

**THE ECONOMIC CAPITAL AND THE  
MULTINATIONALISATION OF SPANISH EXPORT FIRMS. AN  
INTEGRATION OF RESOURCES BASED APPROACH INTO THE  
ECLECTIC PARADIGM.**

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# **THE ECONOMIC CAPITAL AND THE MULTINATIONALISATION OF SPANISH EXPORT FIRMS. AN INTEGRATION OF RESOURCES BASED APPROACH INTO THE ECLECTIC PARADIGM.**

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## **ABSTRACT.**

This paper based on a sample of 940 Spanish exporting enterprises, of which 188 were multinationals, confirmed that foreign direct investment decisions are conditioned by the nature of the firms economic capital that constitute its competitive advantage. At the same time we found that international experience not only increases the likelihood of investing abroad but also facilitates geographic diversification. Finally, from the point of view of resources based approach we test that incorporating the location advantage into the analysis of factors that determine internationalization, makes it possible to better understand the firm's multinationalization process which, in our opinion, supports the eclectic paradigm as a framework of the analysis of this economic reality.

Key Words: Spanish multinationals, eclectic paradigm, foreign direct investment, multinational firms, international resources and capabilities.

## **1.- INTRODUCTION**

One of the main reasons why enterprises go international is to find foreign markets. They have three options or general ways of entering these markets: exporting, making foreign direct investment and cooperating with or using strategic alliances with other companies. This means that the forms of internationalization to supply foreign markets lie in market mechanisms (foreign trade exchanges), multinationalizing the firm through foreign direct investment (FDI) or inter-corporate cooperation with little or no investment.

In this paper, we will show the extent to which the nature of the competitive advantage of Spanish exporting enterprises explains how they become multinational (EMN), having found a strong dependency between the two variables. We firstly analyzed the way in which the nature of the competitive advantage of Spanish exporting enterprises explained their decision to internalize it, i.e., how they justified the decision to make direct investment abroad. Secondly, we confirmed that the transformation of the competitive advantage of a multinational enterprise as a consequence of learning facilitated greater international diversification, i.e., helped them go further and deeper into the multinationalization process. Finally, in order to confirm the eclectic (OLI)

paradigm, we classified companies according to their location in large geographical areas and found significant differences among the factors that determine investment decisions according to where they were located.

The development of this paper began with a theoretical statement that enabled us to frame the empirical analysis we carried out with a sample of 940 Spanish exporting enterprises, of which 188 were MNEs. We firstly defined an enterprise's economic capital (its stock of capabilities and resources used in the production of new goods and services) and conceptual relationship with foreign direct investment decisions. We then justified the variables used and described the sample of the enterprises studied to be able to carry out the empirical part of the paper and the analysis of the results obtained.

## **2.- THE ECONOMIC CAPITAL OF AN ENTERPRISE AND THE DECISION TO INVEST ABROAD**

The so-called eclectic paradigm (Dunning, 1988, 1999) constitutes an analytical framework to explain the rationality of foreign direct investment (FDI) decisions. The eclectic paradigm covers the existence of an enterprise's specific advantages (capabilities and resources), together with the preference for internalizing<sup>1</sup> them as the most productive and advantageous option for linking the enterprise as efficiently as possible with specific location advantages of host countries. It has therefore been used as a conceptual framework for analyzing the most suitable entry method in a number of works (Agarwall and Ramaswani 1992; Brouthers, Brouthers and Werner 1999; Brouthers, Brouthers and Werner 1996; Dunning and Kundu 1995; Dunning and McQueen 1982; Tatoglu and Glaister 1998; Tse, Pan and Au 1997). The main advantage over the approach proposed by transaction costs is the incorporation of the features of an enterprise's competitive advantage and location advantage in determining the most suitable entry method (Dunning and McQueen 1982; Brouthers, Brouthers and Werner 1999). In this paper, as a contribution to the above, we incorporated an approach based on an enterprise's resources and capabilities into the empirical analysis and also contrasted the eclectic paradigm for multinational enterprises of a country in the fourth stage of the IDP theory (Dunning and Narula 1996, Durán and Úbeda 2001).

An enterprise's competitiveness is based on its economic capital, which is made up of all the goods that can be used to produce new goods. Economic capital constitutes the enterprise's specific physical goods<sup>2</sup> and set of advantages that can be grouped together by their nature as commercial, technological or managerial capital. These types of capital determine the most suitable entry method to exploit the complementary nature that exists between the enterprise's strategic assets and location factors. Capital productivity can also be increased by the efficient use an enterprise makes of its structure and shareholders' equity both in the country of origin and the host countries (Durán, 2002).

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<sup>1</sup> In the process of defining the eclectic paradigm, in 1975 Dunning added the idea of the internalization advantage to justify why companies choose the hierarchy over the market to exploit the complementarity that exists between corporate competitive advantages and location advantages. Dunning (2001) admitted this approach was conditioned by the contributions of Buckley and Casson in his 1976 work. Dunning also incorporated the contributions made by the theory of organizational capabilities, based on Penrose's work (1959) into his eclectic approach to the analysis of multinational enterprises.

<sup>2</sup> Generic physical goods (furniture, etc.) would, logically, also have to be tabulated.

An enterprise's know-how that is included in its economic capital can be procedural (about how to do something) or declarative (informative or of factual states). These types of know-how can be classified as codifiable (patents, trade marks, etc.) or tacit. Tacit know-how is when the enterprise knows more than it can say or codify and is produced through the implicit and non-codifiable accumulation of skills obtained through experience-based learning (Kogut and Zander 1992, 1993, Reed and DeFillippi 1990, Zander and Kogut 1995). This type of know-how generates causal ambiguity<sup>3</sup>, which is why it is difficult to imitate or transfer into a formal or systematic language (Kogut and Zander 1992, Zander and Kogut 1995, Reed and DeFillippi 1990, Simonin 1999).

Causal ambiguity is not only a consequence of the level of implicit tacit know-how in an enterprise's competitive advantage but is also determined by its complexity and specificity (Reed and DeFillippi 1990, Simonin 1999). In that case, the enterprise must have available or be able to set up internal mechanisms to transfer its specific and differential know-how abroad. If the level of causal ambiguity between the know-how essential for internationalizing production and trade is great, the most effective entry method available will be foreign direct investment<sup>4</sup> (Kogut and Zander 1993, Madhock 1997, 1998, Conner 1991, Tallman 1991).

Know-how is accumulative and hence has an historic dimension (Winter 1987) and is associated with the country or context in which it is generated. It is therefore possible that the specific economic capital of an enterprise could lose value when it moves abroad, as the contextual differences between countries could limit its applicability (Madhok 1997, Kay 2000). Hence, when context (environment-based) know-how is essential to the internationalization process, foreign direct investment could be the most effective entry method for exploiting an enterprise's competitive advantage.

Commercial capital can be codifiable or tacit. Codifiable capital components include brand, trade name, logo and product presentation. Tacit components include management and sales management capabilities. We can also say that commercial capital is made up of relational and intellectual capital and that the two are closely inter-related (Srivastava, Fahey and Christensen 2001). The first comes from the confidence and reputation generated by the interaction of the economic agents with which the enterprise is related during the development of its activity. Intellectual capital of a commercial nature includes all the enterprise's know-how on markets, segments, distribution processes and about marketing and selling products (Srivastava, Fahey and Christensen 2001, Glazer 1991). The historic dimension of the process of generating relational and intellectual capital, as well as their intense overlapping in the

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<sup>3</sup> The concept of casual ambiguity was explained by Lippman and Rumelt (1982) as the difficulty in defining existing relationships between the activities developed by the enterprise and the results obtained.

<sup>4</sup> The same conclusion as the previous one was reached from the point of view of the transaction costs theory, but we should take into account that from this perspective the enterprise's internal mechanisms for transferring know-how are not analyzed, but rather market failures. Intangible assets that present a high level of specificity and tacit know-how therefore reduce the effectiveness of the market as a mechanism to assess and protect these assets (Williamson 1985). Hierarchy therefore becomes the most effective way of using the enterprise's competitive advantage abroad when the firm is strong on differentiating intangible assets (Anderson and Gatignon 1988, Buckley and Casson 1976, Contractor 1984, Hennart 1982, Teece 1977).

environment, provide commercial capital with a strong tacit component as well as strong contextual specificity. Simonin (1999) has documented the existence of a strong relationship between the level of tacit know-how and causal ambiguity of marketing capabilities as an element that makes it hard to transfer them through international alliances.

Brand could be considered commercial capital's main differentiating asset and therefore a variable that can determine an enterprise's multinationalization process. Brand management generates capabilities that are integrated in the brand-equity concept and constitute tacit know-how intensive intangible assets. The specificity of this type of know-how is associated with the context in which it has been generated, which is why extending it to other, different environments, can lead to a loss of value. The creation and use of a brand image abroad requires specific context-based know-how (international brand equity). This can be a factor that determines the creation of sales subsidiaries able to generate relevant contextual experiences for the MNE. The need to preserve an enterprise's reputation and generate contextual know-how, together with the difficulties associated with transferring implicit tacit know-how in the brand image, are factors that can determine the decision to create sales subsidiaries abroad.

The existence of an institutional framework that provides legal coverage to codified commercial assets (brands and trade names) reduces transaction costs, facilitating operation on the market (exports, franchises, etc). However, if we accept that the management of these types of assets can affect an enterprise's image or reputation, the most effective form of operating could occur when the enterprise is a multinational one.

Previous studies using different data sources reached particular conclusions relating to the commercial activity of Spanish enterprises and their FDI decisions. We could also mention that the sectors that generate the most profits and spend most on advertising are those that have reached a higher level of foreign direct investment of a commercial nature (Campa y Guillen 1996). Similarly, Pla-Barber (2001) used enterprise-level data to establish that international brand recognition increased the possibility of creating sales subsidiaries abroad. We could also quote the work of López Duarte and García Canal (1998), who found that the enterprises that invested most in advertising were those that had more than one foreign subsidiary, whether of a commercial or manufacturing nature. A recent work has confirmed that MNEs that opt for creating commercial capital in China use entry methods that implicitly involve a high Level of control (Chen and Hu 2001). Based on the above, we would suggest the following hypothesis:

**Hypothesis 1: If brand constitutes a strategic asset in the enterprise's internationalization process, requirements in terms of information and contextual experience of the host country will promote the creation of sales subsidiaries abroad.**

Generating and operating technology involves two sources of tacit know-how. Firstly, technological innovation generates complex and scarcely codified know-how that creates high causal ambiguity. Empirical evidence shows that foreign direct investment is the entry method used when a technology is internationalized in an embryonic state

(Contractor 1984, Teece 1977, Bradley and Ganon 2000, Chen and Hu 2002). Secondly, the very process of operating technology generates specific, non-codified capabilities that are difficult to transfer<sup>5</sup> (Zander and Kogut 1995). With regard to Spain, Durán (1987), Campa and Guillen (1996) and Pla-Barber (2001) found a positive relationship between technological effort and the multinationalization of an enterprise. However, studies realized at a mesoeconomic level found a weak correlation between industrial specialization of the investment output and the technological effort involved (Molero 1999). These results could be interpreted as indicating a certain level of heterogeneity in the technological intensity of Spanish multinational enterprises, which is corroborated by the analysis of a sample of MNEs<sup>6</sup> carried out by López Duarte and García Canal (1998), as well as a number of case studies (Durán 1997, 1998, Durán and Úbeda 2001). Independently of the origin of the implicit tacit know-how in technological capital, we would propose the following hypothesis:

**Hypothesis 2: If technological capital constitutes a strategic asset in the enterprise's internationalization process, its tacit know-how component will promote the creation of subsidiaries abroad.**

Managerial capital constitutes an enterprise's specific capabilities of a general nature that are not included in either the commercial or the strictly technological sphere (Durán 2001a). It includes two types of essential resources: human (Becker 1964) and organizational (Tomer 1984). Human resources include the training, experience, intelligence and skills of each of the enterprise's employees, while organizational resources include the formal and informal structure of the company, its planning and control tools, coordination systems and internal and external relational capital (Barney 1991). By its very nature, managerial capital is tacit and contextual know-how intensive and so we can expect that market internalization could be the most efficient way of operating. We would therefore propose the following hypothesis:

**Hypothesis 3: If managerial capital constitutes a strategic asset in the enterprise's internationalization process, its tacit know-how component and high level of contextual specificity will promote the creation of subsidiaries abroad.**

One of the main contributions of the eclectic paradigm was to show that the very process of internationalization could, through experience and learning, generate assets and advantages based on international multiactivity<sup>7</sup> (Cantwell and Narula, 2001). Overseas experience generates a type of know-how that facilitates a better assessment of the location advantages offered by countries that are culturally more dissimilar, and also makes it possible to obtain gains in efficiency as a consequence of improved coordination and management of multinational activity. It is therefore possible to

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<sup>5</sup> Zander and Kogut (1995) analyzed the results of a survey carried out with 35 innovative Swedish companies and concluded that the level of codification and formalization of know-how were the variables that made transferring technological know-how most difficult.

<sup>6</sup> López Duarte and García Canal (1998) differentiated between two types of multinational enterprises: sporadic (only one foreign subsidiary) and systematic (a number of FDIs), which showed a greater technological effort.

<sup>7</sup> Dunning (1988) proposed the existence of two types of intangible assets that generate cost savings in transactions: those based on multiactivity and those generated as a consequence of multinationalization *per se*.

generate contextualization capabilities as a nuclear component of an enterprise's competitive advantage. International capital makes it possible to use entry methods that implicitly involve a greater commitment of resources in economically, institutionally and culturally different environments<sup>8</sup>. From this perspective, exporting is considered an entry method that generates international experience that can be used as a lever needed to create foreign subsidiaries. At the same time, international experience facilitates geographical diversification of the export activity and the spatial structure of the multinational enterprise (Johanson and Wiedersheim 1975; Johanson and Vahlne 1977, 1990, Erramilli 1991). In the Spanish case, Pla-Barber (2001) concluded that the number of years of export experience increased the likelihood of creating sales subsidiaries abroad, Durán and Ubeda (2000) confirmed that experience generated by multinationalization management increased the trend to invest in economically, institutionally and culturally more different environments. In accordance with the above, we would suggest the following hypotheses:

**Hypothesis 4: Export experience increases the likelihood of investing abroad.**

**Hypothesis 5: Diversification of export activity increases the trend to invest abroad.**

**Hypothesis 6: Experience as a multinational enterprise facilitates geographic diversification of the subsidiary network.**

In a multinationalization process, an enterprise must opt for a strategy of adapting to the context in which it is located, to a greater or lesser degree. Its previous experience therefore acquires special relevance of a strategic nature and so the creation of foreign subsidiaries constitutes the most effective way of generating the necessary relevant contextual know-how.

**Hypothesis 7: A strategy of contextual adaptation increases the trend to invest abroad.**

### **3.- DESCRIPTION OF THE SAMPLE AND VARIABLES USED**

The sample used in this work came from a survey by Alfonso and Donoso (1994, 1998) for the Instituto Español de Comercio Exterior (ICEX) into the competitiveness of Spanish export firms. The survey was made in 1996 with a representative group composed of 1,102 companies that export on a regular basis<sup>9</sup>.

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<sup>8</sup> Empirical evidence exists both at a country and sector level. Company-based studies include Swedish companies from the Uppsala school (Johanson and Wiedersheim, 1975; Johanson and Vahlen, 1977; Welch and Wiedersheim, 1978; Bilkey, 1978; Reid, 1981) and US companies (Davidson, 1982, 1983). Sector-based studies include studies of finance companies (Khouri, 1979), advertising agencies (Weinstein, 1977) and service companies (Erramilli, 1991). These studies confirm the above relationship. However, Trepstra and Yu (1988), Maclayton, Smith and Hair (1980) and Sharman and Johanson (1987) deny the existence of the above relationship.

<sup>9</sup> 13,601 Spanish export companies were chosen and those that exported only sporadically were excluded. A stratified random selection was then made and a sample composed of 1,102 companies was obtained, which guaranteed an overall maximum error rate of 3% at a 95% confidence level. See Alonso and Donoso (1998) for further information.

In order to eliminate distortions generated by subsidiaries belonging to non-Spanish MEs, we excluded from the sample enterprises with more than a 50% foreign stake in the shareholders' equity. This left 940 exclusively Spanish companies. We then used the survey's questions that allowed us to detect the enterprises with foreign subsidiaries. The total number of companies that made some type of foreign direct investment came to 188, i.e., 20% of the sample.

It is possible to detect a certain similitude between the geographic structure of the FDI in industry in the Spanish economy and that presented by the multinationals analyzed in the study, as 71% of the sample had subsidiaries in the EU, 24.9% in the US and 45% in non-OECD countries<sup>10</sup> (See Table 1). In order to check the incidence of economic capital over geographic diversification of the foreign direct investment we differentiated between two levels of multinationalization:

- A) EMN-I: enterprises that specialized in one particular geographic area.
- B) EMN-II: enterprises with subsidiaries in more than one geographic area.

66% of the sample was composed of Level 1 multinational enterprises, of which 41% specialized in the European Union, 15% in non-OECD countries (Latin America) and 9.7% in the US. We can also see that 33% of the sample was made up of enterprises with subsidiaries in more than one geographic area, nearly all of which were present in the EU (See Table 1).

In order to check whether the incidence of the advantage owned by the enterprise (O) over the foreign direct investment decision (I) depended on location advantages (L), we distinguished three different types of multinational enterprises. These were enterprises that only had subsidiaries in OECD countries, enterprises that only had subsidiaries in non-OECD countries and enterprises that had subsidiaries in more than one geographic area (EMN-II).

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<sup>10</sup> During the 1993-96 period, industry accounted for 9% of foreign direct investment in the Spanish economy. An analysis of its geographic structure shows a strong concentration in the European Union (56% of manufacturing FDI). We can also see that 31% of direct investment went to non-OECD countries, particularly Latin America. Finally, it should be mentioned that practically all direct investment in non-EU developed countries went to the US (DGTE 2002).



**Table 1: Geographic structure of multinational enterprises**

	Number of Multinational Enterprises	% of total Multinational Enterprises
Subsidiaries in one geographic area (EMN-I)	123	66.5%
Subsidiaries in EU	76	41.1%
Subsidiaries in US	18	9.7%
Subsidiaries in non-OECD	29	15.7%
Subsidiaries in more than one geographic area (EMN-II)	62	33.5%
With subsidiaries in EU	56	30.3%
of which:		
Subsidiaries in US	7	3.8%
Subsidiaries in non-OECD	34	18.4%
Global	15	8.1%
Without subsidiaries in EU	6	3.2%
<b>Total</b>	<b>185</b>	

We chose three indicators (See Table 2) to quantify the international commercial capital of the export companies. Spending on advertising abroad over export volume is an indicator associated with the level of commercial-type intangible assets<sup>11</sup>. However, we felt it was necessary to measure the strategic importance of creating an internationally known brand so we used a dichotomous variable that differentiated between companies that not only exported with their own brand but also systematically carried out advertising campaigns abroad. We complemented this information with an indicator related with the importance of this asset in the company's export strategy, i.e., the percentage of own-brand exports.

Spending on R&D over sales volume and number of patents have traditionally been the variables used to measure the endowment of technological intangible assets. We could logically expect a positive relationship between the two variables and foreign direct investment. However, given the technological nature of Spanish enterprises (little R&D effort and relatively low number of patents), we used a qualitative value based on the perception that managers had about the technological capabilities of their companies. We thus hoped to approach the measurement of the tacit component of a company's technological capital (See Table 2).

The endowment of implicit intangible assets in domestic managerial capital depends largely on the complexity of the know-how that generates value. We could expect that, both because of transaction costs (market failures) and the problem of causal ambiguity (hierarchy failures), a greater endowment of implicit intangible assets in managerial capital would not only require better qualified managers but also a more

<sup>11</sup> Advertising spending over sales volume is usually used as an indicator of an enterprise's commercial capital (Gatignon and Anderson 1988, Kogut and Singh 1988, Hu and Chen 1993, Chen and Hu 2000). We instead chose advertising spending carried out abroad to measure the effort the company made to create international commercial capital.

internalized market. We therefore analyzed the percentage of technicians compared to managers in the enterprise in order to indicate the Level of tacit know-how of its managerial capital (See Table 2).

As complementary measures of the international experience of a company that generates international managerial capital we used the number of years spent exporting, the number of years since the first foreign direct investment was made and the geographic diversification of the export activity. We complemented this indicator with two additional values, i.e., export percentages to the US and to non-OECD countries, as these were the two geographic areas apart from the EU where exports really went.

We used two indicators of company size as a control variable: number of employees and number of manufacturing facilities. It is important to state that if a company has various manufacturing facilities it will be forced to create mechanisms for transferring tacit know-how internally (Leonard-Barton 1988), which facilitates the multinationalization of the enterprise. In both cases, we would expect a positive relationship between the decision to invest abroad and the size of the company (See Table 2).

**Table 2: Description of the variables used.**

Variable	Effect on FDI decision	Description
<b>COMMERCIAL CAPITAL</b>		
Spending on advertising abroad (%)	(+)	Spending on advertising abroad by export volume
Systematic advertising campaign abroad	(+)	Dichotomous variable that took value 1 if the company runs promotional campaigns abroad on an ongoing basis.
Internationally known brand	(+)	Dichotomous variable that took value 1 if the company runs promotional campaigns abroad on an ongoing basis and uses own brand in its exports.
Exports with Own Brand (%)	(+)	Percentage of export volume carried out with own brand.
<b>TECHNOLOGICAL CAPITAL</b>		
Technological Superiority	(+)	Dichotomous variable that took value 1 if management feels its technological Level is superior to that of its foreign competitors
R&D	(+)	Spending on R&D by sales volume
<b>DOMESTIC MANAGERIAL CAPITAL</b>		
Managers (%)	(+)	Percentage of technicians to managers in total workforce
<b>INTERNATIONAL MANAGERIAL CAPITAL</b>		
Export experience	(+)	Number of years since the company began exporting
Export Department	(+)	Dichotomous variable that took value 1 if the company has a export department.
Experience in FDI	(+)	Number of years since first foreign direct investment was made.
Geographic diversification of exports	(-)	Sum of the percentage of exports directed at each geographic area. Value decreases when level of geographic diversification in export activity increases.
Exports to US (%)	(+)	Percentage of exports to US over total
Exports to non-OECD(%)	(+)	Percentage of exports to non-OECD countries over total
<b>ADAPTATION STRATEGY</b>		
Product adaptation	(+)	Dichotomous variable that took value 1 if the company adapted the product and value 0 if it did not
<b>SIZE</b>		
Size	(+)	Number of employees
Number of local plants	(+)	Number of manufacturing plants located in Spain.

#### **4.- METHODOLOGY AND RESULTS**

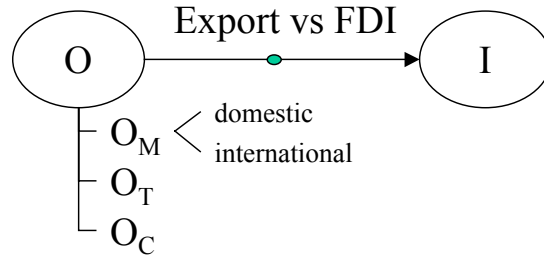
To confirm the established hypotheses, which in turn allows us to check the analytical power of the eclectic paradigm, we worked through three stages, as shown in Figure 1. The first step consisted of checking the extent to which an enterprise's economic capital associated with the ownership advantage (O) explained the foreign direct investment decision, i.e., its internalization (I) through multinationalization. With regard to managerial capital, we not only took into account the capital generated by the country of origin but also that accumulated through international experience. We then made a logit analysis for the whole sample, in which the relevant variable took value 0 if the company exported and value 1 if it had subsidiaries abroad.

The second step consisted of identifying the differentiating factors that would help us explain the transformation of MNE-I (present in a single geographic area) into a MNE-II (present in more than one geographic area). In the latter case, we again applied a logit analysis in which the binary variable took value 0 for MNE-I and value 1 for MNE-II.

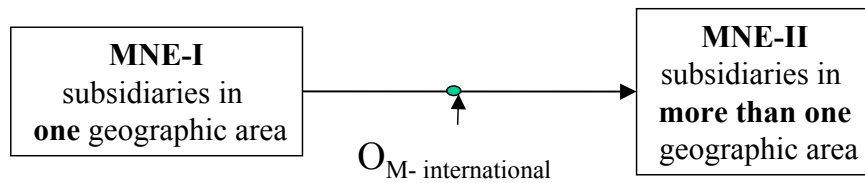
Finally, the third step consisted of analyzing the extent to which the geographic location of the FDI (L) in combination with the ownership advantage explained the FDI decision. In this case, we used the initial logit model (0 = export company, 1 = multinational company) for three types of different samples, in each of which we included, together with companies that simply exported, the three different types of multinational enterprises. We first analyzed investment decisions amongst companies present in OECD countries only, then amongst companies with subsidiaries in non-OECD countries only and finally amongst companies present in more than one geographic area.

**Figure 1: A test process of the eclectic paradigm.**

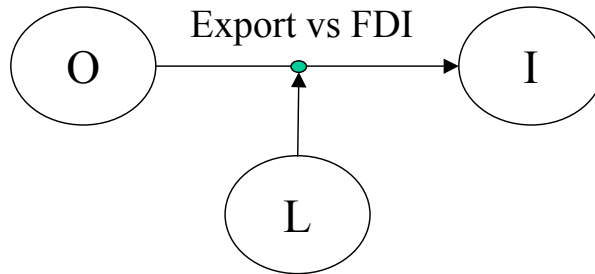
**I.- Ownership advantage and internalisation**



**II.- The diversification of the multinationalisation process**



**III.- The geographic dimension**



O: Ownership Advantage,  $O_C$ : Commercial Capital,  $O_T$ : Technological Capital,  $O_M$ : Managerial Capital,  $O_{M-International}$ : International Managerial Capital,  $O_{M-Domestic}$ : Domestic Managerial Capital, I: Internalisation Advantage, L: Localisation Advantage.

Because the models are significant, we will show the results obtained (See Table 3) and make specific comments on each variable used. Table 3 shows the level of classification capability of the models used. 97% of export companies were correctly classified, along with 27% of multinational enterprises. 92% of MNE-I were correctly classified, along with 38% of EMN-II ones. These differences can be explained by the existence of factors which determine foreign direct investment decisions that were not considered.

**Table 3: Logit analysis on the sample as a whole.**

<i>Variable</i>			<i>0: Export 1:MNE.</i>		<i>0: EMN-I 1:EMN-II</i>	
			<i>B</i>	<i>Exp(B)</i>	<i>B</i>	<i>Exp(B)</i>
Economic Capital						
Commercial	Internationally known brand		<b>,6058*</b>	1,8328	-,2252	,7983
	Spending on advertising abroad (%)		,0110	1,0110	-,0589	,9428
	Spending on advertising abroad (%) <sup>2</sup>		-,0006	,9994	-,0007	,9993
Technological	Exports with Own Brand (%)		<b>,0057**</b>	1,0057	,0078	1,0078
	R&D		,0063	1,0063	,0153	1,0154
	Technological Superiority		<b>,3207**</b>	1,3781	,4510	1,5699
Domestic	Managers (%)		<b>,0158*</b>	1,0159	,0097	1,0098
International	Export experience		<b>,0150*</b>	1,0151	<b>-,0287*</b>	,9717
Managerial	Export Department		<b>,9296*</b>	2,5336	,3267	1,3864
	Geographic diversification of exports		<b>-1,3119*</b>	,2693	<b>-2,0936*</b>	,1232
	Export to US (%)		,0010	1,0010	,0150	1,0151
	Export to non-OCDE (%)		-,0045	,9955	,0067	1,0067
	FDI experience				<b>,0542*</b>	1,0557
Adaptation Strategy	Product adaptation		<b>,4192**</b>	1,5207	<b>,8332**</b>	2,3006
Size	Number of employees		<b>,0035*</b>	1,0035	<b>,0018*</b>	1,0018
	Number of local plants		<b>,0310**</b>	1,0315	<b>,2109*</b>	1,2347
	Constant		-3,0564		-2,0579	
<b>Observed</b>			<b>Prediction</b>			<b>Prediction</b>
			No	Yes	No	Yes
No			721	23	112	10
Yes			133	50	37	23
			Total	83,17%	Total	74,18%
			$\chi^2$ Chi Square 199,045*			$\chi^2$ Chi Square 50,651*

MNE: multinational enterprise

\*Significant for a confidence Level of 95%,\*\*Significant for a confidence Level of 90%.

**a) Commercial capital:** The creation of an internationally known brand constituted one of the main factors that determined foreign direct investment by Spanish export companies, as it increased the probability of investing abroad by 83% (See Table 3). This confirmed Hypothesis 1, in that the creation of an internationally known brand demands contextual know-how that can generate foreign direct investment. We also confirmed that the trend to invest increased in line with the importance the brand had in the export strategy (percentage of exports with own brand).

**b) Technological capital:** Taking into account that R&D spending was not statistically significant and that the perception that managers had about the technological capital of their company was a determining factor in multinationalization, and that the two variables are independent, it could be concluded that the technological capital of a Spanish export company has a strong tacit component. This means that multinationalization constitutes the most effective way of using technological capital abroad, in keeping with Hypothesis 2.

**c) Domestic managerial capital:** Domestic managerial capital was significant and had a positive sign, which indicated that both the difficulty in transferring complex know-how implicit in managerial capital, as well as the need for contextual know-how, increases the likelihood of investing abroad, i.e., it supported Hypothesis 3.

**d) International managerial capital:** Given that both export experience and the creation of an export department were significant variables and had a positive sign, we could conclude that they are two factors that determine the decision to invest abroad. The creation of an export department is in keeping with a company's commitment to foreign activity and can be a prior step to multinationalization (See Table 3). This also supports the first dimension of the gradualist approach to the multinationalization process (Hypothesis 4).

The level of geographic diversification of the export activity was significant and had a negative sign, which indicates that the higher the level of diversification, the greater the trend to invest abroad. This therefore supports the second dimension of the gradualist approach: that experience generated in contextualising the competitive advantage in different environments facilitates the multinationalization of an enterprise. In short, it confirmed the second basic hypothesis of the gradualist approach to the internationalization process (Hypothesis 5).

**e) Product adaptation:** The need to adapt the product to the market was one of the main factors that determined foreign direct investment decisions, as was the degree of spatial diversification of the subsidiary network. This supported Hypothesis 7, which said that direct investment was the most suitable entry method for generating contextualising capabilities of an enterprise's competitive advantage.

**f) Size:** These indicators were significant and had a positive sign, confirming that size favors and facilitates a company's multinationalization process and its geographic diversification (Vahlen and Johanson 1990).

When we analyzed the factors that impacted the spatial diversification of a multinational enterprise's subsidiary network, we found that on one hand commercial, technological and domestic managerial capital were not statistically significant, and on the other hand that the international managerial capital generated by diversified export activity and experience in managing a multinational enterprise increased the trend towards a greater geographic diversification of FDI. This was in keeping with Hypotheses 5 and 6. An international product adaptation strategy shored up the geographic diversification of the subsidiary network abroad, possibly because of the need for contextual know-how.

**Table 4: Logit analysis on the differentiated geographic area.**

<i>Variable</i>		<b>EMN specializing in OECD countries 0: Export 1:MNE.</b>		<b>EMN specializing in No-OECD countries 0: Export 1:MNE.</b>		<b>EMN 2  0: Export 1:MNE.</b>	
		<i>B</i>	<i>Exp(B)</i>	<i>B</i>	<i>Exp(B)</i>	<i>B</i>	<i>Exp(B)</i>
Economic Capital							
Commercial	Internationally known brand	<b>,7579*</b>	<b>2,1338</b>	-,2611	,7702	<b>,5746**</b>	<b>1,7764</b>
	Spending on advertising abroad (%)	,0835	1,0871	,0123	1,0123	<b>-,0856*</b>	<b>,9180</b>
	Spending on advertising abroad (%) <sup>2</sup>	-,0050	,9950	-,0002	,9998	,0008	1,0008
	Exports with Own Brand (%)	<b>,0054**</b>	<b>1,0054</b>	,0047	1,0047	<b>,0148*</b>	<b>1,0149</b>
Technological	R&D	,0105	1,0105	-,0135	,9866	,0091	1,0092
	Technological Superiority	,2041	1,2264	-,2410	,7858	<b>,7425*</b>	<b>2,1011</b>
Domestic Managerial	Managers (%)	,0090	1,0091	,0128	1,0129	<b>,0185*</b>	<b>1,0187</b>
International Managerial	Export Experience	<b>,0227*</b>	<b>1,0230</b>	,0041	1,0041	,0117	1,0118
	Export Department	<b>,5048*</b>	<b>1,6566</b>	<b>1,325*</b>	<b>3,7618</b>	<b>,8652**</b>	<b>2,3754</b>
	Geographic Diversification of Exports	<b>-2,944*</b>	<b>,0527</b>	-,5619	,5701	-2,5461	,0784
	Export to US (%)	<b>-,0166*</b>	<b>,9836</b>	3,38E-05	1,0000	,0024	1,0024
	Export to non-OCDE (%)	<b>-,0406*</b>	<b>,9602</b>	<b>,0308*</b>	<b>1,0312</b>	-,0057	,9943
Adaptation Strategy	Product adaptation	,3463	1,4138	-,1502	,8606	<b>,6528*</b>	<b>1,9209</b>
Size	Number of employees	<b>,0034*</b>	<b>1,0034</b>	,0013	1,0013	<b>,0037*</b>	<b>1,0037</b>
	Number of local plants	,0060	1,0060	,0211	1,0213	<b>,0346**</b>	<b>1,0352</b>
Constant		-1,1513		-5,7431		-4,0463	
<b>Observed</b>		<b>Prediction</b>		<b>Prediction</b>		<b>Prediction</b>	
		No	Yes	No	Yes	No	Yes
No		737	8	744	1	740	5
Yes		94	30	37	0	59	33
		Total		Total		Total	
		88%		95%		92%	
		$\chi^2$ Chi Square		$\chi^2$ Chi Square		$\chi^2$ Chi Square	
		165,9*		54,6*		201,9*	

ME: multinational enterprise

\*Significant for a confidence level of 95%.

Incorporating the geographic dimension allowed us to check that the foreign direct investment decision was conditioned both by the nature of an enterprise's competitive



advantage and its location advantages. We described the results obtained according to three different types of enterprise:

**a) MNE-I specializing in OECD countries:** the existence of commercial capital sustained by the creation of an internationally known brand, not necessarily complemented by technological advantages, constituted the ownership advantage that facilitated market internalization. These types of subsidiaries have a strong commercial component and generate contextual know-how that can determine their international competitiveness. Again, this supports Hypothesis 1.

We found that diversified export experience generated international managerial capital that facilitated a stronger commitment of resources at an international level, confirming Hypotheses 4 and 5 (the variables of export experience, export department and geographic diversification of export activity were significant and had the correct sign). It is important to note that the European Union<sup>12</sup> carried a lot of weight in the activity of these types of enterprises.

**b) MNE-I specializing in non-OECD countries:** the difference between these types of MEs and the other export companies in terms of the endowment of differentiating intangible assets was practically non-existent. The only distinctive element was the consolidation of their export ambitions, which took the form of the creation of an export department, and the importance of exports to non-OECD companies. We can therefore see that according to the gradualist model, export experience in a geographic area leads to the creation of subsidiaries in that area.

**c) MNE-II :** the competitive advantage of these types of MNEs was based on the existence of an internationally known brand, the possession of differentiating technological capital and the existence of domestic and international managerial capital. These factors supported all the hypotheses proposed in the first half of this paper.

Table 5 shows a summary of the above information and relates the type of competitive advantage of the enterprise to the Level of multinationalization, the basic conclusions on which are explained below.

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<sup>12</sup> The negative sign of the variable 'percentage of exports to US' is explained by the little relative weight they had in the sample of enterprises with subsidiaries in the US but not the EU. That is, the group of companies analyzed basically consisted of Level 1 multinational enterprises that specialized in the EU and to a lesser extent multinational enterprises located only in the US.

**Table 5: Relationship between an enterprise's type of competitive advantage and level of multinationalization.**

	<i>Decision: Export ➡ MNE</i>	<i>Decision: MNE-I ➡ MNE-II</i>
<b>Commercial Capital</b>	+ Internationally known brand + Percentage of exports with own brand	Not significant
<b>Technological Capital</b>	+ International perception of the technology	Not significant
<b>Managerial Capital</b>	+ Technicians to managers in the enterprise (% over total employees)	Not significant
<b>Size</b>	+ Number of employees + Number of manufacturing facilities	+ Number of employees + Number of manufacturing facilities
<b>International Capital</b>	+ Export experience + Geographic diversification of exports	+ Experience in managing multinational enterprises + Geographic diversification of exports
<b>Product Adaptation</b>	+ Need to adapt product	+ Need to adapt product

	<i>Decision: Export ➡ MNE-I</i>		
	<i>MNE-I</i>		<i>MNE-II</i>
	<i>OECD</i>	<i>NON-OECD</i>	
<b>Commercial Capital</b>	+ Internationally known brand + Percentage of exports with own brand	Not significant	+ Internationally known brand + Percentage of exports with own brand
<b>Technological Capital</b>	Not significant	Not significant	+ International perception of the technology
<b>Domestic Managerial Capital</b>	Not significant	Not significant	+ Technicians to managers in the enterprise (% over total employees)
<b>International Managerial Capital</b>	+ Export experience + Export department + Geographic diversification - Exports to US - Exports to Non-OECD	+ Export department + NON-OECD exports	+ Export department + Geographic diversification of exports
<b>Size</b>	+ Number of employees	Not significant	+ Number of manufacturing facilities
<b>Product Adaptation</b>	Not significant	Not significant	+ Need to adapt product

## 5.- CONCLUSIONS

We can take the results of this paper to conclude that foreign direct investment decisions are conditioned by the nature of an enterprise's capabilities (which give value to the firm's economic capital) that constitute its competitive advantage linked to the geographic location of the FDI. We can see that the highest level of multinationalisation is achieved by enterprises with internationally known brands, differentiated technological capabilities and domestic and international managerial capital. We can also see that among the Spanish multinational enterprises that specialize in OECD countries, mainly in the European Union, the creation of an internationally known brand is the main factor that determines the decision to invest abroad. Finally, we can see that Spanish multinational enterprises that invest only in non-OECD countries do not have a greater endowment of intangible assets than other export companies and that investment decisions are basically conditioned by previous export experience in the same geographic area.

This paper confirmed that international experience not only increases the likelihood of investing abroad but also facilitates geographic diversification. As such, the basic hypotheses of the gradualist model have been confirmed in the case of Spanish export companies. It is important to point out that the spatial diversification of multinational enterprises does not depend on the nature of the economic capital but is heavily dependent on the experience generated, size and the need to adapt products.

We should also mention that we have also found empirical evidence on the way in which the endowment of intangible assets and the need for contextual information impact foreign direct investment decisions. However, we should emphasize that other strategic variables that could play a decisive role in a company's multinationalization decision were not taken into account.

Finally, this paper showed that incorporating the location advantage into the analysis of factors that determine internationalization from the point of view of the nature of the firm's economic capital, makes it possible to better understand the multinationalisation process which, in our opinion, supports the eclectic paradigm as a framework of analysis.

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