de Matías Batalla, David

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The New Paradigm of International Production. Empirical Evidence of Spanish Offshoring Activities

David de Matías Batalla

Abstract
In this paper, the author presents the impact of new players and factors in international business activities, which have a direct influence on international economic structure. One of the most important determinants over the last decades has been foreign direct investment, which has encouraged the dislocation of business activities in many industries. This, together with the rest of foreign direct investment, makes the author think of extending the OLI model to OLIM, where M is the mode of entry. One type of this mode is offshoring which makes easier the relocation of business activity from developed economies to developing economies. The study of offshoring activities is the focus of this paper, with the data coming from a survey of 166 Spanish multinational firms. Empirical evidence should provide us the main factors that motivate Spanish multinational firms to be engaged in foreign direct investment via offshoring.

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Keywords Foreign direct investment; eclectic paradigm; internationalization process; offshoring; multinational firms

Authors
David de Matías Batalla, ✉ Economic and Business Administration Department, University of Alcalá, Spain, daviddematiasbatalla@outlook.es

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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. This theory involves the allocation of the firm´s resources and the economic organization of the value chain worldwide.

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 firms in their ability to obtain and maintain the control over property rights geographically dispersed, providing added 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 explaining the structure of the international trade and production, and differ in addition firms between themselves with 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, the interest in the study of the international company increased as did its behavior and influence in each of the countries where it was. During this time, in 70s and 80s 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 had the most important and biggest impact. Even so, 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 the new localization took positively. This contrasts with the previous situation in the industrialized countries, where due to rigidities both at the institutional level and at the structural level of the economy, it prevented movement of 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 its investment. Even at one point in 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 for 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 is not a consensus on the term of "ideal economic structure" due to the objectives and/or the exchange of goals among various companies and countries being 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 from 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 the economic structure differently to 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 reaches the optimal allocation when the resource 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 the 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 of "what produce" cannot be separated from the question "how to produce". Most 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 the economist makes 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 following circumstances: (1) a firm may not plays in the most efficient manner; (2) a firm cannot combine its factors with lower cost; (3) and a firm cannot be producing in the correct output scale of economies. The inefficiency can exist in the sectors; and in fact does exist. 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". Dunning uses the terminology of "technical efficiency" to develop his work, arguing have in practice, an economic structure of a nation can be determined by the skills and motivation of their companies to optimize their efficiency and allocate their resources along different activities. To achieve an optimal technical efficiency three conditions must exist: (1) all firms must produce and obtain the best possible production function; (2) firms must use their inputs in the manner that will minimize the production cost of any input and (3) firms must produce 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 occur 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 be 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 solely motivated by the benefits, the possibility that there are inefficiencies is high. For example, in conditions of technological changes there may be an exchange between investors in research and development, making their future returns uncertain and minimizing their current costs. 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 in the best possible way. 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 market failures the transaction costs will tend to be internalized. This has implications for the economic structure, affecting he technical efficiency and the assignment efficiency. Also, the resource allocation in an uncertain manner and in an administrative hierarchy that can affect the type of activity that is carried out in each location. While in some cases the resources of different activities of the company can promote the efficiency, in other occasions they could be used as a form of monopoly power, and/or deny or inhibit other non-competitive forces such as governments in their attempts to regulate and influence any activity.

In view of all the manners in which market imperfection is presented, it is not surprising that 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 study obtains 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 home 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 domestic and overseas market to another from a third country (also foreign, different to the national where the central or matrix of the company sits) depends on the possession or ability to acquire certain assets which are not available, or not available in terms or favorable

situations for other companies in the own national country (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 asset, 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 country, as it is available for all of them.

It has been argued that the market failures in the endowment´s approximation explain international production in a comprehensive manner or in some cases in a partial way, due to the same approach 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 solution to 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 there were academics appearing that focused their attention on the organization of production beyond national borders [1] [2] [3] [4] [5].

Dunning suggests 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 the previous studies incomplete. 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 the business economists, it is not surprising that there 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, encounter the theories defined under the framework of national borders.

In fact, it is the difference between the two markets, the domestic and the international, that distinguishes the multinational firms from the national firms. Furthermore, this (the border trade) is what differentiates the market failures of the national and the international, which influence differently and distinguish domestic from 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 or seller) to have to choose the best manner to exploit the difference in the international. Is the presence of a market structure and cognitive faults what encourages to firms to look for different strategies in pursuit of the exploitation of O and L advantages.

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 the increase of the monopolistic rents as a result of the presence of barriers to entry, which encourage 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 incompact information which are innate features of many markets [12] [13]. This type of market failure 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 a 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 or exploited by international graduates; in industries where there is a high risk of interruption of supplies…

The second reason that explains the market failures is that the markets may not have control of the costs and benefits 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 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 they are executed. The third reason that makes causes market failures to emerge is linked to the demand of a particular product, which, if it is characterized by being infinitely elastic, is insufficiently large to allow the full business completed production and achieve economies of scale and geographic diversification. In other

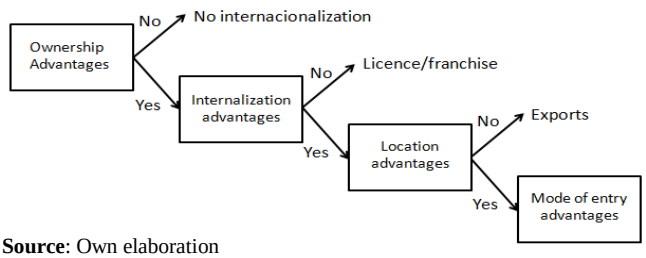
words, there is an inevitably free downside between overhead costs which entail the activities that add value and opportunities to achieve economies of scale [15].

These and other market failures can cause business activities to diversify the value activities of firms and restructure 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 so 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 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, it is very possible that, although both can perform the same value added activities, the first of them does so in the domestic market and exports 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 takes in account is the mode of entry that firms use in order to complete their internationalization process and penetrate in international markets. Dunning [16] developed his framework under the unique perspective of the subsidiaries without consider any different foreign direct investment. The new variable added 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 the model considers all possible modes that foreign direct investment can adopt: (1) subsidiary, (2) offshoring, (3), greenfield investment, (4) international mergers and acquisitions and (5) international joint ventures (see Figure 1).

Fig. 1 OLIM-model



Source: Own elaboration

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. Offshoring refers to the 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 that the word offshoring 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. Multinationals from developed countries consider 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 to be carried out.

On the other hand external company growth appears with mergers and acquisition and international joint ventures. Regardless of the legal aspects, mergers occur when two or 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 or more independent firms under the following requirements [23]:

- It 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 researchers from the strategic approach that defended the introduction of the strategic variable into the eclectic paradigm. I add it using the 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 tinges. The introduction of the strategy cannot be in the form of an *exogenous* variable to the own paradigm, such as suggest by 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 it 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 products 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 to 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 to 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 FRAMEWORK AND HYPHOTESIS

According to the internalization theory, the existence of market failure allows the firm to exploit for itself its assets in international markets [25], taking advantage of other benefits, such as those from the location of the investment to perform, such as the savings in labor costs [26] and operational. In a complementary manner, they should be given the status of the firm internally to exploit their assets more efficiently than if it was done to another company on behalf of the same assets. Within the assets, highlighted in the last decades the importance of the possession of non-specific assets (called intangibles), characterized by being difficult to identify and value them, based on information and knowledge, becoming not coded and linked with capabilities of people employed by the firm [27].

H1 Transference from headquarters of non-specific assets influences positively in the realization of offshoring

The debt in firms is necessary to grow and expand business activities. To grow, firms must borrow reaching the optimum level to achieve a good financial leverage through the corporate strategy [28]. There, a higher financial leverage, the greater the debt accumulated by the firm. In the beginning of offshoring studies some empirical results showed a negative relationship between the level of indebtedness and the offshoring as a mode of entry strategy [29] [30]. This approach was based on the fact that offshoring strategy carries the risk associated with globalization, namely, the development of business activities in an unknown environment, increasing the risk to fail, the cash flow loss and the inability to repay debts, which could result in several difficulties in financial business [31] [32] [33].

In spite of the above approaches, the financial crisis, which started in 2007, caused companies to have serious difficulties to face its payments. Not to be immersed in problems of bankruptcies, the companies have to lighten the weight the cost of doing business, with the goal of increasing benefits of that these are not as low as the predicted [34]. It is for this reason, which are relocating part of their non-core activities under its control (which is why it is called offshoring and not outsourcing) to other countries where among other things, labor costs and indirect costs [35] are lower than in Spain.

H2 Greater firm indebtedness influences positively in time to take the decision to invest through offshoring as a mode of entry to international markets

According to the sequential theory of the firm mentioned on several occasions in the present work, as the foreign markets knowledge increases, it will increase the resources committed in those markets [36] [37] increasing it along the time. Moreover, according to financial approaches, the profits achieved abroad, except for extraordinary exceptions, are reinvested in those subsidiaries that are necessary to strengthen its market position.

For this reason, given the growth of the globalization phenomenon, the increase in outflows of foreign direct investment during the last two decades in Spain, the greater importance of international markets in total profits of the firms and the offshoring investments strategy boom (to Central and East Europe and Asia), it can be affirm that:

H3 Greater international openness the firm will invest more resources via offshoring

Based on Root [38], it can be said that firms would choose along the time different modes of entry that implies greater commitment and a greater level of control over international business activities. The international commitment level is defined by the role of each international affiliate, the corporate level of the multinational firm, the status of the international organization and the manager´s attitude. Precisely the management approach affirm that experience and knowledge act as the evolution driver of the firm to generate ownership advantages [39], with which to maintain the international position based on the success of the access through offshoring.

The success in international markets will encourage the firm to keep on investing in the same (involving an ever more resources) and to achieve increasingly higher returns [40]. Taking in account that offshoring as an intermediate step between exports and subsidiaries, it is considered that the same as exports and the international experience accumulated by the same one influences positively in the long term establishment of the subsidiary [41] [42]; Johanson & Valhne, 2009), firm will do the same at the time to invest through offshoring, affirming that:

H4 Prior international experience obtained through exports influences positively in the decision to invest in international markets via offshoring

V. OFFSHORING IN BUSINESS CASE

As it has been discussed previously, one of the mode of entries via foreign direct investment is offshoring. This kind of investment strategy emerges thanks to disintermediation of business processes, information technology applications and the administrative functions of the business, as well as subsequently its relocation, becoming a commonly accepted business practices [43]. Offshoring refers to the process of supply of any business activity, process of function giving coverage to local activities and/ or global enterprises from a location located in another country.

The practice of offshoring (captive) means that a firm offshores its business activities from its national country to international countries internalizing those activities that the firm wants, through its own investments in new fabrics instead of going to a business collaboration with another company and making the outsourcing. This practice is closely linked to the approaches to the economy of transaction costs, based on its analysis from the basic transaction concept, highlighting above all the contributions of Coase [44] and Williamson [45]. A contemporary extension of transaction costs is related to the vertical integration, which brings with it a series of endogenous costs [46], which justifies the internalization of certain assets that carry with them property rights, not being up until the beginning of the last decade of the hand of Antrás [47] and Antrás & Helpman [48] when it was behold in contracts. When both parts of a contract do not compose of possible contingencies in the contract, the owner of the physical assets that brings the contract is the rightful owner of the residual right of control and can carry out the decision-making that the same creates more convenient on the use of the assets it brings, thereby maximizing the benefits of such a contract [49].

The theory of property rights [50] is based on transaction costs, allowing determine heterogeneity intra-industrial productivity, such as in Melitz [51] and Yeaple [52]. The conceptual field by Antrás & Helpman [53] intends to contrast the preference of the companies by foreign direct investment on any type of offshore activities, as well as the organizational forms that the multinational firm sets in its international experience. Subsequently, both authors carried out a series of studies about the contracts partial investment, showing that the best contract in a particular country strengthens the implementation of an enterprise for the investment in that country on any form of owned offshore activity where firms could focus exclusively on their core business.

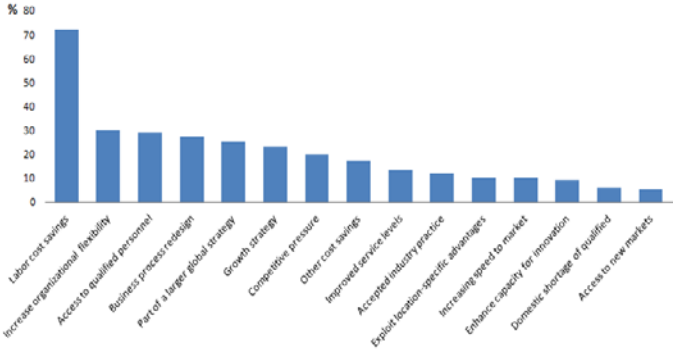
While the term "offshoring" is usually related to activities of information technologies, it is not the only business activity that is or may be subject to offshoring, but it also involves other business tasks such as the creation and development of products, engineering, research and development (R&D) and design of the products [54] [55] [56] [57] [58]. This is due to the better qualification of the labor force at the global level, there are geographical areas characterized by a series of specific skills. Implementation of the offshoring strategy can be confused with the widespread practice of outsourcing, but while in the latter, the company that is outsourcing the activity to a third party (external offshoring), offshoring consists in the creation of own subsidiaries in other countries (internal offshoring).

The extensive literature on the determinants of the use of strategies of offshoring has enabled it to check not only that the external factors are those that determine influence the use of this type of strategy, but there is also an internal set of determinants. Various have been the theories which have conducted studies to justify such practices, of which we emphasize the theory of transactional costs [59] and the theory of organizational learning [60]. As the other strategies carried out by the firm, the decision to execute an offshoring is influenced by many different factors such as firm´s goals, industry and local environments factors, among others. In spite of this, here are the main "drivers" that influence the time to carry out an offshoring strategy:

- Savings in labor costs
- Other savings
- Access to qualified personnel
- Action that is part of the firm´s growth strategy
- Increase the speed of response to the market
- Adopt industry practices
- Access to new markets

One of the most important offshoring research institutions is The Center for International Business Education and Research´s Offshoring Research Network (ORN) at Duke University´s Fuqua School of Business determines that most American companies engaged in offshoring due to labor cost savings, this goal being the primary reason why they move some jobs functions overseas (Figure 2).

Fig. 2 Key factors of American offshoring

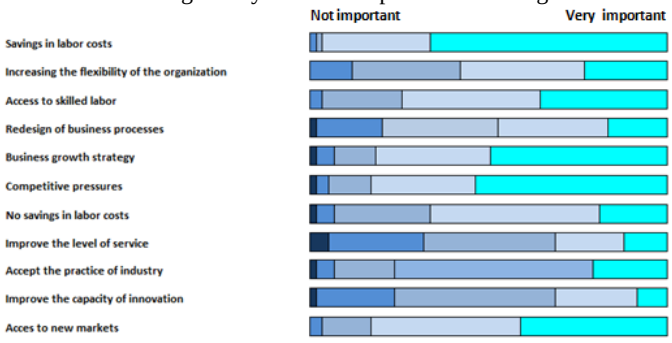


Source: ORN Research (2012)

The reasons that lead the Spanish multinational companies to perform this type of strategy is shown in primary data extracted from a survey of these companies, the results can be checked in the Figure 3.

In accordance with the comparison of the different averages belonging to each one of the factors exposed in Figure 3, it can be said that the most important factors to invest abroad via offshoring for Spanish firms is savings in costs (4.51), followed by competitive pressures (4.30), by the own growth strategy of the company (4.19), the access to new markets (4.13) and access to skilled labor (4.00).

Fig. 3 Key factors of Spanish offshoring



Source: Own elaboration

Among the reasons less important are improving service level (3.06), improving the capacity of innovation (3.13), redesign business processes (3.40), increase the flexibility of the organization (3.73), save on not labor costs (3.76) and the acceptance of the practice on the part of the industry as a whole (3.89).

VI. METHODOLOGY

A. Population and Sample Size

The population study object is characterized by Spanish companies internationalized under foreign direct investment (FDI). This article is focused on those firms that have carried out in any period of time an offshoring strategy. It is not possible to quantify exactly the total number of Spanish firms with FDI due to the face that a consolidate database does not exist. 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 2,000 companies, to which the questionnaire was sent electronically. Altogether, 166 firms have responded in a proper manner, making these firms the article sample.

B. Object of Study

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

Data Collection and Processing

The sending of questionnaire took place from the end of the month of November 2013 until the beginning of the month of March 2014, among which three waves of shipments were carried out. The completed questionnaires started 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 were stored in Google Drive automatically generating a database ready for analysis.

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 the binary logit model with the objective to contrast the following hypothesis and discuss the results.

Variables

Dependent

As has been explained the dependent variable represents the mode of entry through foreign direct investment defined as offshoring. In order to analyze it in a logit model, the independent variable is discrete, where:

$$y \begin{cases} 1 \text{ firms invest on offshoring} \\ 0 \text{ firms does not invest on offshoring} \end{cases}$$

Dummies

The following are the three control variables (sector of activity, region of residence and firm size) that have been used as factors in each model to ensure the validity of the results (see Table 1).

Table 1. Control Variables

Dummies	Statistical treatment
Sector of activity	1. Option A: Binary variable, the firm belongs to the tertiary sector or not 2. Option B: Categorical variable, the firm belongs to the primary, secondary or tertiary sector.
Spanish Community of residence	1. Option A: ▪ (1) North: Galicia, Asturias, Cantabria, P. Vasco, La Rioja y Navarra ▪ (2) Centre: CyL, Madrid y CLM ▪ (3) Mediterraneo: Aragón, Cataluña y Valencia ▪ (4) South: Extremadura, Andalucía y Murcia ▪ (5) Islands: Baleares y Canarias 2. Option B: ▪ (1) North: Galicia, Asturias, Cantabria, P. Vasco, La Rioja , Navarra y CLM ▪ (2) Madrid ▪ (3) Mediterraneo: Aragón, Cataluña, Valencia y Baleares ▪ (4) South: Extremadura, CLM, Andalucía, Murcia y Canarias
Firm size	Binary categorical variable, where: ▪ Small and Medium size companies: less than 250 employees ▪ Large companies: 250 or more employees

Independent

In order to contrast each hypothesis, the independent variables introduced into the logit model are:

Table 2. Independent Variable

Independent variable	Definition
Non-specific assets	Non-physical resources belonging to firms, such as knowledge, brand, reputation or networking.
Indebtedness rate	Indebtedness rate measured as total debt in relation with the own capital < 20% between 21 and 40% entre 41 and 60% entre 61 and 80% > 80%
International Openness	Percentage of international profits in relation with total profits of the firm. 1. 20% or less 2. Between 21 and 40% 3. Between 41 and 60% 4. Between 61 and 80% 5. More than80%
Export experience	Firm has exported or exports in this moment moreover to do foreign direct investment.

VII. ANALYSIS AND RESULTS

As Table 3 shows the industry sector and the region where Spanish multinational firms have the residence have a direct and positive impact in time when companies take the decision to invest abroad through offshoring. Those companies which don´t belong to the tertiary industry will have more choices to do this kind of investment than companies belonging to the tertiary industry, according with the typology of activities that involve each kind of industry. On the other hand, companies from north and east of Spain invest more through offshoring than the rest of the firms in Spain. It can be explained because the industries that have suffered more from the relocation of activities that have taken place in both regions of Spain (North and Mediterranean area), as for example the automotive industry, industries based on technology, textile and shoes industries. Until the 90s firms that took the decision to offshore their activities belong to industries characterized by medium and low technology intensity (metallic products, foods and beverage, paper and edition), but since the mid-90s other industries have increased their intensity in doing offshoring, such as office machinery, informatics appliances, electronic material and medical instruments, supporting to automotive, textile and fashion industries to increase the importance of this kind of relocation in Spanish firms [61].

However, Models 2 and 4 show that companies that belong to tertiary sector also do offshoring. According to INE, this behavior confirms that companies from different tertiary sectors decide to relocate activities in other countries, such as travel agencies, trade, market research, insurance, informatics activities and ITC among others.

Moreover, Table 3 also shows that the firm size is an important factor that encourages firms to relocate via offshoring. According to the results, large firms will invest greater than small and medium size companies, probably because large companies activities involve more links of the value chain, meanwhile small and medium size companies are more focus on some activities that represents its core business.

On the other hand, the possession and transfer of non-specific assets has not had any influence on the offshoring decision, with the result being inconclusive, so Hypothesis 1 cannot be accepted or rejected. Brand, knowledge, management skills or reputation don´t influence in time to invest through offshoring, due to companies involved in production or IT activities in this kind of investment, no marketing or sales. The same result can be observed in companies that exported previously to do offshoring, so international previous experience has not had an influence on offshoring strategy, Hypothesis 4 cannot be accepted or rejected. However, there are two factors that have a direct influence on offshoring investment decisions. The first one is the indebtedness rate, whose influence is positive boosting the relocation strategy through offshoring investment. It means that Hypothesis 2 must be accepted, so a greater indebtedness rate that firms have greater choice to relocate and invest in other countries via offshoring. The second one refers to an

international openness that firm has, being measured via international profits. According with results of Table 3 greater international profits the firm will relocate activities using an offshoring strategy as a mode of entry. In this time Hypothesis 3 must be widely accepted.

Table 3. Regression Logit Models

Variable	Model 1	Model 2	Model 3	Model 4
Tertiary industry	-2,035 (-2,020)*		-1,64 (-1,748)*	
Primary industry				
Secondary industry		0,901 (0,443)		0,768 (0,421)
Tertiary industry		2,273 (2,009)*		1,802 (1,775)*
AC North	3,937 (2,066)*	3,847 (2,012)*		
AC Centre	2,946 (1,645)	2,968 (1,644)		
AC Mediterraneo	4,090 (2,075)*	4,139 (2,085)*		
AC South	2,568 (1,176)	2,996 (1,255)		
AC Islands				
AC North				
AC Madrid			1,308 (0,901)	0,98 (0,611)
AC Mediterraneo			0,011 (0,075)	-0,234 (-0,149)
AC South			0,676 (0,466)	0,448 (0,293)
Firm Size	1,883 (2,011)*	1,746 (1,826)*	1,5 (1,824)*	1,382 (1,627)*
Non specific assets	1,333 (1,368)	1,226 (1,233)	0,979 (1,08)	0,91 (0,991)
Indebtedness rate	0,835 (1,750)*	0,91 (1,823)*	0,652 (1,411)*	0,712 (1,486)*
International profits	1,126 (2,043)*	1,094 (2,029*)	0,985 (2,035*)	0,959 (2,106)*
Exports	0,217 (0,249)	0,263 (0,293)	0,658 (0,838)	0,734 (2,011)
Constant	-7,000 (-2,460)*	-9,068 (-3,085*)	-3,704 (-1,737)*	-5,121 (-2,398)*
N	63	63	63	63
Log Likehood	43,816	43,457	48,033	47,751
Prob>Chi2	<0,01	<0,01	<0,01	<0,01
R2 Nagelkerke	0,597	0,601	0,541	0,545
% predicted hits	87,3	87,3	81	84,1

*0,05; **0,01

VIII. Conclusions

Once analyzed the international environment and the new factors and players who influence international business activities, it is necessary to 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 a current and more complete vision of how international business influences economic structure in every country, considering one of them as a different. In addition, it is necessary to add 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, a fact that Dunning did not consider.

Between the motivations of Spanish companies to make the economic investment abroad, are the savings in labor costs, competitive pressures and the own growth strategy of the firm.

On the other hand, among the most important business factors in choosing the offshoring as an alternative to foreign direct investment in place of another type the high indebtedness and the international openness rate deserve to be mentioned. Briefly it can be said that large Spanish firms located in the North or East of Spain that have a greater indebtedness and openness rate are the most characteristic Spanish firms to carry out offshoring, independently of their previous international experience and the possession of non-specific assets.

XIX. References

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