0011	0.0012	0.0012
Ar2	1.3417	1.3333	1.3157	1.3191	1.5583	1.5587	1.57	1.5726
Ar2p	0.1797	0.1824	0.1883	0.1871	0.1192	0.1191	0.1164	0.1158

Source: Own elaboration

The five models that are validated with the ROA measure and the four that are validated with the ROE measure are statistically significant. At the end of Tables 10 and

11 are the model statistical adjustments, chi-square (joint significance test of the coefficients), whose p-values are significant at 1%. Aside from this, validating the estimators' consistency, critically depends on the absence of second-order serial autocorrelation of residuals and instrument validity, and we present p-values of first- and second-order autocorrelations Arellano-Bond 1 and Arellano-Bond 2, respectively where the test for Arellano-Bond 1 is rejected at the 5% level, and the test for Arellano-Bond 2 is satisfactory in this case at high p-values. In relation to over identifying restrictions, the Sargan test shows satisfactory p-values at the 5% level.

Even though the results of the shape of the relationship between international diversification and performance vary according to the measures of performance (ROA and ROE) and international diversification (NC and FS) used, there is still an observable and clear pattern in the results. Table 12 shows us the summary of the statistically significant models, with the p values of the Sargan test indicated between parentheses.

Table 12. Summary of the International Diversification-Performance validated models

	ROA	**ROE**
Number of countries (NC)	• Model 1 – Positive linear (Sargan p-value=0.1394) • Model 2 – Inverted U-shaped (Sargan p-value= 0.1682) • Model 4 – M-shaped (Sargan p-value= 0.1904)	• Model 1 – Positive linear (Sargan p-value=0.2078) • Model 4 – M-shaped (Sargan p-value= 0.6723)
Foreign Subsidiaries (FS)	• Model 5 – Positive linear (Sargan p-value=0.2929) • Model 7 – Inverted S-shaped (Sargan p-value= 0.2325)	• Model 5 – Positive linear (Sargan p-value= 0.5764) • Model 7 – Inverted S-shaped (Sargan p-value= 0.6815)

Source: Own elaboration

When using the number of countries (NC) as a measure of international diversification, it is concluded that the impact that the international diversification strategy has on the performance of the firms in our sample (measured by both ROA and ROE) can be represented through a positive linear as well as non-linear relationships, namely an inverted U-shaped and an M-shaped. An important aspect to highlight is that

the two models (NC-ROA and NC-ROE) that test for an M-shaped relationship are those that have the highest level of statistical significance. That is, the p-value of the Sargan test of the M-shaped models are greater than those obtained for the models that represent a positive linear relationship for NC-ROA and NC-ROE, as well as those that represent an inverted U-shaped relationship for NC-ROA (furthermore this model is only validated with a 90% significance in the second section of the curve). In summary, when using the number of countries (NC) as a measure of international diversification, it can be concluded that the most statistically significant representation of the relationship between international diversification and performance adopts a non-linear shape, specifically an M-shaped, which confirms Hypothesis 1c for both models (NC-ROA and NC-ROE).

When using the number of foreign subsidiaries (FS) as a measure of international diversification similar results are obtained although with certain differences. In this case, the impact that the international diversification strategy has on the performance of the sample firms (measured in ROA as much as in ROE) can be represented through a positive linear relationship and an inverted S-shaped curve in both cases. When the performance variable is ROA, the most statistically significant model is that of a positive linear relation, while if the performance variable is ROE the most significant model is that of an inverted S-shaped relationship. In summary, when using the number of foreign subsidiaries (FS) as a measure for international diversification only Hypothesis 1b can be confirmed in the case of the relation FS-ROE, given that the most statistically significant relation adopts a non-linear, S-shaped curve.

In Tables 10 and 11 the behavior of the control variables can also be seen. If one considers the models that are statistically significant in both tables (in other words, with ROA and ROE as performance variable), larger firms (SIZE) obtain better performance

with the adoption of an international diversification strategy. Just as the literature indicates, larger firms find themselves in better conditions for facing the challenges of international expansion because they have the resources and the organizational capabilities that are required to engage growing levels of internationalization.

Furthermore, in accordance with what was expected, the sample firms obtain higher performance levels in the period prior to the economic crisis (TP), having a negative coefficient variable for the years after 2008. This is explained by the economic recession experienced by Spain and in many countries in the European zone starting in 2009, which had a significant impact on the sample firms due to their relatively high dependence on the Spanish market, given the limited degree of international diversification of many of the firms, and because some of their subsidiaries are in the European zone.

Additionally, in some models in Table 10 (those with NC as international diversification variable) and in all the models in Table 11, firms with a higher participation of foreign investment in their capital (FOPC) obtain greater performance with the adoption of an international diversification strategy. This result suggests that said firms could face the barriers and the costs of the international expansion process more effectively, since they may benefit from the networks of relationships and the knowledge of these investors in certain foreign markets.

Likewise, in Table 10 (with ROA as a performance variable) firms with less financial leverage (FL) and those from the service sector (IND) obtain better performance with the adoption of an international diversification strategy. Firms that have lower levels of financial debt are in conditions to assume greater risk levels and to more easily access sources of financing, and thereby face the investments of the international expansion process. Meanwhile, the firms in the service sector obtain better

performance when compared to manufacturing firms, since in general they have lower levels of investment when establishing foreign affiliates.

On the other hand, when in Table 10 the number of countries (NC) is considered as a variable of international diversification, the sample firms that are independent, that is non-affiliated to a business group (BGA), obtain better performance with an international diversification strategy. This result is contrary to our expectations (proposition 4) and would indicate that, in the case of non-affiliated firms, the benefits derived from autonomy in decision making (example more agility and flexibility to adequate their processes and business models to the particular conditions of the destination market) would be more important than the net benefits of belonging to a business group. Thus, the benefits derived from access to additional resources that belonging to a business group might provide, like information and capital, could be offset by the restrictions on autonomy in decision making of member firms and by the costs of coordination and control associated with said resources.

Finally, when in Table 10 the number of foreign subsidiaries (FS) is considered as a variable of international diversification, the sample firms that have a lower degree of control over their subsidiaries (EM) obtain better performance with an international diversification strategy. This result is contrary to our expectations (proposition 5) and would indicate that the sample firms that count on third party participation in the capital of their foreign affiliates, possibly local partners, would count on a greater ability to accommodate their strategic actions and business models to the particular conditions of the destination market. If one considers that the levels of international diversification and international experience of the sample firms are not on average very high, then partnering with local firms would contribute to a higher degree of local adaptation that would translate into higher performance levels.

10.3 Discussion of results and limitations

The results of this investigation are in line with a large part of the literature on the impact that the international diversification strategy has on the performance of firms and allows us to confirm hypothesis 1b and 1c, showing that the relationship between both variables adopts a non linear shape, if it does indeed vary according to the different indicator used as a measure of international diversification (an M-shaped for NC and an inverted –shaped for FS).

When considering the number of countries in which a firm has foreign affiliates (NC) we are measuring the reach or scope of its international diversification. The results obtained show that the most statistically significant relationship between NC and performance (models NC-ROA and NC-ROE) adopts an M shaped curve, in line with the results of recent studies (Almodovar, 2012, Almodovar and Rugman, 2014), even if the models based on a linear relation and with an inverted U shape also have statistic validity, although in the last case with a lower level of signification.

An adequate interpretation of these results requires keeping in mind, firstly, the characteristics of our sample firms. As opposed to the studies based on samples of exporting firms where the variable of international diversification tends to refer to the proportion that exports represents over total sales, our case deals with firms that are in a more advanced phase of internationalization where the variable of international diversification is measured by the number of countries in which the firm has made direct investments. In other words, in the first case the studies have been centered on the relation between *international sales diversification* and performance, while our study was focused on the relation between *international investment diversification* and performance.

Figures 1 and 2 show the shape of the curves for the models NC-ROA and NC-ROE that have been statistically validated.

Figure 1. NC-ROA Relationship

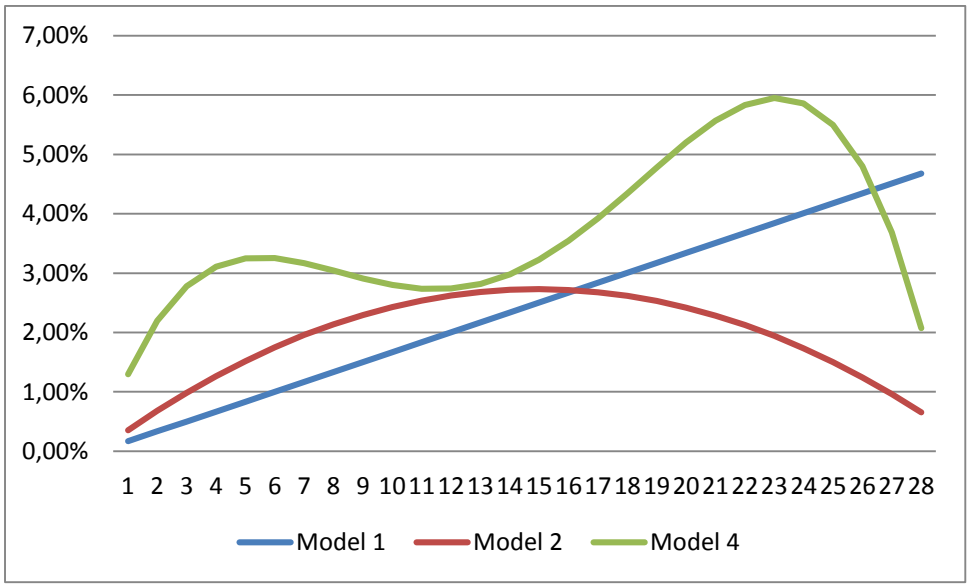
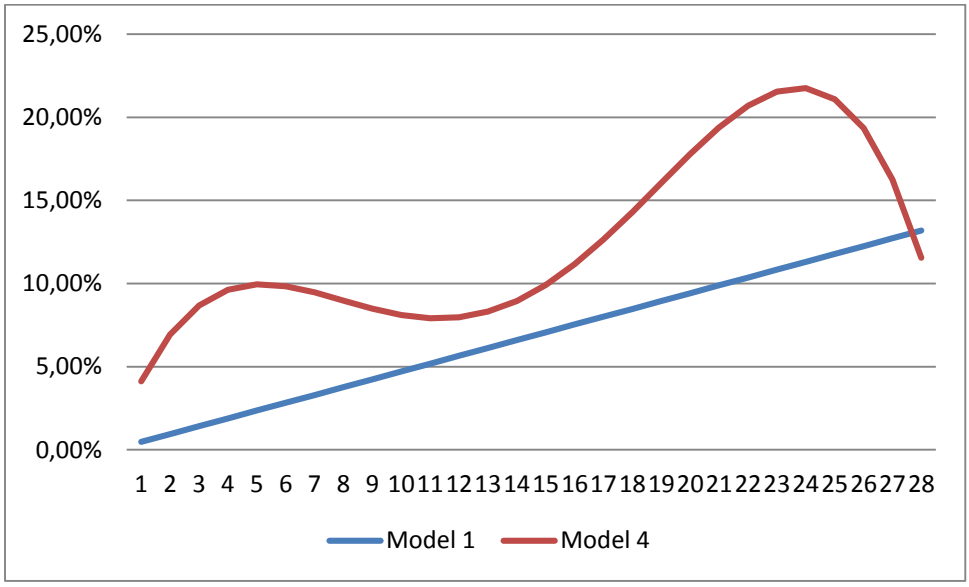


Figure 2. NC-ROE Relationship



The graphs help us to perceive the compatibility between the different validated models, especially the positive linear and the M shaped curve, since in this last model the second part of the curve has a very slight negative slope.

Additionally, the fact that the two models present a non-linear relation, the M or the inverted U shape, indicate that their predictions coincide at both low and high levels of international diversification, differing at the intermediate levels.

Thus, the fact that when the levels of international diversification are low the relationship between international diversification and performance are positive would be explained by the nature of the indicator NC and the sample firms. There exists ample empirical evidence that confirms that foreign direct investments tend to be made once firms have had prior positive experiences in the host country (e.g. Johanson and Vahlne, 1977; 1990). In this sense, our results would indicate that the first countries in which the firms decide to have a direct presence through foreign affiliates would be those that present the most attractive business opportunities, probably because the majority of them were already important exporting markets in which the firm could use its competitive advantages (FSAs) and existing infrastructure. The investment in a foreign affiliate would seek to consolidate its presence and reinforce its competitive position there. Prior experience in foreign countries would contribute to sensibly mitigating the costs derived from the liabilities of foreignness and newness. Meanwhile, firms that count on foreign affiliates in a limited number of countries face a lower degree of organizational complexity, especially if such countries are in the same geographic region (and probably have certain similarities among them). All of this would account for a positive relationship between international diversification and performance in these cases, since the benefits of counting on a greater international presence through foreign affiliates would be superior to the costs of such a diversification.

When the levels of international diversification are very high the relationship between international diversification and performance is negative. This would be explained as much by the growing difficulty of developing international operations in

countries that are more and more geographically, institutionally and culturally different, as by the growing organizational complexity and the greater costs of information, coordination and control derived from this.

The most interesting aspect of our results is that the shape of the most statistically significant relationship, as much for NC-ROA as for NC-ROE, is an M-shaped curve. This shape quite likely reflects to a large extent the bi-regional pattern of localization of direct investments of Spanish multinationals, with a strong weight on the European Union and Latin America, which are considered "natural markets", together with the fact that the international expansion process of these firms is relatively recent, not more than two decades except for a handful of exceptions.

Thus, in the first section of the M where the relationship between international diversification and performance is positive, just as we have commented, the firm would establish foreign affiliates in those foreign countries with which it is more familiar, probably both geographically and culturally close, and in which it could exploit its competitive advantages (FSAs) developed in its country of origin and during its prior internationalization experience. However, to the extent that the firm tries to establish itself in new foreign markets, the geographical, cultural and institutional distance will be greater, which will negatively affect its performance due to the additional costs derived from a greater liability of foreignness, which can be accentuated when beginning operations in a new geographic region, which would explain the second descending section of the M.

If the development of new capabilities and competitive advantages (FSAs) to exceed said costs requires significant investments and time, it is also true that the direct presence by foreign affiliates allows an acceleration of the learning process and the development of new organizational capabilities to respond to the specific characteristics

of the distinct host countries. Once such capabilities are developed, the firm can make use of them in those countries that have similar characteristics, probably in the same region, which would explain the third ascending section of the M.

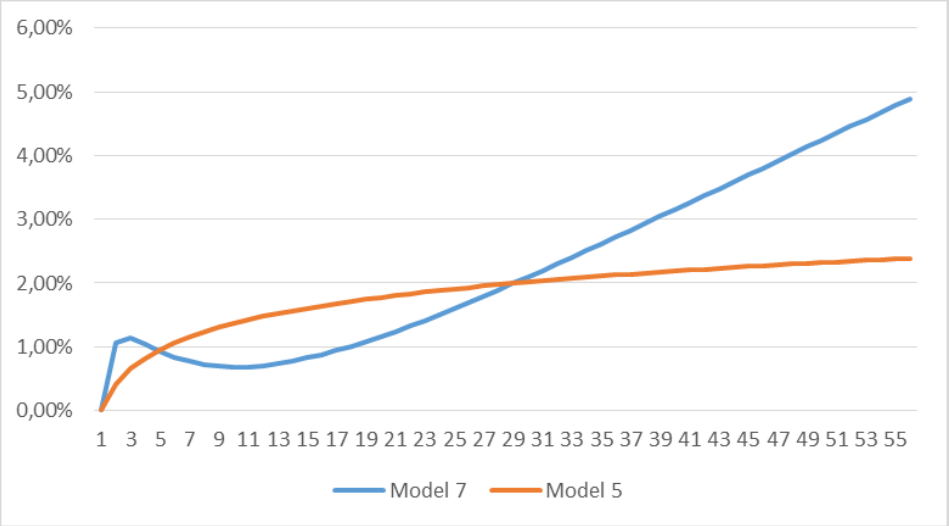
Finally, the firms that, stimulated by success, have continued increasing their international diversification have probably done so in countries located in new geographic regions, or, that have higher levels of the liability of foreignness, given their greater geographic, institutional and cultural distance, which together with the greater costs of information, coordination and control derived from a growing organizational complexity would negatively affect their performance and explain the fourth descending section of the M.

When using the number of foreign subsidiaries (FS) on which a firm depends, we are measuring, in an indirect way, the depth of the international diversification of a firm in its organizational dimension, since owning foreign subsidiaries means not only having a part of the firms's assets and employees in other countries, but also generating part of the firm's sales abroad. These are the three indicators typically used for measuring the depth of multinationality (international diversification) of a firm.

The results obtained show that the most statistically significant relation between FS and performance, measured either by ROA or ROE, adopts in both cases a linear shape as well as an inverted S shape, although the linear relation is more significant for the FS-ROA model and the inverted S relation is more significant for the FS-ROE model.

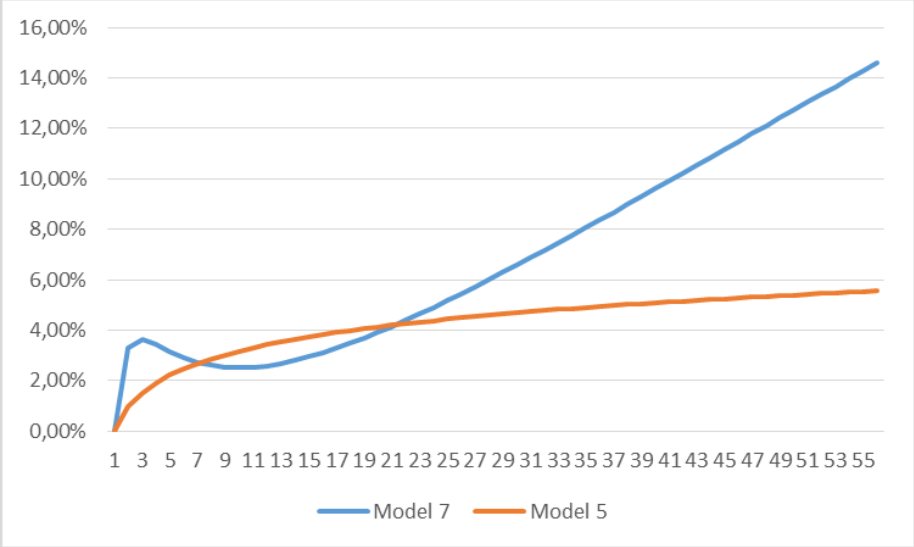
Figures 3 and 4 show the shapes of the curves for models FS-ROA and FS-ROE that have been statistically validated.

Figure 3. FS-ROA Relationship



Source: Own elaboration

Figure 4. FS-ROE Relationship



Source: Own elaboration

The graphs help us perceive the compatibility between the two validated models, the positive linear and the inverted S shape curve, since in the second, the first two sections of the curve, the positive slope and the negative slope, take place when the number of subsidiaries is below 10. This result is in accordance with the literature on international management that shows how the organizational model of the firm needs to be adapted for the growing complexity caused by international expansion (Mendoza and Vives, 2008).

Thus, in the first section of the inverted S when the number of foreign subsidiaries is very low, and consequently the number of countries as well, the firm would take advantage of its existing organizational infrastructure, without the need of significant adjustments, for controlling and coordinating its incipient network of foreign subsidiaries. This, in addition to it being very probable that the first countries that a firm would decide to have a direct presence in via foreign subsidiaries would be those that present the most attractive business opportunities, would explain why the relationship between international diversification and performance would be positive in this first section.

Nevertheless, as the number of foreign subsidiaries increases the firm must face greater internal organizational complexity, accentuated by cultural and institutional differences with the host countries. This would oblige the firm to rethink not only the way in which it is structured but also to create necessary management systems for coordinating and controlling their network of foreign subsidiaries. In terms of organizational development, the focus of attention would move from subsidiaries to the parent company (Mendoza and Vives, 2008). Thus, in the stage of the establishment of the first foreign subsidiaries the greatest difficulties, from an organizational perspective, are those of the availability of employees to be expatriated, the availability of qualified employees in the destination country and in carrying out the transfer of knowledge and skills that would maintain their competitive advantage (FSAs). Nevertheless, the increase in the number of foreign subsidiaries would bring an increase in the information flows and the coordination and control demands that would end up forcing the parent company to redesign its initial organizational infrastructure and to develop corporative functions that didn't exist, before, for the firm as a whole. The second

descending section of the inverted S curve would then reflect this internal restructuring process and organizational change that would negatively affect performance.

Once a firm's organizational capabilities for managing a network of foreign subsidiaries is developed, it would be in a position to support the growth of its network, thus explaining the third ascending section of the inverted S shape. However, it should not be assumed that, once this organizational capability is developed, the firms would be assured greater levels of performance by increasing their international diversification. As has been previously mentioned, international expansion beyond the countries and regions that are familiar to a firm, geographically, culturally and institutionally, results in greater levels of the liability of foreignness, which in addition to the costs derived from a growing organizational complexity, would negatively affect performance. The fact that the maximum number of foreign subsidiaries of the sample firms is not very high, not above 56, would explain the M-shaped model, with a fourth descending section that is not validated. In this sense, it could be argued that the inverted S-shaped curve represents the first three stages of the M-shaped model.

The results of this investigation represent a relevant contributiont to the scarce literature that exists on the relationship between international diversification and performance of Spanish firms. Of the ten studies identified on Spanish firms, three of them (Sánchez, 2001; Ramírez-Alesón and Espitia-Escuer, 2000, 2001), were published prior to the three-stage model (S-shaped curve) developed by Contractor et al. (2003) and a later, fourth study did not test quadratic relations between the variables of international diversification and performance (Muñoz-Bullón and Sánchez-Bueno, 2011). Consequently, we will focus on comparing our results with the remaining six studies.

It should be noted that only one of these six studies, done by Jiménez-Palmero and Benito-Osorio (2011), is centered on the relationship between *international investment diversification* and performance. In this study the authors analyze the relationship between product and geographic diversification and the performance of Spanish multinationals, using as the geographic diversification variable the number of countries in which a firm has foreign affiliates and ROE as a performance variable. The authors estimated the linear, quadratic and sigmoid shapes of the relationship between international diversification and performance, although they didn't find statistically significant results in any of the three assumptions.

The remaining five studies (Bobillo et al, 2007, 2008, 2010; Almodovar, 2012; Almodovar and Rugman, 2014; Fernández-Olmos and Díez-Vial, 2015; Fernández-Olmos et al., 2015) are based on exporting firms, with the export intensity ratio (exports over total sales) as the diversification variable and ROS (Return on Sales) as the performance variable in three cases and the ROA in the fourth (Bobillo et al, 2007, 2008, 2010), or in other words, they deal with studies that analyze the relationship between *sales international diversification* and performance.

In the study by Bobillo et al. (2007, 2008, 2010) with a sample of exporting firms from Germany, France, the United Kingdom, Spain and Denmark and data referring to the years 1991-2001, they tested the sigmoid or S-shaped ID-P relationship and the effects of institutional variables of each country such as the type of advantages (competitive or comparative) of their firms. French firms appear to depend more on internal competitive advantages; Spanish firms appear to prefer the use of external advantages; and Danish, German, and U.K. firms appear quite balanced in the use of both types of advantages. The results support an S-shaped relationship, irrespective of the firms' orientation towards exploiting internal or external advantages.

More recently, Almodóvar (2012) tests the M-shaped relationship using a panel data set of Spanish exporting firms. The author conducts the research from the perspective of international marketing, in that she postulates that part of the discrepancies over the existing relationship between international diversification and performance could stem from not considering whether the marketing strategy followed by the firm was one of standardization or local adaptation. Almodóvar (2012) confirms an M-shaped curve for product standardization firms, while she finds a W-shape for product customization firms, and thus indicates that it depends on the product marketing strategy followed by the firm.

In a later study, Almodóvar and Rugman (2014) analyze a sample of Spanish international new ventures (INVs), defined as those firms that in one of their first three years of existence were able to achieve exports amounting at least a minimum of 25% of their total sales. Using a panel data analysis for the period 1994-2008, the authors find empirically that Spanish INVs follow an inverted U curve in the very short term, where no learning takes place, but that experience gained over time yields an M-curve relationship once learning takes place. The authors argue that the multinationality-performance relationship of INVs follows a traditional S-shaped relationship, but these firms first experience a "born global illusion" which leads to a non-traditional M curve.

Later, Fernández-Olmos and Díez-Vial (2015) examined the effect of the chosen specific internationalization pathway on the relationship between internationalization and firm performance. Based on a sample of 138 wineries in La Rioja for the year 2011, the authors show that the internationalization-export performance relationship is characterized by a U-shaped curve for firms with a gradual internationalization pathway, and an S-shaped curve for firms with an accelerated internationalization pathway.

The last published study we are aware of was developed by Fernández-Olmos et al., (2015). These authors investigated the impact of the family dimension of a business on the international diversification-performance relationship. Using a panel data analysis for the 2006-2011 period, the authors find empirically that Spanish family-owned exporting SMEs follow a W-curve or an inverted M. The specific characteristics of family firms would explain the shape of the curve.

In summary, this investigation constitutes the second empirical study, and the first to obtain statistically significant results, on the relationship between *international investment diversification* and performance in the case of Spanish multinational firms. Based on a robust longitudinal database for the period 2004-2012 and using a panel data analysis, the author finds empirically that the relation between degree of international diversification, when measured by the number of countries where the companies have foreign affiliates, and firm performance is M-shaped. This finding holds for diverse performance measures (ROA and ROE). Furthermore, the author highlights the importance from a theory development perspective of distinguishing between sales international diversification and investment international diversification.

Nevertheless, this investigation has certain limits. In the first place, the model estimation could be improved by increasing the sample size. Even though the database of SABI is the most complete for Spain, it is difficult to find detailed and complete information over the Spanish multinational firms, especially in reference to the availability of data over their foreign affiliates.

Secondly, the model estimation could be improved by adding other performance measures. In this investigation we worked with two accounting performance variables, ROA and ROE. The models were estimated with two accounting variables in order to increase the robustness of the results. However, the results could reach higher levels of

practical validity, if using variables of other performance classifications, or market measures and operational and efficiency measures. In other words, a greater level of statistical thoroughness could be obtained if in the estimation of the econometric models we used other measures of performance. However, in this investigation this was not possible due to the limitations of the available data.

Relating to the aforementioned, the third limitation that can be observed is for the use of the international diversification variables NC and FS. The variables NC and FS are part of a category of structural variables. Nevertheless, and just as happens with performance variables, the estimation of the models could be improved if we had been able to use international diversification measures in other categories, such as performance attitudinal measures. Nevertheless, this was not possible due to limitations of the available data.

The fourth limitation is also related to the use of the FS as an indirect measure to estimate intensity or depth of the international diversification of a multinational firm. This measure could be improved if information related to the importance or relative weight that foreign operations have on total operations could be available.

Finally, the estimation of the models could be benefitted in the measure that other control variables are made available. Even though the present research used control variables that were amply supported by the literature, and the number of variables exceeded what it is commonly observed in other studies of this type, it is also true that in recent years other variables have been incorporated that deserve greater attention. These variables refer principally to the capabilities and competencies of the firms such as R&D intensity or advertising intensity, with the distances (cultural and institutional) that are observed between the home country and the host country, and the year in which the firm began its internationalization process with the investments made.

Nevertheless, the incorporation of control variables in this investigation was subject to the information available in the SABI database.

CHAPTER 11. The moderating effect of the firm's geographical focus on the ID-P relationship

11.1 Descriptive analysis of the sample

In this study two different measures are used to represent the international diversification variable: the number of countries (NC) and the number of foreign subsidiaries (FS). The sample of the study consists of 197 Spanish parent companies, two of which had associate firms, but no subsidiaries abroad. Therefore, when the measure for international diversification is NC the sample size of the study is 197 and when the measure is FS the sample size is 195.

The variable NC measures the number of countries in which the sample firms have *foreign affiliates*. Table 13 shows general statistics obtained for the dependent, independent, moderating and control variables when NC is used in estimating the econometric models. The information provided refers to the mean, median, standard deviation, minimum and maximum value for each variable.

Table 13. Descriptive information of the variables of the econometric models with NC as a variable of international diversification

Variables	Mean	Std. Dev.	Median	Min	Max
ROA	0.0599	0.0950	0.0457	-0.299	0.842
ROE	0.171	0.331	0.115	-1.919	4.028
NC	4.399	4.021	3	1	28
FIREGIONAL	0.427	0.495	0	0	1
FIBIREGIONAL	0.271	0.444	0	0	1
FISEMIGLOBAL	0.247	0.432	0	0	1
FIGLOBAL	0.0549	0.228	0	0	1
SIZE	1,902	6,846	2,515	10	97,328
AGE	38.34	17.88	35.02	12.18	114.9
FL	0.557	0.215	0.559	0.0159	0.988
BGA	0.656	0.475	1	0	1
EM	0.796	0.237	0.874	0.1	1
FOPC	0.0110	0.0669	0	0	0.5
TP	0.444	0.497	0	0	1
IND	0.507	0.500	1	0	1

Number of companies: 197; Number of observations: 1,569
Source: Own elaboration

Being a longitudinal study that covers a period of 9 years, from 2004 to 2012, the maximum number of possible observations would be 1,773, the result of multiplying the 197 sample firms by 9. Given that the number of reported observations is 1,569, we can say that our data panel is pretty well balanced.

The data in Table 13 allows us to obtain a profile of the sample firms and compare them to Spanish multinationals as a whole. Given that the values are practically identical to Table 8, the descriptive analysis done for that table can be applied to this one. The only new data that Table 13 offers refers to the distribution of the sample firms in terms of their internationalization focus: in 42.7% of the observations the firms have foreign affiliates located in just one international geographic region, in 27.1% they have foreign affiliates in two regions, in 24.7% they have foreign affiliates in 3 or 4 regions, and in the remaining 5.5% they have foreign affiliates in 5 or more regions.

As mentioned at the beginning of this section, when using the number of foreign subsidiaries (FS) as a measure of international diversification, the sample size varies slightly. Table 14 shows general statistics obtained for the dependent, independent, moderating and control variables when FS is used in estimating the econometric models. Given that the values are practically the same with those of Table 9, the descriptive analysis for that table is considered reproduced for Table 14.

Finally, as a summary, the previous descriptive analysis indicates that, in comparison with the generic profile of Spanish multinationals, the firms in the sample are larger, older and have a higher degree of international diversification.

Table 14. Descriptive information of the variables of the econometric models with FS as a variable of international diversification

Variables	Mean	Std. Dev.	Mean	Min	Max
ROA	0.0605	0.0940	0.0459	-0.299	0.842
ROE	0.170	0.320	0.116	-1.919	4.028
FS	6.489	7.070	1.098	1	56
FIREGIONAL	0.408	0.492	0	0	1
FIBIREGIONAL	0.274	0.446	0	0	1
FISEMIGLOBAL	0.259	0.438	0	0	1
FIGLOBAL	0.0584	0.235	0	0	1
SIZE	1,961	7,008	2,5434	10	97,328
AGE	38.15	17.88	35,01	12.18	114.9
FL	0.558	0.214	0.561	0.0159	0.988
BGA	0.665	0.472	1	0	1
EM	0.835	0.181	0.892	0.1	1
FOPC	0.0114	0.0686	0	0	0,5
TP	0.453	0.498	0	0	1
IND	0.514	0.500	1	0	1

Number of companies: 195; Number of observations: 1,412
Source: Own elaboration

11.2 Results analysis

In the following, the econometric models that study the moderating effects that the firm's geographical focus (regional, bi-regional, semi global and global) has on the international diversification-performance relationship will be analyzed. In order to do so, the different econometric models must be estimated (NC-ROA, NC-ROE, FS-ROA and FS-ROE) for each interaction variable separately (FIREGFORNC, FIBIREGFORNC, FISEMGLOBFORNC and FIGLOBFORNC for NC and FIREGFORFS, FIBIREGFORFS, FISEMGLOBFORFS and FIGLOBFORFS for FS).

11.2.1 Regional Focus

Table 15 shows the results of the different econometric models when using ROA as a measure of performance. Models (1) to (4) evaluate the relationship between the number of countries (NC) and ROA under different assumptions of the shape that said relationship adopts. The values of the coefficients for the variable FIREGFORNC are in all cases positive and statistically significant, that is, firms with a regional focus obtain

better performance with the adoption of an international diversification strategy. With respect to the shape of the relationship NC-ROA, model (4) is validated, or in other words, the relationship adopts the shape of an M curve. Meanwhile, in models (5) to (8), the relationship FS-ROA is not statistically significant, even if the values of the coefficients for the variable FIREGFORFS are in all cases positive.

Table 16 shows the results of the firms with a regional focus when using ROE as a measure of performance. The values of the coefficients for the variable FIREGFORNC are in all cases positive (indicating that firms with a regional focus obtain better performance), although they are not statistically significant. Meanwhile, the values of the coefficients for the variable FIREGFORFS are positive in two cases and negative in the other two cases, and statistically significant in none. Thus, no conclusion can be drawn on the effect that a regional internationalization focus has on the relationship FS-ROE.

In summary, only model (4) for the relationship NC-ROA is statistically significant. At the end of Table 15 are the model statistical adjustments, chi-square, whose p-values are significant at 1%. Aside from this, validating the estimators' consistency, critically depends on instrument validity and the absence of second-order serial autocorrelation of residuals. In relation to over identifying restrictions, the Sargan test shows satisfactory p-values at the 5% level. We present p-values of first- and second-order autocorrelations Arellano-Bond (1) and Arellano-Bond (2), respectively, where the test for Arellano-Bond (1) is rejected at the 5% level, and the test for Arellano-Bond (2) is satisfactory in this case at high p-values.

Thus, the results provide sufficient evidence to support Hypothesis 2a (for NC-ROA) that postulates that firms with a regional internationalization focus obtain higher performance with the adoption of an international diversification strategy.

Table 15. Moderating Effect of the Firm's Geographical Focus on the International Diversification- Performance Relationship with variables ROA and FIREGIONAL

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
ROA	0.426*** (0.0496)	0.424*** (0.0449)	0.422*** (0.0459)	0.424*** (0.0460)	0.472*** (0.0455)	0.472*** (0.0456)	0.400*** (0.0385)	0.397*** (0.0398)
FIREGIONAL	-0.0181** (0.00704)	-0.0163** (0.00822)	-0.0151 (0.00947)	-0.00678 (0.00917)	-0.00388 (0.00699)	-0.00106 (0.00886)	-0.00195 (0.00858)	-0.00123 (0.00846)
FIREGFORNC	0.00747*** (0.00157)	0.00665*** (0.00182)	0.00638*** (0.00212)	0.00433** (0.00197)				
FIREGFORFS					0.00845 (0.00531)	0.00636 (0.00622)	0.00462 (0.00584)	0.00432 (0.00578)
NC	0.000721 (0.000899)	0.000792 (0.00200)	0.00214 (0.00462)	0.0123** (0.00550)				
NC2		-7.66e-06 (8.62e-05)	-0.000175 (0.000503)	-0.00203** (0.000878)				
NC3			4.86e-06 (1.47e-05)	0.000124** (5.80e-05)				
NC4				-2.41e-06* (1.29e-06)				
FS					0.00348 (0.00389)	0.00746 (0.00962)	0.0171 (0.0140)	-0.00482 (0.0223)
FS2						-0.00113 (0.00262)	-0.0132 (0.00892)	0.0244 (0.0286)
FS3							0.00291* (0.00170)	-0.0156 (0.0133)
FS4								0.00271 (0.00192)
SIZE	0.0137*** (0.00269)	0.0150*** (0.00254)	0.0154*** (0.00252)	0.0154*** (0.00250)	0.0119*** (0.00256)	0.0119*** (0.00255)	0.0124*** (0.00242)	0.0126*** (0.00242)
AGE	-0.0311 (0.118)	-0.134 (0.105)	-0.133 (0.105)	-0.134 (0.104)	-0.120 (0.0986)	-0.120 (0.0985)	-0.207** (0.0895)	-0.229** (0.0918)
FL	-0.125*** (0.0252)	-0.111*** (0.0237)	-0.110*** (0.0235)	-0.111*** (0.0235)	-0.120*** (0.0283)	-0.119*** (0.0283)	-0.129*** (0.0251)	-0.129*** (0.0250)
BGA	-0.0146** (0.00616)	-0.0138** (0.00589)	-0.0136** (0.00584)	-0.0129** (0.00579)	-0.00798 (0.00634)	-0.00803 (0.00637)	-0.00444 (0.00606)	-0.00401 (0.00607)
EM	0.00211 (0.00825)	0.00650 (0.00753)	0.00595 (0.00751)	0.00678 (0.00751)	-0.0332** (0.0144)	-0.0339** (0.0146)	-0.0323*** (0.0125)	-0.0320** (0.0126)
FOPC	0.0951 (0.0661)	0.104* (0.0595)	0.104* (0.0594)	0.0938 (0.0589)	0.0825 (0.0617)	0.0808 (0.0613)	0.117** (0.0573)	0.115** (0.0572)
TP	-0.0174*** (0.00441)	-0.0175*** (0.00431)	-0.0179*** (0.00436)	-0.0181*** (0.00432)	-0.0129*** (0.00454)	-0.0127*** (0.00454)	-0.0169*** (0.00441)	-0.0166*** (0.00453)
IND	-0.100** (0.0390)	-0.0796** (0.0364)	-0.0777** (0.0366)	-0.0790** (0.0364)	-0.0607* (0.0362)	-0.0614* (0.0362)	-0.0494 (0.0332)	-0.0475 (0.0342)
Constant	0.179 (0.172)	0.311** (0.156)	0.306** (0.155)	0.291* (0.155)	0.317** (0.150)	0.314** (0.150)	0.449*** (0.136)	0.481*** (0.137)
Observations	1,569	1,569	1,569	1,569	1,412	1,412	1,412	1,412
Number of firms	197	197	197	197	195	195	195	195
Wald Chi2	318.71	355.12	365.53	370.43	296.20	297.59	380.33	387.75
Wald Chi2p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sargan	31.52009	43.39483	44.00757	44.53239	28.87514	28.9231	46.32072	45.8092
Sarganp	0.1393	0.1064	0.0954	0.0867	0.2249	0.2230	0.0774	0.0682
Ar1	-5.7986	-5.7258	-5.7436	-5.7931	-5.3038	-5.3071	-5.1115	-5.1794
Ar1p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Ar2	1.7764	1.8045	1.7991	1.8277	1.63	1.6415	1.5894	1.6423
Ar2p	0.0757	0.0711	0.0720	0.0676	0.1031	0.1007	0.1120	0.1005

Source: Own elaboration

Table 16. Moderating Effect of the Firm's Geographical Focus on the International Diversification- Performance Relationship with variables ROE and FIREGIONAL

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
ROE	0.446***	0.430***	0.430***	0.432***	0.409***	0.359***	0.357***	.426***
	(0.0356)	(0.0302)	(0.0301)	(0.0304)	(0.0338)	(0.0555)	(0.0552)	(.0307)
FIREGIONAL	-0.0424**	-0.0440*	-0.0271	0.00150	-0.0189	0.00459	0.0104	.0233
	(0.0213)	(0.0263)	(0.0295)	(0.0284)	(0.0275)	(0.0566)	(0.0538)	(.0398)
FIREGFORNC	0.0123**	0.0145**	0.0109	0.00386				
	(0.00613)	(0.00659)	(0.00694)	(0.00674)				
FIREGFORFS					0.0146	1.59e-05	-0.00701	-.0177
					(0.0189)	(0.0361)	(0.0337)	(.0275)
NC	0.00236	0.000932	0.0125	0.0487***				
	(0.00304)	(0.00668)	(0.0139)	(0.0178)				
NC2		0.000105	-0.00116	-0.00777***				
		(0.000302)	(0.00144)	(0.00280)				
NC3			3.57e-05	0.000459***				
			(4.13e-05)	(0.000173)				
NC4				-8.51e-06**				
				(3.55e-06)				
FS					0.00627	0.0398	0.0975*	.0600
					(0.0131)	(0.0513)	(0.0577)	(.0762)
FS2						-0.00735	-0.0570	.0008
						(0.0117)	(0.0395)	(.1005)
FS3							0.0105	-.0163
							(0.00827)	(.0478)
FS4								.0039
								(.0071)
SIZE	0.0303***	0.0420***	0.0420***	0.0421***	0.0325***	0.0440***	0.0442***	.04380***
	(0.00726)	(0.00660)	(0.00657)	(0.00653)	(0.00838)	(0.0109)	(0.0109)	(.0079)
AGE	-0.0630	-0.253	-0.230	-0.262	-0.446	-0.663	-0.689	-.1689
	(0.410)	(0.370)	(0.369)	(0.369)	(0.273)	(0.471)	(0.460)	(.2943)
FL	-0.148	-0.135	-0.130	-0.149	-0.0503	-0.334	-0.349	-.1011
	(0.127)	(0.107)	(0.107)	(0.108)	(0.136)	(0.237)	(0.237)	(.1695)
BGA	-0.0179	-0.0140	-0.0157	-0.0147	-0.0149	-0.00818	-0.00872	-.0049
	(0.0203)	(0.0191)	(0.0194)	(0.0192)	(0.0220)	(0.0307)	(0.0304)	(.0259)
EM	0.0110	0.0110	0.0105	0.0147	-0.0699	-0.106	-0.101	-.1276*
	(0.0266)	(0.0244)	(0.0244)	(0.0243)	(0.0578)	(0.0828)	(0.0823)	(.0683)
FOPC	0.360*	0.280*	0.284*	0.257	0.359*	0.341	0.344	.3293*
	(0.200)	(0.161)	(0.160)	(0.159)	(0.208)	(0.269)	(0.268)	(.1841)
TP	-0.0458***	-0.0529***	-0.0544***	-0.0572***	-0.0367***	-0.0436***	-0.0456***	-.0415***
	(0.0108)	(0.00975)	(0.00986)	(0.00967)	(0.0115)	(0.0159)	(0.0161)	(.0121)
IND	0.0347	0.0694	0.0680	0.0685	0.0682	-0.129	-0.127	-.0219
	(0.0556)	(0.0692)	(0.0660)	(0.0663)	(0.115)	(0.182)	(0.182)	(.1386)
Constant	0.185	0.427	0.366	0.368	0.763*	1.318*	1.355*	.3593
	(0.660)	(0.597)	(0.594)	(0.595)	(0.440)	(0.740)	(0.724)	(.4539)
Observations	1569	1569	1569	1569	1,412	1,412	1,412	1,412
Number of firms	197	197	197	197	195	195	195	195
Wald Chi2	272.87	411.78	428.18	442.36	279.08	134.74	136.09	360.10
Wald Chi2p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sargan	21.76575	41.46762	41.18887	40.39266	20.25408	14.03625	13.99327	24.39655
Sarganp	0.5932	0.1480	0.1549	0.1761	0.6822	0.2310	0.2334	0.5533
Ar1	-3.7218	-3.6707	-3.6712	-3.6699	-3.2552	-3.1762	-3.1626	-3.1286
Ar1p	0.0002	0.0002	0.0002	0.0002	0.0011	0.0015	0.0016	0.0018
Ar2	1.3352	1.3333	1.3263	1.3268	1.5572	1.6957	1.7216	1.4809
Ar2p	0.1818	0.1824	0.1847	0.1846	0.1194	0.0899	0.0851	0.1386

Source: Own elaboration

11.2.2 Bi-regional Focus

Table 17 shows the results of the different econometric models for firms with a bi-regional internationalization focus when using ROA as a performance measure. The values of the coefficients for the moderating variable (FIBIREGFORNC and FIBIREGFORFS, according to the model) are in all cases negative (indicating that firms with a bi-regional focus would obtain lower performance than others with different geographical focus), but not statistically significant. Thus, no conclusion can be drawn on the effect that a bi-regional internationalization focus has on the international diversification-performance relationship (models NC-ROA and FS-ROA).

Similar results are obtained in Table 18, which presents the results of different models when using ROE as a performance measure. The values of the coefficients for the moderating variable (FIBIREGFORNC and FIBIREGFORFS, according to the model) are in all cases negative, but not statistically significant. Consequently, the analysis of models NC-ROE and FS-ROE also concludes that there is no statistical evidence on the effect that a bi-regional internationalization focus has on the international diversification-performance relationship.

In summary, the results obtained don't permit the validation of Hypothesis 2b, which postulates that firms with a bi-regional internationalization focus obtain lower performance with the adoption of an international diversification strategy.

Table 17. Moderating Effect of the Firm's Geographical Focus on the International Diversification- Performance Relationship with variables ROA and FIBIREGIONAL

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
ROA	0.434***	0.430***	0.424***	0.427***	0.477***	0.395***	0.482***	0.481***
	(0.0499)	(0.0453)	(0.0503)	(0.0505)	(0.0459)	(0.0403)	(0.0462)	(0.0463)
FIBIREGIONAL	0.00682	0.00711	0.00412	8.99e-05	0.00627	0.00625	-0.00267	-0.00223
	(0.00704)	(0.00651)	(0.00693)	(0.00673)	(0.00793)	(0.00738)	(0.00879)	(0.00880)
FIBIREGFORNC	-0.00110	-0.00165	-0.00157	-0.000971				
	(0.00125)	(0.00126)	(0.00137)	(0.00136)				
FIBIREGFORFS					-0.00589	-0.00570	-0.00135	-0.00150
					(0.00472)	(0.00423)	(0.00525)	(0.00529)
NC	0.00169**	0.00386**	0.00926***	0.0178***				
	(0.000785)	(0.00155)	(0.00348)	(0.00442)				
NC2		-0.000140*	-0.000859*	-0.00269***				
		(7.82e-05)	(0.000441)	(0.000834)				
NC3			2.26e-05	0.000149***				
			(1.38e-05)	(5.78e-05)				
NC4				-2.64e-06**				
				(1.29e-06)				
FS					0.00667**	0.00739	0.0351***	0.0165
					(0.00274)	(0.00545)	(0.0125)	(0.0209)
FS2						-0.000661	-0.0226**	0.00800
						(0.00199)	(0.0102)	(0.0293)
FS3							0.00417**	-0.0107
							(0.00203)	(0.0136)
FS4								0.00219
								(0.00198)
SIZE	0.0141***	0.0150***	0.0139***	0.0141***	0.0118***	0.0126***	0.0119***	0.0119***
	(0.00275)	(0.00255)	(0.00270)	(0.00269)	(0.00260)	(0.00246)	(0.00258)	(0.00257)
AGE	-0.0264	-0.144	-0.0226	-0.0205	-0.132	-0.195**	-0.133	-0.146
	(0.117)	(0.105)	(0.115)	(0.116)	(0.0971)	(0.0877)	(0.0982)	(0.101)
FL	-0.127***	-0.108***	-0.123***	-0.125***	-0.119***	-0.127***	-0.119***	-0.120***
	(0.0259)	(0.0241)	(0.0256)	(0.0255)	(0.0288)	(0.0257)	(0.0287)	(0.0284)
BGA	-0.0142**	-0.0137**	-0.0149**	-0.0140**	-0.00870	-0.00519	-0.00878	-0.00869
	(0.00620)	(0.00587)	(0.00611)	(0.00604)	(0.00638)	(0.00611)	(0.00639)	(0.00640)
EM	-0.000362	0.00491	-0.000230	0.000903	-0.0314**	-0.0316***	-0.0325**	-0.0323**
	(0.00825)	(0.00753)	(0.00814)	(0.00816)	(0.0142)	(0.0121)	(0.0141)	(0.0141)
FOPC	0.0994	0.108*	0.0987	0.0823	0.0847	0.112**	0.0752	0.0733
	(0.0658)	(0.0594)	(0.0646)	(0.0639)	(0.0613)	(0.0566)	(0.0609)	(0.0609)
TP	-0.0172***	-0.0168***	-0.0183***	-0.0189***	-0.0140***	-0.0170***	-0.0135***	-0.0134***
	(0.00439)	(0.00429)	(0.00457)	(0.00449)	(0.00462)	(0.00445)	(0.00464)	(0.00468)
IND	-0.102***	-0.0741**	-0.0968**	-0.0996***	-0.0565	-0.0495	-0.0583	-0.0548
	(0.0387)	(0.0366)	(0.0388)	(0.0386)	(0.0360)	(0.0335)	(0.0361)	(0.0366)
Constant	0.167	0.312**	0.147	0.136	0.327**	0.427***	0.329**	0.347**
	(0.173)	(0.156)	(0.170)	(0.171)	(0.148)	(0.133)	(0.149)	(0.152)
Observations	1,569	1,569	1,569	1,569	1,412	1,412	1,412	1,412
Number of firms	197	197	197	197	195	195	195	195
Wald Chi2	256.68	295.59	276.65	291.86	281.72	338.74	290.25	299.69
Wald Chi2p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sargan	31.19815	42.38563	29.12995	29.87135	27.6341	45.84177	27.8705	28.1555
Sarganp	0.1482	0.1269	0.2153	0.1891	0.2758	0.0678	0.2655	0.2535
Ar1	-5.8437	-5.7655	-5.8099	-5.8826	-5.3114	-5.0735	-5.3836	-5.4295
Ar1p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Ar2	1.7906	1.8131	1.7451	1.7811	1.6156	1.5408	1.7191	1.7541
Ar2p	0.0734	0.0698	0.0810	0.0749	0.1062	0.1234	0.0856	0.0794

Source: Own elaboration

Table 18. Moderating Effect of the Firm's Geographical Focus on the International Diversification- Performance Relationship with variables ROE and FIBIREGIONAL

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
ROE	0.444***	0.443***	0.443***	0.444***	0.410***	0.409***	0.410***	0.409***
	(0.0359)	(0.0357)	(0.0357)	(0.0362)	(0.0335)	(0.0336)	(0.0340)	(0.0343)
FIBIREGIONAL	0.0398*	0.0397*	0.0339	0.0226	0.0363	0.0299	0.0152	0.0153
	(0.0232)	(0.0232)	(0.0234)	(0.0227)	(0.0317)	(0.0299)	(0.0299)	(0.0300)
FIBIREGFORNC	-0.00637	-0.00712	-0.00677	-0.00515				
	(0.00418)	(0.00444)	(0.00449)	(0.00446)				
FIBIREGFORFS					-0.0212	-0.0192	-0.00971	-0.00951
					(0.0176)	(0.0171)	(0.0178)	(0.0178)
NC	0.00527**	0.00861*	0.0156	0.0359**				
	(0.00244)	(0.00490)	(0.0101)	(0.0156)				
NC2		-0.000209	-0.00118	-0.00552*				
		(0.000263)	(0.00122)	(0.00291)				
NC3			3.12e-05	0.000332*				
			(3.67e-05)	(0.000190)				
NC4				-6.31e-06				
				(3.95e-06)				
FS					0.0156**	0.0269	0.0777**	0.0676
					(0.00757)	(0.0187)	(0.0353)	(0.0591)
FS2						-0.00444	-0.0527*	-0.0352
						(0.00638)	(0.0290)	(0.0839)
FS3							0.0105*	0.00161
							(0.00602)	(0.0395)
FS4								0.00137
								(0.00583)
SIZE	0.0315***	0.0312***	0.0310***	0.0310***	0.0330***	0.0331***	0.0335***	0.0334***
	(0.00735)	(0.00743)	(0.00738)	(0.00739)	(0.00842)	(0.00841)	(0.00846)	(0.00840)
AGE	-0.0655	-0.0720	-0.0625	-0.0861	-0.424	-0.434	-0.435	-0.437
	(0.412)	(0.413)	(0.411)	(0.413)	(0.281)	(0.280)	(0.282)	(0.287)
FL	-0.150	-0.152	-0.155	-0.161	-0.0569	-0.0583	-0.0693	-0.0718
	(0.128)	(0.127)	(0.127)	(0.128)	(0.134)	(0.135)	(0.136)	(0.136)
BGA	-0.0157	-0.0170	-0.0180	-0.0172	-0.0153	-0.0150	-0.0153	-0.0169
	(0.0201)	(0.0201)	(0.0202)	(0.0201)	(0.0213)	(0.0213)	(0.0213)	(0.0216)
EM	0.00878	0.0109	0.0111	0.0133	-0.0705	-0.0700	-0.0693	-0.0695
	(0.0267)	(0.0265)	(0.0265)	(0.0265)	(0.0553)	(0.0554)	(0.0553)	(0.0555)
FOPC	0.381*	0.363*	0.357*	0.334*	0.351*	0.344*	0.354*	0.357*
	(0.200)	(0.199)	(0.199)	(0.199)	(0.204)	(0.205)	(0.204)	(0.204)
TP	-0.0456***	-0.0465***	-0.0475***	-0.0495***	-0.0403***	-0.0400***	-0.0404***	-0.0408***
	(0.0110)	(0.0109)	(0.0110)	(0.0111)	(0.0115)	(0.0115)	(0.0115)	(0.0115)
IND	0.0324	0.0366	0.0375	0.0365	0.0743	0.0725	0.0760	0.0704
	(0.0580)	(0.0606)	(0.0594)	(0.0606)	(0.111)	(0.112)	(0.113)	(0.114)
Constant	0.163	0.166	0.145	0.163	0.711	0.725	0.727	0.736
	(0.663)	(0.666)	(0.663)	(0.665)	(0.454)	(0.453)	(0.455)	(0.461)
Observations	1,569	1,569	1,569	1,569	1,412	1,412	1,412	1,412
Number of firms	197	197	197	197	195	195	195	195
Wald Chi2	271.69	305.36	311.51	331.66	289.48	289.82	291.15	291.99
Wald Chi2p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sargan	21.50949	21.69712	21.58579	21.77756	20.22051	20.37511	20.57158	20.53147
Sarganp	0.6085	0.5973	0.6040	0.5925	0.6842	0.6753	0.6639	0.6662
Ar1	-3.7145	-3.7125	-3.7105	-3.7126	-3.2572	-3.2497	-3.2363	-3.2352
Ar1p	0.0002	0.0002	0.0002	0.0002	0.0011	0.0012	0.0012	0.0012
Ar2	1.3415	1.3362	1.329	1.3306	1.5515	1.5534	1.5666	1.5692
Ar2p	0.1798	0.1815	0.1838	0.1833	0.1208	0.1203	0.1172	0.1166

Source: Own elaboration

11.2.3 Semi-Global Focus

Table 19 shows the results of the different models for the firms with a semi global focus when using ROA as a performance measure. The values of the coefficients for the moderating variable (FISEMGLOBFORNC and FISEMGLOBFORFS, according to the model) are in all cases positive (indicating that firms with a semi global focus would obtain higher performance), but not statistically significant. Thus, no conclusion can be drawn on the effect that a semi global internationalization focus has on the international diversification-performance relationship (models NC-ROA and NC-FS).

Very similar results are obtained in Table 20, which presents the results of the different models when using ROE as a performance measure. The values of the coefficients for the moderating variable (FISEMGLOBFORNC and FISEMGLOB-FORFS, according to the model) are in all cases positive, but not statistically significant. Thus, from analyzing NC-ROE and FS-ROE models, we conclude that there is no statistical evidence for the effect that a semi global internationalization focus has on the international diversification-performance relationship.

In summary, the results obtained do not permit the validation of Hypothesis 2c that postulates that firms with a semi global internationalization focus obtain better performance with the adoption of an international diversification strategy.

Table 19.Moderating Effect of the Firm's Geographical Focus on the International Diversification- Performance Relationship with variables ROA and FISEMIGLOBAL

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
ROA	0.434***	0.432***	0.422***	0.429***	0.479***	0.485***	0.491***	0.491***
	(0.0499)	(0.0498)	(0.0506)	(0.0508)	(0.0457)	(0.0462)	(0.0462)	(0.0463)
FISEMIGLOBAL	0.000915	-0.00304	-0.0104	-0.0124	0.00226	-0.00561	-0.00321	-0.00732
	(0.00851)	(0.00881)	(0.00899)	(0.00904)	(0.0113)	(0.0127)	(0.0126)	(0.0122)
FISEMGLOBFORNC	0.000130	0.000422	0.00150	0.00195				
	(0.00108)	(0.00111)	(0.00119)	(0.00119)				
FISEMGLOBFORFS					0.000539	0.00481	0.00438	0.00617
					(0.00577)	(0.00657)	(0.00648)	(0.00632)
NC	0.00146	0.00379**	0.00970***	0.0180***				
	(0.000947)	(0.00155)	(0.00338)	(0.00465)				
NC2		-0.000139**	-0.000981**	-0.00282***				
		(7.01e-05)	(0.000447)	(0.000882)				
NC3			2.67e-05*	0.000154***				
			(1.42e-05	(5.91e-05)				
NC4				-2.66e-06**				
				(1.29e-06)				
FS					0.00547*	0.0126**	0.0340***	0.0159
					(0.00298)	(0.00603)	(0.0113)	(0.0200)
FS2						-0.00321	-0.0235***	0.00665
						(0.00237)	(0.00877)	(0.0285)
FS3							0.00440**	-0.0104
							(0.00174)	(0.0134)
FS4								0.00218
								(0.00194)
SIZE	0.0138***	0.0135***	0.0136***	0.0137***	0.0117***	0.0116***	0.0115***	0.0115***
	(0.00278)	(0.00275)	(0.00272)	(0.00271)	(0.00259)	(0.00260)	(0.00262)	(0.00261)
AGE	-0.0251	-0.0349	-0.0259	-0.0263	-0.117	-0.119	-0.130	-0.144
	(0.118)	(0.116)	(0.115)	(0.115)	(0.0978)	(0.0972)	(0.0982)	(0.101)
FL	-0.121***	-0.115***	-0.120***	-0.122***	-0.110***	-0.111***	-0.113***	-0.115***
	(0.0258)	(0.0258)	(0.0255)	(0.0254)	(0.0291)	(0.0285)	(0.0287)	(0.0283)
BGA	-0.0144**	-0.0149**	-0.0157**	-0.0151**	-0.00939	-0.00974	-0.00961	-0.00956
	(0.00616)	(0.00619)	(0.00620)	(0.00614)	(0.00652)	(0.00657)	(0.00658)	(0.00661)
EM	-0.00291	-0.00169	-0.000723	0.000719	-0.0341**	-0.0343**	-0.0332**	-0.0334**
	(0.00816)	(0.00814)	(0.00813)	(0.00822)	(0.0142)	(0.0141)	(0.0140)	(0.0140)
FOPC	0.113*	0.106*	0.102	0.0859	0.0858	0.0804	0.0784	0.0770
	(0.0651)	(0.0638)	(0.0639)	(0.0636)	(0.0626)	(0.0621)	(0.0616)	(0.0617)
TP	-0.0159***	-0.0154***	-0.0173***	-0.0179***	-0.0126***	-0.0121***	-0.0127***	-0.0125***
	(0.00435)	(0.00439)	(0.00454)	(0.00443)	(0.00443)	(0.00442)	(0.00446)	(0.00452)
IND	-0.101**	-0.0992**	-0.0981**	-0.0995**	-0.0632*	-0.0616*	-0.0606*	-0.0568
	(0.0394)	(0.0392)	(0.0389)	(0.0387)	(0.0362)	(0.0361)	(0.0361)	(0.0367)
Constant	0.165	0.171	0.152	0.144	0.306**	0.308**	0.324**	0.344**
	(0.174)	(0.170)	(0.169)	(0.170)	(0.149)	(0.148)	(0.149)	(0.152)
Observations	1,569	1,569	1,569	1,569	1,412	1,412	1,412	1,412
Number of firms	197	197	197	197	195	195	195	195
Wald Chi2	242.55	237.52	260.68	275.54	270.75	277.94	287.93	302.32
Wald Chi2p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sargan	31.56813	30.67432	29.82625	30.05482	27.12915	27.40515	26.59605	27.02722
Sarganp	0.1381	0.1634	0.1906	0.1829	0.2985	0.2859	0.3236	0.3032
Ar1	-5.8451	-5.8264	-5.8234	-5.9115	-5.3105	-5.343	-5.3997	-5.438
Ar1p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Ar2	1.7958	1.7918	1.7538	1.7999	1.6378	1.6637	1.7297	1.765
Ar2p	0.0725	0.0732	0.0795	0.0719	0.1015	0.0962	0.0837	0.0776

Source: Own elaboration

Table 20. Moderating Effect of the Firm's Geographical Focus on the International Diversification- Performance Relationship with variables ROE and FISEMIGLOBAL

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
ROE	0.443***	0.443***	0.443***	0.444***	0.407***	0.407***	0.406***	0.405***
	(0.0359)	(0.0357)	(0.0355)	(0.0359)	(0.0346)	(0.0344)	(0.0347)	(0.0353)
FISEMIGLOBAL	-0.00611	-0.0141	-0.0292	-0.0333	-0.00231	-0.0131	-0.00831	-0.0124
	(0.0295)	(0.0307)	(0.0331)	(0.0331)	(0.0432)	(0.0491)	(0.0494)	(0.0501)
FISEMGLOBFORNC	9.87e-05	0.000583	0.00277	0.00393				
	(0.00345)	(0.00365)	(0.00417)	(0.00411)				
FISEMGLOBFORFS					0.00333	0.00264	0.00324	0.00520
					(0.0204)	(0.0234)	(0.0236)	(0.0237)
NC	0.00498*	0.00895**	0.0188*	0.0430***				
	(0.00266)	(0.00430)	(0.00983)	(0.0158)				
NC2		-0.000234	-0.00163	-0.00693**				
		(0.000236)	(0.00128)	(0.00296)				
NC3			4.49e-05	0.000413**				
			(3.89e-05)	(0.000189)				
NC4				-7.73e-06**				
				(3.87e-06)				
FS					0.0166**	0.0284	0.0822**	0.0695
					(0.00797)	(0.0205)	(0.0364)	(0.0591)
FS2						-0.00522	-0.0573**	-0.0344
						(0.00793)	(0.0277)	(0.0838)
FS3							0.0115**	-0.000432
							(0.00561)	(0.0397)
FS4								0.00183
								(0.00582)
SIZE	0.0317***	0.0314***	0.0313***	0.0315***	0.0326***	0.0324***	0.0326***	0.0325***
	(0.00744)	(0.00750)	(0.00745)	(0.00746)	(0.00866)	(0.00868)	(0.00870)	(0.00864)
AGE	-0.0891	-0.0869	-0.0597	-0.0823	-0.449	-0.463*	-0.469*	-0.476*
	(0.407)	(0.407)	(0.403)	(0.404)	(0.276)	(0.276)	(0.280)	(0.286)
FL	-0.137	-0.138	-0.144	-0.158	-0.0375	-0.0414	-0.0580	-0.0609
	(0.125)	(0.124)	(0.124)	(0.126)	(0.135)	(0.135)	(0.136)	(0.136)
BGA	-0.0131	-0.0143	-0.0157	-0.0152	-0.0114	-0.0121	-0.0132	-0.0151
	(0.0202)	(0.0203)	(0.0205)	(0.0204)	(0.0224)	(0.0225)	(0.0224)	(0.0228)
EM	0.00137	0.00421	0.00553	0.0100	-0.0803	-0.0794	-0.0739	-0.0749
	(0.0260)	(0.0260)	(0.0262)	(0.0264)	(0.0557)	(0.0556)	(0.0554)	(0.0556)
FOPC	0.407**	0.380*	0.368*	0.336*	0.364*	0.355*	0.371*	0.378*
	(0.197)	(0.198)	(0.201)	(0.202)	(0.209)	(0.211)	(0.209)	(0.209)
TP	-0.0417***	-0.0420***	-0.0436***	-0.0472***	-0.0365***	-0.0361***	-0.0387***	-0.0390***
	(0.0104)	(0.0105)	(0.0107)	(0.0107)	(0.0113)	(0.0113)	(0.0116)	(0.0117)
IND	0.0414	0.0478	0.0474	0.0410	0.0834	0.0796	0.0809	0.0748
	(0.0531)	(0.0553)	(0.0533)	(0.0547)	(0.117)	(0.117)	(0.118)	(0.119)
Constant	0.194	0.181	0.130	0.147	0.742*	0.766*	0.777*	0.795*
	(0.655)	(0.656)	(0.649)	(0.649)	(0.445)	(0.447)	(0.451)	(0.458)
Observations	1,569	1,569	1,569	1,569	1,412	1,412	1,412	1,412
Number of firms	197	197	197	197	195	195	195	195
Wald Chi2	284.17	295.29	305.20	321.48	279.62	282.08	279.86	280.81
Wald Chi2p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sargan	22.04372	22.21195	21.93096	21.97317	20.64627	20.67978	20.58243	20.58427
Sarganp	0.5767	0.5666	0.5834	0.5809	0.6595	0.6575	0.6632	0.6631
Ar1	-3.7194	-3.7215	-3.7213	-3.723	-3.2627	-3.2592	-3.2359	-3.2343
Ar1p	0.0002	0.0002	0.0002	0.0002	0.0011	0.0011	0.0012	0.0012
Ar2	1.3476	1.3464	1.3404	1.3413	1.5624	1.5631	1.5726	1.5769
Ar2p	0.1778	0.1782	0.1801	0.1798	0.1182	0.1180	0.1158	0.1148

Source: Own elaboration

11.2.4 Global Focus

Table 21 shows the results of firms with a global focus when using ROA as a performance measure (models NC-ROA and FS-ROA). The values of the coefficients for the moderating variables (FIGLOBFORNC and FIGLOBFORFS, according to the model) are in all cases negative, meaning that firms with a global focus obtain lower performance than others with different geographical focus, but only models (1) and (4) are statistically significant.

In terms of the shape of the relationship between international diversification and performance, models (1) and (4) are also validated, which indicates that for the sample firms with a global focus the relationship NC-ROA can be positive linear (model 1) or an M-shaped curve (model 4). Furthermore, model (4) has a higher statistical significance level since the p-value of the Sargan test is higher than that reported in model (1). At the end of the table are the model statistical adjustments, chi-square, whose p-values are significant at 1%. The models (1) and (4) are statistically significant.

Table 22 presents the results of the different models when using ROE as a performance measure (models NC-ROE and FS-ROE). The values of the coefficients for the moderating variable (FIGLOBFORNC and FIGLOBFORFS, according to the model) are in all cases negative, but not statistically significant.

In summary, the results provide sufficient evidence to support Hypothesis 2d (for NC-ROA) that postulates that firms with a global internationalization focus obtain lower performance with the adoption of an international diversification strategy.

Table 21. Moderating Effect of the Firm's Geographical Focus on the International Diversification- Performance Relationship with variables ROA and FIGLOBAL

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
ROA	0.428***	0.428***	0.415***	0.425***	0.417***	0.227*	0.226*	0.392***
	(0.0444)	(0.0444)	(0.0504)	(0.0469)	(0.103)	(0.131)	(0.133)	(0.0697)
FIGLOBAL	0.0207	0.00801	0.0197	0.0371*	0.0189	-0.00118	0.0362	0.0334
	(0.0161)	(0.0181)	(0.0223)	(0.0215)	(0.0471)	(0.0597)	(0.0604)	(0.0599)
FIGLOBFORNC	-0.00244*	-0.00109	-0.00240	-0.00395**				
	(0.00147)	(0.00168)	(0.00203)	(0.00190)				
FIGLOBFORFS					-0.00942	-0.00727	-0.0222	-0.0180
					(0.0164)	(0.0223)	(0.0245)	(0.0244)
NC	0.00202**	0.00321**	0.00834***	0.0165***				
	(0.000790)	(0.00154)	(0.00323)	(0.00430)				
NC2		-9.09e-05	-0.000797*	-0.00273***				
		(7.92e-05)	(0.000420)	(0.000796)				
NC3			2.45e-05*	0.000166***				
			(1.41e-05)	(5.36e-05)				
NC4				-3.05e-06**				
				(1.19e-06)				
FS					-0.000118	-0.0100	0.00215	-0.0353
					(0.00581)	(0.0126)	(0.0216)	(0.0285)
FS2						0.00384	-0.00877	0.0378
						(0.00427)	(0.0172)	(0.0386)
FS3							0.00299	-0.0155
							(0.00369)	(0.0176)
FS4								0.00223
								(0.00253)
SIZE	0.0150***	0.0148***	0.0137***	0.0155***	0.0132***	0.0137***	0.0138***	0.0134***
	(0.00256)	(0.00255)	(0.00270)	(0.00254)	(0.00345)	(0.00385)	(0.00383)	(0.00326)
AGE	-0.142	-0.143	-0.0235	-0.130	-0.166	-0.261	-0.266	-0.345***
	(0.106)	(0.105)	(0.115)	(0.108)	(0.140)	(0.178)	(0.183)	(0.123)
FL	-0.106***	-0.105***	-0.121***	-0.110***	-0.0998	-0.241***	-0.241***	-0.109*
	(0.0235)	(0.0235)	(0.0254)	(0.0236)	(0.0706)	(0.0896)	(0.0900)	(0.0571)
BGA	-0.0146**	-0.0145**	-0.0155**	-0.0140**	-0.00669	-0.00240	-0.00336	0.000149
	(0.00589)	(0.00588)	(0.00622)	(0.00591)	(0.00879)	(0.0122)	(0.0121)	(0.00846)
EM	0.00439	0.00477	-0.000526	0.00707	-0.0430	-0.0510	-0.0493	-0.0423*
	(0.00741)	(0.00743)	(0.00802)	(0.00751)	(0.0312)	(0.0380)	(0.0380)	(0.0251)
FOPC	0.113*	0.109*	0.104	0.0847	0.213	0.266*	0.254	0.290*
	(0.0590)	(0.0585)	(0.0641)	(0.0608)	(0.164)	(0.153)	(0.156)	(0.154)
TP	-0.0157***	-0.0160***	-0.0181***	-0.0188***	-0.00247	-0.0101	-0.00996	-0.000458
	(0.00427)	(0.00430)	(0.00462)	(0.00445)	(0.00757)	(0.00924)	(0.00903)	(0.00662)
IND	-0.0784**	-0.0775**	-0.104***	-0.0810**	-0.0954	-0.190	-0.195	-0.00201
	(0.0361)	(0.0360)	(0.0383)	(0.0362)	(0.122)	(0.153)	(0.157)	(0.102)
Constant	0.315**	0.313**	0.154	0.281*	0.396*	0.705**	0.715**	0.608***
	(0.156)	(0.156)	(0.170)	(0.161)	(0.224)	(0.300)	(0.304)	(0.181)
Observations	1,569	1,569	1,569	1,569	1,462	1,462	1,462	1,462
Number of firms	197	197	197	197	195	195	195	195
Wald Chi2	291.62	291.68	258.94	285.92	107.71	94.96	94.41	124.63
Wald Chi2p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sargan	43.66976	29.55388	45.01543	43.88743	13.78615	5.960862	5.954437	28.41874
Sarganp	0.1238	0.1193	0.0497	0.2000	0.3146	0.6516	0.6523	0.0757
Ar1	-5.7603	-5.7532	-5.7948	-5.9115	-4.397	-3.8765	-3.8702	-4.272
Ar1p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0001	0.0001	0.0000
Ar2	1.8295	1.8164	1.7504	1.8387	1.3396	-1.3354	-1.2537	.91135
Ar2p	0.0673	0.0693	0.0800	0.0660	0.1804	0.1817	0.2099	0.3621

Source: Own elaboration

Table 22. Moderating Effect of the Firm's Geographical Focus on the International Diversification- Performance Relationship with variables ROE and FIGLOBAL

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
ROE	0.443***	0.441***	0.430***	0.433***	0.305***	0.317***	0.506***	0.444***
	(0.0357)	(0.0306)	(0.0301)	(0.0304)	(0.0841)	(0.0575)	(0.123)	(0.0970)
FIGLOBAL	0.0288	-0.0255	0.0204	0.0552	-0.0967	0.0569	0.0581	0.0385
	(0.0591)	(0.0657)	(0.0834)	(0.0847)	(0.191)	(0.159)	(0.228)	(0.200)
FIGLOBFORNC	-0.00243	-0.00305	-0.00167	-0.00504				
	(0.00517)	(0.00596)	(0.00721)	(0.00722)				
FIGLOBFORFS					-0.0386	-0.0138	-0.00941	-0.00437
					(0.0628)	(0.0583)	(0.0745)	(0.0657)
NC	0.00523*	0.0101**	0.0212**	0.0498***				
	(0.00284)	(0.00451)	(0.00851)	(0.0142)				
NC2		-0.000368	-0.00195*	-0.00813***				
		(0.000260)	(0.00110)	(0.00267)				
NC3			5.50e-05	0.000487***				
			(3.81e-05)	(0.000168)				
NC4				-8.94e-06***				
				(3.38e-06)				
FS					0.00417	-0.0364	0.0649	0.0569
					(0.0184)	(0.0350)	(0.0593)	(0.0807)
FS2						0.0135	-0.0495	-0.0260
						(0.0113)	(0.0505)	(0.110)
FS3							0.0109	-0.00425
							(0.0105)	(0.0507)
FS4								0.00253
								(0.00737)
SIZE	0.0311***	0.0411***	0.0412***	0.0414***	0.0453***	0.0448***	0.0428***	0.0382***
	(0.00745)	(0.00672)	(0.00659)	(0.00658)	(0.0119)	(0.0101)	(0.0115)	(0.0114)
AGE	-0.101	-0.189	-0.196	-0.232	-1.290	-1.025*	-1.407**	-1.159**
	(0.407)	(0.376)	(0.363)	(0.362)	(0.814)	(0.537)	(0.691)	(0.570)
FL	-0.133	-0.134	-0.132	-0.151	-0.348	-0.395*	-0.583*	-0.239
	(0.125)	(0.118)	(0.106)	(0.106)	(0.270)	(0.232)	(0.299)	(0.241)
BGA	-0.0152	-0.0136	-0.0153	-0.0142	-0.00310	0.00323	0.0176	-0.00491
	(0.0203)	(0.0192)	(0.0190)	(0.0188)	(0.0330)	(0.0322)	(0.0376)	(0.0302)
EM	0.00260	-0.00139	0.00682	0.0124	-0.126	-0.133	-0.142	-0.116
	(0.0257)	(0.0242)	(0.0238)	(0.0239)	(0.0951)	(0.0920)	(0.107)	(0.102)
FOPC	0.393**	0.327**	0.285*	0.242	0.641	0.887***	0.303	0.449
	(0.197)	(0.166)	(0.158)	(0.156)	(0.531)	(0.334)	(0.414)	(0.335)
TP	-0.0414***	-0.0485***	-0.0538***	-0.0574***	-0.0304	-0.0290	-0.0357*	-0.0332*
	(0.0106)	(0.00983)	(0.00955)	(0.00938)	(0.0240)	(0.0217)	(0.0196)	(0.0184)
IND	0.0478	0.0643	0.0768	0.0690	-0.0809	0.186	0.173	0.0247
	(0.0606)	(0.0723)	(0.0703)	(0.0717)	(0.479)	(0.281)	(0.483)	(0.398)
Constant	0.207	0.303	0.291	0.326	2.316**	1.733**	2.410**	1.953**
	(0.655)	(0.608)	(0.582)	(0.581)	(1.148)	(0.781)	(1.000)	(0.777)
Observations	1,569	1,569	1,569	1,569	1,412	1,412	1,412	1,412
Number of firms	197	197	197	197	195	195	195	195
Wald Chi2	330.02	461.92	477.23	501.73	79.00	103.27	69.23	88.71
Wald Chi2p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sargan	21.99427	39.31417	41.04023	40.06472	17.3181	26.58513	11.62581	15.95582
Sarganp	0.5796	0.1452	0.1587	0.1854	0.1380	0.1850	0.1136	0.1933
Ar1	-3.7069	-3.69	-3.6635	-3.6672	-3.0767	-2.962	-4.162	-3.7801
Ar1p	0.0002	0.0002	0.0002	0.0002	0.0021	0.0031	0.0000	0.0002
Ar2	1.342	1.3376	1.3149	1.3182	-.34758	-.6646	-1.3537	.35917
Ar2p	0.1796	0.1810	0.1885	0.1874	0.7282	0.5063	0.1758	0.7195

Source: Own elaboration

11.3 Discussion of results and limitations

Table 23 shows the summary of the statistically validated models indicating the sign and the level of signification of the coefficient of the term of interaction as well as the p-value of the Sargan test.

Table 23. Summary of the validated models testing the moderating effect of a Firm's Gographical Focus on the International Diversification-Performance Relationship

International Diversification Measure	International Focus	Performance (ROA)
Number of countries (NC)	**Regional Focus**	• Model 4 – M shaped Interaction term coeficient: Positive (significant at 5% level) Sargan p-value= 0.0867
	Global Focus	• Model 1 – Positive linear Interaction term coeficient: Negative (significant at 10% level) Sargan p-value= 0.1238 • Model 4 – M shaped Interaction term coeficient: Negative (significant at 5% level) Sargan p-value= 0.2000

Source: Own elaboration

The results obtained confirm that the firm's geographical focus moderates the relationship between international diversification and performance in the cases of firms that adopt a regional or a global focus, thereby confirming Hypotheses 2a and 2d respectively. Furthermore, these results provide greater thoroughness to the results obtained the in chapter 10 of the thesis, in the sense that the relationship between international diversification and firm performance is M-shaped. However, the empirical evidence does not confirm Hypotheses 2b and 2c.

An additional consideration refers to the fact that the only three validated models are of the NC-ROA type, which would probably indicate that the number of foreign subsidiaries (FS) is not a very appropriate international diversification measure when trying to analyze the effect of the geographic focus of the international strategy of firms. In terms of ROE as a performance measure, although in 3 our of the 4 models NC-ROE

(regional, semi global and global) the coefficients for an M-shaped relationship are statistically significant, the respective coefficients of the terms of the interaction are not, that is why they were not validated.

Next we discuss the results obtained when testing each one of the four sub-hypotheses on how the firm's geographical focus moderates the relationship between international diversification and performance.

Regarding Hypothesis 2a, our results are in line with the regionalist perspective (e.g., Rugman, 2000; Rugman and Verbeke, 2004, 2007; Collinson and Rugman, 2008; Rugman and Oh, 2010, 2012; Qian et al., 2013), since it concludes that firms with a regional geographic focus obtain better performance.

These results are congruent with the localization pattern of direct investments of Spanish firms, with a heavy concentration in the European Union and Latin America, which are considered its "natural markets" (Casanova, 2004). Spanish multinationals that operate in Latin America benefit from the cultural proximity, the market positioning obtained in previous years, and in some cases lower levels of competition and imperfections in the destination markets. Meanwhile, Spanish firms that operate in Europe benefit from the geographical proximity, the greater convergence of customer preferences in that region, the freedom of movement of goods, services and capital of the European Single Market and the guarantees derived from being part of the European Union (both economic and political). Familiarity with the countries of one of these two regions would represent lower levels of the liability of foreignness for Spanish firms because they could significantly reduce managerial and administrative costs related to cultural and institutional distance and benefit from legal, economic, and customer-related proximity across countries in the same region (Rugman, 2005; Qian et al., 2008; Ruigrok et al, 2013), which would allow them to reach higher levels of performance.

In this sense, this specificity of the Spanish firms suggests an extension of the regionalist focus since the superior performance of these firms would be explained by the advantages of expansion in one of their "natural markets", not necessarily within their home region.

An additional argument refers to the size of the sample firms. Keeping in mind that an important part of these firms are characterized by their medium size (the median is slightly over 300 employees), it appears reasonable to assume that when localizing their foreign affiliates, they would concentrate their international operations in just one region, at least in the initial phase of their development as multinational firms. In that sense, our findings are consistent with those of Richter (2007) that showed that regional operations reduce the liability of foreignness during the initial international expansion phase, although later on may constraint the firm when attempting to exploit all potential international benefits (Oh and Contractor, 2014).

As previously indicated, the empirical evidence does not allow a confirmation of Hypothesis 2b, which postulates that firms with a bi-regional internationalization focus obtain lower performance because when adding foreign affiliates to a new geographic region they face costs derived from a greater liability of inter-regional foreignness and greater organizational complexity. Even though the values of the coefficients for the moderating variables in the different tested models are in all cases negative (in agreement with the formulated hypothesis), they are not statistically significant. A possible explanation why the hypothesis cannot be confirmed lies in the limitation of the indicator used for the firm's geographical focus variable that only measures how many regions foreign affiliates are located in, consequently, by not taking into account the proportion of the activity carried out in each region it is not possible to discriminate between firms that, in spite of having foreign affiliates in two or more regions,

concentrate their international operations mainly in one region (region-oriented) from those that have actually diversified their international activity into two or more regions.

Meanwhile, the empirical evidence does not allow for the confirmation of Hypothesis 2c, which postulates that firms with a semi global internationalization focus obtain better performance since they would have developed new capabilities and competitive advantages in operating beyond their "natural regions", something which some authors have called "international ambidexterity" (e.g., Vermeulen and Barkema, 2001; Raisch and Birkinshaw, 2008; Luo and Rui, 2009; Prange and Verdier, 2011; Hsu et al., 2012). Even though the values of the coefficients for the moderating variables in the different models tested are in all cases positive (in agreement with the formulated hypothesis), they are not statistically significant. As mentioned for Hypothesis 2b, a possible explanation why Hypothesis 2c cannot be confirmed lies in the limitation of the indicator used for measuring the firm's geographical focus.

Finally, the empirical evidence provides support to Hypothesis 2d, which postulates that firms with a global internationalization focus obtain lower performance due to the elevated costs of operating in a large number of regions due to both the costs of the liabilities of intra- and especially inter-regional foreignness and organizational complexity. These results are in line with previous studies (e.g. Flores and Aguilera, 2007; Qian et al., 2010; Kudina, 2012; Ruigrok et al., 2013; Oh and Contractor, 2014) and are also congruent with the organizational characteristics of Spanish multinational firms.

A possible explanation for the lower performance of Spanish multinationals with a global focus can be found in their relative small size as well as having less international experience. Even though we don't know in which year the firms of our sample began their direct investment operations in other countries, the literature

indicates that Spanish firms started their internationalization process late, in comparison to firms from other European countries with a similar level of economic development (Durán, 2006; Guillén and García-Canal, 2005, 2010) which means they wouldn't have yet reached the scale or the levels of accumulated knowledge and managerial expertise to develop the necessary capabilities (technological, marketing, managerial) to be successful at high levels of internationalization (Durán et al., 2007).

A complementary consideration to the previous explanation refers to the differences among sectors. Table 21 shows that the industrial sector control variable (IND) is significant, indicating that the service sector firms of our sample with a global focus obtain better performance levels when compared to manufacturing firms. In this sense, the literature indicates that Spanish multinational firms are not global leaders in capital and/or R&D intensive manufacturing industries, such as chemistry, pharmaceuticals, metals, electronics and automobiles, where international competition is very intense and the leading firms competing globally have strong and multiple firm-specific advantages (FSAs) (Guillén and García-Canal, 2005, 2010; Mendoza and Vives, 2010). Nonetheless, Spanish service multinationals in highly regulated industries (telecommunications, energy, retail banking, public works and concessions) have achieved prominent positions internationally (Durán, 2006; Guillén and García-Canal, 2005, 2010) and their foreign subsidiaries have consistently been more profitable than those from the other sectors (Mendoza, 2015).

The results of this investigation represent a significant contribution to the literature that deals with the relationship between international diversification and performance of Spanish firms, given that to our knowledge the effect of the firm's geographical focus has not been studied before in reference to the relationship between international diversification and performance. Even though there are several studies on

the effect of the concentration or diversification of exporting markets on the performance of exporting firms (e.g., Losada et al, 2007; Almodóvar, 2012; Almodóvar and Rugman, 2014; Fernández-Olmos and Díez-Vial, 2015; Fernández-Olmos et al., 2015), they refer to a different dimension of international diversification, what we have called *sales international diversification*. Of those, the most interesting in relation to our research is the one by Almodovar (2012) who, with a large sample of exporting firms with more than 50% of total sales in the European Union (home-region oriented), confirms that the relationship between international diversification and performance adopts an M shaped curve for product standardization firms, while she finds a W-shaped or inverted-M for product customization firms. In this sense, her findings partially coincide with those obtained in the validation of Hypothesis 2a.

In summary, the present research constitutes the first empirical study on the effect that the firm's geographical focus has on the relationship between international (investment) diversification and performance in Spanish multinationals. Based on a robust longitudinal database for the period 2004-2012 and using panel data analysis, the author finds empirical support to the fact that firms with a regional focus have a better performance with the adoption of an international diversification strategy, when compared with those that operate with a global focus (e.g., Rugman and Hodgetts, 2001; Rugman, 2003, 2005; Rugman and Verbeke, 2004, 2007; Collinson and Rugman, 2008; Rugman et al., 2013).

In spite of not being able to empirically validate the hypotheses related to the bi-regional and semi-global focus, this research nevertheless contributes to the literature on the global-regional debate in a double sense. On the one hand, the specificity of Spanish firms suggests an extension of the regionalist focus, since the advantages obtained by the region-oriented firms would come not only from operating in their home region but

also, alternatively, in those regions that are "natural markets" for the firms of that country. Secondly, the results obtained corroborate the conclusions of recent studies that indicate that the impact of the firm's geographical focus on the international diversification-performance relationship is not linear, but rather that it presents distinct behavior in different stages of the internationalization process (e.g., Qian et al., 2008; Pan and Tsai, 2012; Banalieva and Dhanaraj, 2013; Ruigrok et al., 2013; Oh and Contractor, 2014).

Not withstanding the previous contributions, the present investigation presents some limitations. The first limitation, previously mentioned, refers to the measurement of the construct geographical focus of the firm. The indicator chosen only measures the number of regions where the firm has foreign affiliates, when it would also be necessary to know what proportion of a firm's activity is done in each region for a more precise classification among the different categories of geographical focus that refer to two or more regions. This would require having access to a database of global scope like Orbis, in order to obtain the data of subsidiaries relative to unlisted firms, given that the SABI database does not offer accounting information in reference to foreign affiliates of Spanish multinationals. Due to budget restrictions, only SABI was accessible to this study. Another interesting research avenue refers to the institutional distances (cultural and legal) between the home country and host countries. This would also allow testing the effects of the degree of institutional homogeneity/heterogeneity within and across geographical regions.

Secondly, in order to provide greater thoroughness to our results, and following Rugman and Verbeke (2004), the study could differentiate among region-oriented firms between those that are home-region oriented and those that are host-region oriented.

Thirdly, even when the econometric models fulfill all the statistical standards, it is possible that the practical validity of the results could be improved by increasing the sample size. The profile of firms in the sample indicates that there are very few that have a global focus.

Finally, the model estimation could be benefited by more control variables. Even though this investigation uses control variables that have a strong backing in the literature, and the number of variables used exceeds that of other similar studies, it is noteworthy that in recent years other variables have been incorporated that deserve a greater degree of attention. These variables refer principally to the capabilities and competencies of multinational firms such as R&D intensity or advertising intensity, the cultural and institutional distances that exist between the firm's home country and the host countries of its foreign affiliates, the number of years since each firm began its internationalization process, or the levels of foreign investments made. Nevertheless, the incorporation of control variables in the present investigation was subject to the information available in the SABI database which, in spite of its limitations, is the one that offers the greatest amount of information about Spanish parent companies and their foreign affiliates.

CHAPTER 12. The Moderating Effect of the Firm's Sector on the ID-P Relationship

12.1 Descriptive analysis of the sample

In this study two different measures are used to represent the international diversification variable, the number of countries (NC) and the number of foreign subsidiaries (FS). The study sample consists of 197 Spanish parent companies of which only 2 had associate firms and no subsidiaries abroad. Therefore, when the measure for international diversification is NC the sample size of the study is 197 and when the measure is FS the sample size is 195.

The variable NC measures the number of countries in which the firms of the sample have *foreign affiliates*. Table 24 shows general statistics obtained for the dependent, independent, moderating and control variables when NC is used in estimating the econometric models. The information provided refers to the mean, median, standard deviation, minimum and maximum value for each variable.

Table 24. Descriptive information of the variables of the econometric models with NC as an international diversification variable

Variables	Mean	Std. Dev.	Median	Min	Max
ROA	0.0599	0.0950	0.0457	-0.299	0.842
ROE	0.171	0.331	0.115	-1.919	4.028
NC	4.399	4.021	3	1	28
TFSERV	0.520	0.500	1	0	1
TFIND	0.480	0.500	0	0	1
SIZE	1,902	6,846	328	10	97,328
AGE	38.34	17.88	35.02	12.18	114.9
FL	0.557	0.215	0.559	0.0159	0.988
BGA	0.656	0.475	1	0	1
EM	0.796	0.237	0.874	0.1	1
FOPC	0.0110	0.0669	0	0	0.5
TP	0.444	0.497	0	0	1

Number of companies: 197; Number of observations: 1,569
Source: Own elaboration

Dealing with a longitudinal study that covers a period of 9 years, from 2004 to 2012, the maximum number of possible observations would be 1,773, a result of

multiplying the 197 sample firms by 9. Given that the number of reported observations is 1,569, we can say that our longitudinal panel data is pretty well balanced.

The data of Table 24 allows us to obtain a profile of the sample firms and compare it to the whole of Spanish multinationals. Given that the values are practically identical to those of Table 8, the descriptive analysis of said table can be reproduced here. The only new data that Table 24 offers refers to the distribution of sample firms in terms of their sector of activity: in 52% of the observations the firms are from the service sector and in the remaining 48% from the manufacturing sector.

As indicated at the beginning of this section, when the number of foreign subsidiaries (FS) is used as a measure of international diversification the sample size varies slightly. Table 25 shows general statistics obtained for the dependent, independent, moderating and control variables when FS is used in estimating the econometric models. Given that the values are practically identical to those in Table 9, the descriptive analysis of that table is considered reproduced here.

Table 25. Descriptive information of the variables of the econometric models with FS as an international diversification variable

Variables	Mean	Std. Dev.	Median	Min	Max
ROA	0.0605	0.0940	0.0459	-0.299	0.842
ROE	0.170	0.320	0.116	-1.919	4.028
FS	6.489	7.070	1.098	1	56
TFSERV	0.513	0.500	1	0	1
TFIND	0.487	0.500	0	0	1
SIZE	1,961	7,008	349,5	10	97,328
AGE	38.15	17.88	35,01	12.18	114.9
FL	0.558	0.214	0.561	0.0159	0.988
BGA	0.665	0.472	1	0	1
EM	0.835	0.181	0.892	0.1	1
FOPC	0.0114	0.0686	0	0	0,5
TP	0.453	0.498	0	0	1

Number of companies: 195; Number of observations: 1,412
Source: Own elaboration

In summary, the previous descriptive analysis indicates that in comparison to the generic profile of Spanish multinationals, the sample firms are larger, older, and have a greater degree of international diversification.

12.2 Results analysis

In the following, the econometric models that study the moderating effect that the firm's sector (manufacturing or services) has on the international diversification-performance relationship are analyzed. For this it is necessary to estimate the different models (NC-ROA, NC-ROE, FS-ROA and FS-ROE) for each one of the interaction variables separately (TFINDFORNC and TFSERVFORNC for NC and TFINDFORFS and TFSERVFORFS for FS). The formulation of the econometric models when incorporating the moderating variable firm's sector (TFIND and TFSERV) presents differences with the treatment given to the industrial sector control variable (IND and SERV) in chapters 10 and 11. Given that the firm's sector (manufacturing, services) is the same than the industry control variable (IND), the latter is consequently not replicated in the models of Tables 26-29, avoiding the presence of multicollinearity. As mentioned in chaper 9, we control for firms whose primary activity code is 'holding companies' (HOLD) because in most cases they combine manufacturing and service activities.

12.2.1 Manufacturing Firms

Table 26 shows the results for manufacturing firms when using ROA as a measure of performance. From the analysis of this table, we conclude that manufacturing firms obtain lower performance with the adoption of an international diversification strategy, since the values of the coefficients for the interaction terms TFINDFORNC and TFINDFORFS are negative in all the estimated models.

Furthermore, models (1), (2), (5), (6) and (7) are validated. Thus, in the case of manufacturing firms, the relationship NC-ROA adopts a positive linear shape (model 1) and an inverted U shape (model 2). Meanwhile, the FS-ROA relationship adopts a positive linear shape (model 5), an inverted U shape (model 6) and an inverted S shape (model 7).

Similar results are obtained in the econometric models when using ROE as a performance variable. From analyzing Table 27, it can be concluded that manufacturing firms obtain lower performance with the adoption of a diversification strategy, since the values of the coefficients for the interaction terms TFINDFORNC and TFINDFORFS are negative in all estimated models and statistically significant. For the relationship NC-ROE no statistically significant models were obtained, while for the relationship FS-ROE the validated models are 5 (positive linear shape) and 7 (inverted S shape).

The five models that are validated with the ROA variable (Table 26) and the two models that are validated with the ROE variable (Table 27) are statistically significant. At the end of both tables are the model statistical adjustments, chi-square (joint significance test of the coefficients), whose p-values are significant at 1%. Aside from this, validating the estimators' consistency critically depends on the absence of second-order serial autocorrelation of residuals and instrument validity, and we present p-values of first- and second-order autocorrelations Arellano-Bond 1 and Arellano-Bond 2, respectively where the test for Arellano-Bond 1 is rejected at the 5% level, and the test for Arellano-Bond 2 is satisfactory in this case at high p-values. In relation to over identifying restrictions, the Sargan test shows satisfactory p-values at the 5% level.

Table 26. Moderating Effect of the Firm's Sector on the International Diversification-Performance Relationship with ROA and TFIND

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
ROA	0.427*** (0.0727)	0.414*** (0.0723)	0.410*** (0.0728)	0.412*** (0.0729)	0.453*** (0.0587)	0.458*** (0.0590)	0.462*** (0.0583)	0.461*** (0.0584)
TFIND	-0.185 (0.114)	-0.179 (0.115)	-0.168 (0.118)	-0.171 (0.118)	-0.119 (0.0802)	-0.117 (0.0801)	-0.117 (0.0795)	-0.107 (0.0789)
TFINDFORNC	-0.00233* (0.00126)	-0.00316** (0.00135)	-0.00298** (0.00140)	-0.00305** (0.00135)				
TFINDFORFS					-0.0107** (0.00422)	-0.0120*** (0.00440)	-0.0112** (0.00437)	-0.0115*** (0.00440)
NC	0.00285*** (0.00103)	0.00558*** (0.00167)	0.00986*** (0.00329)	0.0165*** (0.00459)				
NC2		- 0.000149** (7.23e-05)	-0.000754* (0.000428)	-0.00219** (0.000872)				
NC3			1.95e-05 (1.36e-05)	0.000120** (6.04e-05)				
NC4				-2.12e-06 (1.34e-06)				
FS					0.0102*** (0.00323)	0.0206*** (0.00649)	0.0414*** (0.0120)	0.0204 (0.0204)
FS2						-0.00414* (0.00221)	-0.0241*** (0.00902)	0.0112 (0.0280)
FS3							0.00437** (0.00181)	-0.0129 (0.0129)
FS4								0.00256 (0.00185)
SIZE	0.0138*** (0.00282)	0.0133*** (0.00280)	0.0135*** (0.00277)	0.0135*** (0.00276)	0.0122*** (0.00258)	0.0122*** (0.00258)	0.0120*** (0.00259)	0.0121*** (0.00258)
AGE	0.101 (0.180)	0.0842 (0.181)	0.0883 (0.184)	0.0839 (0.184)	-0.0828 (0.140)	-0.0878 (0.139)	-0.0891 (0.139)	-0.107 (0.139)
FL	-0.126*** (0.0269)	-0.122*** (0.0265)	-0.125*** (0.0263)	-0.126*** (0.0262)	-0.112*** (0.0298)	-0.112*** (0.0294)	-0.114*** (0.0297)	-0.115*** (0.0293)
BGA	-0.0145** (0.00632)	-0.0146** (0.00632)	-0.0152** (0.00630)	-0.0146** (0.00623)	-0.00848 (0.00629)	-0.00868 (0.00626)	-0.00871 (0.00626)	-0.00854 (0.00630)
EM	-0.00417 (0.00862)	-0.00398 (0.00849)	-0.00307 (0.00846)	-0.00214 (0.00848)	-0.0422*** (0.0147)	-0.0416*** (0.0145)	-0.0397*** (0.0143)	-0.0393*** (0.0143)
FOPC	0.0915 (0.0690)	0.0849 (0.0676)	0.0821 (0.0677)	0.0677 (0.0668)	0.0751 (0.0635)	0.0643 (0.0625)	0.0643 (0.0624)	0.0620 (0.0621)
TP	-0.0163*** (0.00509)	-0.0164*** (0.00511)	-0.0180*** (0.00523)	-0.0185*** (0.00514)	-0.0127** (0.00504)	-0.0120** (0.00509)	-0.0126** (0.00512)	-0.0124** (0.00512)
HOLD	-0.00939 (0.0269)	-0.00856 (0.0282)	-0.00834 (0.0278)	-0.00949 (0.0282)	-0.00148 (0.0334)	-0.00213 (0.0329)	-0.00385 (0.0330)	-0.00529 (0.0332)
Constant	0.0156 (0.244)	0.0327 (0.245)	0.0165 (0.247)	0.0178 (0.248)	0.288 (0.199)	0.291 (0.198)	0.292 (0.197)	0.315 (0.197)
Observations	1,569	1,569	1,569	1,569	1,412	1,412	1,412	1,412
Number of firms	197	197	197	197	195	195	195	195
Wald Chi2	198.41	197.30	211.57	215.79	279.89	291.87	297.22	308.66
Wald Chi2p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sargan	25.72732	24.78572	24.00983	24.47417	25.60624	25.37082	25.14815	24.58216
Sarganp	0.3139	0.3614	0.4033	0.3780	0.3198	0.3315	0.3427	0.3722
Ar1	-5.8426	-5.757	-5.7649	-5.8117	-5.1687	-5.2062	-5.2423	-5.291
Ar1p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Ar2	1.7067	1.6553	1.6419	1.6685	1.4724	1.5032	1.5785	1.6142
Ar2p	0.0879	0.0979	0.1006	0.0952	0.1409	0.1328	0.1144	0.1065

Source: Own elaboration

Table 27. Moderating Effect of the Firm's Sector on the International Diversification-Performance Relationship with ROE and TFIND

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
ROE	0.298***	0.293***	0.293***	0.294***	0.405***	0.404***	0.404***	0.404***
	(0.0402)	(0.0390)	(0.0389)	(0.0393)	(0.0332)	(0.0331)	(0.0333)	(0.0329)
TFIND	2.819**	2.819**	2.793**	2.786**	0.148	0.151	0.157	0.159
	(1.145)	(1.180)	(1.180)	(1.190)	(0.148)	(0.145)	(0.147)	(0.153)
TFINDFORNC	-0.00569	-0.00758*	-0.00740*	-0.00765*				
	(0.00373)	(0.00418)	(0.00420)	(0.00408)				
TFINDFORFS					-0.0266**	-0.0312**	-0.0306**	-0.0310**
					(0.0134)	(0.0135)	(0.0135)	(0.0136)
NC	0.00871**	0.0145**	0.0186**	0.0363**				
	(0.00350)	(0.00582)	(0.00935)	(0.0148)				
NC2		-0.000309	-0.000895	-0.00473*				
		(0.000250)	(0.00109)	(0.00280)				
NC3			1.89e-05	0.000289				
			(3.33e-05)	(0.000184)				
NC4				-5.71e-06				
				(3.83e-06)				
FS					0.0260**	0.0489**	0.0965**	0.0727
					(0.0112)	(0.0218)	(0.0389)	(0.0590)
FS2						-0.00831	-0.0539*	-0.0126
						(0.00704)	(0.0292)	(0.0816)
FS3							0.0101*	-0.0108
							(0.00581)	(0.0389)
FS4								0.00317
								(0.00579)
SIZE	0.0287***	0.0283***	0.0284***	0.0286***	0.0328***	0.0326***	0.0329***	0.0328***
	(0.00680)	(0.00677)	(0.00672)	(0.00674)	(0.00837)	(0.00838)	(0.00843)	(0.00838)
AGE	-2.756	-2.632	-2.601	-2.601	-0.454	-0.475*	-0.480*	-0.497*
	(1.802)	(1.855)	(1.849)	(1.859)	(0.286)	(0.288)	(0.292)	(0.301)
FL	-0.177	-0.172	-0.176	-0.182	-0.0467	-0.0571	-0.0692	-0.0739
	(0.122)	(0.122)	(0.122)	(0.123)	(0.138)	(0.138)	(0.139)	(0.139)
BGA	-0.00334	-0.00498	-0.00557	-0.00472	-0.0139	-0.0142	-0.0145	-0.0156
	(0.0204)	(0.0207)	(0.0207)	(0.0207)	(0.0223)	(0.0222)	(0.0220)	(0.0224)
EM	-0.00805	-0.00652	-0.00589	-0.00260	-0.0913*	-0.0892	-0.0845	-0.0852
	(0.0239)	(0.0233)	(0.0234)	(0.0236)	(0.0547)	(0.0547)	(0.0546)	(0.0547)
FOPC	0.381*	0.358*	0.347*	0.326	0.382*	0.366*	0.374*	0.374*
	(0.198)	(0.198)	(0.199)	(0.200)	(0.210)	(0.210)	(0.208)	(0.208)
TP	-0.0509***	-0.0519***	-0.0528***	-0.0554***	-0.0330***	-0.0328***	-0.0351***	-0.0353***
	(0.0107)	(0.0109)	(0.0110)	(0.0111)	(0.0112)	(0.0112)	(0.0114)	(0.0114)
HOLD	-0.00937	-0.00282	-0.00315	-0.00584	0.118	0.115	0.107	0.108
	(0.109)	(0.111)	(0.112)	(0.112)	(0.196)	(0.195)	(0.196)	(0.196)
Constant	3.006	2.801	2.764	2.746	0.730	0.762	0.766	0.795
	(2.463)	(2.537)	(2.528)	(2.538)	(0.467)	(0.470)	(0.474)	(0.484)
Observations	1,569	1,569	1,569	1,569	1,412	1,412	1,412	1,412
Number of firms	197	197	197	197	195	195	195	195
Wald Chi2	115.71	119.84	122.90	123.29	317.48	326.26	331.80	330.51
Wald Chi2p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sargan	19.14295	18.88518	18.7561	19.00967	20.92947	20.7757	20.51176	20.50057
Sarganp	0.6929	0.7079	0.7153	0.7007	0.5854	0.5948	0.6109	0.6116
Ar1	-3.8108	-3.8289	-3.8281	-3.8363	-3.2356	-3.2272	-3.2123	-3.2164
Ar1p	0.0001	0.0001	0.0001	0.0001	0.0012	0.0013	0.0013	0.0013
Ar2	1.2274	1.2134	1.21	1.2142	1.5348	1.5326	1.5453	1.55
Ar2p	0.2197	0.2250	0.2263	0.2247	0.1248	0.1254	0.1223	0.1211

Source: Own elaboration

In summary, the firm's sector in the case of manufacturing companies (TFIND) moderates the international diversification-performance relationship, showing that these firms obtain lower performance with the adoption of a strategy of international diversification. Using ROA as a performance measure, the international diversification-performance relationship adopts a positive linear and an inverted U shape for NC-ROA and a positive linear, an inverted U and an inverted S shape for FS-ROA. And when the performance variable is measured by ROE, only a positive linear shape and an inverted S shape for FS-ROE are validated. Also, for both ROA and ROE, the models that represent non-linear shapes for the relationship between international diversification and performance have greater statistical significance levels (in other words, a greater p-value of the Sargan test). Consequently, the results obtained allow the validation of Hypothesis 3 (for NC-ROA, FS-ROA and FS-ROE) that postulates that international diversification has a lower impact on the performance of manufacturing firms than it does on service firms.

12.2.2 Service Firms

Table 28 shows the results of service firms when using ROA as a measure of performance. From analyzing this table, we conclude that service sector firms obtain greater performance with the adoption of an international diversification strategy, since the values of the coefficients for the variables TFSERVFORNC and TFSERVFORFS are positive in all model estimates. For the relationship NC-ROA there are no statistically significant models, while for the FS-ROA relationship model 7 (inverted S) is validated.

Table 28. Moderating Effect of Firm's Sector on the International Diversification-Performance Relationship with ROA and TFSERV

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
ROA	0.429***	0.420***	0.415***	0.418***	0.451***	0.457***	0.461***	0.461***
	(0.0729)	(0.0723)	(0.0727)	(0.0728)	(0.0598)	(0.0603)	(0.0595)	(0.0597)
TFSERV	0.183	0.180	0.169	0.171	0.118	0.117	0.116	0.106
	(0.113)	(0.113)	(0.116)	(0.116)	(0.0820)	(0.0821)	(0.0814)	(0.0809)
TFSERVFORNC	0.000550	0.00135	0.00116	0.00128				
	(0.00127)	(0.00131)	(0.00131)	(0.00130)				
TFSERVFORFS					0.0117***	0.0133***	0.0127***	0.0130***
					(0.00430)	(0.00463)	(0.00454)	(0.00457)
NC	0.00162	0.00317**	0.00794**	0.0145***				
	(0.00107)	(0.00150)	(0.00342)	(0.00455)				
NC2		-0.000129*	-0.000774*	-0.00222**				
		(7.02e-05)	(0.000424)	(0.000888)				
NC3			2.09e-05	0.000122**				
			(1.36e-05)	(6.09e-05)				
NC4				-2.14e-06				
				(1.36e-06)				
FS					-0.000836	0.00842	0.0302***	0.00897
					(0.00362)	(0.00543)	(0.0107)	(0.0199)
FS2						-0.00422*	-0.0245***	0.0106
						(0.00228)	(0.00897)	(0.0282)
FS3							0.00445**	-0.0128
							(0.00178)	(0.0131)
FS4								0.00256
								(0.00188)
SIZE	0.0140***	0.0135***	0.0137***	0.0138***	0.0123***	0.0123***	0.0122***	0.0122***
	(0.00281)	(0.00279)	(0.00276)	(0.00275)	(0.00255)	(0.00254)	(0.00255)	(0.00254)
AGE	0.0974	0.0860	0.0892	0.0845	-0.0818	-0.0872	-0.0894	-0.107
	(0.178)	(0.177)	(0.179)	(0.180)	(0.141)	(0.141)	(0.140)	(0.140)
FL	-0.125***	-0.121***	-0.125***	-0.126***	-0.113***	-0.112***	-0.114***	-0.116***
	(0.0268)	(0.0266)	(0.0264)	(0.0263)	(0.0298)	(0.0294)	(0.0297)	(0.0293)
BGA	-0.0147**	-0.0148**	-0.0155**	-0.0149**	-0.00799	-0.00817	-0.00817	-0.00798
	(0.00627)	(0.00626)	(0.00623)	(0.00617)	(0.00637)	(0.00633)	(0.00632)	(0.00635)
EM	-0.00347	-0.00341	-0.00249	-0.00157	-0.0425***	-0.0421***	-0.0401***	-0.0397***
	(0.00858)	(0.00848)	(0.00845)	(0.00847)	(0.0147)	(0.0145)	(0.0144)	(0.0144)
FOPC	0.0907	0.0842	0.0813	0.0669	0.0767	0.0655	0.0656	0.0631
	(0.0678)	(0.0667)	(0.0668)	(0.0659)	(0.0628)	(0.0619)	(0.0617)	(0.0615)
TP	-0.0167***	-0.0167***	-0.0185***	-0.0190***	-0.0132***	-0.0123**	-0.0129**	-0.0128**
	(0.00509)	(0.00510)	(0.00523)	(0.00514)	(0.00508)	(0.00513)	(0.00515)	(0.00516)
HOLD	0.174	0.175	0.164	0.166	0.131	0.131	0.128	0.117
	(0.117)	(0.118)	(0.120)	(0.121)	(0.0865)	(0.0861)	(0.0855)	(0.0845)
Constant	-0.165	-0.150	-0.154	-0.155	0.167	0.173	0.175	0.208
	(0.315)	(0.316)	(0.320)	(0.321)	(0.250)	(0.249)	(0.249)	(0.248)
Observations	1,569	1,569	1,569	1,569	1,412	1,412	1,412	1,412
Number of firms	197	197	197	197	195	195	195	195
Wald Chi2	145.69	193.57	207.36	208.97	254.63	268.42	275.26	287.06
Wald Chi2p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sargan	17.81674	25.50344	24.57616	25.00954	24.45775	25.12747	24.89634	25.30018
Sarganp	0.1214	0.3249	0.3725	0.3498	0.3788	0.3437	0.3557	0.3350
Ar1	-5.9987	-5.8152	-5.8196	-5.8682	-5.1668	-5.2053	-5.2393	-5.2915
Ar1p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Ar2	1.7417	1.715	1.6947	1.7221	1.4775	1.5086	1.5813	1.6183
Ar2p	0.0816	0.0863	0.0901	0.0851	0.1395	0.1314	0.1138	0.1056

Source: Own elaboration

The same results are obtained when ROE is used as a performance variable in the econometric models (Table 29), that is, service sector firms obtain greater performance with the adoption of an international diversification strategy, and only model 7 (inverted S) is statistically validated in the case of the FS-ROE relationship.

The validated models, one with ROA and the other with ROE as performance variables, are statistically significant. At the end of Tables 28 and 29 are the model statistical adjustments, chi-square, whose p-values are significant at 1%. The model (7) in each one of these tables is statistically significant, in as much as the probability of the Wald Chi2 test (joint significance test of coefficients) is less than 0.05, the probability of the Arellano-Bond 1 test (autocorrelation test) is less than 0.005, the probability of the Arellano-Bond 2 (autocorrelation test) is greater than 0.05, and the probability of the Sargan test (over identification test) is greater than 0.05.

In summary, the firm's sector in the case of service companies (TFSERV) moderates the international diversification-performance relationship, showing that these firms obtain greater performance with the adoption of an international diversification strategy. Likewise, the international diversification-performance relationship adopts an inverted S shape for both FS-ROA and FS-ROE. Thus, the results obtained allow for the validation of Hypothesis 3, which postulates that international diversification has a greater impact on the performance of service firms when compared to manufacturing firms.

Table 29. Moderating Effect of Firm's Sector on the International Diversification-Performance Relationship with ROE and TFSERV

	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6	(7) Model 7	(8) Model 8
ROE	0.297***	0.291***	0.292***	0.293***	0.407***	0.406***	0.406***	0.406***
	(0.0403)	(0.0390)	(0.0390)	(0.0394)	(0.0335)	(0.0334)	(0.0336)	(0.0333)
TFSERV	-2.770**	-2.792**	-2.771**	-2.763**	-0.134	-0.136	-0.143	-0.143
	(1.153)	(1.187)	(1.186)	(1.196)	(0.149)	(0.146)	(0.149)	(0.154)
TFSERVFORNC	0.00173	0.00348	0.00321	0.00335				
	(0.00411)	(0.00440)	(0.00436)	(0.00428)				
TFSERVFORFS					0.0208	0.0249*	0.0239*	0.0240*
					(0.0136)	(0.0140)	(0.0139)	(0.0141)
NC	0.00552**	0.00857**	0.0125	0.0299**				
	(0.00235)	(0.00424)	(0.00896)	(0.0150)				
NC2		-0.000240	-0.000787	-0.00458				
		(0.000243)	(0.00108)	(0.00281)				
NC3			1.78e-05	0.000285				
			(3.32e-05)	(0.000184)				
NC4				-5.66e-06				
				(3.84e-06)				
FS					0.00339	0.0202	0.0694*	0.0498
					(0.00905)	(0.0182)	(0.0362)	(0.0576)
FS2						-0.00754	-0.0540*	-0.0204
						(0.00713)	(0.0292)	(0.0819)
FS3							0.0103*	-0.00673
							(0.00577)	(0.0392)
FS4								0.00259
								(0.00585)
SIZE	0.0290***	0.0288***	0.0290***	0.0292***	0.0335***	0.0334***	0.0336***	0.0336***
	(0.00674)	(0.00669)	(0.00664)	(0.00667)	(0.00822)	(0.00822)	(0.00827)	(0.00821)
AGE	-2.691	-2.594	-2.567	-2.565	-0.442	-0.462	-0.469	-0.481
	(1.817)	(1.867)	(1.862)	(1.871)	(0.285)	(0.286)	(0.290)	(0.300)
FL	-0.182	-0.179	-0.183	-0.188	-0.0481	-0.0580	-0.0704	-0.0745
	(0.122)	(0.121)	(0.121)	(0.122)	(0.138)	(0.139)	(0.140)	(0.140)
BGA	-0.00360	-0.00484	-0.00545	-0.00459	-0.0135	-0.0137	-0.0140	-0.0152
	(0.0203)	(0.0205)	(0.0206)	(0.0205)	(0.0223)	(0.0222)	(0.0220)	(0.0224)
EM	-0.00690	-0.00589	-0.00531	-0.00204	-0.0885	-0.0866	-0.0821	-0.0828
	(0.0239)	(0.0234)	(0.0234)	(0.0237)	(0.0549)	(0.0550)	(0.0549)	(0.0550)
FOPC	0.362*	0.349*	0.338*	0.318	0.376*	0.361*	0.369*	0.370*
	(0.199)	(0.198)	(0.199)	(0.200)	(0.209)	(0.209)	(0.207)	(0.207)
TP	-0.0515***	-0.0526***	-0.0534***	-0.0560***	-0.0340***	-0.0339***	-0.0362***	-0.0364***
	(0.0108)	(0.0109)	(0.0110)	(0.0111)	(0.0112)	(0.0113)	(0.0114)	(0.0115)
HOLD	-2.777**	-2.788**	-2.769**	-2.763**	0.00226	0.00257	-0.0125	-0.0118
	(1.148)	(1.183)	(1.182)	(1.192)	(0.204)	(0.203)	(0.204)	(0.204)
Constant	5.700*	5.550*	5.497*	5.469*	0.849*	0.880*	0.894*	0.917*
	(3.194)	(3.280)	(3.271)	(3.290)	(0.503)	(0.505)	(0.512)	(0.529)
Observations	1,569	1,569	1,569	1,569	1,412	1,412	1,412	1,412
Number of firms	197	197	197	197	195	195	195	195
Wald Chi2	114.54	117.21	120.86	121.42	304.75	308.51	312.06	312.83
Wald Chi2p	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Sargan	19.18813	19.10726	18.99966	19.25663	20.9097	20.80429	20.57296	20.55941
Sarganp	0.6903	0.6950	0.7012	0.6862	0.5866	0.5930	0.6071	0.6080
Ar1	-3.8163	-3.832	-3.8308	-3.8394	-3.2399	-3.2333	-3.2176	-3.2216
Ar1p	0.0001	0.0001	0.0001	0.0001	0.0012	0.0012	0.0013	0.0013
Ar2	1.2319	1.2197	1.2162	1.2203	1.5399	1.5382	1.551	1.5554
Ar2p	0.2180	0.2226	0.2239	0.2223	0.1236	0.1240	0.1209	0.1199

Source: Own elaboration

12.3 Discussion of results and limitations

Tables 30 and 31 show us the summary of the statistically validated models, indicating the sign and the level of significance of the coefficient of the interaction term as well as the p-value of the Sargan test.

Table 30. Summary of the validated models testing the moderating effect of Firm's Sector (MANUFACTURING) on the ID-P Relationship

	ROA	**ROE**
Number of countries (NC)	• Model 1 – Positive linear Interaction term coefficient: Negative (significant at 10% level) Sargan p-value=0.3139 • Model 2 – Inverted U Interaction term coefficient: Negative (significant at 5% level) Sargan p-value= 0.3614	
Foreign Subsidiaries (FS)	• Model 5 – Positive linear Interaction term coefficient: Negative (significant at 5% level) Sargan p-value=0.3198 • Model 6 – Inverted U Interaction term coefficient: Negative (significant at 1% level) Sargan p-value= 0.3315 • Model 7 – Inverted S Interaction term coefficient: Negative (significant at 5% level) Sargan p-value= 0.3427	• Model 5 – Positive linear Interaction term coefficient: Negative (significant at 5% level) Sargan p-value= 0.5854 • Model 7 – Inverted S Interaction term coefficient: Negative (significant at 5% level) Sargan p-value= 0.6109

Source: Own elaboration

Table 31. Summary of the validated models testing the moderating effect of Firm's Sector (SERVICES) on ID-P Relationship

	ROA	**ROE**
Foreign Subsidiaries (FS)	• Model 7 – Inverted S Interaction term coefficient: Positive (significant at 1% level) Sargan p-value= 0.3557	• Model 7 – Inverted S Interaction term coefficient: Positive (significant at 10% level) Sargan p-value= 0.6109

Source: Own elaboration

Considering Tables 30 and 31 together, we note that the number of countries (NC) as an international diversification measure is only present in two validated models for manufacturing firms, while there are many more validated models that use the number of foreign subsidiaries (FS) for both manufacturing and service firms. This

appears to suggest that FS is a more robust variable when carrying out comparative studies between firms from different sectors.

There are two main findings from the validated models in Tables 30 and 31. Firstly, the results obtained allow us to conclude that the firm's sector moderates the relationship between international diversification and performance, confirming Hypothesis 3 which postulates that international diversification has a lesser positive impact on the performance of manufacturing firms than in the case of service firms. Secondly, the most statistically significant relationship between the international diversification variable, when measured by the number of foreign subsidiaries, and firm performance has the same shape, an inverted S, for both manufacturing and service firms. This finding holds for diverse performance measures (ROA and ROE)

The first of these conclusions is in line with those authors that postulate that characteristics inherent in the internationalization process of service firms would explain why they obtain higher performance levels in foreign markets, when compared to manufacturing firms. Service companies traditionally start internationalizing as a "client follower", even when proactive market seeking is getting more and more important as a motivation for service firms to internationalize. Client followers have an advantage in the earlier phase of internationalization compared to purely market-seeking firms that have to face the liability of outsidership on top of the liability of foreignness. Furthermore, when entering foreign markets, service firms generally face lower entry-barriers (Deprey and Lloyd-Reason, 2010) and less capital requirements compared to manufacturing firms. This is primarily due to the comparatively lower investment needs, for example of setting up an office *versus* investing in plant, equipment and inventory, and to the ability to grow production capacity gradually as demand grows (e.g., Bowen and Jones, 1986; Gatignon and Anderson, 1988; Erramili and Rao, 1993;

Campbell and Verbeke, 1994; Contractor et al., 2003). Furthermore, the inherent nature of services (e.g. intangible, nonstorable, intense interaction between producer and user) provides better protection from international competition (Mendoza, 2015).

Additionally, our results find indirect support in recent economic research that makes reference to the productivity of the service sector in Spain. Martín and Rodríguez (2011) analyzed the data of a wide sample of Spanish firms that export goods and non-touristic services from the period 2001-2010, finding that exporting service firms present higher qualification levels of the workforce and higher productivity than exporting goods firms. The reasons that might explain this greater productivity are based on a higher labor qualification together with the fact that exporting service firms have a more distinct multinational character than goods exporters, as well as more diverse financial sources. Additionally, Mendoza (2015) in a study on Return on Sales (ROS) of the foreign subsidiaries of Spanish multinationals for the years 2007-2012, finds that, on average, the service sector foreign subsidiaries are more profitable than those from other sectors.

Regarding the second of our findings, the literature is not conclusive on whether the relationship between international diversification and performance adopts the same shape with both service firms and manufacturing firms (Endo and Ozaki, 2010). An adequate interpretation of our results, which indicate that this relationship has the same shape for both types of firms, requires keeping in mind the characteristics of our sample firms. As indicated at the beginning of the discussion of results in chapter 10, in our study we are dealing with firms that are in an advanced phase of internationalization (by definition, all have foreign subsidiaries except two). This consideration allows us to reconcile our results with previous studies that have found that service firms tend to obtain benefits from internationalization before manufacturing firms do, which might

explain why the shape of the ID-P relationship is different in the initial stages of internationalization (Contractor et al., 2003; Contractor et al., 2007; Elango, 2006; Bobillo et al., 2012). Nevertheless, once both types of firms have become multinationals and have subsidiaries abroad, they face the same challenge of adapting their organizational model to the growing complexity caused by international expansion, in line with the literature on international management. We refer the reader to the discussion on the motives for the inverted S-shaped curve that is discussed at the beginning of section 10.3 of the thesis.

Our results also represent a relevant addition to the scarce literature that exists on the comparison of the ID-P relationship between Spanish manufacturing and service firms. Four prior articles on this topic have been identified, that of Jiménez-Palmero and Benito-Osorio (2011) and three studies by Bobillo et al (2007, 2008, 2012).

The study of Jiménez-Palmero and Benito-Osorio (2011), as was mentioned in chapter 10, adopts the perspective of *investment international diversification*. In this study the authors use the number of countries in which firms have foreign subsidiaries (FS) as a geographic diversification variable and ROE as a performance variable. Among the control variables, with the goal of taking into account sectorial heterogeneity, they classified the sample firms in five sectors (manufacturing, food, construction, regulated sectors and other sectors). The authors estimated the linear, quadratic and sigmoid shapes of the relationship between international diversification and performance, even though they did not obtain statistically significant results in any of their estimations.

The studies of Bobillo et al (2007, 2008, 2012) are based on data from a wide sample of exporting firms from different European countries, including Spain, and for different time periods, with international diversification measured by the export

intensity ratio (exports over total sales) and performance by ROA, in other words, these authors analyze the relationship between *international (sales) diversification* and performance, though their results were not conclusive. In the first two studies (2007, 2008), based on a sample of 7,500 and of 16,500 firms, respectively, from five European countries for the years 1991-2001, the authors find that the existing relationship between the variables of international diversification and performance is non-linear and adopts an S-shaped curve, reporting also that this is the same for both manufacturing and service firms. On the other hand, in their third study (2012), based on a sample of 1,721 firms from 12 countries for the years 2000-2009, the authors find that the relationship between international diversification and performance in service firms is U-shaped while for manufacturing firms it is S-shaped. The findings from Bobillo et al (2007, 2008, 2012) and our study coincide in that the relationship between international diversification and performance is non-linear, though they differ in terms of the shape that the curve adopts. One possible reason to explain this discrepancy is the different perspective adopted, because by using the export intensity ratio as a international diversification measure these authors don't distinguish between their sample firms that only export and those that, in addition to exporting, have foreign affiliates. In this sense it can be argued that the second and third sections of the S curve that these authors refer to, with a positive slope in the second section and a negative slope in the third, correspond to the first and second sections of the inverted S-shaped curve identified in our study, given the profile of the firms of our sample being in a more advanced stage of internationalization.

In summary, our research constitutes the second empirical study, and the first to obtain statistically significant results, on how firm's sector (manufacturing or services) affects the relationship between *investment international diversification* and

performance in the case of Spanish multinational firms. Based on a robust longitudinal database for the period 2004-2012 and using a panel data analysis, the author finds empirically that international diversification has a lesser impact on performance for manufacturing firms than it does for service firms and that the relationship between international diversification, when measured by the number of foreign subsidiaries, and firm performance has the same shape, an inverted S, for both manufacturing and services firms.

Our results also contribute to the growing literature on the internationalization of service firms. While several authors have found that service firms tend to gain the benefits of internationalization sooner than manufacturing companies (Contractor et al., 2003, Contractor et al., 2007), our findings show that once both types of firms start having foreign subsidiaries the relationship between international diversification and performance adopts the same shape.

Not withstanding the previous contributions, our research presents some limitations. A first limitation, previously mentioned, refers to the fact that the broad distinction between manufacturing and services may not be specific enough to account for the large variety of service sector firms (Berthon et al, 1999; Driver and Johnston, 2001). Therefore it would be interesting to estimate the relationship between international diversification and performance with a more fine-grained classification of service companies (e.g. capital-intensive services, knowledge-based services). This would require a greater sample size, something that was not possible in our case.

Secondly, the model estimation could be improved by having complementary measures to the diversification variables used in this study, such as the relative weight of the operations of the foreign subsidiaries over the total of firm operations (e.g. percentage of foreign assets to total assets, idem for sales or employees).

Finally, the model estimation could be improved by adding other control variables. Even though in the present investigation control variables that are widely backed up in the literature were used, and the number of variables used exceeded that of other similar studies, in recent years new variables have been incorporated that deserve a greater degree of attention. These variables refer principally to the capabilities and competencies of multinational firms such as R&D intensity or advertising intensity, the cultural and institutional distances between the home country and host countries, the year in which each firm began its internationalization process, or the levels of foreign direct investments made. Nevertheless, the incorporation of control variables in this study was subject to the information available in the SABI database that, in spite of its limitations, offers the greatest amount of information on parent companies of Spanish multinationals and on their foreign affiliates.

CHAPTER 13. Conclusions and further research

Even though the relationship between international diversification and performance (ID-P) is widely studied in the literature, few studies have focused on Spanish firms. Furthermore, these studies are mainly based on exporting firms and use data prior to the year 2008.

The research done in this thesis contributes to a better understanding on the impact that the adoption of an international diversification strategy has on the performance of Spanish multinational firms. In contrast to previous studies that focused on *international sales diversification* (exports), this thesis analyzes international diversification from the perspective of *international investment diversification*, since the sample considers multinational firms (that are in comparison to exporting firms are in a more advanced stage of internationalization). Furthermore, the methodological design allows for controlling for the effect of the crisis, since it works with a data panel of 197 multinational firms (and their foreign subsidiaries) from a period of 9 years (2004-2012).

This study works with a large sample of Spanish multinational firms and in order to have greater statistical robustness, the econometric models were estimated with two international diversification variables (NC and FS) and two performance variables (ROA and ROE), and the effects of external variables (TP and IND) and internal variables (SIZE, AGE, FL, FOPC, EM and BCGA) were controlled for.

Regarding our findings, the ID-P relationship in the case of Spanish multinational firms is in line with a large part of the literature. When considering the number of foreign subsidiaries (FS), the model with the greater statistical validity is the Inverted S-shaped curve. However, when considering the number of countries in which

the multinational firms have subsidiaries (NC), the model with the greatest statistical significance is the M-shaped curve, which is congruent with the latest reported empirical studies.

Both models are related because the Inverted S-shaped curve represents the first three phases of the M-shaped model. In the last stage of the M-shaped curve, the performance of the multinational firms descends again, since they are expanding to countries with greater cultural, geographical and institutional distance, which brings increased costs of coordination, information and control, and which thus affects the performance.

This research also adopted a contingency focus, since there is a consensus in the literature that there is no theoretical basis for expecting a *generic* relationship between the variables of international diversification and performance. The moderating effect of the firm's geographic focus was found to moderate the ID-P relationship in those firms that adopt a regional or a global focus. Furthermore, the results support the existence of an M-shaped curve regarding the impact that international diversification strategy has on the performance of Spanish multinationals.

These results are in line with a regionalist perspective, since they conclude that regional firms obtain better performance with the international expansion of their operations. This can be explained by the direct investment pattern of Spanish multinationals, which are principally located in Europe or Latin America. In Latin America, Spanish multinational firms benefit from cultural proximity, the experience obtained from previous years, and in some cases the lower levels of competition and market imperfections. Meanwhile, the firms that operate in Europe benefit from geographical proximity, the convergence of tastes and client preferences, the freedom of movement of goods and services, and other benefits derived from being part of the

European Union. Likewise, the results can be explained by the size of the Spanish multinational firms (the median is slightly over 300 employees), which means that in the first phases of internationalization most of them focus on only one region, since in comparison to multinational firms in other countries, they are smaller in size and have less international experience and resources.

Finally, the sector in which the firm belongs (industrial, services) was found to moderate the ID-P relationship in the case of Spanish multinationals. Firms in the services sector have greater performance when compared to firms in the industrial sector. Furthermore, the model with the greatest statistical significance is an Inverted S curve; which is not inconsistent with an M-shaped curve given that it represents the first 3 phases of the M-shaped model or, in other words, represents the behavior of Spanish multinational firms that have not yet reached a greater degree of international diversification.

These results are in line with those authors that postulate that the same characteristics of the internationalization process of service firms could explain the greater performance obtained in foreign markets when compared to manufacturing firms. In the case of Spanish multinationals, it was found that in the initial phase of multinationality service firms obtain better performance (in as much as they face lower investment levels). However, after the initial phase, service and manufacturing firms present similar behavior, since in both cases the ID-P relationship can be represented by an Inverted S-shaped curve; this can be explained because our sample considers firms that are in more advanced phases of internationalization, so they have already dealt with the initial costs of the international expansion process.

While the results of this thesis represent a meaningful contribution to the literature that deals with the relationship between international diversification and

performance of Spanish firms, the three studies that make up this dissertation also have several limitations that at the same time provide opportunities for further research.

First, due to limitations on the data available, our measures of international diversification (ID), the number of countries and the number of subsidiaries, only capture the 'breadth' or scope of the network of foreign affiliates of the firms in our sample. Moreover, our ID measures could not capture the type of foreign affiliates (R&D, operations/production, logistics/distribution, marketing/selling, a combination of the former) and therefore different types of foreign subsidiaries received the same weight. It is highly advisable that further research on Spanish MNEs also incorporates indicators related to the 'depth' or intensity of the firm's international presence, such as foreign sales to total sales, foreign assets to total assets or foreign employees to total employees, that would provide a more comprehensive measure of a firm's degree of international diversification (or multinationality). If more fine-grained data were available, the construction of an entropy index would make possible to capture the effects of expansion into new countries and the effects of increasing the firm's presence into existing foreign countries.

Second, the measurement of the construct of the firm's geographical focus only captures the number of regions where the firm has foreign affiliates. Future studies could offer a more precise classification among the different categories of geographical focus that refer to two or more regions by identifying what proportion of a firm's activity is done in each region for. This would require having access to a database of global scope in order to obtain individual financial data of the foreign affiliates of each company (SABI does not offer any accounting information related to the individual foreign affiliates, except for Portugal). Another interesting research avenue refers to the institutional distances (cultural and legal) between the home country and host countries.

This would also allow testing the effects of the degree of institutional homogeneity/heterogeneity within and across geographical regions.

Third, the broad distinction between manufacturing and services may not be specific enough to account for the large variety of service sector firms (Berthon et al, 1999; Driver and Johnston, 2001). Therefore, it would be interesting to estimate the relationship between international diversification and performance with a more fine-grained classification of service companies (e.g. capital-intensive services, knowledge-based services). This would require a greater sample size, something that was not possible in our case.

Finally, the model estimation could be improved by adding other control variables not available in SABI. These variables refer principally to the firm-specific advantages (FSA) of multinational firms that such as their innovation and new product development capability (measured by the intensity of R & D) or their marketing skills (measured by the intensity in advertising), the year in which each firm began its internationalization process, or the levels of foreign direct investments made.

APPENDIXES ON METHODOLOGICAL ASPECTS

APPENDIX A. The measurement of corporate performance

Firm performance has been a dominant research theme in the literature on international business (Dess and Robinson, 1984; Tihanyi et al., 2005) because it corresponds to the dependent variable in the studies that analyze the ID-P relationship. Likewise, the measure of performance is critical to the top management of a firm, because managers are responsible for adopting and implementing strategies that will allow a firm to meet their strategic objectives (Jin and Deng, 2012).

Nevertheless, there is no consensus on which indicators should be used to measure the performance of firms that have opted for a strategy of international expansion (e.g., Ramírez-Alesón and Espitia-Escuer, 2001; Hitt et al., 2006a; Glaum and Oesterle, 2007; Verbeke and Brugman, 2009; Yang and Driffield, 2012). This occurs because each indicator that can be used has both strengths and weaknesses (Geyidkdagi and Geyikdagi, 1989; Morck and Yeung, 1991; Verbeke and Rugman, 2009; Pan and Tsai, 2012).

The most commonly used measures of firm performance are indicators based on accounting and on stock market information (e.g., Ramírez-Alesón and Espitia-Escuer, 2001; Li, 2007; Yang and Martins, 2010; Muñoz-Bullón and Sánchez-Bueno, 2011; Verbeke and Forootan, 2012). Other authors note the existence of operational (Ruigrok and Wagner, 2003) and efficiency measures (Li, 2007), that for some authors are considered to be part of the same group (Verbeke and Brugman, 2009).

In another classification, Hult et al. (2008) divide performance indicators into three categories, which are financial performance, operational performance and overall effectiveness. The authors review 96 articles and conclude that the measures used most frequently by researchers are those categorized as financial performance measures.

Likewise, they also conclude that very few studies analyze firm performance as a multidimensional construct.

Considering the above, performance measures can be categorized into three groups: 1) accounting measures; 2) market measures; and 3) operational and efficiency measures (see Table 32). The type of performance measures selected has important implications because accounting-based measures capture the short-term performance of firms, while market-based measures capture long-term performance (Yang and Driffield, 2012). Thus, it is suggested that the use of accounting-based or market-based measures can lead to different conclusions about the effect international expansion has on the performance of firms (Hitt et al., 2006a). This explains why accounting measures and those based on the market have been found to have a negative relationship (Keats and Hitt, 1988).

According to Venkatraman and Ramanujam (1986), limitations of time, resources or availability of data, as well as the specificity of goals and disciplinary guidelines of research, cause each author to emphasize either one or several perspectives under which the phenomenon of performance may be understood (Penido et al., 2010, p. 43). Additionally, Verbeke and Brugman (2009, p. 270) point out that by adopting an overly simplified view of what constitutes firm-level performance, and neglecting the firms´ motives for internationalization, the effects on performance may remain ill understood.

In short, the literature recognizes the incapacity of one measure in particular to capture all aspects of firm performance (Brock and Yaffe, 2008). Therefore, the use of multiple measures have been proposed since the investment paths of different firms may be guided by strategic goals and profitability objectives that take into account diverging

time lines (short, medium and long term), each associated with a particular level of risk (Verbeke and Brugman, 2009, p. 270).

Table 32. Classification of indicators used to measure firm performance

Type of Measure	Indicators
Accounting based measures	ROA (return on assets), ROE (return on equity), ROS (return on sales), ROI (return on investment), profitability, operating profit in asset, SD of ROS, SD of ROE, EBIT, EBITDA, total asset turnover, after-tax net income / total assets, net profits, domestic ROA, return on net assets (RONA), profitability growth, gross profit margin, operating profit margin, composite ROA, return on operating assets (ROOA), ratio of worldwide net income to total firm revenue, profit margin, insolvency probability, growth of ROA and ROS, instability of ROA and ROS, asset turnover, ratio of worldwide net income to total firm revenue, the ratio of operating income to total assets, sales, net income/shareholders' equity.
Market based measures	Tobin Q, stock return, market return, excess return, risk adjusted returns, Beta, excess market, capitalization, average rate of return, systematic risk, excess valuation, excess value, excess Q, excess market value, cost of capital, market value, debt to equity, cost of capital, fama market-model abnormal return (stock), market-to-book value, return on stock price, Jensen measure, Treynor measure, Jensen's alpha, Sharpe's measure, market to book ratio, average market value, share price, earnings per share, stability of benefits, variation of excess value, value-added, profits per equity partner (PEP), operating profit in asset.
Operational and efficiency measures	Net license receipts, scale efficiency, innovations, patents, technical efficiency, R&D intensity, operating expense, cost of sales to total sales, operating costs to total sales (OCTS), firm growth, market share, efficiency, sales growth, sales growth rate, introduction of new products, innovation, quality of products/services, retention and employee satisfaction, reputation, survival, perceived overall performance, goal achievement, overall performance in relation to those of competitors, ratio of sales to operating costs, sales to operating costs, operating expense, frontier production function, variance in technical efficiency.

Source: Own elaboration

A.1 Accounting based measures

Among the measures of performance, those based on accounting information are used with the greatest frequency by researchers (Li and Qian, 2005; Hitt et al., 2006a; Chang and Wang, 2007; Hall and Lee, 2010). This can be explained by the fact that accounting measures are easily obtained and favor the comparison with prior studies that used the same indicators (Hitt et al., 1997; Lu and Beamish, 2004).

The accounting measures commonly used by researchers are those that make reference to the following ratios: return on equity (ROE), return on sales (ROS), return on assets (ROA) and return on investment (ROI) (e.g., Kumar, 1984; Grant, 1987; Daniels and Bracker, 1989; Hitt et al., 1997; Lu and Beamish, 2001). Of these, the most frequently used measures are the ratios return on assets (ROA) and return on equity (ROE) (Verbeke and Forootan, 2012).

The ratio return on assets (ROA) measures the efficiency with which the firm's assets are used (Chin-Chun and Boggs, 2003; Chen and Yu, 2012). In this sense, this ratio allows the evaluation of synergies that firms obtain through the strategy of international diversification (Kim et al, 1989). Thus, if firms expand their operations to foreign markets in search of achieving economies of scale and scope (Wen-Tsung et al., 2012), ROA is a good indicator to know whether or not these benefits has been achieved (Kim et al., 1989). Also, Ruigrok et al. (2007, p. 358) argue that ROA grasps economic success at the aggregate firm level and thus the main bottom line (Venkatraman and Ramanujam, 1986). Additionally, ROA is a measure that is not affected by financial decisions (Gomez-Mejia and Palich, 1997, 2000) and is standardized within the literature (Dubofsky, 1987).

Another performance indicator widely used in empirical studies is the ratio return on equity (ROE) (Qian, 1997b), which enjoys high acceptance among firm

managers (Bowman, 1980). This measure is focused on the ability of firms to generate benefits for their shareholders (Chin-Chun and Boggs, 2003; Pattnaik and Elango, 2009) and reflects the productivity of the capital used (Varadarajan and Ramanujam, 1987). This explains why the return on equity is the accounting ratio often used to measure management's effectiveness and to reward managers (Chin-Chun and Boggs, 2003, p. 32).

Likewise, researchers have made use of other measures based on accounting information. Among these measures is the ratio return on sales (ROS), which has the advantage of avoiding the effects of different asset valuations resulting from the timing of investment or depreciation (Geringer et al., 1989). Also, the ratio ROS is a good indicator for measuring the efficiency of operations of firms (Palepu, 1985; Markides and Williamson, 1994; Markides, 1995, 1996). Additionally, it has been demonstrated that the ratios ROA and ROS generate similar results, since both measures are highly correlated (Hitt et al., 1997; Lu and Beamish, 2001; Capar and Kotabe, 2003). As performance measure, ROS has been used in a great variety of studies (e.g., Tallman and Li, 1996; Geringer et al., 2000; Contractor et al., 2003; Chang, 2007; Muñoz-Bullón and Sánchez-Bueno, 2011).

The numerator of the three mentioned ratios –ROA, ROE and ROS- is Net Income. In some studies Net Income is defined before taxes and in others before interests and taxes, even in some cases it is replaced by EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). This measure has the advantage of not considering interest, which is why it can be used by researchers to compare the performance between firms with different capital structures (Brigham et al., 2001; Leme et al., 2007; Penido et al., 2010). Thus, considering that the measure EBITDA indicates the capacity of firms to generate income (cash) from the operations they carry out, there

are various empirical studies that have considered it in order to evaluate the performance of multinational firms (e.g., Gerpott and Jakopin, 2005; Jung and Chan-Olmsted, 2005; Ebneth and Theuvsen, 2006; Leme et al., 2007; Penido et al., 2010).

However, accounting measures have received criticism for their limitations when measuring the performance of multinational firms (e.g., Fisher and McGowan, 1983; Aaker and Jacobson, 1987; Ramírez-Alesón and Espitia-Escuer, 2001; Glaum and Oesterle, 2007; Outreville, 2010). Firstly, it is argued that differences in accounting policies (norms) between firms and countries make the comparison of performance through accounting measures troublesome. Secondly, accounting measures don't take into consideration the individual risk of firms, and only reflect the historical record of a past financial situation of a firm, which doesn't include the future expectations of performance. Thirdly, accounting measures can be affected in greater degree by accounting practices, financial leverage, tax regimes and investor expectations (Li, 2007). Fourthly, accounting measures do not reveal investors' expectations with respect to the maintenance of a specific level of performance and the opportunity costs endured by firms (Ramírez-Alesón and Espitia-Escuer, 2001). Finally, some authors hold that the ratios ROA and ROE present the limitation of being sensitive to the differences in capital structures of a firm (Hitt et al., 1997; Qian et al., 2008).

In spite of this, accounting measures are widely accepted and used by researchers (Chiao et al., 2006) due to the easy availability of data (Penido et al., 2010) and to the frequent use by managers of the ratios ROA and ROE as measures of efficiency and effectiveness of business management (Grant et al., 1988; Robins and Wiersema, 1995). Moreover, accounting measures deliver historical information about the past and present financial situation of a firm, which enables managers to know the returns they have obtained based on the investments made in the firm's resources

(Ramírez-Alesón and Espitia-Escuer, 2001). Thus, it is argued that accounting measures have the advantage of their high level of informative capacity (Barney, 1997).

A.2 Market based measures

Stock market measures provide information on the value of the firm as an on-going concern (Ramírez-Alesón and Espitia-Escuer, 2001, p. 302) and allow the consideration of perspectives and perceptions of its shareholders over present and future performance (Christophe and Lee, 2005; Chari et al., 2007; Li and Yue, 2008; Chen and Yu, 2012). Among these measures are Tobin's Q, risk adjusted returns, excess market value and cost of capital, among others.

Among market based measures, Tobin's Q enjoys the widest acceptance and use by researchers (Chen and Tan, 2012) as shown by the large quantity of studies that have evaluated the performance of multinational firms through this indicator (e.g., Mishra and Gobeli, 1998; Dowell et al., 2000; Lu and Beamish, 2004; Chang and Wang, 2007; Hejazi and Santor, 2010). One important reason is that Tobin's Q incorporates risk adjustment since it considers the cash flows coming from firm operations (Hejazi and Santor, 2010).

Nevertheless, market based measures have limitations. Verbeke and Brugman (2009) point out that Tobin's Q is based on the assumption that markets are efficient, which is why it is assumed as an adequate measure of value of a firm. This can be a problematic assumption since some markets can be inefficient or volatile as a response to specific situations (Ramírez-Alesón and Espitia-Escuer, 2001), which would explain why stock market efficiency can vary depending on the country of origin of the firm (Wan and Hoskisson, 2003).

Likewise, Tobin's Q presents limitations when leaving intangible assets out of the denominator (Chang and Wang, 2007). In this case the performance of firms with large investments in this type of assets is overstated (Lindenberg and Ross, 1981). Also, Chang and Wang (2007, p. 68) argue that researchers have criticized the biased estimation of the investment opportunity of a firm arising from the measure error of the Q value. The same author notes that another limitation of Tobin's Q is that market value varies with respect to the strength of the general economy, which can mean that this measure presents variations between different years (Sharpe, 1978).

A.3 Operational and efficiency measures

Studies investigating the effect that international diversification has on firm performance also use performance indicators that are operational (Hitt et al., 1997; Geringer et al., 2000) and efficiency based (Pattnaik and Elango, 2009; Assaf et al., 2012). This is explained by the need to measure firm performance more broadly and not only with financial indicators (Venkatraman and Ramanujam, 1986).

Assaf et al. (2012) argue that the measures traditionally used by researchers present the limitation of requiring a point of reference (benchmark) in order to make comparisons, which is not always easily obtained. In that regard, efficiency indicators are better measures of firm performance (Li, 2007), since they make less noise (Penido et al., 2010). Unlike accounting measures and market-based measures, efficiency indicators have fewer problems with unexplained variances, which give them greater explanatory power over firm performance. Likewise, efficiency indicators are less likely of being manipulated in comparison to profitability measures (Li, 2007).

One of these measures is cost efficiency, which is defined as the extent to which a firm uses its operating resources to produce a given output mix (Assaf et al., 2012, p.

197). Researchers have used those indicators that make reference to the ratio of total sales to cost of sales (Langendijk et al., 2000; Pattnaik and Elango, 2009) and operating costs to total sales (OCTS) (Gomes and Ramaswamy, 1999; Kotabe et al., 2002; Ruigrok and Wagner, 2003). Other efficiency indicators are those that measure technical efficiency (Li, 2003), scale efficiency (Al-Obaidan and Scully, 1995) and operating expenses (Katrishen and Scordis, 1998).

Some studies have made use of operational performance measures which refer to a non-financial dimension that can contribute to improved financial performance (Penido et al., 2010, p. 44). Likewise, Verbeke and Brugman (2009, p. 70) note that these operational variables are assumed to reflect more accurately the firm's 'fundamentals' (Venkatraman & Ramanujam, 1986). Among these operational indicators we find net license receipts (Hymer, 1960) and sales growth (Geringer et al., 2000; Zahra et al., 2000). Likewise, in this category one could also consider indicators that make reference to market share, innovation of new products or services, product and service quality and the retention and satisfaction of employees, among others (Verbeke and Brugman, 2009; Penido et al., 2010).

However, this type of indicator is not often used (Li, 2007). Penido et al. (2010) argue that researchers use with greater frequency accounting and market based measures since it is more difficult to get data about operational performance measures. This can be observed in Table 33, where operational and efficiency measures are employed in a fewer number of empirical studies while the measures used with the greatest frequency are accounting or market based. Furthermore, Table 33 also shows that several authors seek to resolve the problems that arise from the different measures of performance through the use of multiple indicators (by combining indicators of the same or different type). One example is the proposal from Pangarkar (2008), who

develops an index made up of the indicators ROS, growth in sales, foreign profits, ROA, profit, experience and knowledge gained from foreign operations.

Table 33. Performance measures used in the studies that analyze the ID-P relationship

Type of measure	Author (s) and Year
Accounting based measures	Vernon, 1971; Horst, 1972; Stopford & Wells, 1972; Severn & Laurence, 1974; Hughes et al., 1975; Bergsten et al., 1978; Miller & Pras, 1980; Rugman, 1983; Buckley et al., 1978, 1984; Fatemi, 1984; Kumar, 1984; Yoshihara, 1985; Shaked, 1986; Buhner, 1987; Grant, 1987; Grant et al., 1988; Daniels & Bracker, 1989; Geringer et al., 1989; Haar, 1989; Kim et al., 1989; Jung, 1991; Cantwell & Sanna-Randaccio, 1993; Kim et al., 1993; Hitt et al., 1994; Sullivan, 1994a, 1994b; Dunning, 1995; Ramaswamy, 1995; Sambharya, 1995; Riahi-Belkaoui, 1996; Tallman & Li, 1996; Gomez-Mejia & Palich, 1997; Hitt et al., 1997; Qian, 1997; Gedajilovic & Shapiro, 1998; Qian, 1998; Riahi-Belkaoui, 1998; Berry & Sakakibara, 1999; Delios & Beamish, 1999; Gomes & Ramaswamy, 1999; Click & Harrison, 2000; Geringer et al., 2000; Langendijk et al., 2000; Palich et al., 2000; Zahra et al., 2000; Ramírez-Alesón & Espitia-Escuer, 2001; Sánchez, 2001; Kotabe et al., 2002; Qian, 2002; Capar & Kotabe, 2003; Chin-Chun & Boggs, 2003; Contractor et al., 2003; Ruigrok & Wagner, 2003; Kim et al., 2004; Lee & Habte-Giorgis, 2004; Li & Qian, 2004; Lu & Beamish, 2001, 2004; Mathur et al., 2004; Thomas & Eden, 2004; Andersen, 2005; Annavarjula et al., 2005; Bowen & Wiersema, 2005; Chiang & Yu, 2005; Gerpott & Jakopin, 2005; Li, 2005; Li & Qian, 2005; Tongli et al., 2005; Brock et al., 2006; Chiao et al., 2006; Colpan, 2006; Elango, 2006; Hitt et al., 2006b; Nehrt & Phene, 2006; Chakrabarti et al., 2007; Chang, 2007; Chang & Wang, 2007; Contractor et al., 2007; Elango & Sethi, 2007; Leme et al., 2007; Li et al., 2007; Ruigrok et al., 2007; Andersen, 2008; Brock & Yaffe, 2008; Genthon, 2008; Li & Yue, 2008; Qian et al., 2008; Gaur & Kumar, 2009; Garbe & Ritcher, 2009; Pattnaik & Elango, 2009; Bobillo et al., 2010; Chen-Ho &

	Kumar, 2010; Endo & Ozaki, 2010; Hall & Lee, 2010; Hejazi & Santor, 2010; Kahloul & Hallara, 2010; Outreville, 2010; Singh et al., 2010; Yang & Martins, 2010; Bakay et al., 2011; Jiménez-Palmero & Benito-Osorio, 2011; Lin et al., 2011; Muñoz-Bullón & Sánchez-Bueno, 2011; Hayden et al., 2011; Li et al., 2011; Lin et al., 2011; Bobillo et al., 2012; Chen & Tan, 2012; Hsu et al., 2012; Kirca et al., 2012; Pan & Tsai, 2012; Lampel & Giachetti, 2013; Singla & George, 2013; Belaounia & Nekhili, 2014.
Market based measures	Hughes et al., 1975; Kohers, 1975; Johanson & Vahlne, 1977; Brewer, 1981; Errunza & Senbet, 1981, 1984; Kim & Lyn, 1986; Michel & Shaked, 1986; Shaked, 1986; Buhner, 1987; Kim & Lyn, 1987; Doukas & Travlos, 1988; Geyikdagi & Geyikdagi, 1989; Collins, 1990; Soenen, 1990; Morck & Yeung, 1991; Chung & Pruitt; 1994; Allen & Pantzalis, 1996; Gomez-Mejia & Palich, 1997; Finkelstein & Boyd, 1998; Mishra & Gobeli, 1998; Bodnar et al., 1999; Doukas et al., 1999; Click & Harrison, 2000; Dowell et al., 2000; Palich et al., 2000; Pantzalis, 2001; Ramírez-Alesón & Espitia-Escuer, 2001; Christophe & Pfeiffer, 2002; Dastidar, 2002; Denis et al., 2002; Goerzen & Beamish, 2003; Li, 2003; Ruigrok & Wagner, 2003; Christophe & Lee, 2004; Lee & Habte-Giorgis, 2004; Lu & Beamish, 2004; Miller, 2004; Thomas & Eden, 2004; Rieck et al., 2005; Tongli et al., 2005; Nehrt & Phene, 2006; Castellani & Zanfei, 2007; Chang & Wang, 2007; Chari et al., 2007; Dastidar, 2009; Gande et al., 2009; Hall & Lee, 2010; Hejazi & Santor, 2010; Kahloul & Hallara, 2010; Outreville, 2010; Lin et al., 2011; Chen & Tan, 2012; Lee et al., 2012; Singla & George, 2013; Belaounia & Nekhili, 2014.
Operational and Efficiency measures	Hymer, 1960; Siddharthan & Lall, 1982; Grant, 1987; Al-Obaidan & Scully, 1995; Hitt et al., 1997; Katrishen & Scordis, 1998; Gomes & Ramaswamy, 1999; Geringer et al., 2000; Langendijk et al., 2000; Zahra et al., 2000; Kotabe et al., 2002; Li, 2003; Ruigrok & Wagner, 2003; Pattnaik & Elango, 2009; Assaf et al., 2012.

Multidimensional (among different measures)	Hughes et al., 1975; Shaked, 1986; Buhner, 1987; Grant, 1987; Gomez-Mejia & Palich, 1997; Hitt et al., 1997; Gomes & Ramaswamy, 1999; Geringer et al., 2000; Langendijk et al., 2000; Palich et al., 2000; Zahra et al., 2000; Ramírez-Alesón & Espitia-Escuer, 2001; Kotabe et al., 2002; Li, 2003; Ruigrok & Wagner, 2003; Lee & Habte-Giorgis, 2004; Lu & Beamish, 2004; Thomas & Eden, 2004; Tongli et al., 2005; Nehrt & Phene, 2006; Pattnaik & Elango, 2009; Hall & Lee, 2010; Hejazi & Santor, 2010; Kahloul & Hallara, 2010; Outreville, 2010; Chen & Tan, 2012; Singla & George, 2013; Belaounia & Nekhili, 2014.
Multidimensional (Different measures of the same group)	Vernon, 1971; Stopford & Wells, 1972; Kumar, 1984; Shaked, 1986; Kim & Lyn, 1987; Grant et al., 1988; Daniels & Bracker, 1989; Geringer et al., 1989; Kim et al., 1989; Collins, 1990; Hitt et al., 1994; Sullivan, 1994a; Ramaswamy, 1995; Sambharya, 1995; Tallman & Li, 1996; Delios & Beamish, 1999; Gomes & Ramaswamy, 1999; Lu & Beamish, 2001; Pantzalis, 2001; Qian, 1997, 2002; Contractor et al., 2003; Goerzen & Beamish, 2003; Kim et al., 2004; Li & Qian, 2004; Mathur et al., 2004; Thomas & Eden, 2004; Li, 2005; Brock et al., 2006; Colpan, 2006; Castellani & Zanfei, 2007; Contractor et al., 2007; Elango & Sethi, 2007; Brock & Yaffe, 2008; Li & Yue, 2008; Qian et al., 2008; Gaur & Kumar, 2009; Jiménez-Palmero & Benito-Osorio, 2011; Hayden et al., 2011; Muñoz-Bullón & Sanchéz-Bueno, 2011; Li et al., 2011.

Source: Own elaboration

APPENDIX B. The measurement of the degree of international diversification

The literature on international business has shown that the degree of internationalization of a firm has strategic implications (Lin and Liu, 2012). Thus, a change in the degree of internationalization of a firm provokes organizational and structural changes, as well as changes in the mentality of the individuals and groups that conform it (Hinings and Greenwood, 1988; Bartlett and Ghoshal, 1992).

In this context, it is argued that the geographical reach and the degree of commitment in international operations of a firm are key elements in its process of internationalization (Cieslik et al., 2010) and determine, in part, the success that a multinational firm can have in foreign markets (Annavarjula and Beldona, 2000; Ruigrok and Wagner, 2003). Thus, it is proposed that the measure of the degree of international diversification should give an account of the strategic importance and relative weight internationalization has for a firm with foreign and domestic operations (Grant et al., 1988; Hitt et al., 1997).

Nevertheless, the measurement of the degree of internationalization is a theme that generates controversy in the literature on international business (e.g., Ramaswamy et al., 1996; Sullivan, 1994a, 1994b, 1996; Glaum and Oesterle, 2007; Ray, 2009; Penido et al., 2010). There is no existing agreement about the way in which the degree of internationalization should be measured (e.g., Contractor et al., 2003; Sukpanich and Rugman, 2007; Beleska-Spasova and Glaister, 2010; Rugman and Oh, 2011; Chen and Tan, 2012).

This lack of agreement can be explained by different reasons. Firstly, the inability to find an indicator that is applicable in each of the industries considered by empirical studies (Genthon, 2008). Secondly, there are different conceptualizations of

the degree of internationalization, which don't always reflect the geographical reach of the international expansion of firms (Beleska-Spasova and Glaister, 2010). And thirdly, these different conceptualizations don't always capture the differences in the level of internationalization of firms (Ray, 2009). According to Thomas and Eden (2004), an incomplete theoretical analysis of the degree of international diversification is the factor that has contributed to the existence of inconclusive results about the impact that international diversification has on the performance of firms.

In the first ID-P studies the degree of internationalization or multinationality was measured through a binary scale (Verbeke and Brugman, 2009), which implies that two states were considered, which were whether a firm had foreign subsidiaries in more than one country or not (Hymer, 1961; Horst, 1972). Later, other indicators were used. The majority of the measures of the degree of internationalization are of a one-dimensional type (Hitt et al., 1997; Hitt et al., 2006b; Venzin et al., 2009), considering only one dimension of the international operations of firms (Thomas and Eden, 2004; Banalieva, 2007). Therefore, it is argued that one-dimensional measures don't capture the multidimensional character of internationalization (e.g., Sullivan, 1994a, 1994b; Nicolau et al., 2000; Glaum and Oesterle, 2007; Chen-Ho and Kumar, 2010; Wiersema and Bowen, 2011). Relating to this point, it is noted that one-dimensional measures don't reflect simultaneously the breadth (e.g., number of countries) and depth (e.g., degree of resource commitment) of internationalization (Hitt et al., 1997; Lu and Beamish, 2004).

Thus, different authors have proposed to measure the international expansion of firms through multidimensional indicators (e.g., Vachani, 1991; Sullivan, 1994a; Sanders and Carpenter, 1998; Gomes and Ramaswamy, 1999; Contractor et al., 2003) or entropy indicators (Miller and Pras, 1980; Hitt et al., 1997; Fish and Oesterle, 2003).

Multidimensional measures incorporate two or more one-dimensional measures of international diversification, and then convert them into one index (Banalieva, 2007). Meanwhile, the measures of entropy allow to capture the breadth and depth of the operations in a simultaneous way (Allen and Pantzalis, 1996).

Likewise, other authors have used composite indices constructed from multiple measures (e.g., Daniels and Bracker, 1989; Tallman and Li, 1996; Geringer et al., 2000; Riahi-Belkaoui, 2002; Christophe and Lee, 2004). However, the use of combined indicators has received criticism (Verbeke and Forootan, 2012). It is argued that these researchers don't carry out a prior analysis of the conditions that merit the indicator be included in the study, nor do they do an *ex-post* analysis to analyze the impact that the election of one or another indicator could have on the measure of the degree of internationalization (Verbeke and Brugman, 2009).

Even if the above indicators could provide a good approximation of the degree of internationalization reached by a firm, they would not be sufficient to give an account of why a firm has reached its current position. Thus, Benito et al. (2002) recommend to incorporate elements of a strategic character, such as the commitment of a firm to internationalization and its degree of preparation to support or boost it. Likewise, Garbe and Ritcher (2009, p. 419) note that recent articles argue in favor of incorporating indicators measuring a firm's asset dispersion or country diversity in addition to the classical ratios, related to foreign sales, foreign assets or employment ratios, because the indicators used do not consider the spatial organization of the operations of a multinational firm, or the diversification of its activities among the different countries in which it operates (Asmussen et al., 2007; Fisch and Oesterle, 2003; Goerzen and Beamish, 2003; Outreville, 2010).

B.1 One-dimensional measures

As noted, the most utilized measures of the degree of international diversification are of a one-dimensional kind (Aggarwal et al., 2011). The most often used indicators of this type are those that measure some aspect of the size of the foreign operations of firms in relation to the total of their operations (Chen and Tan, 2012; Pan and Tsai, 2012; Verbeke and Forootan, 2012) such as the ratios that calculate the proportion of foreign sales to total sales (FSTS), foreign assets to total assets (FATA) and the ratio of foreign employees to total employees (FETE). Also popular indicators are the number of countries in which the firm has subsidiaries, the number of foreign subsidiaries and the number of plants or offices in foreign locations (Capar and Kotabe, 2003; Li and Yue, 2008; Assaf et al., 2012).

According to their attributes, these measures tend to be grouped into three categories, which are performance, structural and attitudinal (Hit et al., 2006a; Loncan and Meucci, 2010; Penido et al., 2010; Lin et al., 2011). Aharoni (1971) classified the measures of the degree of internationalization of multinational firms into three categories, namely, performance, structure and behavioral elements. Likewise, Annavarjula and Beldona (2000) note that the measures of the degree of internationalization can be grouped into operations, ownership and orientation.

In light of the above contributions, we have grouped the different measures of the degree of international diversification into three categories: performance, structural and attitudinal (see Table 34). The performance category refers to the success of the operations abroad. Meanwhile, the structural category refers to the level of international involvement of the firm's operations, whether it is in reference to resources that are located abroad or to the internationalization of the governing structure of the firm. The attitudinal category reflects the diversity of the markets where the firm operates, the

international orientation of its general management, or the way in which headquarters staff perceive the foreign countries where the company operates and how headquarters relate to foreign subsidiaries (Sullivan, 1994a; Dorrenbacher, 2000).

Table 34. Classification of the indicators used to measure the degree of international diversification

Measure type	Indicators
Performance	Foreign sales to total sales (FSTS), foreign sales, foreign earnings to total earnings (FBTB), overseas profitability ratio, profit, sales (to external markets), operating profit (generated by external subsidiaries), absolute foreign sales (AFS), export intensity, degree of stability in sales, foreign profits to total profits (FPTP), foreign net income over total net income (FITI), foreign subsidiary sales over total firm sales (FSR), exports sales ratio (Export sales over total firm sales) (ESR), internal ratio (foreign subsidiary sales over the sum of subsidiary and export sales) (IR), foreign exports, ratio of a firm's revenue from foreign countries divided by total sales, the proportion of a firm's sales revenue derived from overseas markets, foreign income to total income, cost efficiency, the ratio of exports to total firm sales.
Structural	Foreign assets to total firm assets (FATA), foreign employee number to total firm employee number (FETE, FETN), number of overseas subsidiaries in relation to total subsidiaries (OSTS), overseas production, changes in overseas production, foreign offices to total offices (FOTO), number of subsidiaries, foreign subsidiaries, number of countries where the company operates, foreign affiliates, foreign countries, foreign employees, foreign top managers, foreign offices, foreign business to total business (FBTB), number of nations in which firm has foreign subsidiaries (NNS), number of foreign subsidiaries (NFS), foreign direct investment (FDI), the extent or proportion of involvement in non-equity ventures abroad (e.g., strategic alliances, franchising, etc.), the ratio of exports to total firm sale, ratio of foreign to total firm assets, foreign direct investment announcements the value or proportion of international assets, the amount or proportion of value-added abroad, number of employees abroad, number of stock markets in which a company is listed, volume/proportion of shares

	held by foreigners, number or proportion of foreigners on the board of directors, average country scope, country scope, root of (foreign dividend + tax credits) over total assets, foreign segments, number of plants/offices in foreign locations, number of regions where a firm develops its activities, direct investment outside geographic boundaries, hosting subsidiaries, Index based on no. of host countries weighted by degree of commitment, number of FDI, % active in the exterior.
Attitudinal	Psychic dispersion of international operations (PDIO), international experience of senior executives, international experience of a firm's top managers, cultural dispersion of internationalization, technological diversity, Hofstede's cultural diversity, geographic, diversity, heterogeneity of markets, incremental dispersion process of the firm's engagements and assets across different country clusters, number of exported product lines, international experience of firm, number of foreign customer relationship, ratio de expansion (average age of foreign subsidiaries), sales of regional markets to measure international diversity, cultural diversity, the percentage of the cumulative international market entries, percentage of directors who have foreign experience.

Source: Own elaboration

Also, an important point is that structural, attitudinal and performance indicators measure international diversification in terms of the intensity of international involvement (depth) and/or in relation to geographic reach (breadth) of international operations (e.g., Tallman and Li, 1996; Hitt et al., 1997; Lu and Beamish, 2004; Chari et al., 2007; Kirca et al., 2012). The depth aspect in the degree of internationalization refers to the commitment of tangible or intangible resources that firms apply to create value with the activities they undertake in foreign markets. Meanwhile, the breadth aspect makes reference to the extent of international activities of firms across different countries in which they operate (Annavarjula and Beldona, 2000; Thomas and Eden, 2004). Thus, indicators such as foreign sales to total sales (FSTS) and foreign assets to total assets (FATA) represent the depth of the international involvement of the firm,

while the geographic dispersion (number of countries in which the firm operates and the number of subsidiaries abroad) measures the breadth of the firm's international diversification (Thomas and Eden, 2004).

B.1.1 Performance measures

Among the studies that utilize one-dimensional measures, the ratio foreign sales to total sales (FSTS) is the most frequently used performance indicator (e.g., Lin et al., 2011; Wiersema and Bowen, 2011; Kirca et al., 2012; Verbeke and Forootan, 2012; Yang and Driffield, 2012). Different studies make use of this measure when exploring the existing relationship between the levels of international diversification and firm performance (e.g., Rugman, 1976; Collins, 1990; Capar and Kotabe, 2003; Genthon, 2008; Chen and Tan, 2012).

The great use of the ratio FSTS is in that it allows the measure of the degree of dependence of a firm with respect to foreign markets (Thomas and Eden, 2004). This dependence is conceptualized through the sales income that comes from subsidiaries located in other countries (Assaf et al., 2012). Moreover this ratio could include both exports and sales of subsidiaries located in foreign countries, which results in a greater explanatoy power than other variables that only focus on foreign direct investment (FDI) (Ramaswamy, 1995; Lu and Beamish, 2004).

However, the use of the ratio foreign sales to total sales (FSTS) has been questioned (Yang and Martin, 2010), since there exists the problem that sales abroad do not include the intermediate goods that are exported from the country of origin of the multinational firm, and that are later sold (as final products) by its subsidiaries abroad (Tallman and Li, 1996; Geringer et al., 2000; Qian et al., 2008). Also, the 'foreign sales to total sales' measure does not address the breadth or scope of foreign operations but focuses more on the overall strategic importance of the foreign operations to the firm

(Tallman and Li, 1996, p. 184). Regarding this, the FSTS ratio has the limitation of capturing only one dimension of multinationality, that is, the penetration in foreign markets (Thomas and Eden, 2004; Li, 2007). Likewise, a weakness of using FSTS ratio is that it captures the output side (i.e., sales) while ignoring the input side (i.e., sourcing of foreign production) of firm internationalization (Elango and Sethi, 2007, p. 378).

B.1.2 Structural measures

The empirical studies that measure international diversification make use of structural measures (Glaum and Oesterle, 2007; Yang and Martins, 2010). Among these measures are the ratio foreign assets to total assets (FATA) (e.g., Daniels and Bracker, 1989; Gomes and Ramaswamy, 1999; Carpenter et al., 2001; Gerpott and Jakopin, 2005; Garbe and Richter, 2009), which is the most frequently used structural measure type (Lin et al., 2011). The ratio FATA is a measure that reflects the dependence of a firm on its production abroad (Assaf et al., 2012). Other frequently used structural measures are those that calculate the proportion of the number of subsidiaries with respect to total subsidiaries (Yang and Martins, 2010) and the ratio of the number of employees abroad with respect to the total employees of a firm (FETE) (Garbe and Richter, 2009). In relation to these measures, it is argued that the performance indicator FSTS (foreign sales to total sales) has a high level of correlation with some types of structural measures, such as the ratios foreign assets to total assets (FATA) and foreign subsidiaries to total subsidiaries (FSTS) (Sambharya, 1995; Tallman and Li, 1996; Gomes and Ramaswamy, 1999).

Other structural measures are also considered in different studies, among which are the number of countries in which the firm operates (e.g., Tallman and Li, 1996; Wan and Hoskisson, 2003; George et al., 2005; Olibe et al., 2008; Andersen, 2011, 2012) and the number of foreign subsidiaries it owns (e.g., Mishra and Gobeli, 1998; Delios and

Beamish, 1999; Lu and Beamish, 2001; Christophe and Lee, 2004; Castellani and Zanfei, 2007). Also used are measures that give account of the level of resources that firms employ in countries different from their place of origin, such as the number of plants or offices that they have in foreign locations (Contractor et al., 2003).

The number of subsidiaries abroad is a measure that captures relevant aspects of the process of firm internationalization (Chen-Ho and Kumar, 2010), such as the scale of international operations and the exposure to international diversity (Errunza and Senbet, 1984; Sambharya, 1995). Likewise, the number of foreign countries in which a firm operates displays the reach of its international operations (Tallman and Li, 1996) and the dispersion element encompassing location costs and benefits (Gomes and Ramaswamy, 1989). However, the measure of the degree of internationalization through the number of countries can present problems, since the operations in each country can be of a different size (Verbeke and Forootan, 2012). The same can be argued for the use of the number of subsidiaries abroad, in that the size of the subsidiaries can differ according to the relative importance that each one of the foreign markets has for the multinational firm.

B.1.3 Attitudinal measures

The degree of international diversification of multinational firms can be measured through attitudinal measures as well, such as the international experience of the top management of a firm or the cultural dispersion of internationalization (Sullivan and Bauerschmidt, 1989). One attitudinal measure developed by Sullivan (1994a) refers to the international orientation of a firm that increases with the international experience of the senior executives (Penido et al., 2010). This measure has a large capacity for statistical measuring, because it is calculated by the cumulative number of years

working abroad divided by the total number of years of work experience of the senior executives.

Also important in attitudinal measuring is the work developed by Perlmutter (1969) and Wind et al. (1973). These authors propose a classification of four types of orientation that corporate managers at headquarters exhibit with respect to foreign subsidiaries. These four types of orientation are ethnocentric (orientation to the country of origin), polycentric (orientation to the destination country), regiocentric (regionally-oriented) and geocentric (globally-oriented). These authors postulate that the degree of internationalization of a firm evolves from the ethnocentric orientation to a polycentric one. Once a firm has opted for the polycentric orientation, it follows an evolutionary process towards regiocentric, and finally to geocentric orientation (Perlmutter and Heenan, 1979).

Finally, it can be argued that the number of relations with foreign clients (Hakansson and Snehota, 2006) is an attitudinal measure, because it reflects the differences between multinational firms based on client type. However, there are doubts about this and other attitudinal measures in their capacity to provide necessary statistical confidence (Penido et al., 2010).

B.2 Multidimensional measures

Vachani (1991) proposed a multidimensional measure known as total global diversification (TGD). In this measure the author includes geographical diversification with related business and non-related business, and he transforms them into just one index. Later, Sullivan (1994a) developed a multidimensional measure composed of five indicators (items): foreign sales to total sales (FSTS), foreign assets to total assets (FATA), overseas subsidiaries to total subsidiaries (OSTS), top managers' international experience (TMIE) and psychic dispersion of international operations (PDIO).

Other authors have proposed the use of alternative composite measures. Thus, Gomes and Ramaswamy (1999) tried to capture the depth and breadth of the international operations of a firm through the creation of a composite index that considered the indicators FSTS, FATA and the number of countries in which the multinational firms operate.

Of these three measures, the work developed by Sullivan (1994a) has received the greatest acceptance by researchers. Nevertheless, some authors question the psychometric properties, content validity, criteria validity, reliability and utilitarian motives of the proposed measure (Ramaswamy et al., 1996; Annavarjula and Beldona, 2000; Nehrt and Phene, 2006).

This has led some authors, subsequently, to develop multidimensional measures of the degree of internationalization of firms (e.g., Contractor et al., 2003; Chang, 2007; Chen-Ho and Kumar, 2010; Lin et al., 2011; Assaf et al., 2012). For example, Contractor et al. (2003) developed a multidimensional measure through the indicators FSTS, FATA and FOTO, while Assaf et al. (2012) did so with the ratios FSTS, FATA and the number of countries. According to Aggarwal et al. (2011) the most used multidimensional measures are those that consider foreign sales, subsidiaries and assets.

In spite of the importance of using measures that capture the multidimensional character of the operations of multinational firms, researchers have faced a lack of adequate data bases, the reason for which they have had to apply one dimensional indicator (Glaum and Oesterle, 2007).

B.3 Entropy measures

Entropy measures were initially conceived of as a way to evaluate the degree of product diversification of a firm (Jacquemin and Berry, 1979). However, currently

entropy measures are used to capture the degree of internationalization or product diversification of multinational firms, as well as the combined effects of both types of diversification (e.g., Kim et al., 1993; Qian, 1997; Ramirez-Aleson and Espitia-Escuer, 2001; Kahloul and Hallara, 2010; Park and Jang, 2011).

Among these measures is the entropy index Global Market Diversification (GMD) of Miller and Pras (1980). This indicator measures not only the dispersion of activities of a firm in homogenous groups of countries, but also in heterogeneous country groups (Son et al., 2011). The higher the value of GMD, the higher the level of international dispersion of the firm. Another measure of entropy was developed by Hitt et al. (1997) and is called composite regionalization measure (Chari et al., 1997). This measure is based on the aggregate sales per geographic market segment that firms report annually. However, it is argued that the entropy measures have problems capturing the geographical reach of international operations (Chari et al. 2007).

In spite of the criticisms received, entropy measures are still used by different researchers because they have the capacity to provide a better indication of the dispersion of firm activities among distinct countries and industrial sectors (Filippaios et al., 2006; Qian et al., 2008). This measure is defined as $\sum[P_i * \ln(1/P_i)]$, where Pi is the percentage of sales in geographic segment i, and ln(1/Pi) is the weight of each geographic segment (Chang and Wang, 2007).

B.4 Herfindahl index

This measure was developed by Herfindhal (1950) and is widely used to measure the levels of economic concentration (Berry, 1971; McVey, 1972; Woerheide and Persson, 1993; McConnell et al., 2009). Later, the Herfindahl index was adapted to the studies on international diversification (Banalieva, 2007). In its original formation,

the Herfindahl index was defined as $1 - \sum_{i=1}^{n} Pi^2$, where Pi is the "share of the i'th firm or the i'th industry relative to total operations" and the subtraction from 1 ensured the index increases with increasing corporate diversification (Banalieva, 2007). Thus, the greater the number the indicator presents, the greater the degree of diversification of a firm (Berry, 1971; McVey, 1972).

In the literature on international diversification the Herfindahl index is considered principally with the perspective of firm sales (Chang and Wang, 2007). Because of this, the index is calculated as the sum of the square of the sales of each geographic segment as a proportion of total sales of a multinational firm. However, in Table 35 it can be noted that this measure is the least used among studies that analyze the existing relationship between the levels of international diversification and firm performance.

Likewise, in Table 35 it can be noted that many of the studies make use of one-dimensional measures, especially those that form part of the categories of structure and performance. We can also observe that a considerable quantity of studies make use of multiple measures, especially measures belonging to different categories. That is, most researchers use different types of measures with the objective of mitigating, at least partially, the disadvantages that each measure has in isolated form.

Additionally, in Table 35 we can also see that the measures belonging to the attitudinal category are not widely used in literature, a situation similarly observed in studies that make use of entropy measures. Likewise, the use of dummy variables were only considered in the initial studies on international diversification. Finally, it is noted that the use of composite measures has not been widely adopted by researchers, instead they tend to prefer the use of multiple measures.

Table 35. Classification of ID-P studies according to the type of measures used

Type of ID-P study	Author (s) and Year
One-dimensional Performance type measures	Vernon, 1971; Stopford & Wells, 1972; Hughes et al., 1975; Kohers, 1975; Rugman, 1976; Agmon & Lessard, 1977; Buckley et al., 1977; Johanson & Vahlne, 1977; Aggarwal, 1979; Errunza & Senbet, 1981; Siddharthan & Lall, 1982; Stopford & Dunning, 1983; Buckley et al., 1978, 1984; Errunza & Senbet, 1984; Fatemi, 1984; Kumar, 1984; Dunning, 1985; Rugman et al., 1985; Yoshihara, 1985; Kim & Lyn, 1986; Michel & Shaked, 1986; Shaked, 1986; Buhner, 1987; Grant, 1987; Grant et al., 1988; Daniels & Bracker, 1989; Haar, 1989; Collins, 1990; Soenen, 1990; Habib & Victor, 1991; Jung, 1991; Goldberg & Heflin, 1995; Sambharya, 1995; Riahi-Belkaoui, 1996; Tallman & Li, 1996; Hitt et al., 1997; Qian, 1996, 1997b; Baek et al., 1998; Qian, 1998; Bodnar et al., 1999; Gomes & Ramaswamy, 1999; Click & Harrison, 2000; Geringer et al., 1989, 2000; Langendijk et al., 2000; Zahra et al., 2000; Lu & Beamish, 2001; Mathur et al., 2001; Christophe & Pfeiffer, 2002; Dastidar, 2002; Denis et al., 2002; Kotabe et al., 2002; Qian, 2002; Qian & Li, 2002; Riahi-Belkaoui, 2002; Riahi-Belkaoui & Alnajjar, 2002; Capar & Kotabe, 2003; Chin-Chun & Boggs, 2003; Jeong, 2003; Li, 2003; Qian et al., 2003; Rugman & Brain, 2003; Ruigrok & Wagner, 2003; Christophe & Lee, 2004; Li & Qian, 2004; Mathur et al., 2004; Ruigrok et al., 2004; Thomas & Eden, 2004; Annavarjula et al., 2005; Gerpott & Jakopin, 2005; Li, 2005; Li & Qian, 2005; Rugman, 2005; Chiao et al., 2006; Ebneth & Theuvsen, 2006; Elango, 2006; Nehrt & Phene, 2006; Rugman et al., 2006; Thomas, 2006; Contractor et al., 2007; Elango & Sethi, 2007; Leme et al., 2007; Ruigrok et al., 2007; Bobillo et al., 2008; Genthon, 2008; Li & Yue, 2008; Pangarkar, 2008; Qian et al., 2008; Chiao & Li, 2009; Gaur & Kumar, 2009; Pattnaik & Elango, 2009; Bobillo et al., 2010; Hall & Lee, 2010; Hejazi & Santor, 2010; Loncan & Meucci, 2010; Singh et al., 2010; Bakay et al., 2011; Lin et al., 2011; Bobillo et al., 2012; Chen & Tan, 2012; Singla & George, 2013.

One-dimensional Structural type measures	Grubel, 1968; Levy & Sarnat, 1970; Vernon, 1971; Lefwich, 1974; Severn & Laurence, 1974; Kohers, 1975; Bergsten et al., 1978; Miller & Pras, 1980; Brewer, 1981; Errunza & Senbet, 1981; Rugman, 1983; Errunza & Senbet, 1981, 1984; Fatemi, 1984; Caves & Mehra, 1986; Kim & Lyn, 1986, 1987; Grant et al., 1988; Kogut & Singh, 1988; Daniels & Bracker, 1989; Geyikdagi & Geyikdagi, 1989; Kim et al., 1989; Morck & Yeung, 1991; Cantwell & Sanna-Randaccio, 1993; Kim et al., 1993; Ramaswamy, 1993; Hitt et al., 1994; Dunning, 1995; Ramaswamy, 1995; Sambharya, 1995; Allen & Pantzalis, 1996; Tallman & Li, 1996; Qian, 1997; Barkema & Vermeulen, 1998; Gedajlovic Shapiro, 1998; Katrishen & Scordis, 1998; Mishra & Gobeli, 1998; Riahi-Belkaoui, 1998; Berry & Sakakibara, 1999; Delios & Beamish, 1999; Doukas et al., 1999; Click & Harrison, 2000; Dowell et al., 2000; Langendijk et al., 2000; Zahra et al., 2000; Carpenter et al., 2001; Mathur et al., 2001; Pantzalis, 2001; Ramírez-Alesón & Espitia-Escuer, 2001; Sánchez, 2001; Riahi-Belkaoui & Alnajjar, 2002; Chin-Chun & Boggs, 2003; Doukas & Lang, 2003; Li, 2003; Wan & Hoskisson, 2003; Christophe & Lee, 2004; Li & Qian, 2004; Lu & Beamish, 2001, 2004; Mathur et al., 2004; Thomas & Eden, 2004; Andersen, 2005; Annavarjula et al., 2005; Chiang & Yu, 2005; Christophe & Lee, 2005; George et al., 2005; Gerpott & Jakopin, 2005; Li, 2005; Borock et al., 2006; Ebneth & Theuvsen, 2006; Nehrt & Phene, 2006; Bobillo et al., 2007; Castellani & Zanfei, 2007; Li et al., 2007; Andersen, 2008; Bobillo et al., 2008; Brock & Yaffe, 2008; Qian et al., 2008; Garbe & Ritcher, 2009; Jiménez, 2010; Outreville, 2010; Yang & Martins, 2010; Jiménez-Palmero & Benito-Osorio, 2011; Lin et al., 2011; Hsu et al., 2012; Lampel & Giachetti, 2013.
One-dimensional Attitudinal type measures	Perlmutter, 1969; Hirsch & Lev, 1971; Bane & Neubauer, 1981; Kogut & Singh, 1988; Sullivan & Bauerschmidt, 1989; Liouville & Nanopoulos, 1996; Zahra et al., 2000; Annavarjula et al., 2005; Thomas, 2006; Chang & Wang, 2007; Tong & Reuer, 2007; Li et al., 2011.
Combination of	Vernon, 1971; Kohers, 1975; Errunza & Senbet, 1981, 1984;

measures (among different types of measures)	Daniels & Bracker, 1989; Tallman & Li, 1996; Athanassiou & Nigh 1999; Gomes & Ramaswamy, 1999; Click & Harrison, 2000; Langendijk et al., 2000; Zahra et al., 2000; Mathur et al., 2001; Qian & Li, 2002; Riahi-Belkaoui & Alnajjar, 2002; Chin-Chun & Boggs, 2003; Christophe & Lee, 2004; Mathur et al., 2004; Thomas & Eden, 2004; Annavarjula et al., 2005; Christophe & Lee, 2005; Gerpott & Jakopin, 2005; Ebneth & Theuvsen, 2006; Nehrt & Phene, 2006; Thomas, 2006; Qian et al., 2008; Kahloul & Hallara, 2010; Lin et al., 2011; Hsu et al., 2012; Pan & Tsai, 2012.
Combination of measures (within the same type of measure)	Morck & Yeung, 1991; Delios & Beamish, 1999; Geringer et al., 2000; Lu & Beamish, 2001; Pattnaik & Elango, 2009; Yang & Martins, 2010; Chen & Tan, 2012.
Multidimensional construct (Multi –item index)	Chetty, 1969; Perlmutter, 1969; Vachani, 1991; Ramaswamy, 1993; Sulivan, 1994a, 1994b; Sanders & Carpenter, 1998; Gomes & Ramaswamy, 1999; Langendijk et al., 2000; Contractor et al., 2003; Li, 2003; Lu & Beamish, 2004; Annavarjula et al., 2005; Christophe & Lee, 2005; Li & Qian, 2005; Asmussen et al., 2007; Chang, 2007; Chari et al., 2007; Asmussen, 2009; Chen-Ho & Kumar, 2010; Endo & Ozaki, 2010; Outreville, 2010; Lin et al., 2011; Assaf et al., 2012; Hsu et al., 2012; Pan & Tsai, 2012; Singla & George, 2013.
Entropy index (Entropy measure)	Miller & Pras, 1980; Errunza & Senbet, 1984; Kim et al., 1989, 1993; Raghunathan, 1995; Hitt et al., 1997; Qian, 1997; Wan, 1998; Sambharya, 2000; Ramirez-Aleson & Espitia-Escuer, 2001; Qian & Li, 2002; Goerzen & Beamish, 2003; Fish & Oesterle, 2003; Li, 2003; Lee & Habte-Giorgis, 2004; Li & Qian, 2004; Mathur et al., 2004; Li & Qian, 2005; Tongli et al., 2005; Hitt et al., 2006b; Chang & Wang, 2007; Qian et al., 2008; Kahloul & Hallara, 2010; Park & Jang, 2011; Son et al., 2011; Belaounia & Nekhili, 2014.
Herfindahl index	Schmidt, 1981; Buhner, 1987; Tallman & Li, 1996; Jung & Chan-Olmsted, 2005; Chang & Wang, 2007; Kahloul & Hallara, 2010; Lampel & Giachetti, 2013.
Binary Scale (Dummy variable)	Hymer, 1960; Vernon, 1971; Horst, 1972; Stopford & Wells, 1972; Severn & Laurence, 1974; Doukas & Travlos, 1988; Al-Obaidan & Scully, 1995; Li, 1995; Bodnar et al., 2000; Muñoz-Bullón & Sánchez-Bueno, 2011; Lee et al., 2012.

Source: Own elaboration

APPENDIX C. Contigency Factors in ID-P studies

C.1 Relevance of contingency factors in empirical studies

Considering the diverse and inconclusive findings of the empirical studies that analyze the relationship between international diversification and performance, the literature has evolved in two ways (Powell, 2014). On the one hand, many valuable advances have centered on refining operational definitions of multinationality or degree of international diversification (Goerzen and Beamish, 2003; Verbeke et al., 2009). And, on the other, the ID-P literature has increasingly used more complex statistical models to test for general ID–P relationship (Contractor, 2012).

However, any theoretical understanding of a focal ID–P relationship remains elusive (Verbeke and Brugman, 2009; Verbeke et al., 2009; Hennart, 2007, 2011; Powell, 2014). Gaur and Kumar (2009) conclude that the debate shouldn't focus on analyzing the nature of a *general* ID-P relationship but rather it should move to identifying the reasons for the origins of ID-P relationships in particular contexts. Under this perspective, a contingency perspective on the ID-P relationship is proposed to address prior mixed results (de Jong and van Houten, 2014), because there is not a strong theoretical basis for expecting a systematic ID-P relationship (Hennart, 2007; Verbeke et al., 2009).

According to Hennart (2007) recent research has focused on understanding the underlying reasons that generate the relationship between international diversification and performance, rather than analyzing the shape of the resulting curve of the interaction between both variables (Venzin et al., 2008; Ray, 2009). In this same line, Kirca et al. (2012, p. 118) conclude that the search for more complex relationships (i.e., U-shaped, inverse U-shaped, horizontal S-curve) has the potential to expand our understanding of the underlying basis for the ID-P relationship, only when the

characteristics of different research contexts (e.g., manufacturing vs. services, country contexts), measure issues (i.e., breath versus depth of multinationality), and firm characteristics (i.e., revenue generation vs. profit maximization objectives) are taken into account in the theoretical development and research design stages of empirical studies.

Therefore, contextual considerations are considered critical in the research on international diversification (e.g., Contractor, 2007; Qian et al., 2008; Garbe and Richter, 2009; Verbeke et al., 2009; Kirca et al., 2012). However, researchers have made little effort to identify the factors that play a critical role in moderating the relationship between internationalization and performance (Tsai, 2014). Similarly, Kirca et al. (2012, p. 109) argue that these contextual considerations are rarely captured in individual studies, as the dominant approach to reconcile these divergent results has been through methodological refinements, such as the selection and measure of constructs, the use of more sophisticated estimation procedures, or incorporating different sets of control variables (Bowen, 2007).

Thus, in the process of isolating the effect that international diversification has on firm performance, it is necessary to include in the estimation models all the variables that could affect performance (Thomas and Eden, 2004). According to Wagner and Ruigrok (2004), not incorporating the contextual factors in the models could explain the inconsistency of the results. Similarly, the divergent results of the first ID-P studies could be explained because they did not consider moderating or control (context) variables in their models (e.g., Hughes et al., 1975; Michel and Shaked, 1986; Collins, 1990; Sullivan, 1994a, 1994b; Qian and Li, 2002).

However, the study of the contextual factors that may explain the nature of the ID-P relationship requires a greater level of academic debate. In fact, the problem of

ambiguity in the results continues, even though incorporating distinct contingency variables has improved the understanding of the existing relationship between the degree of international diversification and firm performance (Muzyrya, 2010).

In a similar perspective, Ruigrok et al. (2007) indicate that research in this field needs to focus on the role of some promising moderating variables, which may add to knowledge that has academic as well as managerial relevance (Singla and George, 2013, p. 1). Consequently, Hitt et al. (2006a, p. 430) note that although several determinants of international diversification have been examined in prior research, the effects of firm, industry, and environmental factors have not been fully specified. Moreover, the application of contextual factors can be extended in scope since scholars so far have only looked at the context from the perspective of the home country (Chen-Ho and Kumar, 2010, p. 93). In a similar vein, Li (2007, p. 130) notes that although scholars have made efforts to incorporate moderating variables (e.g. R&D intensity, international strategy) in studying the ID–P relationship (e.g. Annavarjula et al. 2005; Kotabe et al. 2002; Li 2005; Lu and Beamish 2004), much more research is warranted in the future.

C.2 Classification of contingency factors

Only recently contextual factors have been considered in theoretical and empirical frameworks (Chen-Ho and Kumar, 2010). In recent years some studies explain the divergent results through the use of contingency factors, that is, control and/or moderating variables (e.g., Kim et al., 2004; Chang and Wang, 2007; Beleska-Spasova and Glaister, 2010; Kirca et al., 2011; Chen and Tan, 2012).

These variables can be divided into internal and external (Muzyrya, 2010), endogenous and exogenous (Hitt et al., 2006a), or related to the firm and to the countries where it operates (Elango and Sethi, 2007). These variables can also be

classified in three levels of analysis: firm, industry and country (Makino et al., 2004; Kirca et al., 2012). This classification is consistent with previous studies, in which firm's decisions about diversification and performance results are affected by its general environment, industry environment and firm-level factors (Ramanujam and Varadarajan, 1989).

Considering these arguments, in this Appendix we classify contingency variables in internal (endogenous) and external (exogenous). The internal or endogenous variables are those over which the firm has a certain degree of control, in as much as these relate to the investment of resources and strategic or corporate decisions (when the firm is part of a business group). Meanwhile, the external variables are those over which the firm has no control. Firms can foresee the effect that external variables might have on their performance, which enables them to adopt preventive or adaptive measures. However, they cannot control the effects of the external variables, in as much as these relate to aspects of the industry, country of origin and host countries. Table 36 presents the main contextual variables (moderating or control) that are used in ID-P studies.

Table 36. Contextual Variables (moderating and control) in ID-P studies

Variable Type	Indicators
External Variables	Financial crisis, country of origin, business cycle effect, home country, host country resources, institutional environment, task environment, industry competitive environment, uncertainty, external competitive advantages, industry characteristics, characteristics of the economy as a whole, differences between time period, industry performance, challenging environments, diverse investment opportunity set, level of economic congruence between home-host countries, size of home market, legal systems (civil law vs. common law), institutional distance, home country economic openness, munificence in the home country, diverse

	investment opportunity set, industrial effects, industry growth, industrial profitability, industrial concentration, industrial sector effect, home country effect, country GNP growth, GNP per capita, exchange rate, industry control, year trend, geographic region, time effect, gross national income per capita, population size, industry dummies, industry sub-sector effects, regional business cycles, year dummies, industrial diversification, location, geographic effects, market risk = β, control for # foreign countries, continent of origin, economic growth rate, exchange rate, the degree of competition in the company's industry, the geographical and cultural distance between the company's home base and the foreign markets, foreign asset risk exposure, the breadth of countries included in a firm's foreign operations, institutional environment, country-specific differences in domestic factor endowments, institutional characteristics of home countries, industry structure, industrial technological advance, market structure, intensity of competition, country-level differences between MNE headquarter locations, industry dynamism, industrial sector, governance of the home country, market growth rate, sub-industry effect, economies of scale, economies of scope, costs of foreign entry, learning effects/costs, host country characteristics, geographic region, country of origin, home country market, industry average profits, average industry growth rate, industry average ROA, region effects, maturity of industries, country's financial system, skilled labor market, host market attractiveness, social networks, industry performance, industry capital intensity, economic growth rate, exchange rate, domestic market size, legal traditions, cultural diversity.
Internal Variables	Size of the firm, ownership structure, firm's age, speed of internationalization, years of internationalization, spread of the geographic, product markets entered, marketing intensity, the irregularity of the expansion pattern, top management team characteristics, the level of R&D intensity, intangible assets, administrative intensity, exporting, product diversification, regional diversification, top management team pay, marketing intensity, CEO international experience,

	CEO educational level, CEO position tenure, CEO age, related or unrelated diversification, amounts of coordination and control, market power, internal competitive advantages, product scope, firm's levels of advertising intensity, differences in the firm's ownership and managerial structure, asset dispersion, asset diversity, capital structure, antecedent performance, financial leverage, capital structure (leverage), firms' level of risk, rhythm of internationalization, mergers and acquisitions, age at entry to international markets, internal and external firm competitive, asset intangibility, firm international experience, firm leverage ability, product variety, marketing intensity, spread of the geographic and product markets entered, the irregularity of the expansion pattern, intangible assets, regional diversification, unrelated diversification, coordination and control, joint venture, lagged ROA, product diversification, labor growth, government ownership, extent of vertical integration, financial assets, diversity, reinsurance, ownership, lagged ROE, proprietary assets, international experience, export intensity, administrative costs/sales, capital intensity, market to book value ratio, business diversity, market share, growth and downsize, home country market share, labor efficiency, investment intensity, capital investments, firm size, administrative intensity, capital expenditures, superior growth, interaction between product and international diversification, sales growth, block holders, acquisitions, business experiences, exports, institutional holdings, corporate focus (inverse of industrial diversification), FDI mode, product diversity (related and unrelated), research intensity, debt ratio, firm growth rate, MNE´s ability to exploit intangible assets abroad, regional spread of foreign activities, organizational structures, export intensity, firm's internationalization strategy, the management's experience, its ability to learn, the company's technological know-how base, accounts receivable, CEO pay, culturally related or unrelated international diversification, type of multinationality, revenue generation versus profit maximization, stage of firm internationalization, co-location

	of manufacturing and sales activities in the same geographic market, motivations of firm internationalization, labor efficiency, firm's behavior, country and regional diversification, administrative intensity, firm-specific resources, market power, business group affiliation, firm risk, product scope, top management team diversity, technological intensity, administrative costs, firm's debt-equity ratio, income, the solvency ratio, dichotomous variable that reflects if the MNE is publicly traded or not, CEO age, CEO position tenure, CEO educational level, CEO international experience, CEO duality, ownership structure, ownership identity, the technological intensity, organizational slack, firm's use of production capacity, attainment discrepancy, insider shareholding, the degree of diversification, prior mergers and acquisitions, domestic alliance experience, internationalization pace, domestic expansion pace, accounts receivable, size of the business group, technological intensity, capabilities, internal competitive advantages, IT investment, capital structure, firm growth rate, product scope, firm risk, baseline profitability.

Source: Own elaboration

C.2.1 External variables

The majority of studies that have pointed out the downside of internationalization have been based on exogenous factors that are not directly controllable by management (Brock and Yaffe, 2008). These variables are external and mainly refer to the industry, country and time period (e.g., Kim et al., 1993; Gomes and Ramaswamy, 1999; Kotabe et al., 2002; Qian et al., 2008; Bobillo et al., 2012), all of them having an effect on the performance levels of firms.

Among these variables, those most frequently used are related to the characteristics or effects of the industry, because they can affect the average profitability of firms (Grant et al., 1988; McGahan and Porter, 1999). In fact, Ruigrok et al. (2013, p. 9) note that recent studies argue that a thorough examination of the

relationship between international diversification and firm performance requires careful consideration of the industry characteristics in which a focal firm operates (for a review, see Hitt et al., 2006).

Many of these studies refer to these characteristics as industry effects (e.g., Hitt et al., 1997; Pantzalis, 2001; Majocchi and Zucchella, 2003; Qian et al., 2008; Yang and Martins, 2010). Among these variables are industry profitability (Delios and Beamish, 1999; Goerzen and Beamish, 2003), industry growth (e.g., Vachani, 1991; Tallman and Li, 1996; Delios and Beamish, 1999; Hsu and Boggs, 2003; Li and Yue, 2008), industry concentration (Vachani, 1991; Delios and Beamish, 1999; Li, 2003) and industry average ROA (Rugman et al., 2006).

Also, some authors consider the effect that different sectors can have on firm performance, since the results that are observed in manufacturing firms can be different from those expected from service-sector firms (e.g., Capar and Kotabe, 2003; Contractor et al., 2003; Li, 2005; Hitt et al., 2006b; Brock et al., 2007). This is expressed through a variable that is called industrial sector effect, industry control or industry dummies (e.g., Geringer et al., 2000; Ramirez-Aleson and Espitia-Escuer, 2001; Ruigrok and Wagner, 2003; Chang and Wang, 2007; Bobillo et al., 2012).

Another set of factors that can influence the effect that the strategy of international diversification may have on the levels of firm performance refer to country characteristics (Chen and Tan, 2012; Yang and Driffield, 2012). Likewise, Kirca et al (2012, p. 113) note that the magnitude of the ID-P relationship may also depend on country-specific differences in domestic factor endowments (e.g., physical infrastructure, capital accumulation, financial resources, human resources) and the institutional characteristics of home countries (e.g., political, legal, and societal institutions) (Hitt, Tihanyi, Miller, and Connelly, 2006; Makino et al., 2004). That is,

the performance of multinational firms may be affected by the economic congruence between the country of origin and the destination countries (Assaf et al., 2012).

Contextual characteristics can be from the country of origin of multinational firms. Among these variables are home country munificence (Wan and Hoskisson, 2003; Gerpott and Jakopin, 2005), country GNP growth (Li and Qian, 2004), GNP per capita (Li and Qian, 2004), Gross National Income per capita (Rieck et al., 2005), exchange rate (Lu and Beamish, 2004), population size (Rieck et al., 2005), exchange rate (Elango and Sethi, 2007), continent of origin (Geringer et al., 1989) and domestic market size (Ebneth and Theuvsen, 2006; Li and Yue, 2008), among others.

Likewise, the performance of multinational firms can vary based on the characteristics of the countries (Chang, 2007; Gaur and Kumar, 2009; Cuervo-Cazurra, 2010; Chen and Tan, 2012; Chen and Yu, 2012) or regions (Li, 2005; Chen, 2007; Rugman and Oh, 2007; Qian et al., 2008) where they expand their operations. Among these characteristics are financial crisis (Yang and Driffield, 2012), market risk or beta (Han et al., 1998; Pantzallis, 2001), law systems (Bobillo et al., 2012), geographic effects (Nehrt, 1999), regional business cycles (Goerzen and Beamish, 2003), market demand (Muñoz-Bullón and Sanchez-Bueno, 2011) and institutional distance (Chen-Ho and Kumar, 2010), among others.

Finally, divergent results can also be explained by the date or time period. This variable is known as time effect, year observation, year trend or year dummies (Gerpott and Jakopin, 2005; Li, 2003, 2005; Ebneth and Theuvsen, 2006; Rugman et al., 2006). This is an important aspect because the relationship between international diversification and performance is not constant over time (Yang and Driffield, 2012), since the benefits and costs of diversification can have a different effect in the short and long-term (Thomas and Eden, 2004). In this context it is argued that the studies that

strive to accomplish adequate levels of analysis should ideally start from the time of the firm's first international entry (Verbeke and Forootan, 2012).

C.2.2 Internal variables

Endogenous (or internal) factors have received the greatest attention from researchers (Hitt et al., 2006a), especially among those studies carried out in recent years (e.g., Vermeulen and Barkema, 2002; Mathur et al., 2004; Chang, 2007; Endo and Ozaki, 2010; Lampel and Giachetti, 2013). These variables, with the exception of product diversification, are generally considered control variables and not moderating variables in econometric models.

Internal variables can be divided between those related to strategy planning, the ownership of distinct resources and capabilities and structural characteristics of firms.

The first group of variables have been called strategy planning, since they relate to the strategic decisions made by firms, such as the implementation of strategic actions and the results achieved. In this group are product diversification (e.g., Buehner, 1987; Hitt et al., 1997; Qian, 2002; Wan and Hoskisson, 2003; Bowen and Wiersema, 2007), product diversity (e.g., Tallman and Li, 1996; Delios and Beamish, 1999; Goerzen and Beamish, 2003; Lu and Beamish; 2001, 2004; Annavarjula et al., 2005), industrial diversification (Lu and Beamish, 2001; Wan and Hoskisson, 2003), rate of internationalization or international expansion (Vermeulen and Barkema, 2002; Gerpott and Jakopin, 2005; Ebneth and Theuvsen, 2006), organizational structure (Lu and Beamish, 2004; Fortanier et al., 2007) and business diversity (Li, 2003, 2005), among others.

Other variables also considered in this group are corporate business focus (Pantzalis, 2001), regional expansion of activities abroad (Rugman and Verbeke, 2004),

product scope (Vermeulen and Barkema, 2002), type of multinationality (Thomas and Eden, 2004), extent of vertical integration (Al-Obaidan and Scully, 1995), the number of countries (Hsu and Boggs, 2003), lagged ROA (Siddharthan and Lall, 1982), lagged ROE (Katrishen and Scordis, 1998; Zahra et al., 2000), export intensity (Lu and Beamish, 2004), market to book value ratio (Annavarjula et al., 2005), growth (Buehner, 1987), growth and decline (Li, 2005), home country market share (Vachani, 1991; Li, 2003, 2005; Gerpott and Jakopin, 2005), sales growth (Wan and Hoskisson, 2003), export sales (Li, 2003), mode of entry (Zahra et al., 2000) and the firm's motivation for international expansion (Li, 2007), among others.

The second group of variables refers to the ownership of resources and capabilities that allow firms to obtain competitive advantages, whether by leveraging these assets in the markets in which they participate and/or by exploiting the synergies coming from operating in an international context. These contextual factors fulfill an important role in developing the specific assets that firms will transfer and exploit across borders (Kirca et al., 2012). These variables make reference to investment decisions made by multinational firms in their international expansion plans. Among these variables are R&D intensity (e.g., Qian, 1998; Pantzallis, 2001; Kotabe et al., 2002; Hsu and Boggs, 2003; Thomas and Eden, 2004), advertising intensity (e.g., Delios and Beamish, 1999; Pantzalis, 2001; Kotabe et al., 2002; Li, 2003; Lu and Beamish, 2004) and R&D and advertising intensity (Vachani, 1991; Delios and Beamish, 1999; Annavarjula et al., 2005).

Other variables of this second group used by researchers are the ability of multinationals to exploit their assets abroad (Kotabe et al., 2002), the firm-specific assets (Morck and Yeung, 1991; Kirca et al., 2011), total assets (Li, 2003), proprietary assets (Goerzen and Beamish, 2003), financial assets (Katrishen and Scordis, 1998),

international experience (Zahra et al., 2000; Goerzen and Beamish, 2003), human capital (Tuppura et al., 2008), labor efficiency (Gerpott and Jakopin, 2005), capital investments (Rieck et al., 2005), capital intensity (Annavarjula et al., 2005; Li, 2003, 2005), investment intensity (Gerpott and Jakopin, 2005) and business experiences (Balabanis, 2001), among others.

In their studies, researchers have also considered a third group of variables that relate to the structural characteristics of firms. Among these are firm size (e.g., Dass, 2000; Ramirez-Aleson and Espitia-Escuer, 2001; Capar and Kotabe, 2003; Chiang and Yu, 2005; Qian et al., 2008), and financial leverage (e.g., Geringer et al., 2000; Qian, 2002; Li and Qian, 2004; Li, 2003, 2005; Gerpott and Jakopin, 2005; Ebneth and Theuvsen, 2006).

Other variables that compose the group of structural characteristics are firm age (Riahi- Belkaoui, 1996; Zahra et al., 2000; Qian, 2002), capital structure (Hitt et al., 1997; Goerzen and Beamish, 2003; Lu and Beamish, 2004; Chari et al., 2007), administrative costs-to-sales ratio (Thomas and Eden, 2004), capital expenditures (Li, 2003), institutional holdings (Pantzallis, 2001), labor growth (Morck and Yeung, 1991), type of ownership (Pantzalis, 2001), managerial ownership (Chen and Yu, 2012), governance (Elango, 2006), business group affiliation (Gaur and Kumar, 2009; Singla and George, 2013), size of the business group (Pattnaik and Elango, 2009), firm risk (Qian et al., 2008) and government ownership (Riahi- Belkaoui, 1996; Al-Obaidan and Scully, 1995), among others.

In summary, we conclude that the contingency variables most frequently used by researchers are of an internal type (see Table 37). This can be explained by the very characteristics of the databases used by the studies and the growing interest by some researchers in studying the effect that idiosyncratic firm characteristics can have on

performance. Nonetheless, Singla and George (2013) point out that there is a need for a greater level of theorization that enable a better understanding of the effect that organizational characteristics may have on the relationship between international diversification and performance.

Other interesting aspect is that while in recent research many studies only consider internal type variables as moderating or control variables (e.g., Genthon, 2008; Garbe and Richter, 2009; Endo and Ozaki, 2010; Yang and Martins, 2010; Lampel and Giachetti, 2013), nonetheless some studies incorporate both types of variables (internal and external) as moderating and/or control variables, which enables a more precise isolation of the effect that international diversification has on firm performance (e.g., Geringer et al., 2000; Li and Qian, 2004; Brock et al., 2006; Chen-Ho and Kumar, 2010; Hsu et al., 2012).

Table 37. Classification of ID-P studies based on the type of contingency variables used

Variable Type	Author (s) and Year
External Variables	Kumar, 1984; Beamish, 1985; Montgomery, 1985; Grant, 1987; Grant et al., 1988; Daniels & Bracker, 1989; Geringer et al., 1989; Vachani, 1991; Kim et al., 1993, Tallman & Li, 1996; Hitt et al., 1997; Han et al., 1998; Qian, 1998; Riahi-Belkaoui & Picur, 1998; Delios & Beamish, 1999; Gomes & Ramaswamy, 1999; Nehrt, 1999; Geringer et al., 2000; Langendijk et al., 2000; Merchant & Schendel, 2000; Pantzalis, 2001; Ramirez-Aleson & Espitia-Escuer, 2001; Kotabe et al., 2002; Qian, 2002; Capar & Kotabe, 2003; Contractor et al., 2003; Goerzen & Beamish, 2003; Hsu & Boggs, 2003; Li, 2003; Majocchi & Zucchella, 2003; Ruigrok & Wagner, 2003; Wan & Hoskisson, 2003; Li & Qian, 2004; Lu & Beamish, 2001, 2004; Nachum, 2004; Thomas & Eden, 2004; Chiang & Yu, 2005; Gerpott & Jakopin, 2005; Li, 2005; Matraves & Rodriguez, 2005; Rieck et al., 2005; Brock et al., 2006; Chiao et al., 2006; Ebneth &

	Theuvsen, 2006; Hitt et al., 2006b; Rugman et al., 2006; Chakrabarti et al., 2007; Elango & Sethi, 2007; Leme et al., 2007; Ruigrok et al., 2007; Bobillo et al., 2007, 2008; Brock & Yaffe, 2008; Estrin et al., 2008; Qian et al., 2008; Wiersema & Bowen, 2008; Gaur & Kumar, 2009; Pattnaik & Elango, 2009; Chen-Ho & Kumar, 2010; Jiménez-Palmero & Benito-Osorio, 2011; Son et al., 2011; Assaf et al., 2012; Bobillo et al., 2012; Chen & Tan, 2012; Yang & Driffield, 2012.
Internal Variables	Severn & Laurence, 1974; Miller & Pras, 1980; Siddharthan & Lall, 1982; Buckley et al., 1977, 1984; Kumar, 1984; Kim & Lyn, 1986; Kim et al., 1986; Buhner, 1987; Grant, 1987; Grant et al., 1988; Daniels & Bracker, 1989; Geringer et al., 1989; Morck & Yeung, 1991; Vachani; 1991; Kim et al., 1990; 1993; Al-Obaidan & Scully, 1995; Ramaswamy, 1993, 1995; Sambharya, 1995; Riahi-Belkaoui, 1996; Tallman & Li, 1996; Gomez-Mejia & Palich, 1997; Hitt et al., 1997; Hoskisson & Kim, 1997; Han et al., 1998; Katrishen & Scordis, 1998; Qian, 1998; Delios & Beamish, 1999; Gomes & Ramaswamy, 1999; Nehrt, 1999; Click & Harrison, 2000; Geringer et al., 2000; Zahra et al., 2000; Balabanis, 2001; Majocchi & Zucchella, 2001; Pantzalis, 2001; Ramirez-Aleson & Espitia-Escuer, 2001; Denis et al., 2002; Kotabe et al., 2002; Qian, 2002; Vermeulen & Barkema, 2002; Bodnar et al., 2003; Capar & Kotabe, 2003; Contractor et al., 2003; Doukas & Lang, 2003; Goerzen & Beamish; 2003; Hsu & Boggs, 2003; Li, 2003; Majocchi & Zucchella, 2003; Ruigrok & Wagner, 2003; Wan & Hoskisson, 2003; Carpenter & Sanders, 2004; Li & Qian, 2004; Lu & Beamish, 2001, 2004; Mathur et al., 2004; Nachum, 2004; Rugman & Verbeke, 2004; Thomas & Eden, 2004; Wagner, 2004; Annavarjula et al., 2005; Chacar & Vissa, 2005; Chiang & Yu, 2005; George et al., 2005; Gerpott & Jakopin, 2005; Li, 2005; Li & Qian, 2005; Matraves & Rodriguez, 2005; Rieck et al., 2005; Tihanyi et al., 2005; Brock et al., 2006; Chiao et al., 2006; Ebneth & Theuvsen, 2006; Hitt et al., 2006b; Jiraporn et al., 2006; Nehrt & Phene, 2006; Rugman et al., 2006; Chang, 2007; Elango & Sethi, 2007; Fortanier et al.,

	2007; Goranova et al., 2007; Leme et al., 2007; Ruigrok et al., 2007; Bobillo et al., 2007, 2008; Brock & Yaffe, 2008; Genthon, 2008; Qian et al., 2008; Tuppura et al., 2008; Bouquet et al., 2009; Bowen & Wiersema, 2007, 2009; Garbe & Richter, 2009; Gaur & Kumar, 2009; Krasnikov et al., 2009; Pattnaik & Elango, 2009; Bobillo et al., 2007, 2008, 2010; Chen-Ho & Kumar, 2010; Eckert et al., 2010; Endo & Ozaki, 2010; Hall & Lee, 2010; Myzyrya, 2010; Outreville, 2010; Tejerina-Gaite, 2010; Yang & Martins, 2010; Jiménez-Palmero & Benito-Osorio, 2011; Li et al., 2011; Lin et al., 2011; Son et al., 2011; Assaf et al., 2012; Bobillo et al., 2012; Hsu et al., 2012b; Pan & Tsai, 2012; Lampel & Giachetti, 2013.
Combination of External and Internal	Kumar, 1984; Grant, 1987; Grant et al., 1988; Daniels & Bracker, 1989; Geringer et al., 1989; Vachani; 1991; Kim et al., 1993; Tallman & Li, 1996; Hitt et al., 1997; Han et al., 1998; Qian, 1998; Delios & Beamish, 1999; Gomes & Ramaswamy, 1999; Nehrt, 1999; Geringer et al., 2000; Pantzalis, 2001; Ramirez-Aleson & Espitia-Escuer, 2001; Kotabe et al., 2002; Qian, 2002; Capar & Kotabe, 2003; Contractor et al., 2003; Goerzen & Beamish, 2003; Hsu & Boggs, 2003; Li, 2003; Majocchi & Zucchella, 2003; Ruigrok & Wagner, 2003; Wan & Hoskisson, 2003; Li & Qian, 2004; Lu & Beamish, 2001, 2004; Nachum, 2004; Thomas & Eden, 2004; Chiang & Yu, 2005; Gerpott & Jakopin, 2005; Li, 2005; Matraves & Rodriguez, 2005; Rieck et al., 2005; Brock et al., 2006; Chiao et al., 2006; Ebneth & Theuvsen, 2006; Hitt et al., 2006b; Rugman et al., 2006; Elango & Sethi, 2007; Leme et al., 2007; Ruigrok et al., 2007; Bobillo et al., 2007, 2008; Brock & Yaffe, 2008; Li & Yue, 2008; Pangarkar, 2008; Qian et al., 2008; Gaur & Kumar, 2009; Pattnaik & Elango, 2009; Chen-Ho & Kumar, 2010; Singh et al., 2010; Jiménez-Palmero & Benito-Osorio, 2011; Son et al., 2011; Assaf et al., 2012; Bobillo et al., 2012.

Source: Own elaboration

C.3 Methodological and Theoretical Problems

A set of divergent and even contradictory results highlights the existence of methodological problems (Lewin and Minton, 1986; Ferguson and Ketchen, 1999; Short et al., 2002) in the studies that analyze the impact that the strategy of international diversification has on firm performance (Hitt et al., 2006a; Li, 2007; Hult et al., 2008; Yang and Driffield, 2012).

In this line, Verbeke et al. (2009) argue that with few exceptions the academic debate has focused on the problems that arise from the election and measure of constructs of multinationality (or degree of international diversification) and performance. Also, Verbeke and Brugman (2009, p. 272) note that by not taking into account endogeneity, results from statistical analyses may be biased, and significant results may have limited managerial relevance.

The lack of consensus in the findings can also be explained by the heterogeneity of the samples used in the different studies (Li, 2007; Hejazi and Santor, 2010). Much of the extant ID-P research has tended to focus on multinational enterprises and their foreign direct investments (Almodóvar and Rugman, 2014, p. S7). Besides, there has been little research into the relationship between international diversification and the performance of small and medium-sized enterprises generating a sampling bias in terms of firm size (Yang and Driffield, 2012).

Also, when studies contain firms from different countries in their samples and/or compare their findings internationally, problems with the measure of the degree of internationalization occur, since firms have different incentives to expand their operations internationally according to the size of their market of origin (Glaum and Oesterle, 2007). Likewise, problems also occur when the studies consider data bases from different time periods (Hitt et al., 2006a), since the existing ID-P relationship is

influenced by time (Eden and Thomas, 2004), and the observed relationship between a firm's current performance and its prior performance (Chacar and Vissa, 2005).

In addition to this, divergent results can also be explained based on the degree of multinationality (Kirca et al., 2012). Thus, performance differences between firms can be explained by the levels of over- or under- internationalization that are observed when firms are compared (Hennart, 2011) or because the existing studies don't consider the profitability of international and national businesses in the formulation of their models, which makes the interpretation process of the empirical results more difficult (Genthon, 2008).

Moreover, there are few studies that have analyzed the importance that model specification may have in explaining divergent results (Verbeke et al., 2009). The estimation method may affect the observed ID-P relationship (Li, 2007; Yang and Driffield, 2012), when the results are sensitive to the underlying method of analysis or to the econometric models used (Grant et al., 1988; Chang and Wang, 2007).

Relating to this, Verbeke and Brugman (2009, p. 272) note that many ID-P studies have used cross-sectional data rather than longitudinal data, so that they are not actually measuring any ''real'' linkage between ID and P in individual firms, but only observe that firms with a specific level of ID in the sample have a higher or lower level of P than other firms with different level of ID. Meanwhile, Yang and Driffield (2012) note that the most frequently used methodology is regression analysis, but other studies make use of the ANOVA test or t-test. According to these authors, regression analysis could lead to biased results, since it doesn't consider the cross-correlations between international diversification and other variables. In this context it is recommended that studies should consider structural modeling with longitudinal data design (Li, 2007).

Finally, there are few studies that explain the divergent results based on possible weaknesses in the theoretical foundations (Hennart, 2007). In relation to this point, Verbeke and Forootan (2012, p. 337) note that "strategy scholars should systematically try to explain observed linkages based on actual insight about the firms included in the sample. What is unacceptable is a rationale based on purely theoretical arguments, without any indication that they have any real explanatory power given the firms included in the sample".

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