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Impact of the economic integration in the international economic structure. The case of international mergers and acquisitions of Spanish multinational firms

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Abstract—In this paper I present the impact of new players and determinant in international business activities, which have a direct influence on international economic structure. One of the most important determinants in last decades has been international mergers and acquisitions, an important foreign direct investment that many multinational firms have used as mode of entry to international markets. This, together with the rest of foreign direct investment, make me think to extend OLI model to OLIM. On the other hand, this new modes of entry, the disintegration of the value chain, the resources and capabilities approach and the role of national institutions imply a strong economic integration, having as consequence the extension of the international production framework that Dunning provides as a framework to study the economic structure. In order to provide empirical evidence, the paper shows an analysis and results of international mergers and acquisitions realized by Spanish multinational firms, adding as complementary evidence a business case focus on Ebro Foods

***Key Words*— mergers and acquisitions, foreign direct investment, eclectic paradigm, international economic structure**

***JEL* - E02, E60, G15, M16, M21**

I. Introduction

Globalization has changed the rules of international business activity and the economic structure of each country. The theory of multinational firms activities is based on the intersection between the macroeconomic theory of international trade and the microeconomic theory of the company. It involves an activity exercise at the macro level in the allocation of the resources of the firm and an economic organization of the same.

The eclectic paradigm begins with the acceptance of many of the traditional theories that explain the spatial distribution of some types of output. Nevertheless, the same paradigm argues in turn that, to explain the output property and the spatial distribution of other types of them, there is a necessary existence of two types of market imperfection that must be present so that it takes place. The first of the imperfections makes reference to the structural failings of the market, which discriminate to firms in their ability to obtain and maintain the control over property rights geographically dispersed, providing add value in the firms' activities. The second one refers to intermediate product market at the time to realize goods and services transactions at a net cost less than those who should be held liable. Both variables and many market structures, transaction costs and the management strategies of firms become important determinants that influence the international activities of the company. The company is not a “black box” and this is not the only “judge” who finds the transactions between the markets. Allocation of factors and the mode of the economic organization are relevant to the time to explain the structure of the international trade and production, and differ in addition firms between themselves respect to organizational systems, innovation skills and their assessment of the risk involved in each transaction.

II. INTERNATIONAL ECONOMIC STRUCTURE

Concept of economic structure

In the 1970s increased the interest in the study of the international company and its behavior and influence in each of the countries where it was. During this time, decade in which the eclectic paradigm was formulated, the existing economic situation was characterized by having a large number of negative impacts on the economies of the most advanced countries. Rises in the oil price, anti inflationary government policies, institutional rigidities and deficiencies in the international financial system were the most important and biggest impact circumstances gotten. These facts, even so, it is considered as the catalysts of the shift in the economy and the business administration, causing a change in the concept of ideal economic structure of the resources allocation. The response of most industrialized nations was in unison. Where the cost adjustment was relatively low or could be adequately absorbed by the future income, then took the new localization positively. This contrasts with the previous situation in the industrialized countries, where due to rigidities both at the institutional level as at the structural level of the economy, preventing movement resources.

In spite of this, it can be very difficult to know which is the most adequate location to carry out the shift of resources of the company from its country of origin to the destination country of your investment. Even at one point of time, the economist can only suggest what is the best pattern to allocate resources efficiently to define the business goals. The alteration or the reordering of the business and institutions goals and the inclusion of others make that the “best” economic structure intended change. In a dynamic scenario, where adjustment occurs in costs most economists are eagerly waiting to perform an assessment of the consequences of the alternatives due to the settings.

Analyzing literature we can conclude that there are not a consensus on the term of “ideal economic structure” due to objectives and/or the exchange of goals among various companies and countries are different, therefore it is not possible to go so far as to give a concrete answer at the end of economic structure. This situation is strengthened also by the fact that the economic policies of different countries, which influence the activities of the multinational companies, change extensively of a few countries to others. At the same time, economists can identify the major components and determinants of the economic structure and suggest reasons why multinational companies can affect differently the economic structure than domestic firms.

In the simplest form, the economic structure can be defined as the manner in which resources are allocated among its alternative uses. The question “which goods or services should produce a nation” is essentially an economic structure. It is reaches the optimal allocation when the resources distribution among competing uses cannot be overcome by the transfer of one unit of a resource from one activity to another, at a given moment in time. The economic welfare is commonly identified with the maximization of consumer surplus, although the production value measured by the price of making, may not always be a good measure of this surplus, in part by the fact that well-being of a person covers goods and services that normally cannot be purchased and sold in the market, such as leisure, and in part because the price of some goods may not be a reflection of real value.

Resources allocation: "what" produce and "where"

However, the question "what produce" cannot be separated from the question "how to produce". Most of microeconomics textbooks relating to efficient distribution assumes that all resources can be, or are used, i.e., that there is full employment. The question that economist are made is thus: "in what way?". This efficient allocation is also dependent on the way in which resources are used due to any activity, and this is essentially the "how to produce".

Again occasionally economists limit their answer to this question assuming that, given any use, inputs are used in the most efficient way. In fact, this should not be the case cause: (1) firm may not result in the most efficient manner; (2) firm cannot combine its factors with lower cost; (3) and firm cannot be producing in the correct output scale of economies. The inefficiency can exist in the sectors; actually, it really exists. The output can be increased by improving industry productivity. Sometimes, economists distinguish between the firm ability to produce efficiently in a particular industry referring to it as "industry efficiency", in other cases "technical efficiency". Dunning uses the terminology of "technical efficiency" to develop their work, argued that in practice, an economic structure of a nation can be determined by skills and motivation of their companies to optimize their efficiency and allocate their resources along different activities. To achieve an optimal technical efficiency must exist three conditions: (1) that all firms produce obtaining the best possible production function; (2) firms use their inputs in the manner that will minimize the production cost of any put; and (3) firms produce in the correct output scale of economies.

Neither the timing nor the technical efficiency can be isolated from the economic structure of the market in which companies make their production. In conditions of perfect competition, neoclassical economists claimed that the structure optimum of the resources allocation at the social and private level is the same. Where there are market failures, these occurs due to the presence of uncertainty, product differentiation, a small number of producers, barriers to entry… then the condition (3) described above may not be applied and that is why efficient optimal distribution cannot achieved. In terms of market failures, due to knowledge imperfection or uncertainty, the conditions (1) and (2) may not be of importance. In markets where companies are not isolated motivated by the benefits, the possibility that there are inefficiencies is high. For example, in conditions of technological changes may be there are an exchange between investors in research and development, being their future returns uncertain and to minimize costs currently. On the other hand, when the market size is small, then only a small number of firms will be able to produce reaching the optimal technical efficiency; but the structure could create both obstacles to penetrate markets as a reduction in the possibility of allocating resources efficiently. In contrast, an excessive differentiation of the product carried out by a company can create a surplus and carry to each company below the optimal level of output.

The scenario described is even more complicated in the case of the companies that are engaged in more than one activity; in this case, in addition to the production goals, the firm tries to achieve its goals by organizing the various individual activities, but connected the best possible manner. The idea to minimize each organizational or transaction cost presupposes that the use of markets does not allow the company to achieve economies of scale of independent activities, or optimize its strategy by organizing its activities. While the affected markets in this case are mainly the intermediate product markets (including technology), organizational options could be applied equally to the activity stages of the services (for example, logistics).

Existing theories suggest that when there are markets failures it will tend to internalize the transaction costs. This has implications for the economic structure, affecting both the technical efficiency as to the assignment efficiency, as to the resource allocation distribution of uncertain manner, and to the allocation of resource by administrative hierarchy that can affect the type of activity that is carried out in each location. While in some cases the own resources of different activities of the company can promote the efficiency, in other occasions could be used as a form of monopoly power, and/or deny or inhibit other non-competitive forces (such as for example governments) in their attempts to regulate of influence any activity.

In view of all the manners in which market imperfection are presented, it is not surprising that the economists did not speak openly about perfect competition (or the optimal economic market structure) in the seventies and eighties. In addition, beyond identifying and determining an optimal situation, contemporary economists of Dunning had preferred to study the ways in which the resource allocation can be improved, this is to obtain a more reduced or extended the degree or the way in which the economic structure sub optimal is.

Economic implication of multinational companies at an international level

The economic implication of firms both in the domestic and foreign market can be explained through the provision of goods or products. The production of a particular market can be fully or partially localized in the own country, in a foreign country, in a third country, or in a combination of the three. Similarly, the production to supply the domestic market itself can be made both domestically and internationally.

The ability and willingness of the national companies of a particular country to provide both the own domestic and overseas market to another from a third country (also foreign, different to the national where sits the central or matrix of the company) depends on the possession or be able to acquire certain assets are not available, or not available in terms or favorable situations for other companies in the own country national (or domestic market). With assets referred to in the economy of the company to specific assets of it (represented by the letter O), gaining strategic advantage for its possession, since it is assumed that these assets are unique to a firm or country. An active considered as unique and specific to a country (represented by letter L) is an asset that gives a strategic advantage to a country and to the firms located in the same, as it is available for all of them.

It has been argued that the market failures to the factor endowment approximation to explain international production in a comprehensive manner, or in some cases in a partial way, grow simply because of the same theory predicts the existence of markets of perfect competition, both in markets of intermediate products as in end-product markets. In neoclassical theory, this idea leads every solutions the alleged restrictions: atomistic competition, production functions equal, absence of risk and uncertainty, free access to the technology, instant transfer of goods between countries and companies. Since 1950, economists have debated the incorporation of existing imperfections in the market to the theory of international trade, but what was most important to them was the direct study of end-product markets instead of intermediate products. In the eighties were appearing academics that focused its attention on the organization of production beyond national borders [1] [2] [3] [4] [5].

Dunning suggest that a lack of interest by the traditional economist of trade relations in question relating to the business ownership advantages and to the influence of the governments (each more important), make incomplete the previous studies. The effect of the trade patterns of vertical integration, horizontal diversification of firms or about their reaction to uncertain markets or to the government interventions, sparsely is included in the existing literature until the decade of the eighties. Since the option of internalizing the domestic markets of the intermediate products within a country has not generally interested in the business economists, it is not surprising that have remained relatively unrelated questions linked to the international production. However the unique features of the multinational companies that make reference to their many activities, they encounter the theories defined under framework of national borders.

In fact, it is the difference between the two markets, the domestic and the international, what distinguishes the multinational firms of the national firms. Further, this (the border trade) is what differentiates the market failures of the national and the international, which influence differently and distinguish domestic of multinational firms. It is the market inability to organize in a satisfactory manner the agreements between two parties, buyers and sellers of an intermediate product, causing one or the other (buyer o seller) has to choose the best manner to exploit the difference in the international markets in order to find specifies the location that firms will be benefited from the competition. Is the presence of a market structure and cognitive faults in the same causing companies to look for different strategies in pursuit of the exploitation of the assets O and L.

Some types of market failures are identified in the literature by scholars [6] [7] [8] [9]. In their assessments of the contributions of the thesis of Hymer on the multinational firm theory, Dunning and Rugman [10] distinguished between structural and transactional market failures, as are distinguished in its model “The endowment/market failure paradigm of international production”. The previous market failure concept provided by Hymer [11] tended to emphasize in the increase of the monopolistic rents as a result of the presence of barriers to entry, which an eagerness to companies trying to erect or increase the variety of means to compete in a market, such as the acquisition of competing companies.

However, no less important are the different market imperfections that reflect the inability of markets to organize transactions in an optimal manner. There are three reasons for this. The first one is that the buyers and sellers entering a new market do not have a complete (or symmetric) and perfect information about transaction consequences that themselves are carrying out. Such cognitive deficiency results in a bounded rationally, opportunism, adverse selection, moral hazard and not compact information which are innate features of many markets [12] [13]. This type of market failures is particularly likely to be associated with cross border transactions. Multinational firms, if nothing else, undertake their production internationally to protect themselves against the opportunities that appear to international buyers and sellers acting in the volatilities in the environments [14]. Such risks are particularly worthy of mention in industries characterized by intense use of capital and high technology, which traditionally have incurred high development costs; in industries where there is a high probability that the property rights are violated of are exploited by graduates on international; in industries where is high risk of interruption of supplies…

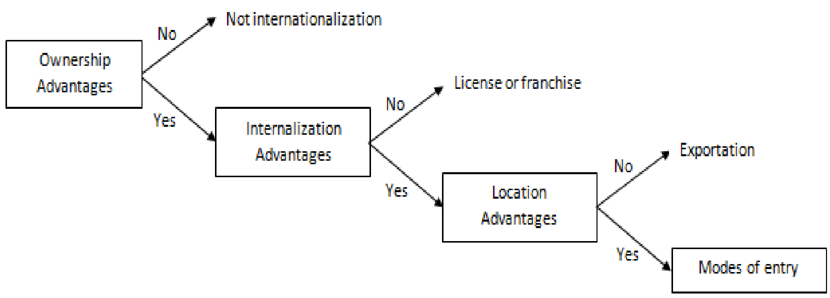
The second reason that explains the market failures is that the markets may not have control of the benefits and costs that increase as a result of a particular transaction, but that are external to the transaction itself. In markets where the products are normally supplied in together with others, this can provide a good explanation for the different stages of the value chain, or for a same stage of different value chains, which have to be coordinated under a single government. The cross-border transactions may give rise to additional increases in the advantages linked to the specific assets owned by the firms, as well as those that exploit the imperfections of the international financial markets and different national fiscal policies, features each of the country in which are executed. The third reason that makes emerge market failures is linked to the demand of a particular product, which if it is characterized by being infinitely elastic, it is insufficiently large to allow the full business completed production and achieve economies of scale and geographic diversification. In other words, there is a downside inevitably free between overhead costs they entail the activities that add value and opportunities to achieve economies of scale [15].

These and other market failures that can cause business activities diversify the value activities of firms and restructured the ownership and organization of the activities of the value chain. Companies are taking advantages of this situation, both to maximize the net benefits of a smaller production or minimize transaction costs arising as to make sure they get the maximum economic rent (minus the risk) of the advantage of the specific assets that firms have. This refers to the perceived advantages of the hierarchical control as the advantages of the internalization (I). In contrast, the only existing difference between multinational and national firms activities in this regard is the added dimension of market failures when a particular transaction or a diversified economic activity are carried across national borders. In addition, market failures may vary according to the characteristics of the parties involved in each transaction. Here also, the specific factors of each country or industry can enter into the equation. Returning to the parallels between the companies dedicated to international trade and the companies dedicated to international production, is very possible that, although both can perform the same value added activities, the first of them doing so in the domestic market and export the final product to other countries, while the second type of enterprise locates its production or at least part of it outside their national borders.

III.FROM OLI TO OLIM

One of the situations that eclectic paradigm does not consider to explain the firm internationalization process is the form in which the companies entry in the new markets, cause Dunning [16] developed his framework under the unique perspective of the subsidiaries. The new variable I add to the eclectic paradigm is, like Guisinger [17] pointed out, representative of the different modes of entry, appointed by the letter “M”. Under this new variable I have considered all possible modes that foreign direct investment can adopted: (1) subsidiary, (2) offshoring, (3), greenfield investment, (4) international mergers and acquisitions and (5) international joint ventures.

Fig. 1 OLIM-model



Source: Owned elaboration based on Dunning (1981)

In general terms, a subsidiary is an entity that is controlled by another. This mode of entry requires large control degrees and greater commitment in resource terms, as well as involvement of high risk levels and lower flexibility degrees, compared with other types of international direct investment. On the second hand offshoring refers supply process of any business activity, process or function giving coverage to local activities and/or global enterprise from a different location in another country. In spite of the fact the offshoring word is commonly related to the activities of information technologies, it is not the only business activity that is or may be subject to allocation, but that also involves other business activities tasks such as the product creation and development, engineering, research and development activities and product design [18] [19] [20] [21] [22]. The last internal company growth through international direct investment is the Greenfield Investment modality, in which a parent company built “from scratch” the facilities for an industry, creating jobs in the destination country. Multinational from developed countries considerer this mode of entry as a way to enter in emerging countries markets, whose government even offer tax breaks, grants and other types of incentives for these projects are carried out.

On the other hand regards with external company growth appear mergers and acquisition and international joint ventures. Regardless of the legal aspects, mergers occur when two o more companies, generally of equivalent size, agree to join together, creating a new company to the troop-contributing all their resources (heritage), dissolving the primitive firms. The acquisition, on the other hand, takes place when a company through various procedures, purchase a share participation that becomes the owner of a company, or all of this. Lastly the joint venture can be defined as an integration of operations between two o more independent firms under the following requirements [23]:

- Is subject to the common control of the parent companies
- Each parent company makes a major contribution to it
- It exits as a commercial firm independent of their parent companies

At this time I do not want to forget those researches from the strategic approach that defended the introduction of the strategic variable into the eclectic paradigm. I add it using letter "S" to represent the strategy influence in the firm internationalization process. I totally agree with this research approach in order to introduce strategy in the multinational firm framework, although with a tint. The introduction of the strategy cannot be in the form of *exogenous* variable to the own paradigm, such as suggest Kim, W. Chan y Hwang, P. [24], if not we have to consider it into the own firm internationalization process (OLI-model) in an *endogenous* manner.

Instead of considering the strategy variable like exogenous to the OLI-model and that in influences independently and isolated in it, I think that it should be interpreted in a manner that the strategy is part of the firm decision – making consistently (the strategy concept is present as a basis for any action plan of the companies daily), and in this case, it is inherent in each step or necessary condition for the eclectic paradigm is formulated. The strategy is present when it is born and begins its journey (through the mission, vision and values), as well as the pursuit of ownership advantages (decisions about what product sell, if it is going to be a low cost company or elitist, corporate reputation development, recruitment….). In the same way, when the firm decides internalize their resources and capabilities, strategy plays an important role (for example, the decision to obtain economies of scale and/or scope, retention of the strategic resources and capabilities or if it decides take financial risks opening a franchise, such as Benetton). Continuing the eclectic framework development, the business strategy is present when it studies the existence or not of location advantages in international markets.

IV. INTERNATIONAL MANAGEMENT STRATEGIES

In classifying the competitive strategies can be found multiple contributions arrivals from different points of view of the company from marketing [25] and strategy [26], but this paper is based on environment-strategy-structure framework, in virtue of which the major result are the result of a proper fit between environment demands and business strategy. This approach identifies four kind of strategies: multinational strategy, global strategy, international strategy and transnational strategy.

Multinational strategy

Multinational strategy is that carry out firms which are global and want to adapt itself to local needs of countries where it offers their products, existing a low level of standardization. This strategy requires a strong degree of descentralization and delegation in decision making so that firms get the best possible adaptation to the local markets. As a result of independent performance between different international business unit, there will be a high degree of descentralization of the majority of the decision, especially in those relating to obtain competitive advantages relating to marketing, production or supply. However, it is also noteworthy the requirement of certain risks or disadvantages to choosing this strategy, especially focusing on the difficulty of creating and exploiting synergies to offset the managing costs in a geographically diversified company [27].

This strategy tends to be frequent in industries where the pressure of prices is relatively small and, on the other hand, the sensitivity toward the particularities of the country or region are important, as well as in environments where the cultural component is very strong and also access to the foreign investment is very restricted [28]. It is intended to act as a national firm would, knowing perfectly well the habits, needs and preferences of national clients and consumers and give them the best possible response. For this reason the different organizational units have considerable autonomy, being the differences in language, culture, income levels, distribution system and customer preferences the main factors to considerer. These organizations, rather possess an international business, we can say that they have a portfolio of international direct investment, give the strong delegation of the existing authority due to the need for approximation to the national customer. For this reason, the coordination and monitoring is carried out through personal relationships between headquarter and managers of the subsidiaries, rather than through written rules or formal structures. In this case the planning only aims to ensure the sufficient coordination to meet the needs of international communication and control, without arriving to enter in a comprehensive planning. This allows the international subsidiaries managers work with more autonomy, although it is true that there are strong information flows that allow a parent know at all times the status of their business outside the country. In this aspect are really important the information technologies, whose management is typically local, except international telecommunication networks in shared.

The absence of strategic interdependencies between different international business units and between these and headquarter reduces the need for coordination, which are limited mainly to the distribution of financial resources, adopting a corporate management model called "Financial Control" [29]. Therefore, the organizational and technological infrastructure required to support these interrelationships will be much less than in the case of the transnational or global strategies.

Examples of industries where firms compete mainly under this strategy are the drinks, feed products, rubber, domestic appliances, legal services, etc.

International strategy

The international strategy is based on the development of new products or processes that underlie the competitive advantage in headquarter for later transfer to the rest of the international business units. Companies that follow this strategy attempt to create value through the transfer of skills and products to international markets where local competitors do not possess their capabilities and/or products. This strategy tends to be frequent in industries in which both the price pressure and national specific particularities are relatively low.

An international strategy should focus on the business core activities and must take into account the limitation of its resources and experience. It is pursuing opportunities abroad taking an orientation that is even national, transferring from national market to international markets resources and capabilities, retaining research and product development activities in headquarter. Firms can establish, for example, production activities in other countries, but the adaptations tend to be minimal and will usually tend to play the same patterns that develop in the domestic market. The success lies in that there is a satisfaction of the local customer needs that they do not have the rest of competitors. Such an approach to international strategy is therefore, extend to international market the marketing mix (product, price, promotion and place) established from headquarter. In this type of strategy, their environments are characterized by force weakness together a few local pressure of countries, being characteristic of some product very standardized, whose processes of marketing and distribution are very similar in all countries.

The international strategy requires greater coordination and control from headquarter in the previous case of multinational strategy, with the objective to find a balance between the delegation of responsibilities that occurs toward the international business units, in order to meet the specific needs of market in which firm competes. All of these must be done with the maintenance of control by the headquarter. It is necessary to use a good technology that allows for the transference of knowledge and information to international subsidiaries, given the delegation of responsibilities to which they are subjected. The international company is more capable of propelling the skills and knowledge from headquarter to international subsidiaries, but the configuration of resources and operative systems makes it less efficient than the global firm and less sensitive than a multinational (multi-domestic) firm.

Examples of industries in which companies compete mainly under international strategy are cement, paper and printing, machinery, metals, etc.

Global strategy

With this strategy, the company obtains advantages in costs through the product standardization, which allows for a reduction in the production costs and, therefore, the possibility to provide products at lower prices than the competition. It emphasizes because in the manufacturing on a global scale, in the comparative advantages of location and in the follow-up of the strategy guidelines contained in the array. It operates on a global level, with the search for efficiency by costs reduction, but with some impairment of the adequacy of the offer. In this case, the array is reserved more autonomy than in the case firms develop a multinational strategy, being a strategy that used to be characteristic of industries where the price pressure is comparatively high.

Companies that follow an overall strategic approach are striving to offer products and global services, in addition to tracking the activities production, research and development or marketing in certain locations, irrespective of the country concerned. Moreover, the company with a globalized product and with a high business concentration in a few selected locations, you can bet on reach and develop economies of scale. In this case the company sells a single product overall, with the same feature and functionality with independence in the country where internationalizing its activity. The definition of global product was developed by Levitt [30] considering that technology facilitates the person mobility and information access, so that homogenizes tastes, needs and possibilities of global markets. The development and the strategy implementation require high coordination between headquarter and each international business unit, serving as the executive arms of the common strategy for the entire business corporation. This high coordination focuses on intense needs of communication on a downward direction in such a way that all the decisions to be taken each international business unit arrive from the matrix or headquarters, without having these subsidiaries some discretion in decision making [31].

This strategy is based on a more centralized control with regards to the design activities, marketing, production and research and development, having a unidirectional flow from headquarter to international business unit of resources, assets and information. Generic strategic decisions for international activities are taken by headquarter managers, being implemented in each international business unit under norms and rules. Global strategy also implies that the national subsidiaries are handled without any active resource, so you have no motivation or ability to respond to the needs of local market. In the same manner, knowledge and skills descentralization allows to the global company to be very efficient managing innovations.

Examples of sectors in which competes mainly under this strategy are semiconductors, chemistry, precision instruments, engines, non ferrous metals, computers, automobiles, consumer electronics, cameras, etc.

Transnational strategy

The transactional firm is characterized by contemplate simultaneously both pressures, so firm should be able to combine efficiently the demands of awareness and cost reduction and in addition, firm should incorporate the knowledge and learning dissemination through all international units, considering countries and regions such as federal system.

In this type of organization, despite the fact that the parent company (headquarter) develops control and coordination function of strategic decisions, there are flows between the international business units and between them and headquarter, both of raw material, such as personnel, information and technology. This strategy corresponds with the slogan “think globally and act locally”. The corporate management is closely engaged in multiple business areas, such as the global manufacturing, product development, coordination in research and development activities and marketing. This strategy approach follow the same steps that the comprehensive approach but with the difference that its orientation is geocentric, i.e. recognizing both similarities and differences between various regions, thinking globally but acting locally, in full search to respond satisfactory to the local demands of each country. The transnational strategy strives to optimize the trade-offs between efficiency, local adaptation and learning, looking for efficiency a local response, providing flexibility to international activities. The headquarter provides a descentralization degree to the international business unit, but in turn, promotes interdependencies between them, and between them and headquarter, following a model of the type management call Strategic Control [32]. Therefore, coordination’s needs are very high, so that the technological and organizational structures allow an intense bidirectional communication flow between all organizational units that integrate firm over a long all national borders. In this case, the high learning demands from any point of the company [33] require sophisticated knowledge management practices at the organizational level [34] and talent management at the individual level [35].

This strategy considers that the resources and capabilities dispersion of the company is the best manner to achieve an efficient international competitive strategy, because firms have to allocate them in the most beneficial location for each specific activity. However, companies avoid trends both in focus activities in a central location and disperse them in many locations in order to improve the adaptation at the local level, so we would talk of multinational strategies.

Examples of which companies compete under this strategy are pharmaceutical, telecommunication, media, publishing, film, newspaper, etc.

V. INTERNATIONAL MERGERS AND ACQUISITIONS

Regardless of the legal aspects, a merger occurs when two or more companies, generally of a equivalent size, agree to joints together, creating a new firm to the troop-contributing all their resources, dissolving the primitive companies. On the other hand, the acquisition takes place when a company through various procedures, purchases a firm or at least a most of the shares that gives it the control over the firm. In the acquisition process there is the possibility that the acquirer company and the acquire firm maintain their legal personality. A third type of operation, still less common that the previous but similar, is the takeover, which takes place when a company acquires another company and normally the acquired firm disappears.

In companies whose owners are not the same the managers appear the “agency problem”, as the aims of managers and shareholders may not match. Mostly shareholders or firm owners want to maximize the share value. In contrast, the challenges of the managers are several, being the share value maximization of them. Based on the interest alignment of both agents, the reasons that can lead to a company to carry out a merger or acquisition with another(s) can be divided into three groups: the first one on a rational manager behavior as well as the other two in a irrational behavior [36]. These three options, from a strategy point of view do not show a clear difference in what is often study regarding them as a whole, considering all of them generally like mergers or acquisitions. The motives and reasons that justify theses business strategy operations are multiples, depending on each case individually. However, in order to have a summary, this paper selects the most popular:

- Consolidate the market share in a country or geographical area
- Introduce products, services or technologies in new markets
- Penetrate in new geographical areas
- Vertical integration
- Introduce a new business line into the firm product portfolio
- Achieve synergies
- Act as a corrective mechanism on the market
- Increase the firm power and firm size
- Tax reasons

Empirical studies seek to measure the effects of the merger and takeover bids in the firm value. One of the first attempts to determine the reasons of mergers and acquisition was done by Hale& Hale [37], who sent out a questionnaire to active companies in the market for mergers and acquisitions. The most significant results are that purchasing firms expect to achieve economies of scale thanks to the fusion, and more specifically in the areas of distribution (45%), corporate (44%), R&D and administration (33%). Purchasing companies also expect to increase benefits as a result of an improvement in the management team in 35% of cases. After several studies, the first serious study on the impact of mergers was carried out by Mandelker [38]. Using monthly data, the study concludes that the acquired companies are being reassessed as a result of the merger. Other studies for example from a strategic point of view, recognize the importance of restructuring activities and reallocation of activities [39] [40]. On the other hand, operative synergies deriving from a larger size are a common phenomenon in the operation of consolidations [41]. Moreover, the literature has been verified the existence of wide difference in the management between the firms, operating under an inefficiency situation in the allocation of resources [42] [43].

Now, indeed, that is what leads to success in an acquisition of that features it is determined, or what can difference winners from loser in this mode of entry. The most common characteristics that results determinants for mergers and acquisitions success are:

- Development of a strategic program, instead of searching for opportunistic proceedings
- Existence of a management team with aggressive and high technical preparation
- Systematic evaluation of improvement at three levels: functional, financial and managerial
- Negotiation the procurement of disciplined and creative
- Functional integration, financial and policy of the company acquired in order to create wealth for shareholders

In order to complete empirical evidences connected with the resources and capabilities approach, studies from 90s have increased the importance of them as a motivation to the realization of international mergers and acquisitions. From this approach, mergers and acquisitions are considered as a renovation form of firm resources [44] or as via to set up a new firm resource structure [45]. It provides a more dynamic vision of mergers and acquisitions because both are used to take resources and capabilities [46] [47] or to modify their structures [48] [49].

VI. THE ENDOWMENT/MARKET FAILURE PARADIGM OF INTERNATIONAL VALUE ADDED ACTIVITIES

Is assumed that the company as organization wants consciously, their survival, growth and expansion, accepting therefore this is achieved through the generation of maximum benefit, in a long term and in a world with restrictions, which give an appropriate financial capital structure, maximizing the shareholder profitability [50]. The existence of international markets, mostly heterogeneous with unequal endowment of natural resources, created factors, purchasing negotiation power and institutions between the different countries among other factors, provide an opportunity for survival and expand abroad the national activities that companies do in domestic markets.

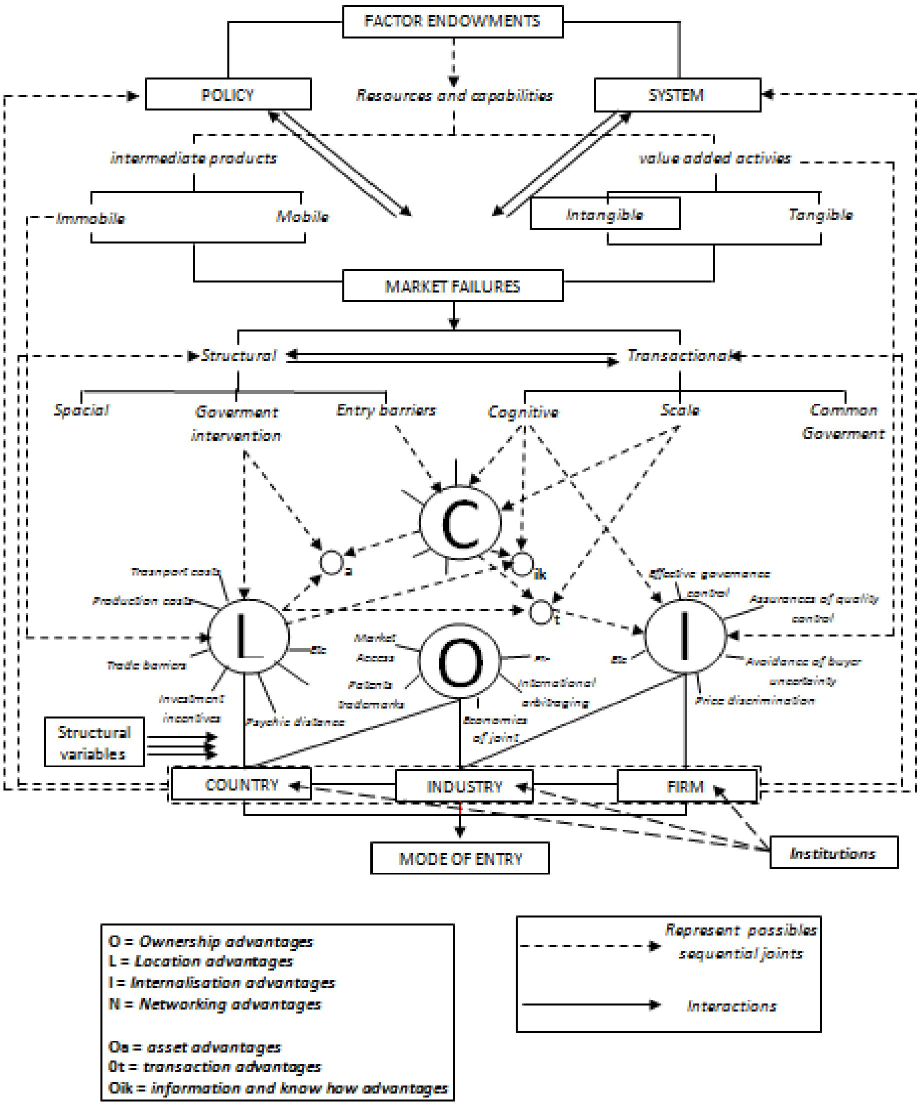
In the current managerial environment, the companies seek the most favorable location to carry out their business activities, although it can be very difficult to know what location is the most adapted to allocate the resources and capabilities, to obtain the major performance. The alteration or the reordering of the objectives or the incorporation of others, make that the “best” economic structure intended changes. In a dynamic situation, where adjustment occurs in cost, the majority of the economists are eagerly waiting to make an assessment of the consequences or the alternatives due to the settings. Multinational companies perform their activities within an economic structure that influence in their strategic decisions. However, in spite of the importance of this structure, there is no a consensus about *the ideal economic structure concept* because the objectives or the exchange of objectives between different companies are different, so that we cannot get to a concrete answer about the term of economic structure. This situation is further strengthened by the fact that the economic policies of different countries, which influence the multinational firms activities, vary widely from one country to another. At the same time, economist can identify the most important components and determinants of the economic structure and suggest reason why multinational firms can affect differently the economic structure than domestic firms.

However, the question “what produce” cannot be separated from the “how to produce”. Most of microeconomic books relating to the efficient distribution assumes that all the resources can be or are used, i.e. that there is a full employment. The question that the economist have is of “how does”. This efficient allocation is also dependent on the manner that the resources are used according to any business activity, and it is essentially the “how to produce”. Again sometimes the economists limit their responses to this question assuming that, in any case, companies cannot produce in a most efficient way; they cannot combine their factors with the lower cost; and they cannot produce in a correct scale of economy of the output.

The foundations of international production and internalization of the ownership advantages to third countries are based on market failures, distinguishing between structural market failures and transactional market failures [51]. These market failures together with the extended eclectic paradigm or OLIM-model shape the multinational firm economic structure, what is called “The endowment/market failure paradigm of international value added activities” (Figure 2), improving the conceptual framework provided by Dunning [52], due to the Dunning paradigm does not faithfully reflects the reality in where multinational firm compete, so that I develop a revision and extension of the framework that Dunning provided.

Instead of be based on the intermediate products to justify the international location of the multinational firm value chain, my paradigm is based on the resources and capabilities of firms, which gives them an initial competitive advantages (ownership advantages) that allow them to compete in domestic market and offers them the opportunity to internalize this advantage to other country. Once located the most valuable resources and capabilities of the firms, there are two ways to be able to benefit from market failures in the existing international economic structure. On the other hand, through the exchange of intermediate products of which Dunning based his approach, and on the other side the value add activities of the value chain, which is what actually generates a strong competitive advantage to the company, deciding internalize these activities to third countries to obtain an economic performance. The rest of activities are outsourced or simply done by the company in the domestic country, excepting mandatory activities that are necessary to do the most valuable activities that company does not outsourced. International production is conducted through the market failures mentioned by Dunning, which are influenced by institutions. These institutions are mostly public and governmental, attracting foreign direct investment flow from other countries or toward third countries [53].

Fig. 2 The endowment/market failure paradigm of international value added activities



Source: Owned elaboration based on Dunning (1988)

At the time of fitting the eclectic paradigm through OLI model in the economic structure, it is joined the new variable added in the previous point with letter “M” (modes of entry). However, this is not a competitive advantage, but also competitive advantages are obtained depending on the mode of entry chosen. Considering that internal company growth manners (offshoring, greenfield investment) don´t influence directly in the new economic structure (due to their consequence on the firm competitiveness are collected by “I” and “L”), it has to be special attention the external company growth manners (international joint ventures and international mergers and acquisitions). These last two forms of foreign direct investment are differentiated from the other two mentioned above and the establishment of productive and commercial subsidiaries in what firms establish relationships with other companies, and they may take different situations that are converted in competitive advantages by multinational firms (C). Moreover, in some situations, such as is the case of China, the own institutional impositions of its government cause that the only mode of entry to China through foreign direct investment is via international joint venture with national firms (saving the entry barriers imposed by Chinese government) or limiting the share acquisitions of Chinese firms.

In turn, the achievement of international joint ventures and international mergers and acquisitions provide a series of information (i) and knowledge (k) advantages that give to the multinational firms an international competitive advantage, in addition to strengthening the ownership advantages (Oa) and the internalization advantages (Ot) from one market to another. As mentioned previously, it is must include the “M” of modes of entry in this international production paradigm to consider all kind of foreign direct investment, referred in the OLIM model. Therefore, as Figure 2 shows, once have been set the characteristics of countries, industries and companies, the firms are in position to decide what kind of foreign direct investment is the most feasible in each circumstance. This latest decision is dictated by the decisions that the institutions taken in economic, financial, labor, legal, social… all of which shape the stage on which companies compete, influencing on the characteristics of firms, industries and countries. One of the most recurrent criticisms that the eclectic paradigm has received is its lack of dynamism in a constant change environment. Well, in my extension of the paradigm, I introduce the dynamism by linking the micro-economic level of the economic structure (the firm, by means of OLIC variables) with the macro-economic level of the same (everything external to the organization). In the short term, the environment (macro-level) changes in the day to day as a result of changes in customer needs and preferences, in laws, in employee qualification, technology development, natural disasters… what has its impact to the firm (micro-level) in the long term, depending on flexibility firm structure level and its ability to understand the environment changes and adapt to it. Therefore, everything happened at the macro level influence in different way to the company, which by means of OLIC variables is able to adapt itself to these changes and maintain, improve or create new international competitive advantages.

Finally the whole previous dynamism described will affect in the manner the company entry to international markets. Based on Dunning proposal [54] and his determination for introducing the strategy in his paradigm and provide dynamism to it, in order to determine an investment pattern (productive and commercial subsidiaries) in different moments, I present a modeling that entails a best dynamism and that attempts to explain the election of the entry mode in international markets in different moments:

$$\mathrm{M_{to}} = \int (OLICto) = \int (OLICt - 1\, St - n\, \Delta St - 1 \rightarrow t0\, \Delta ENt - 1 \rightarrow t0\, \Delta EXt - 1 \rightarrow t0)$$

In the new paradigm can be seen that the election of the foreign direct investment (mode of entry, “M”) depends on the function of the OLIC variables at that time, which are influenced by the developments at the previous period of time. As can be seen through the inclusion of “C” variable, consequences of international joint venture and international mergers and acquisitions will influence in the form of the international competitive advantage in the following period of time the completion of all the same (when company take resources and capabilities and obtain real benefit from them to decide the next mode of entry in a other international market, via Oa, Ot, Oi and Ok), unlike Dunning that based their studies in which these modes of foreign direct investment is reflected in the “O” and “I” at the same moment that these business operations occurs.

VII. METHODOLOGY

Population and Sample Size

The population study object is characterized by be Spanish companies internationalized under foreign direct investment (FDI) and within the same this article is focus on those that have carried out in any period on time an international merger or acquisition. The total number of Spanish firms with FDI is not possible to quantify exactly due to it does not exist a consolidate database. To obtain information and an approximate number of Spanish firms with FDI I have checked the list of Spanish companies with FDI in different countries that ICEX has published.

In this exploration we have obtained a total of 2.750 companies, to which the questionnaire was sent electronically. Altogether, 166 firms have responded in a proper manner, being these firms the article sample.

Object of Study

Given the new conceptual framework for the firm internationalization process study, the present work is focus on study those companies that decide to carry out international mergers and acquisitions as a international entry mode through FDI. This paper shows the most important variable that influence in the international mergers and acquisitions done by Spanish firms, providing key factor to internationalize the firm activities through this type of FDI confirming that it must be included within international value add paradigm.

Data Collection and Processing

Sending questionnaire took place since the end of the month of November 2013 until the beginning of the month of March 2014, among which was carried out three waves of shipments. The filled questionnaires were arriving from the beginning of the month of December 2013 until the end of the month of March 2014, obtaining 166 surveys responded correctly. Once received, the surveys are stored in Google Drive automatically generating a database ready for further treatment.

In order to steer with SPSS, I have managed the database, obtaining the final database to contrast the hypothesis using descriptive and inferential statistical analysis. Empirical analysis has been realized via binary logit model with the objective to contrast the following hypothesis and discuss the results. Finally, the present work shows some results of a business case realized thanks to interviews to manager and lectures of business information provides from Ebro Foods. This point shows the main characteristics of the international strategy of Ebro Food based on mergers and acquisitions, reasons why it does a new way to achieve an international production.

Hypothesis

H1: Firms that optimize their international resources and capabilities through multi-domestic strategy will have greater possibilities of mergers and acquisitions.

Firms that have implemented a multi-domestic strategy as a manner to optimize resources and capabilities internationally will tend to select as a mode of entry international mergers and acquisitions, mainly in this countries which have a different culture and characteristics than headquarter country.

H2: Greater centralization in the decision-making has a negative impact in the implementation of mergers and acquisitions.

Those companies with a centralized decision-making process will have less probability to develop as an international mode of entry mergers and acquisitions. The realization of this foreign direct investment implies give up decision power to the international business unit located abroad, so in this case, firms would decide another kind of mode of entry in international markets

H3: Obtaining tax benefits is a positive macroeconomic aspect in choose the international mergers and acquisitions as mode of entry

Location factors in general have a great influence attracting foreign direct investment. International accountant and local government develop strategic in tax issues in order to generate international flows, being tax benefits one of the most important macroeconomic factors.

VIII. ANALYSIS AND RESULTS

To contrast empirically the hypothesis regards with international strategies and tax benefits has been chosen a binary logit models ($p<0.05$). The first one contained both variables, while the second one not.

In both model the dependent variable is the probability that Spanish multinational firms chose international mergers and acquisitions ($y = 1$) as a mode of entry ($y = 0$ when companies don´t use international mergers and acquisitions), being the independent variables the following: (1) multi-domestic strategy to optimize resources, (2) international strategy to decision making activities and (3) tax benefits as a relevant factor to chose this mode of foreign direct investment.

TABLE 1. TEST OF THE SAMPLE[1] [2]

	t	gl	Sig. (bilateral)	Average differences
Multi-domestic strategy	39,256	159	0,000	3,506
Internacional strategy	60,916	158	0,000	3,862
Tax benefits	26,993	151	0,000	2,962

In table 1 we can check that each independent variable is significant individually, being their significance less than 0.05. On the other hand, the table 2 shows us the chi-square test. According with dates we have to reject the null hypothesis of independence between each independent variable and the dependent variable, having less than 5% of probability that the null hypothesis is true in our population.

TABLE 2. CHI-SQUARE TEST

	Multi-domestic strategy			Internacional strategy			Tax benefits		
	Value	**f.d.**	**Sig.**	**Value**	**f.d.**	**Sig.**	**Value**	**f.d.**	**Sig.**
$\chi 2$ Pearson	9,167	3	0,027	11,312	4	0,023	3,249	3	0,035
R. likeliness	9,179	3	0,027	10,839	4	0,028	2,197	3	0,035
Linear association	6,339	1	0,012	5,4115	1	0,020	1,498	1	0,021
Valid cases	160			159			152		

Table 3 shows us that all independent factors are independent between themselves because all test (Phi, V of Cramer and Coefficient of contingency are close to 0.

[1] Value of the test = 0
[2] 95% Confidence interval for the difference

TABLE 3. SIMETRIC AVERAGE TEST

	Multi-domestic strategy		Internacional strategy		Tax benefits	
Nominal	**Value**	**Sig.**	**Value**	**Sig.**	**Value**	**Sig.**
Phi	0,239	0,027	0,267	0,023	0,250	0,035
V of Cramer	0,239	0,027	0,267	0,023	0,250	0,035
C. of contingency	0,233	0,027	0,258	0,023	0,242	0,035
Cases	160		159		152	

Once corroborated that each factor is determinant and significant individually and all of them are independent between themselves, is time to contrast each hypothesis written above. Using a logit model as it has been specified previously, the model obtained is the following:

TABLE 4. VARIABLES IN THE ECUATION

Variable	B	E.T.	Wald	Sig.
Constant	8,321	4,305	3,736	0,043
Multi-domestic strategy	2,787	1,286	3,517	0,033
International strategy	-2,093	1,248	2,813	0,049
Tax benefits	-2,210	1,102	4,023	0,045

Model			Multi-domestic strategy	Internacional strategy	Tax benefits
1	*Correlations*	**Multi-domestic strategy**	1	0,094	-0,005
		Internacional strategy	0,094	1	-0,010
		Tax benefits	-0,005	-0,010	1
	Covariances	**Multi-domestic strategy**	1,283	0,085	-0,004
		Internacional strategy	0,085	0,639	-0,007
		Tax benefits	-0,004	-0,007	0,626

At the beginning it can say that all the independent variables and the constant are significant, so is time to analyze every effect of these variable on the dependent variable. One the first hand, companies which have implemented a multi-domestic strategy at the time to optimize all resources and capabilities internationally have more probability to penetrate in international markets thorough international mergers and acquisitions. On the second hand, firms that follow international strategy in making decision process have less probability to choose as a mode of entry in international markets this kind of foreign direct investment, showing that a greater descentralized decision-making greater possibility to invest through international mergers and acquisitions. Finally, whose companies that look for a tax benefits as a consequence of business integration through international mergers and acquisitions have less probability to invest in international markets on this manner, so there are another more important macroeconomics relevant factors that influence in time to do international mergers and acquisitions.

IX. Business cases: Ebro Foods

Ebro Foods is a Spanish multinational company that operates in rice, pasta and sauce industries. Based in Madrid, it has an industrial and commercial presence through an extensive network of subsidiaries and brands in more than 25 countries in Europe, North America, Asia and Africa, which has allowed position itself as a world leader in the rice industry and second world-wide pasta manufacturer.

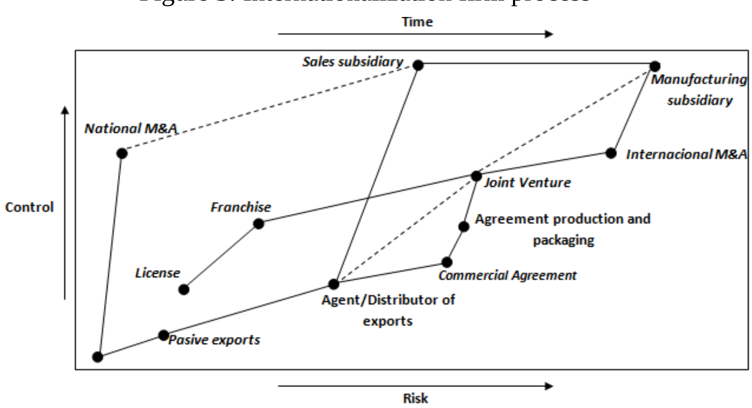
Ebro Foods is born of the merger of Azucarera Ebro and Puleva, allowing the creation of one of the more important food group of the world. Ebro Foods is a strategically diversified group in the food service oriented to research, develop and sell of functional products, with presence in 5 countries, both a commercial and productive level. The objective of Ebro Foods is to be a leader group based on products and value industries market segments through a customer orientation, research and develop activities, brands and quality. The mains strategies of Ebro Foods are both organic and inorganic at international level, focus on mature market through consolidated brands, being its business core brands, R&D, balanced organic and inorganic growth strategy and a efficient supply chain. Mergers and acquisitions are one of the most important modes of entry of Ebro Foods. This business strategy is made after IJV with the same company that Ebro Foods buys in order to know how business is in the country objective. So, we can say that IJV is an international springboard for Ebro Foods in order to penetrate in international markets through mergers and acquisitions, for example the business implementation in USA.

There are many reasons why companies do an international mergers and acquisitions. However, we can identify the most important reason for Ebro Foods: (1) achieve a dominance position, (2) acquisition of know-how, (3) acquisition of rights of ownerships and use of acquired technology, (4) value creating for the shareholders, (5) improve the management of the merged or acquired firm, (6) products and services complementary and (7) look for new distribution channel.

In spite of all international business units that Ebro Foods has, strategy decisions and plan execution are taken in headquarters mainly, having a financial control over each international business unit. However, depending of which area, international strategies are differences. For example, financial, corporate and manager human resources follow an international strategy; marketing and production activities are based on transnational strategies; supplies follow a global strategies; and technical and productive human resources are based on multi-domestic strategies. However, according the corporate managers, Ebro Foods gives more autonomy to international business unit a greater international experience in markets, about all marketing and selling activities.

Finally, analyzing the international business sequence of Ebro Foods took the international advantage of learning processes from Herba (a rice firm), which had several subsidiaries in Europe. Therefore, analyzed in the first person this firm (as well as Mahou San Miguel and Faes Farma) and with many others which have been made by the same process, it can say that the sequential model of Root (1987) can be extend adding a new step and sequence in the internationalization process of firms. Starting from national market, firm merges or acquires to another national firm, operation characterized by a low risk and a high level of control, giving it an international experience and knowledge, taking this advantage to internationalize their activities faster than alone, shorten the time dedicate to get enough experience and knowledge about international markets to commit it resources through own commercial and manufacturing subsidiaries, as show figure 3.

Figure 3: Internationalization firm process



Source: Owned elaboration based on Root (1987)

Once analyzed the international environment and the new factors and players who influence in international business activities, is necessary extend the old international production framework proposed by Dunning, adding new determinants as international mergers and acquisitions, international joint ventures, institutions, resources and capabilities approach and the value chain disintegration among others. My extended economic structure framework offers and current and more complete vision of how international business influence on economic structure in every country, considering one of them as a different. In addition, is necessary adding the “M” variable as a model of entry via foreign direct investment, having an extended eclectic paradigm from OLI to OLIM. This is only the consequence of dynamic markets, fact that Dunning did not considerer.

Focus on how international mergers and acquisition are done by Spanish multinational companies it can be said that a greater descentralized in resources and capabilities optimization and decision-making greater possibilities to realize international mergers and acquisitions, showing that the difficulty to adapt and integrate the acquired company is high, being the best strategy selection to minimize cost those that imply greater descentralization.

XI. Acknowledgment

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