

## Cross-border acquisitions of foreign firms in Portugal and of Portuguese firms abroad: exploration and exploitation through acquisitions

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**ABSTRACT:** *In this paper we examine the cross-border acquisitions in Portugal in the period from 1990 to 2002. We characterize the foreign acquisitions in Portugal and the Portuguese firms' acquisitions abroad focusing on the countries of origin and target, as well as on the acquirer and target industries. We discuss the observed patterns of acquisition activity in the context of firms' knowledge and internationalization strategies. In particular, we focus on the potential for knowledge access and organizational learning emerging from cross-border acquisitions, and the extent to which the potential knowledge strategy is adjusted with the structural form of the acquisition. We conclude that most cross-border acquisitions involving Portuguese firms, as targets or acquirers, are driven by a market seeking strategy and the exploitation of resources and capabilities held, rather than by a strategic asset-seeking strategy and the exploration of new sources of knowledge.*

**Key words:** Cross-Border Acquisitions, Knowledge Strategy, Structural Form, Portugal

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**TÍTULO: Aquisições internacionais de empresas estrangeiras em Portugal e aquisições portuguesas no estrangeiro: as aquisições como estratégia de mercado e de exploração de recursos**

*RESUMO: Neste artigo examinamos as aquisições internacionais de empresas em Portugal no período de 1990 a 2002. Caracterizamos as aquisições estrangeiras em Portugal e as aquisições portuguesas no estrangeiro, focando os países de origem e destino, bem como as indústrias das empresas aquisitivas e alvo. Discutimos os padrões de aquisição encontrados no contexto das estratégias de conhecimento e de internacionalização. Em particular, enfatizamos o potencial para aceder a novo conhecimento e para a aprendizagem organizacional, emergentes das aquisições internacionais, bem como até que ponto a estratégia de conhecimento parece ajustada à forma estrutural das aquisições. Concluímos que a maioria das aquisições envolvendo empresas portuguesas, como alvo ou aquisitivas, são motivadas mais por uma estratégia de procura de mercado e de exploração de recursos e capabilities mais do que por uma estratégia de desenvolvimento de novos recursos e a prospecção de novos conhecimentos.*

**Palavras-chave:** Aquisições Internacionais, Estratégia de Conhecimento, Forma Estrutural, Portugal

## INTRODUCTION

International business research has traditionally taken a market seeking perspective of multinational corporations' (MNCs) foreign activities. In this view, MNCs seek to exploit their firm-specific advantages and resources in overseas geographic and product markets (Dunning, 1993). To a large extent these were less MNC-specific and more idiosyncratic to the home country of the MNC (Hymer, 1976). However, more recently, studies developing a global strategic management model of MNCs' operations have advanced that in some instances MNCs seek to exploit, or leverage, their resources and knowledge-based capabilities, and in other instances seek to explore, or build, their capabilities (Kuemmerle, 1999; Tallman & Fladmoe-Lindquist, 2002). The exploration perspective underlies studies on acquisitions as the vehicles to access novel knowledge across geographic and business space, promoting organizational learning (Hakanson, 1995; Barkema & Vermeulen, 1998; Vermeulen & Barkema, 2001). Through cross-border acquisitions – a cross-border acquisition occurs when a firm from one country acquires the totality or part of the equity of a foreign firm in a foreign country – MNCs explore and gain access to resources and knowledge not yet held. These may be combined with the other resources of the MNCs to achieve non-trivial operational, research and development (R&D), marketing, and/or managerial synergies, and the upgrading of the MNCs' capabilities. Cross-border acquisitions permit MNCs to access locally bound knowledge resources they could not easily access otherwise – e.g. using alternative entry modes – or that would consume considerable time and resources to develop internally (Barkema & Vermeulen, 1998).

The recent emphasis on knowledge-based models of economic activity may be over-representing the knowledge exploration strategy through acquisitions. That is, although research focuses on acquisitions for learning, it is possible that a majority of the acquisitions are really of the exploitative type. By observing the inter- and intra-industry acquisition activity we may be able to formulate some preliminary analysis concerning the Portuguese case. Complementarily, we may follow Chandler's (1962) suggestion that structure follows strategy to analyze the structural form of the acquisitions and compare them to the strategy to disentangle possible confounding effects. For example, when the acquirer firm is seeking to access the resources/knowledge of a certain target firm, it should do so by employing structural forms that favor the transfer and combination of resources/capabilities of the target with its own, without substantial losses of the target firm's value. In this case, we may suggest that the acquirer firm should only take a partial equity stake on the target, rather than fully acquiring the target firm.

The theoretical background of this study focuses primarily on more recent strategic and international management research investigating how firms create synergies in acquisitions, how they combine and transfer resources and capabilities (particularly knowledge-based capabilities), and learn (Lubatkin, 1983; Chatterjee, 1986; Chatterjee *et al.*, 1992; Barkema & Vermeulen, 1998). Dunning (1993) noted that an increasing proportion of cross-border acquisitions sought new ownership-specific advantages, rather than the exploitation of existing firm-specific advantages. This means that cross-border acquisitions may be increasingly utilized as part of a *global exploration strategy* whereby MNCs search strategic assets worldwide. This exploration strategy for cross-border acquisitions is driven by the increased costs of innovation and of entry into unfamiliar markets, the need to speed up time to market, and the need to tap into complementary knowledge and technologies. Acquisitions may also be utilized as part of an *exploitation strategy* whereby firms leverage their assets, resources, and capabilities across businesses and geographies (Ferreira, 2005). Caves (1971), for example, explained the explosion of M&As (Mergers & Acquisitions) in Europe by firms' seeking to improve competitiveness through complementing their current pool of heterogeneous resources, which mostly entails a market seeking strategy whereby firms look to expand their markets without other salient strategic intent.

In this paper we seek to understand the knowledge-based strategies underlying the acquisition activity in Portugal, whether carried out by Portuguese firms acquiring abroad or by foreign firms acquiring in Portugal. The appraisal of firms' knowledge strategies requires that we examine any latent patterns of acquisitions. For example, firms are likely to be leveraging, or exploiting, their existing capabilities when expanding to related businesses and to countries with which they are already familiar.

Conversely, firms are likely to be seeking to augment, or build upon, their capabilities when expanding to unrelated businesses and/or novel countries. That is, the implementation of the knowledge strategy requires a structural form that is adjusted. Hence, we suggest that in the analysis of cross-border acquisitions, we should consider both the knowledge strategy (exploration or exploitation) and structural form (partial or full acquisitions) adopted for each deal.

In this paper, we focus on the case of a small country of intermediate economic development (Molero, 1995) to understand the knowledge strategies at the core of the acquisition activity. To assess the knowledge strategies of firms, we scrutinize the industry and geographic distributions of the acquisitions. By focusing on the case of Portugal, whose firms tend to be small and internationally inexperienced, we also add to existing literature and provide insights that may be useful for comparative studies of similar countries, such as the Eastern European countries.

#### **WORLDWIDE CROSS-BORDER ACQUISITION ACTIVITY**

According to a UNCTAD (2002) report, M&As have been the major form of foreign direct investment (FDI) in developed countries (UNCTAD, 2001) having surpassed internal growth as the mechanism for MNCs' expansion (Zollo, 1998; Hitt, Ireland & Harrison, 2001). The large volume of both domestic and cross-border acquisitions has been attributed to many causes, namely the consolidation occurring in several industries particularly during the nineties (Chapman & Edmond, 2000; Hitt *et al.*, 2001), the economic integration of the European Union, and the privatizations in many industries across the world (UNCTAD, 2002). The M&As activity has been growing quite dramatically during most of the last two decades in the majority of countries and industries (UNCTAD, 2000). For example, the value of completed M&As in the US grew from about \$206 billion dollars in 1990, to about \$573 billion by 1996 and \$1,747 billion by 2000 (Mergers & Acquisitions, 2001; UNCTAD, 2002). In Europe, the growth in M&A was also quite spectacular, from \$24 billion dollars in 1990 to \$527 billion by 2000 (Mergers & Acquisitions, 2001). Portugal followed the general market trend experiencing a significant growth in M&A activity, partly fuelled by the privatization, in part or the totality, of firms in the banking, transport, telecommunication, cement, electricity, insurance, and manufacturing industries. Despite the recent decline in dollars value (owing largely to the stock market bubble in 2000), acquisitions continue to be the most important mode for corporate expansion (Zollo, 1998; Hitt, Ireland & Harrison, 2001). Notwithstanding, further research on who is investing in Portugal, where Portuguese firms are investing abroad, and what (if any) patterns of inter-industry M&As activity are discernible is still warranted.

Cross-border acquisitions are not a new phenomenon but they seem to be occurring in an economic and market context that is substantially different from that of some decades ago. Cross-border acquisitions now seem to occur between large MNCs, firms that are substantially internationalized, that are embedded in networks of firms and that have multiple strategic alliances. In addition, a contemporary motivation for cross-border acquisitions may be the access to sources of knowledge that the firms do not yet hold, in contrast to the traditional expansion motivated by the exploitation of firm-specific assets (Dunning, 1993).

### Motivations for Cross-Border Acquisitions

Firms invest abroad for a variety of reasons. MNCs invest in foreign countries to access a larger pool of potential clients (Knickerbocker, 1973), cheap resources (e.g., labor or raw materials), to follow clients (Li & Guisinger, 1992; Martin, Swaminathan & Mitchell, 1998) or competitors (Kindleberger, 1969; Caves, 1971; Knickerbocker, 1973), to learn (Vermeulen & Barkema, 2001), to overcome policy and non-policy constraints and override tariff and non-tariff barriers (Loree & Guisinger, 1995), to benefit from favorable exchange rates (Kish & Vasconcellos, 1993) or to acquire strategic assets (Dunning, 1993).

Similarly, MNCs engage in cross-border acquisitions for a variety of motivations and strategies. Scherer and Ross (1990, p. 159) summarized six main motivations for acquisitions: (a) to monopolize an industry and reduce competition; (b) obtain production efficiencies reducing production costs and promoting scale economies and specialization; (c) achieve synergies through an efficient coordination of complementary resources (e.g., R&D, manufacturing capacity, managerial expertise, marketing); (d) overcome market failures in the capital market and reduce the cost of capital; (e) restructure poorly managed firms that are traversing difficulties; and (f) benefit from speculation with the effects of the M&A in the stock markets.

The choice to enter a foreign market through the acquisition of a local firm is a non trivial strategic decision. Cross-border acquisitions permit a faster entry in the host country, the mitigation of risks (Hisey & Caves, 1985); they allow the acquirer to have fully operational activities in the host country faster than would be possible by, for example, using greenfield startup investments, and hence to possibly develop a first-mover advantage (Caves & Porter, 1977; Lieberman & Montgomery, 1988, 1998) in the host country. However, acquisitions also possibly entail post-acquisition integration hazards (Harzing, 2002) due, for example, to cultural dissimilarities (Morosini, Shane & Singh, 1997; Barkema & Vermeulen, 1998; Harzing, 2002), or technological mismatches. On the other hand, greenfield startups permit maintaining the parents' corporate values, culture, and routines, but are slower to implement,

may face regulatory impediments and be subject to internal (inter-subsi- diary) technology transfers hazards (Gupta & Govindarajan, 2001). Kindleberger (1969) and Knickerbocker (1973) noted that firms follow imitative oligopolistic behaviors sug- gesting that MNCs may engage in cross-border acquisitions to preempt competitors from developing stronger resources. Cross-border acquisitions may also facilitate interaction with local agents in different institutional environments (Brouthers & Brouthers, 2000), gaining greater market power and overcoming barriers to entry (Caves & Mehra, 1986). Furthermore, while there are some similarities between *par- tial* acquisitions and equity joint ventures (EJVs), these two modes are also substan- tially distinct even though both foreign entry modes are advised when MNCs seek to learn from the target firm, or on the target's market. Both acquisitions and EJVs may entail partial equity participation, with the corresponding levels of control (Mjoen & Tallman, 1997). However, while EJVs are set up as partial equity arrangements from inception, partial acquisitions are a post hoc decision of one firm to acquire other. Hence, the strategic motivations underlying each entry mode are distinct.

### CROSS-BORDER ACQUISITIONS FOR LEARNING

Firms' strategies, and particularly knowledge strategies, may entail not only the leveraging but also the building up of knowledge-based capabilities (Tallman & Fladmoe-Lindquist, 2002; Ferreira, 2005). Through cross-border acquisitions firms exploit, or leverage, their capabilities, or conversely, augment those capabilities (Kakanson, 1995; Kuemmerle, 1999). Firms may expand to similar business and countries, or else to businesses and countries that depart more or less radically from their prior experiences. Presumably, the more distant a focal acquisition is from the firms' prior experiences (i.e., more unrelated) the larger the potential for accessing novel knowledge and for learning. In other words, while MNCs are likely to rely on their existing knowledge when acquiring in the same or related industry or in fami- liar countries, business unrelated acquisitions and unfamiliar locations permit access to novel knowledge. As Vermeulen and Barkema (2001, p. 460) argued, when the MNC «is already familiar with the market it can apply familiar ways of organizing and managing. In fact, the firm will likely have sought the expansion to further apply and exploit its competitive advantage». Therefore, by examining the firms' target countries and businesses we may infer the underlying knowledge strategy for a focal acquisition.

An important aspect to take into account is how the MNCs' knowledge strategy for a focal acquisition may influence the structure of the deal, and specifically the equity stake acquired. Knowledge exploration strategies are possibly better exercised through partial ownership stakes to preserve the value of the target firm's resources

(Haspeslagh & Jemison, 1991) and because some resources are indivisible from the firm and cannot be fully integrated efficiently (Hennart, 1988; Anand & Delios, 1997; Zollo, 1998). Thus, even a resource-rich MNC may not necessarily acquire the totality of the target's resources when its purpose for the specific acquisition is to learn from the target firm's industry or location.

By acquiring a partial equity stake, the acquirer not only minimizes a variety of country risks and uncertainties (Tallman, 1992), but it also gradually accumulates host country and host industry knowledge (e.g. about the market, technologies, institutional environment, distribution systems). The target's resources may be combined with other resources and knowledge already held by the acquirer MNC to promote value creation through operational and managerial synergies. Hence, it seems reasonable to suggest that the higher the value of these resources, the more likely the acquirer MNC will avoid full integration, opting instead to confer a higher degree of autonomy to the target firm (Haspeslagh & Jemison, 1991) or, alternatively, by taking only a partial equity stake in the target firm. Hence, examining the structural form of the acquisition we may gain further insights regarding the acquirer's knowledge strategy.

Some acquisitions may require at least some degree of internalization while others may require total integration. For example, MNCs pursuing a knowledge seeking strategy, or knowledge exploration strategy, may need to acquire part of the equity of a target firm due to imperfections in the market for knowledge (Teece, 1981; Hennart, 1982). In other instances, the different types of knowledge sought may require diverse structural arrangements. For example, Hennart (1988) noted that *link* joint ventures are often used to combine different types of knowledge, and *pool* joint ventures are used to combine similar types of knowledge. Hence, even for similar types of knowledge, equity relationships may be more efficient than either market-based exchanges (e.g., licensing) or fully integrated governance models (e.g., full acquisition). In fact, different governance models, or structural forms, are more appropriate for different types of knowledge. For example, Hennart (1988) noted that licensing is more appropriate for the transfer of explicit knowledge, but closer interaction through equity modes is more appropriate to access and absorb novel knowledge (Killing, 1980). Imperfections in the market for knowledge seem to emerge primarily from evaluation uncertainties, inefficiencies in the system for protection of proprietary knowledge resources (e.g., patents), and the tacitness of some forms of knowledge (Hennart, 1988). In sum, the equity stake acquired is likely to reflect either the interest of the acquirer MNC in the target's resources or the transferability of the acquirer's own resources and capabilities to additional operations. We thus suggest that each of these motivations is likely to differentially drive the acqui-

sition of different degrees of equity of the target (e.g., minority, majority or full ownership), as a function of the relative knowledge exploration or exploitation strategy of the firm.

### **ACQUISITION ACTIVITY IN PORTUGAL**

In this section we first describe the data and then we examine the acquisitions of Portuguese firms by foreign firms, and the Portuguese firms' acquisitions in foreign countries. The study of the Portuguese case is interesting not only because it has been devoted to relative disregard in the European Union (EU) context, but also because Portugal has one of the smaller EU economies with the least internationally experienced firms. One of the manners in which firms overcome their inexperience is by acquiring an incumbent firm in the foreign market. Furthermore, the analysis of the pattern of foreign acquisitions in Portugal and of Portuguese firms abroad is important to understand how the recent enlargement of the EU to twenty five countries may impact on future domestic and foreign investments in Portugal, or on divestments from prior acquisitions. In a nutshell, if the foreign investments in Portugal are of the knowledge exploitation type these investments may be relocated to the Eastern European countries since they offer foreign firms lower labor costs and a well qualified work force. We would thus expect that exploitative investments would be the first to be relocated inducing substantial foreign divestment in Portugal.

We further examine the intra- and inter-industry patterns of acquisitions as well as the home and host country of the acquirer and target firms, respectively. The analysis of acquisition activity enables us to distinguish whether the pattern in acquisition activity by Portuguese firms when acquiring abroad is substantially different from the foreign acquisitions in Portugal. This analysis also supports some inferences on the knowledge strategies of the acquirer firms. These patterns may exist in terms of intra- and inter-industry concentration of acquisition activity, and in terms of the degree of equity ownership acquired in the target firm, as we will discuss.

#### **Data and Sample**

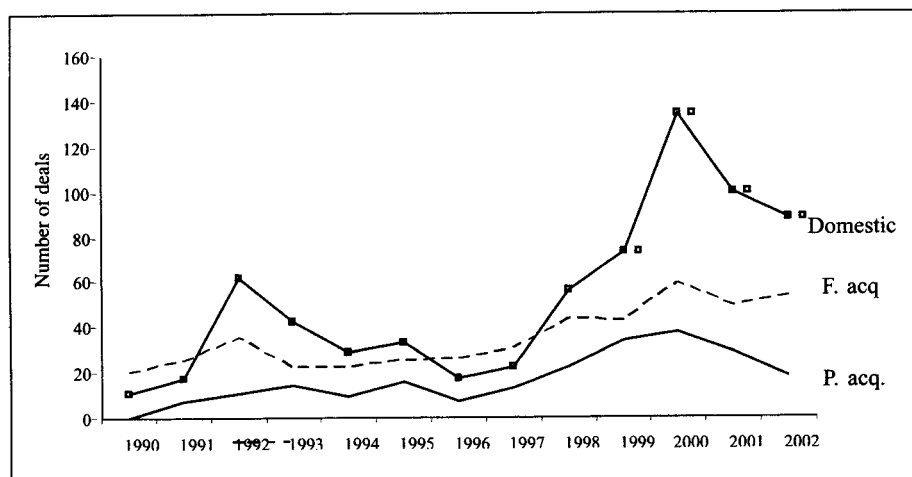
The sample of acquisitions involving Portuguese firms was extracted from the Mergers and Acquisitions Securities Data Corporation (SDC) commercialized by Thomson Financial. We restricted the sample to all completed cross-border acquisitions (excluding announced and rumored deals that were not completed) that involved a Portuguese firm as either the acquirer or the target. Hence, the sample used in this study is composed of (a) completed cross-border acquisitions in Portugal by foreign firms, and (b) completed cross-border acquisitions by Portuguese firms abroad. The acquisitions were completed in the period 1990 to 2002, inclusive.

It is important at the outset to acknowledge some limitations to the data. The data only permits us to reliably consider transaction counts of completed deals in terms of target and acquirer industry, and target and acquirer country. The data lacks detailed information on the firms involved, the actual transaction values, and the markets. Finally, our aggregation of firms in industries follows the U.S Standard Industry Codes (SIC)<sup>1</sup>.

### Acquisition Activity in Portugal

Over the period 1990-2002, foreign firms completed 451 acquisitions of Portuguese firms. Conversely, Portuguese firms only completed 218 cross-border acquisitions and 684 domestic acquisitions (Figure 1), with a relative peak in the year 2000. This peak is simultaneous to the worldwide acquisition activity.

**FIGURE 1**  
Acquisition activity in Portugal (number of deals)



*Domestic – Portuguese domestic acquisitions, F. acq – Acquisitions of Portuguese firms by foreign firms, P. acq – Portuguese acquisitions of foreign firms abroad*

Although our primary emphasis is on cross-border acquisitions, a brief overview of the domestic acquisition activity is warranted (tables not reproduced but available from the authors). The observation of domestic acquisitions provides interesting insights as to the preferred patterns for expansion, and hence it is a complementary analysis to the study of cross-border acquisitions. Over these thirteen years, there was a growing trend in the volume of domestic acquisitions, most notably after 1998. Possibly the high volume of domestic acquisitions is driven by some industry consolidation and the acquirers' attempt to gain scale, which is needed to compete in

both domestic and foreign markets. The most active acquirer firms were in the manufacturing (188 completed deals) and non professional services (103), but also in the financial services (83) and real estate and holding companies (56). The targets were mainly in the real estate industry and holding companies (270 deals), manufacturing (139) and financial services (77 deals). Moreover, the largest volume of domestic acquisitions were intra-industry [such as manufacturing (90), financial services (41), and non professional services (45 deals)], probably reflecting better an effort for industry concentration and the rationalization of production costs than for any knowledge seeking goal.

In regard to domestic acquisitions it is also worth highlighting that the high number of deals registered under real estate and holding companies is largely driven by large corporations such as SONAE SGPS, S.A. and Jerónimo Martins & Filho, S.A. We observed the available data for each deal individually and inferred that these acquisitions are probably motivated by a market seeking strategy, or in some instances, by a speculative equity participation, whereby firms exploit slack financial resources.

#### **Foreign Acquisitions in Portugal**

An important indicator of the state of development of the national industry, the country's innovation system, and the national policy towards R&D is the type of foreign investment the country attracts (Kobrin, 1991; Kogut, 1991). In a simplified manner, we distinguished between market seeking (exploitation) foreign investments and strategic asset seeking (exploration) foreign investments (March, 1991; Dunning, 1993; Makino *et al.*, 2002). Firms from more developed countries tend to engage in a relatively larger proportion of strategic asset seeking foreign investments than firms from less developed countries (Makino *et al.*, 2002). Strategic asset seeking investments are often motivated to access locally bound resources, such as knowledge (see Coff's, 1999, conceptualization of "general knowledge"), that tend to evolve in an idiosyncratic manner. Conversely, market seeking investments are often motivated by lower costs of the production factors and the service of an additional pool of consumers with essentially the same (or similar) product or service.

Table 1 depicts the accumulated number of transactions for the 15 countries whose firms have conducted a larger number of acquisitions in Portugal from 1990 to 2002. As might be expected, Spain, the UK, Germany, France, and the US were the largest acquirers of Portuguese firms over these 13 years. The EU acquirers are those with whom Portugal also carries the most significant trade flows. Spanish firms, in particular, were the largest acquirers in Portugal completing 103 acquisitions. Outside the EU, the US (45 deals), Brazil (7 deals), Australia (6 deals), and Canada (5 deals) were

more active acquiring Portuguese firms. In addition, most of the acquisition deals were completed during 1996-2002 possibly as a result of added liberalization in several industries as well as sizeable privatizations that occurred in this period. Privatizations are one-off events/opportunities that may lack an underlying knowledge-based strategy altogether.

**TABLE 1**  
Top 15 investor countries (no. of deals)

COUNTRY	1990-1995	1996-2002	Total No. of deals (1990-2002)
Australia	1	5 (7)	6
Belgium and Luxembourg	8	7	15
Brazil	1	6 (7)	7
Canada	2	3	5
Denmark	4	1	5
France	21	31 (7)	52
Germany	10	19 (7)	29
Rep. Ireland	2	4	6
Italy	4	10 (7)	14
Netherlands	9	13	22
Spain	20	83 (7)	103
Sweden	0	10 (7)	10
Switzerland	4	7	11
United Kingdom	30	22	52
United States	11	34 (7)	45

As discussed previously, firms may learn from entering businesses where they do not yet carry operations. The mere analysis of the country of origin does not suffice to understand the firms' knowledge strategies, and we also need to observe the sectorial patterns of those investments. Our analysis noted large industry differences that

may be accounted for by three main factors. First, some industries underwent significant deregulation and privatization, which may have attracted an above normal acquisition activity during this period. Second, some industries went through a period of restructuring and concentration, leading to a high volume of not only cross-border but also domestic acquisition activity. Third, the simultaneity between production and consumption in some industries (e.g., service industries) requires the local presence of foreign firms. These firms cannot serve foreign markets from at a distance and chose to enter Portugal through the acquisition of an incumbent firm to accelerate their local embeddedness to the institutional environment.

In terms of the industries of the acquirer and target firms we observe that firms in the manufacturing (131 completed deals), real estate and holding companies (84 deals), and non professional services (58 deals) industries were the largest foreign acquirers in Portugal (see Table 2). The values in the diagonal in Table 2 show that related acquisitions were predominant during this period, highlighting a more likely market seeking motivation by foreign firms entering Portugal through cross-border acquisitions. In terms of the Portuguese targets, the highest numbers of acquisitions were in the manufacturing industry (146 deals), services (61 deals) and financial services (42 deals). Some of the major foreign acquisitions in Portugal were in banking, insurance, electricity and telecom industries. In all cases, the acquirer and target firms operate in essentially the same business, suggesting that these deals were of the market seeking type.

#### **Portuguese Acquisitions Abroad**

Cross-border acquisition activity by Portuguese firms varied substantially over the period, and was considerably more modest than that of some European partners. Portuguese firms acquired 218 foreign firms, mostly in Spain (85 acquisitions) and Brazil (56), France (12), Poland (11), the UK (10) and Mozambique (7). Notably, the large majority of these acquisitions was in the period post 1996. We note that Portuguese acquisitions were mostly in the cultural (i.e., Brazil) and geographically proximate countries (i.e., Spain and other EU members).

In terms of industries, we observe that firms in manufacturing (69 completed deals), real estate (56 deals), financial services firms (33 deals) and communications (19 deals) were the largest acquirers of foreign firms (see Table 3). These acquisitions were mostly related to the acquirers' business, which may be evidencing a market seeking motivation whereby Portuguese acquirer firms are simply interested in accessing the foreign market leveraging their capabilities, rather than seeking to augment those capabilities. Notwithstanding, the investments in upwards countries may induce positive knowledge spillovers despite occurring in related businesses. Furthermore,

**TABLE 2**  
Acquisition of Portuguese firms by foreign firms (no. of deals)

Target Acquirer	0-999	1000-1499	1500-1999	2000-3999	4000-4799	4800-4899	4900-4999	5000-5199	5200-5999	6000-6299	6300-6499	6500-6999	7000-7999	8000-8999	9000-9999	TOTAL
0-999		1	3	4	5	1		1	1					5	2	23
1000-1499		7		1	1				1							10
1500-1999			4	3										2	1	10
2000-3999	2		1	103	2		2	15	1					2	3	131
4000-4799					14		1									17
4800-4899						3									1	4
4900-4999		1					9								2	12
5000-5199				2				14	1					2		19
5200-5999				2				2	13					2	1	20
6000-6299			1	2	1				1	22	1	2	4		1	35
6300-6499	1			1						6	12					20
6500-6999	1	2	2	24	2	3	4	1	5	12	10	12	4			84
7000-7999				4		2		1		2	1	1	44			58
8000-8999														1	7	8
9000-9999																0
TOTAL	4	11	13	146	25	9	16	34	23	42	24	28	61	13		451

Note: description (SIC code) - Agriculture, forestry & fishing (0-999), Mining (1000-1499), Contracting (1500-1999), Manufacturing (2000-3999), Transportation (4000-4799), Communication (4800-4899), Public utilities (4900-4999), Wholesale trade (5000-5199), Retail trade (5200-5999), Financial (6000-6299), Insurance (6300-6499), Real estate and holding companies (6500-6999), Services non professional (7000-7999), Professional services (8000-8999), Government (9000-9999)

although these acquisitions occurred in relatively knowledge intensive industries they do not seem *prima facie* to be seeking access to firm-specific knowledge beyond market knowledge, which could be more difficult to obtain through other entry modes such as strategic alliances, equity joint ventures or startup greenfield investments. In terms of foreign targets, the highest numbers of acquisitions were in the manufacturing industry (73 deals), financial services industry (33), retail trade and non professional services (19 deals each). Nevertheless, there were also a substantial number of unrelated acquisitions, most notably by real estate and holding firms acquiring both manufacturing and retail firms; this may, on one hand, simply be an artifact of organizational structures and tax laws, and on another, explained by the recent growth of retail and wholesale chains.

The biggest Portuguese acquirers over this period were Cimpor – Cimentos de Portugal, S.A., Jerónimo Martins & Filho, S.A. (retail/distribution) and the group Portugal Telecom, S.A. (telecommunications). In all instances, the deals of these three acquirers are closely related to their core business. The example of the acquisitions by Cimpor, S.A. (see Table 4) illustrates that these acquisitions are essentially of the market seeking type, based on the exploitation of internal management competencies and manufacturing capabilities held. A similar pattern is observed for the acquisitions by Jerónimo Martins & Filho, S.A. in Poland, Brazil, UK and Spain, which were mostly in the retail or wholesale trade, i.e., the firm's core business. Portugal Telecom, S.A. expanded mostly through the acquisition of communications and cellular phones firms in Brazil (Telesp cellular, Portelcom, and Celular CRT) and Spain (Telefonica de España).

### **Structural Form of the Acquisition**

Extant research on the foreign entry modes has proposed that both equity joint ventures (EJVs) and acquisitions are mechanisms for learning. However, Hauswald and Hege (2002) recently noted a rather intriguing pattern. These authors noted that about two thirds of the two-parent EJVs have 50-50 equity allocations, and 12% of the EJVs entailed 50.1% or 51% majority ownership stakes by one of the parents. This finding applies to the majority of industries and is largely independent of the parent firms' attributes, resource factors, information, and so forth. On the other hand, cross-border acquisitions reveal a rather different pattern with about two thirds being full acquisitions of the target firm's equity (Thomson Financial). In short, while the majority of the EJVs consist of roughly equal shares among partners, MNCs pursuing acquisitions tend to seek full control over the operations. This evidence cautions that the strategic objectives pursued with EJVs and acquisitions may, in fact, be more dissimilar than we generally consider. It is, therefore, intriguing that the two foreign entry modes most often referred to as vehicles for organizational learning [see

**TABLE 3**  
Portuguese firms acquisitions of foreign firms (no. of deals)

Target Acquirer	0-999	1000-1499	1500-1999	2000-3999	4000-4799	4800-4899	4900-4999	5000-5199	5200-5999	6000-6299	6300-6499	6500-6999	7000-7999	8000-8999	9000-9999	TOTAL
0-999																0
1000-1499		1		1				1						1		3
1500-1999					1											2
2000-3999	1			54	1			9	1				3			69
4000-4799					1								1			2
4800-4899				1		14							3			19
4900-4999					1		4						3			9
5000-5199													1		1	5
5200-5999								4					1			10
6000-6299									4							10
6300-6499										27			3			33
6500-6999											2		1			3
7000-7999																3
8000-8999														1		55
9000-9999																7
TOTAL	1	1	3	73	7	16	7	17	19	33	7	12	19	2	1	218

Note: description (SIC code) - Agriculture, forestry & fishing (0-999), Mining (1000-1499), Contracting (1500-1999), Manufacturing (2000-3999), Transportation (4000-4799), Communication (4800-4899), Public utilities (4900-4999), Wholesale trade (5000-5199), Retail trade (5200-5999), Financial (6000-6299), Insurance (6300-6499), Real estate and holding companies (6500-6999), Services, non professional (7000-7999), Professional services (8000-8999), Government (9000-9999)

**TABLE 4**  
Cross-border acquisitions by Cimpor

Year	Firm	Country
1992	Corporacion Noroeste, SA	Spain
1994	Cia de Cimentos de Mocambique	Mozambique
1994	Cimentos de Mocambique	Mozambique
1997	Serrana, SA	Brazil
1997	Cia de Cimento de Sao	Brazil
1998	Societe des Ciments de Jbel	Tunisia
1999	Jebel Oust Cement Plant	Tunisia
1999	Brennand Group	Tunisia
2000	Amriyah Cement	Egypt
2002	Lafarde Cement Brumado	Brazil
2002	Natal Portland Cement Co, Ltd	UK

Hennart (1991) for EJV's, and Barkema & Vermeulen (1998) and Vermeulen & Barkema (2001) for acquisitions] reflect such wide differences in ownership structures.

In the analysis of the acquisition activity in Portugal we found that about half of the domestic acquisitions (330 deals) and half of the Portuguese acquisitions abroad (111 deals) were majority or full acquisitions (Table 5). When acquiring Portuguese firms, foreign firms seem to privilege a controlling equity stake (239 of the acquisitions were majority or full acquisitions).

Our analysis of the ownership structure of the acquisitions, as evidenced by the degree of equity ownership, suggests that foreign firms do not seem to be particularly interested in the knowledge-based resources of the Portuguese firms. In particular this observation is valid once we accept the argument that a partial ownership structure is preferred when accessing valuable resources, and that a full ownership stake is preferred when seeking to exploit resources already held in a foreign country. An alter-

**TABLE 5**  
Degree of equity ownership acquired (no. of deals)

Degree of equity ownership acquired	Domestic acquisitions	Foreign acquisitions of Portuguese firms	Portuguese acquisitions abroad
Full ownership (95-100%)	203	182	75
Minority ownership (<=50%)	348	183	100
Majority ownership (51% up to 94%)	127	57	36

native explanation, nonetheless, may be that these foreign firms have a far larger acquisition capability (Zollo, 1998) and are more effective in integrating acquired firms. Firms with an acquisition capability may have developed the ability to extract the knowledge required without substantial loss of knowledge in the process. Conversely, Portuguese firms resort more often to the acquisition of minority stakes on the target firm. While size and financial slack may be factors to consider – the small size of Portuguese firms may hinder the acquisition of the totality of the target's assets – it is also likely that the primary goal underlying the acquisition of a minority stake is the preservation of the target's resources and knowledge base.

### DISCUSSION AND CONCLUSION

As firms increasingly engage in cross-border acquisitions for internal growth and expand into foreign markets, the true performance benefits of cross-border acquisitions continue immersed in controversy. While some studies find a positive acquisition performance, others find either no effect or negative effects (see, for example, Lubatkin, 1987; Singh & Montgomery, 1988; Chatterjee, Lubatkin, Schweger & Weber, 1992; Markides & Ittner, 1994). It is worth noting that extant studies tend to assess financial performance, thus disregarding the strategic benefits, namely in terms of accessing a completely novel pool of knowledge that may change the strategic resources, particularly their knowledge-based resources, and capabilities of the acquirer firms and reconfigure the entire global strategy of the firms (Karim & Mitchell, 1994). Indeed, the contemporary feature of cross-border acquisitions is that they may be the means to access, absorb, and control valuable, rare, non imitable and

non substitutable resources (Barney, 1991, 1996) that are critical to achieve a competitive advantage. If well selected, cross-border acquisitions may open up the doors to new sets of knowledge, which may be leveraged in combination with other resources held. Conversely, if poorly selected and integrated, firm-specific resources may be captured by competitors or may remain unexploited.

Our analyses of intra and inter-industry cross-border acquisitions showed that most acquisitions occurring in Portugal are business related (we assessed relatedness comparing the SIC codes of target and acquirer firms' industries). This is the case for both the foreign firms' acquisitions in Portugal as well as for the Portuguese acquisitions abroad. Related acquisitions are unlikely to be strategic asset seeking investments but are more probably looking for opportunities to leverage, or exploit, the capabilities held. As such, our analyses reveals that foreign firms are not seeking to learn from their acquisitions in Portugal, nor are Portuguese firms seeking to access new knowledge when acquiring abroad. Nevertheless, we must acknowledge that some learning effects may still occur even in related acquisitions; this is the case, for example, when the foreign firm learns how to operate in the Portuguese institutional environment although acquiring in the same business, or when the foreign acquirers access locally bound knowledge (e.g., location in an industry cluster may provide such access). Indeed, observation of the foreign acquisitions in Portugal (displayed in Table 2) raises some concerns as to the type of foreign investments entering Portugal from 1990 to 2002. The upgrading of the Portuguese economy benefits more from investments that induce an inflow of novel knowledge, and technologies not yet held by Portuguese firms, than from exploitative investments. For example, the high proportion of acquisitions in the Portuguese manufacturing industry may still be a reflection of relatively cheaper labor costs in Portugal compared to the other EU countries.

We also noted that the Portuguese acquisitions abroad tend to be oriented towards downward countries (countries comparatively less developed) but that are more culturally similar (e.g., Brazil, Spain) and geographically proximate (e.g., the EU member countries). In these instances it seems likely that Portuguese companies leverage their firm-specific advantages and outperform domestic competitors. Nonetheless, the potential for accessing novel knowledge and learning is more reduced when entering less developed countries. Conversely, Portugal seems to attract investments from upwards countries, mostly from the European partners, but our available data does not seem to indicate an immediate business knowledge seeking motivation.

Moreover, in a comparison of the Portuguese acquisitions abroad and foreign acquisitions in Portugal it is worth noting that although Portuguese firms did not

acquire a single firm in the agriculture, forestry and fishing industries (SIC codes 0-999) there were 23 foreign acquisitions of Portuguese firms in these industries. It is possible that these acquisitions represent some inflow of modern techniques and technologies to Portugal, with the potential to modernize these traditional business areas. It should also be noted that in the communications industry (SIC 4800-4899) Portuguese firms acquired abroad substantially more than foreign firms in Portugal (Table 2). It is thus likely that Portuguese firms in this industry have either a large slack in financial resources or a technological and/or managerial competitive advantage in this industry that allow them to expand to downward countries (e.g., Brazil) and countries of similar level of development (e.g., Spain). The financial services firms (i.e. banks) also acquired abroad relatively more than foreign firms in Portugal. These acquisitions are not likely to seek any knowledge benefits and seem to be asset exploiters.

Our analysis of the degree of equity ownership (that we used as a proxy for structural forms adopted) is a new approach to observe the underlying motivations in cross-border acquisitions. As noted, we expect that the structural form of the acquisitions will be adjusted to the knowledge strategy pursued. That is, a knowledge exploration strategy is perhaps better implemented through the acquisition of only a partial equity stake in the target firm. Conversely, a knowledge exploitation strategy is probably adequately implemented through the full acquisition of the target. Hence, when the potential for learning is reduced, the acquirer should be more likely to fully acquire the target, because in these instances the acquirer is more interested in leveraging its own resources/capabilities than in accessing the resources/capabilities of the target firm. Interestingly, a relatively larger number of minority stakes acquired by Portuguese firms may be revealing two important facets: first, even business-related knowledge has some location-bounded idiosyncrasies and hence foreign investments in the same business may permit some learning; second, Portuguese firms acknowledge their lack of foreign experience and are less prone to commit to large scale operations before learning how to maneuver internationally.

Although we focused empirically on the case of Portugal, we may draw some insights for other countries of a similar size and whose firms still have limited international experience (Molero, 1995) and particularly little experience in using cross-border acquisitions as the entry mode. In fact, to our knowledge this is the first paper focusing on Portuguese acquisition activity. The comparison across countries of the acquisition activity may highlight important consequences for public policy, essentially because asset exploiting investments tend to be fairly mobile in search for the locations that offer the best conditions. In this regard, asset exploiting investments resemble on-the-spot transactions.

For Portuguese public policy, our data highlights that Portuguese acquisitions abroad are essentially in areas of firms' current expertise. A similar situation was found for foreign acquisitions in Portugal. However, to upgrade the national productive structure, the national agencies need to privilege entries that may carry future knowledge spillovers and outflows that augment domestic firms' capabilities. It might be more important for the medium/long term that foreign investments of the exploitative type are likely to be easily relocated to locations that offer more favorable conditions, such as to the new European Union member countries, as we noted above. Policy makers are certainly aware that foreign acquisitions in Portugal may have some positive spillovers in the Portuguese economy, particularly if in the medium to long run they are upgraded – which would represent an inflow of new technologies and knowledge.

A number of extensions to our study may advance our understanding of why firms use acquisitions and why and in which circumstances acquisitions are adequate entry modes for organizational learning. For example, through a finer grained desegregation of the targets and acquirers' industries (which our data did not permit) we may gain a better grasp of the true potential for learning in each focal acquisition. We may also gain a better understanding of which firm-specific advantages Portuguese firms may have given that these advantages are often related to the firms' intangible assets that are generally created through R&D, advertising and proprietary assets. Future research may, for example, test hypotheses where both the knowledge accessed and the firms' capabilities are modeled. In addition, the identification of location-specific advantages from which the target and acquirer firms benefit in their home countries is likely to add insights into the patterns of cross-border acquisitions. For instance, future studies may use recent research in economic geography to model the relative munificence of locally bound tangible and intangible resources that the firms are either seeking to exploit or to explore through cross-border acquisitions.

Future research may also be longitudinal to observe whether cross-border acquisitions are concentrated in specific periods because firms perceive a «window of opportunity» that will be closed after the other firms advance with their own M&As (Caves, 1971). For instance, firms may engage in cross-border acquisitions to preempt competitors (Caves, 1982) by acquiring an existing opportunity themselves, and by gaining a first mover advantage (Caves & Porter, 1977; Lieberman & Montgomery, 1988, 1998) in the host country. Firms may engage in cross-border acquisitions in bandwagon and "tit-for-tat" effects as firms seek to prevent competitors from gaining a knowledge-based advantage that may be exploited in multiple markets. How much learning occurs in these cases? Longitudinal research may also highlight which business areas attract the most attention from foreign investors and which business areas have benefited, or learned, the most from foreign participation.

To conclude, a number of important effects emerge from cross-border acquisitions. Cross-border acquisitions force some reconfiguration of the firms' existing networks of relationships. The extent to which this reconfiguration is more radical or incremental will likely depend on the importance (e.g., size or learning potential) of the acquisition. Our sample does not seem to support the view that acquisitions are used as vehicles to access substantially novel knowledge even if some learning may potentially occur. It is possible that firms from countries of intermediate development, such as Portugal, are still largely oriented towards economic or oligopolistic preemptive strategies, rather than learning motives per se. It is further possible that despite recent research highlighting the knowledge and learning benefits of cross-border acquisitions, it is the traditional economic motivations that still prevail.

#### NOTE

For a list of SIC codes see for example: <http://www.ehso.com/siccodes.php>.

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