



A Performance Analysis of Domestic vs. Foreign-owned firms: An Industry Approach

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ABSTRACT

The study aims to compare the differences in performance between foreign-owned firms, as compared to Spanish ones. Departing from different international business theories, the main assumption is that companies with foreign capital obtain higher levels of performance than the local counterparts. Using a sample of 22,210 firms from eight different sectors, very relevant for the Spanish economy, we analyze three different measures of performance: profitability, productivity and efficiency. The selected sectors belong to the industries of automobile manufacturing, construction, trade and tourism. Broadly, our results present a strong dominance of foreign-owned firms in profitability and productivity. However, in the efficiency analysis, foreign companies often being bigger in size obtain better output-oriented efficiencies, whereas smaller Spanish ones achieve higher results in the efficiency of their inputs. Also, the tourism sector shows a higher strength among Spanish firms, likely due to the knowledge of the local context.

Keywords: Foreign ownership; Local firms; Firm Performance; Industry Analysis

PLAGIARISM STATEMENT

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1. INTRODUCTION

The purpose of this master's thesis, titled "Analysing the Impact of Foreign Direct Investment on Firm Profitability and Productivity in Spain," is to compare the profitability of Spanish and foreign-owned companies within different sectors.

The impact of Foreign Direct Investment (FDI) on corporate governance has consistently attracted the attention of scholars and policymakers (Aydin et al., 2007). A central area of inquiry within international business studies concerns the benefits derived from FDI, as it is widely recognized that FDI is vital for economic growth due to its numerous benefits. Foreign Direct Investment (FDI) is a key capital source supporting domestic private investment. It often leads to new job opportunities, the transfer of new technologies, and increased exports (Tvaronavičiene & Grybaite, 2007). These benefits collectively drive innovation, efficiency, and economic resilience, making FDI crucial for economic growth.

This study aims to expand on prior research by exploring how the origin of foreign direct investment affects a firm's profitability and productivity. Researchers assume that companies with foreign capital often outperform domestic ones in performance and productivity in the host country. This success is attributed to factors including access to key resources, availability of raw materials, efficient distribution networks, cutting-edge digital technologies, strong brand reputation, superior corporate governance, and a distinctive organizational culture (Adarkwah & Malonaes, 2020). By shedding light on these factors, this research has the potential to guide future FDI strategies and foster economic growth.

Therefore, this master's Thesis aims to compare the productivity and profitability of firms with Spanish and foreign capital across different sectors. While numerous studies have analysed the impact of FDI on broad groups of firms across multiple industries, there is a noticeable gap in the literature, specifically comparing foreign and local companies within various sectors. To illustrate the context of this study, we cite here a few of the many papers reviewed that have compared the performance of foreign capital firms and local firms (Jasinak & Patusiak, 2014; Jurajda & Stančík, 2009; Hintošová & Kubíková, 2016; Barbosa & Louri, 2005; Putri & Setiawan, 2023; Waldkirch, 2015). This sector-specific analysis is crucial for determining which sectors foreign capital companies significantly outperform their Spanish counterparts and which sectors they do not.

The sectors selected for analysis in this thesis are tourism, automobile and transport equipment manufacturing sector, construction, and commerce. These sectors have been chosen for two primary reasons: their significant impact on the Spanish economy and their prominence in attracting foreign direct investment.

Thus, the central research question we aim to address in this thesis is: How does the presence of foreign capital within a firm influence its profitability, productivity and efficiency across different sectors in the Spanish economy? Considering sector-specific differences within the Spanish context, this question delves into the overall impact of FDI on firm performance. By providing a comprehensive analysis, this study seeks to offer valuable insights into why, in

some sectors, the relationship between foreign capital and higher productivity and profitability is realized, while in others, it is not.

To address this limitation, our study will employ a benchmarking analysis to compare the profitability, productivity and efficiency metrics of Spanish-owned and foreign-owned companies within different sectors, providing a more detailed understanding of the sector-specific impacts of foreign direct investment. A benchmarking analysis is a method used to measure and compare the performance of different entities, such as companies or sectors. This involves identifying key performance indicators (KPIs) like profitability, efficiency, and other metrics. Our study will use KPIs such as Return on Assets (ROA), Return on Equity (ROE), Sales per employee and an efficiency metric which measure how much output do a company derives from its employees and assets together.

For the data extraction, we will use Orbis, a database that provides comprehensive financial and operational information on companies across Spain and globally. The data will be analysed to compare profitability and productivity metrics between foreign and domestic firms in tourism, construction, commerce, and in the automobile and transport equipment manufacturing sector

In conclusion, this study seeks to expand the knowledge of foreign direct investment and firm performance between different sectors in Spain. By employing a sector-specific benchmarking analysis and leveraging comprehensive data from the Orbis database, we aim to uncover detailed insights into how foreign capital influences profitability and productivity. Our research will contribute to the existing body of knowledge and provide insight into how industry-specific factors can impact profitability and productivity within the firms.

1.1 A glimpse of the Sustainable Development Goals

The 2030 Agenda for Sustainable Development, adopted by all United Nations member States represents a significant global commitment to address pressing Global Challenges and achieve sustainable development across the world. At this core are the 17 Sustainable Development Goals (SDGs), which serve as a comprehensive framework for collective action by countries, civil society, and individuals to ensure prosperity while safeguarding the planet (United Nations, n.d.).

In this project, the effects of foreign direct, investment can be related to two of these (SDGS) development goals, these are:

- Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

As it has been explained in the introduction FDI have large impacts on a national economy such as job creations, economic expansion and the transfer of knowledge. In this way, FDI improves the economy of the countries where it is developed, in, having a very significant impact on the welfare of the population, as described in this paper. In addition, FDI also involves the transmission of knowledge, these transmission of knowledge from the international enterprises to the local economy will translate into greater productivity, employment and economic benefits by improving the capabilities of the local companies.

Foreign companies can bring higher quality jobs, modern organizational practices, better human resource management skills that translate into a more productive economy for the FDI recipient as well as improved conditions for workers.

- Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

Foreign direct investment contributes to infrastructure projects such as transportation and energy systems, enhancing connectivity and reducing regional logistical challenges and fostering society's connectivity. The arrival of large industrial investments and foreign capital forces governments to improve infrastructures to attract and maintain these investments (ports, roads, railroads, grid connection, etc.) as they usually require adequate infrastructure to operate effectively (factories, data centres, etc.). In addition, foreign investment, as mentioned in the previous section, involves the transfer of knowledge between companies from different countries, thus foreign investment contributes to the reception of clean and innovative technologies that contribute to the green development of society (photovoltaic, wind energy, electric cars), which in turn also involves the industrial development of the country, combining local knowledge with foreign knowledge.

2. ANALYSIS OF THE FDI IN SPAIN

2.1 Spain an attractive destination for FDI

Spain has become one of the most attractive destinations for foreign direct investment in recent years. In 2023, the country received 28,533,178 million euros of foreign direct investment (Ministerio de Industria, Comercio y Turismo, n.d.), one of the largest in its history. According to the World Investment Report, in 2022 Spain ranked seventh globally in FDI inflows and second in Europe, only behind France (United Nations Conference on Trade and Development, 2023).

This investment volume is possible because Spain meets numerous requirements that make it an attractive country for foreign investment. Different factors influence the positioning of a country as attractive for foreign investment; among them, we can mention political stability, infrastructure, market size, availability of resources, labour costs, etc. (Wijoyo et al., 2020). In this sense, Spain is in a very advantageous position concerning other EU countries for the following reasons:

- Spain is the fifteenth-largest economy in the world (Statista, 2022a) in terms of GDP and the fourth-largest in the European Union (ICEX, n.d.).
- The Spanish Market has 48 million people (INE, 2024); however, the GDP per capita is slightly behind the EU average (Eurostat, 2024).
- Its geopolitical location makes it an essential gateway to Europe and North Africa as well as accessing the Latin American market.
- The labour costs are below the EU27 average (Statista, 2023), which enhances the country's competitiveness by making it an attractive destination for foreign investment due to lower operational expenses.

Furthermore, Spain has advanced communication and infrastructure systems:

- Spain has forty-six airports, two heliports, and connections with almost 90 countries and 370 destinations worldwide (Ministerio de Transportes, Movilidad y Agenda Urbana, n.d.). It is the world's second-largest country in high-speed kilometres (Statista, 2022b), as well as the second most extensive network of roads in Europe, only behind France (Statista, 2020). The country's well-developed port infrastructure supports efficient international shipping and logistics operations, further contributing to Spain's appeal as a prime destination for foreign direct investment.
- The European Commission's Digital Economy and Society Index (European Commission, 2022) ranks Spain third in Europe in terms of broadband connectivity, indicating the state of its digital transformation.

The robust economy, strategic geographic location, competitive labour costs, advanced infrastructure, and skilled workforce make Spain an attractive destination for international investors.

2.2 Types of FDI and contribution to the Spanish Economy

The FDI can be classified into two main types. First, Greenfield investments refer to constructing new facilities from scratch in a country, while Brownfield investments involve the merger with or acquisition of existing facilities (Bayar, 2017). However, one type of FDI does not imply the creation of a physical entity; in Spain, these types of companies are called ETVE. ETVEs are established in Spain, and their primary purpose is to hold shares in companies located abroad that do not generate any direct economic effect (Giménez & Cabezuelo, 2022). Therefore, this thesis will analyse productive investments, those that have a direct impact on the economy. For this purpose, sectors have been carefully selected in which there are no companies whose sole purpose is to hold shares in foreign companies (non-ETVE companies).

According to the bulletin study of foreign investment in Spain for 2023, Spanish productive investment stood at 28,215 million euros. In this sense, foreign investments in greenfield/brownfield projects accounted for around €5,680 million in capacity expansions of existing facilities. In comparison, investments in acquiring new facilities amounted to around €12,000 million, with the services sector having the highest concentration of productive foreign investment, with €15.3 billion, particularly the financial activities and insurance, receiving 5,167 M€ (Ministerio de Industria, Comercio y Turismo, 2023).

All these foreign direct investments have proven to positively impact the Spanish economy. As described by Myro (2014), it is estimated that between 2006 and 2013, direct investment in Spain contributed to an increase in employment by 5.25%, helping to decrease unemployment by 3.15% and an increase in real wages by 1.89%, with foreign affiliates contributing 30% of the total country's exports (Myro, 2015). Overall, foreign investments have substantially boosted Spain's economy development, employment and export capacities.

2.3 Evolution of the foreign FDI in Spain

Spain attracted substantial foreign direct investment (FDI) primarily from England in the 19th century, facilitating the establishment of extensive mineral and industrial sectors in regions such as the Basque Country, Asturias, and Cantabria (Portilla, 1998). However, after the Civil War (1939) and the first years of the Francoist period, economic policy was characterized by autarky and state interventionism, which significantly limited foreign investment (Tascón, 2002). Nevertheless, in 1959, the stabilization plan was approved, which meant the transition from isolation and autarchy to economic liberalization and openness, facilitating foreign capital entry (Sánchez Lissen & Sanz Díaz, 2015).

In 1975, following the end of Franco's dictatorship, Spain experienced a few years of decline in foreign investment due to the political instability that emerged in the aftermath of the regime (Díaz De Sarraalde Míguez & Martínez Cañete, 1995). Nonetheless, the integration of Spain into the European Community in 1986 resulted in a notable increase in foreign direct investment inflows, which led to an increase in the overall relative weight of the Spanish economy (Bajo Rubio & Díaz Roldán, 2002). From the 1990s and the following two decades, Spain consolidated its position as a recipient of Foreign Direct Investment (FDI), consistently ranking seventh and eleventh place worldwide in terms of FDI stock (Deloitte, 2014). The positive trend

in the reception of foreign direct investment experienced a significant collapse in 2008. This downturn is highlighted by Benítez-Masip & Paniagua (2017), who note a marked decline in greenfield investment, which dropped sharply in 2009. However, despite this impact, Spain managed to maintain its attractiveness as a destination for foreign investment, and today, the country has new tools that attract large amounts of foreign investment.

Spain, after the Covid-19 crisis and in order to stimulate the economy, has launched the PERTE (Proyectos Estratégicos para la Recuperación y Transformación Económica), a strategic initiative designed to drive public-private collaboration through substantial public funding for high-value projects. This initiative is characterized by its strong technological focus, aiming to stimulate economic growth, innovation, and competitiveness by supporting significant projects that can transform and modernize key sectors of the Spanish economy. The PERTES are distributed between twelve industries with highly technological content, ranging from developing electric vehicles or renewable energy to microelectronics and semiconductors (Ministerio de Asuntos Económicos y Transformación Digital, n.d.). Large investments have already been articulated through this program, which in turn is stimulating investment and Spain is expected to attract more investment in the coming years.

2.4 Sector-Specific FDI in Spain

In this section, we explain which sectors, according to their 2-digits NACE codes, has been selected for the purpose of this thesis. The final selection has been influenced on the availability information in the data source used (i.e., the construction sector has several industries included, but only one has been eventually selected). In here, we relate the importance of each one of them for the economy, as well as their FDI profile.

2.4.1 FDI in the Machinery and Vehicles Manufacturing Sector

In the 1960s, large automobile manufacturers set up in Spain. These investments were the result of the development plans promoted by Francisco Franco, which resulted in the arrival of manufacturers or the consolidation of recent industries such as Citroën in Galicia and Renault in Valladolid (Fernández, 2022; Delgado, 2021). Since then, there has been the arrival of more manufacturers in the country that have turned Spain into one of the world's automotive production references.

Spain currently has a total of 16 car factories of the Stellantis, Volkswagen, Ford, and Mercedes groups, as well as factories for specific parts like Nissan, Mercedes, and Renault (Vega, 2023; ANFAC, 2024). The large number of factories located in the national territory gives Spain a large manufacturing capacity; Spain manufactured in 2023 a total of 2,451,221 units of cars, which places Spain in the second position at the European level, only behind Germany; ranked eight worldwide (Statista, 2023b).

The automotive sector is of vital importance for the Spanish economy. According to data from the Spanish Association of Automobile and Truck Manufacturers (ANFAC) for the year 2022 (latest available report), this sector represents approximately 8% of the country's GDP and employs 9% of the total working population in Spain (ANFAC, 2022). Spanish vehicle

production is mainly destined for export, around 89% of Spain's annual vehicle production is destined for the foreign market, thus it is exported (ICEX, 2021). The value of vehicle exports in 2023 was 39,522 M€, but if we consider the manufacturer of components this number increases to 59,974 M€, moreover, vehicle exports represent the fourth largest export sector in 2023 with 14.1% of total exports made by Spain, only behind capital goods, food, and chemicals (Ministerio de Industria, Comercio y Turismo, 2023).

Although the vehicle industry in Spain is the most dynamic and, therefore, the one that receives the most foreign investment, especially in the auxiliary sector, it is important to note that Spain also has a significant industry in the manufacture of trains, airplanes, and agricultural machinery. These sectors contribute significantly to the country's economy and represent one of the most important manufacturing sectors in Spain and where foreign capital is more present.

Therefore, for the analysis of the Automotive sector, the NACE codes 28 and 29 has been included. According to the description provided by the INE (INE, n.d.) on the NACE activities, these activities include:

- NACE 28. Manufacture of machinery and equipment.
- NACE 29. Manufacture of motor vehicles, trailers and semi-trailers.

According to DataInvex the two sectors 28 and 29 received in the year 2023 a total direct investment of 385,342 million of €, specially concentrated in sector 28. FDI in this sector is highly concentrated in a few countries that represent the totality of the investment. The appearance of Germany in the year 2023 as the main contributor of FDI in the automotive sector is logical if we consider that Germany is the main car producer in Europe (Statista, 2023), with numerous brands dedicated to the automotive industry (Mercedes, Volkswagen, BMW, etc.). These companies own and operate several car factories in Spain, as it has been explained in the automotive sector introduction.

Table 1. FDI in Vehicle Manufacturing, per country, in 2023.

COUNTRY	FDI (M€)	%
Germany	194,747	50.5
France	90,925	23.6
United States	39,895	10.4
Luxembourg	22,510	5.8
Italy	17,973	4.7
Netherlands	3,715	1.0
India	2,900	0.8
United Kingdom	250	0.1
Poland	52	0.01
Portugal	6	0.002

Source: DataInvex, 2023. Own elaboration.

2.4.2 FDI in the Construction Sector

The construction sector is one of the most thriving sectors of the Spanish economy. Over the last few decades, many Spanish companies in the construction sector have positioned themselves as leading companies in engineering and construction. Spain has become home to well-known construction companies that operate worldwide, such as Ferrovial, ACS, Sacyr, OHLA, Grupo San José, and Acciona. According to Deloitte's 2022 Global Powers of Construction report (Deloitte, 2023), all of which are included in the 100 most valuable construction companies in the world.

The construction sector has traditionally been a major contributor to the Spanish GDP; however, during the financial crisis and the resulting real estate bubble of 2008, its weight in the GDP fell considerably until today (Statista, 2024a). Nowadays, housing construction is far from what it was in 2007; this negative evolution is seen in the number of visas for new construction, which went from 221,758 in 2006 to 22,002 visas in 2023, the last year for which data is available (Ministerio de Transportes, Movilidad y Agenda Urbana, n.d). Nevertheless, construction remains an essential sector in the Spanish economy and continues to play a crucial role in generating employment. Construction reached 66,268 million euros of value in 2022 (latest available data), representing a growth of 5.2% over the previous year and representing around 2.7% of the country's GDP, which also shows the good health of the sector nowadays. This sector, although its weight in the economy has decreased compared to the years of the real estate boom, continues to be important for the Spanish economy, especially in terms of employment generation, in May 2024 the total people employed in the construction sector was around 1,418,159 people, which accounts for the 6.65% of the total working population in Spain (Ministerio de Inclusión, Seguridad Social y Migraciones, 2023).

It is important to note that, like the automobile industry, the construction sector has a multiplier effect, significantly amplifying its economic impact. This activity drives growth within the sector and stimulates a range of auxiliary industries, including materials, machinery and equipment, engineering, and real estate development. Consequently, the overall economic repercussions of the construction sector are far more extensive than the previously mentioned.

This sector has been chosen for two main reasons. First, as previously explained, it holds significant weight in the economy. Additionally, Spanish construction companies excel in this sector. Therefore, like the tourism industry, we aim to determine whether the trend of foreign companies outperforming domestic ones is also evident in this sector.

For the analysis of this industry, it has been included the sector 43 from the NACE classification within the automotive industry. According to the description provided by the INE (INE, n.d.) on the NACE activities, these activities include:

- NACE 43. Manufacture of machinery and equipment.

In the case of the construction sector, it can be observed that the place of origin of the FDI received comes mainly from Europe. In 2023, this sector received a total investment of 173,198 million euros. Analysing the FDI and assessing its origin, it is evident that most of the

investment comes from Europe, with Luxembourg being the leading investor in these sectors. Among the top 10 country investors, only two countries are from outside Europe: Mexico and the United States, both from the Americas.

Table 2. FDI Construction, per country, in 2023.

COUNTRY	FDI (M€)	%
Switzerland	76,212	44.0
United Kingdom	47,989	27.7
France	21,843	12.6
Luxembourg	12,877	7.4
Israel	8,203	4.7
Germany	4,064	2.3
Panama	560	0.3
Andorra	506	0.3
Italy	414	0.23
Netherlands	193	0.11

Source: DataInvex, 2023. Own elaboration.

2.4.3 FDI in the Trade Sector

The commerce sector has been included in this analysis due to its importance in the economy and with respect to the other sectors analysed, especially the vehicles and transport material sector, as well as the construction sector, there are lower entry barriers for companies. Thus, this sector brings together numerous foreign companies that operate in Spain marketing different products.

Furthermore, this sector, more specifically NACE 46, which covers wholesale trade, was the second sector that received the most foreign investment in 2023, with a total of 2,962,138 M€, only behind the crude oil and natural gas extraction sector (NACE 06).

This analysis included sectors 45, 46 and 47 from the NACE classification within the automotive industry. According to the description provided by the INE (INE, n.d.) on the NACE activities, these activities include:

- NACE 45. Wholesale and retail trade and repair of motor vehicles and motorcycles.
- NACE 46. Wholesale trade, except of motor vehicles and motorcycles.
- NACE47. Retail trade, except of motor vehicles and motorcycles.

The inflows all these sectors received in the year 2023 are primarily coming from Europe. According to the data extracted from DataInvex, these three sectors received in the year 2023 a total of 4,001,467 M of €; from these total, 135,515 M of € correspond to the 45th sector, 2,962,138 M of € to the 46th sector, and finally 903,814 M for sector 47. In this sector, as in the previous ones, most of the investment comes from Europe, although the United States and

Canada also stand out among the ten largest investors, as well as other developing countries such as Mexico and India.

Table 3. FDI in Trade, per country, in 2023.

COUNTRY	FDI (M€)	%
United Kingdom	1,400,714	35.0
Luxembourg	894,220	22.3
Germany	769,952	19.2
France	349,420	8.7
Switzerland	112,344	2.8
Mexico	89,115	2.2
United States	81,832	2.0
Netherlands	61,376	1.5
India	50,433	1.2
Canada	37,999	0.9

Source: DataInvex, 2023. Own elaboration.

2.4.4 FDI in the Tourism Sector

Spain is one of the world's leading tourist destinations, showing continuous and substantial growth in visitor numbers, with the exception of the Covid-19 crisis years, which saw a significant decline in global tourism (UNWTO, 2021). In 2023, following the Covid-19 crisis, Spain welcomed 85.1 million tourists, an 18.7% increase in total visitors compared to the previous year (ICEX, 2024a). Nowadays Spain is positioned as the second most visited country in the world, only behind France (Statista, 2022c). Although the 2023 figures are slightly below the historical record of 84.5 million visitors reached in 2019 (ICEX, 2024a),

Tourism is one of the pillars of the Spanish economy. In 2023, the tourism sector contributed 12.8% to the total GDP, underscoring its role as the primary driver of economic growth in Spain and generating a total revenue of 186,596 million euros (ICEX, 2024b). The sector's expansion in 2023 significantly boosted job creation, accounting for 17% of all new jobs in 2023, which translates to 95,224 additional positions compared to 2022 (ICEX, 2024b).

Moreover, the tourism sector is experiencing increased revenues due to the rising average expenditure by tourists. In 2023, international tourists in Spain spent a total of 108,662 million euros, reflecting a 24.7% increase compared to 2022 (INE, 2023). The regions with the highest tourist spending were also the most visited: Catalonia (20,878 million euros), the Canary Islands (20,334 million euros), and the Balearic Islands (17.722 million euros).

Several factors explain why Spain is such an attractive destination for worldwide tourism. According to the Travel & Tourism Competitiveness Report of 2019 from the World Economic Forum, Spain remains the top performer in tourism competitiveness due to its diverse cultural heritage and natural attractions, advanced infrastructure, the country's high levels of safety and

security, the strong government commitment to prioritize and develop the tourism sector and to its advancements in digital connectivity and technological services that support the industry.

Spain's high demand for tourists and the business opportunities that this sector represents make it a major attraction for foreign investments. In 2023, the hotel and accommodation services sector (NACE, 55) received a total of 580 billion euros (DataInvex), ranking as the thirteenth sector with the most investment received. However, given the sector's importance to the Spanish economy and the extensive experience and expertise of tourism companies in Spain, a global leader in tourism, this analysis has been undertaken to determine whether companies with foreign capital outperform national companies, which should be highly competitive in this field.

Thus, for this analysis, we have focused on NACE code 55, and NACE code 56 which comprise the following activities (INE, n.d.):

- NACE 55. Accommodation.
- NACE 56. Food and beverages services activities.

According to DataInvex, these two sectors received a total of 863,945 M of € in foreign direct investment in 2023. Analysing the countries that invested the most in these two sectors in 2023 reveals a pattern similar to the automotive sector, with the majority of investments coming from the European Union. Luxembourg stands out as the leading investor, followed by the United Kingdom and France. Notably, significant investments also come from countries outside the EU, such as Singapore, the United Arab Emirates, and Mexico.

Table 4. FDI in Tourism, per country, in 2023.

COUNTRY	FDI (M€)	%
Luxembourg	546,951	63.3
United Kingdom	65,934	7.6
France	53,429	6.2
Ireland	37,490	4.3
Singapore	34,307	4.0
Switzerland	30,513	3.5
United Arab Emirates	26,049	3.0
Mexico	10,939	1.3
Turkey	8,000	0.9
Germany	6,776	0.8

Source: DataInvex, 2023. Own elaboration.

3. LITERATURE REVIEW

This section is divided into two main parts. The first part explores the main theories explaining why foreign-owned companies may outperform local ones or, conversely, why they might experience lower returns than their local counterparts due to certain disadvantages. The second part analyses various empirical studies that compare the profitability and productivity of companies with foreign capital to those with local capital.

3.1 A Review of Internationalization Theories

This first part reviews some main theories fitting our analyses. Other theories were explored and not included in this section (see Annex XX)

3.1.1 *The Definition of Foreign-Owned*

In the field of International Business, MNEs emerge as an important field of analysis due to their involvement in foreign direct investment (FDI) and the resultant control they establish over foreign companies. Therefore, MNEs have significantly influenced the development of the global economic landscape (Qian, 1996). Academic researchers have long studied the effects and consequences of FDI in the interconnected global economy. They have tried to explain the main drivers and motivations that led firms to internationalize and how, by venturing abroad, they can outperform local companies in their respective markets through superior productivity and profitability.

This section of the thesis will cover the most important theories that have arisen during the last half of the 20th century, trying to explain this phenomenon. For practical purposes, it is essential to define what is considered a foreign-owned company. The MNE can be defined as a firm that engages in FDI, acquiring substantial controlling interests in foreign firms, which may include specific establishments such as plants or offices (Markusen & Davies, 2021). Nevertheless, academics still vary regarding the minimum stake required to define ownership. Thus, some researchers established the minimum capital needed to be controlled by the MNE as only 10% (Jurajda & Stančík, 2009; Barbosa & Louri, 2005; Waldkirch, 2015). On the other hand, other academics have established that the minimum threshold required to be acquired by an MNE for should be at least 50.1% owned by foreign shareholders (Pastusiak & Jasiniak, 2014; Horobet, 2023; Rasiah & Gachino, 2005). The threshold of 10% of foreign capital is widely used in many papers, indeed this is the threshold that is suggested by the OCDE and the IMF to consider a company as foreigner (OCDE, 2008; IMF, 2009).

However, in this thesis, with the objective to compare national Spanish firms versus wholly foreign-owned counterparts, we extend the figure up to 100%. That is, we consider as foreign companies those fully owned by foreign entities. Consequently, we drop from the analysis firms with mixed ownership, which represented a very low percentage in the final sample, as it will be explained in the methodological section.

Having established this definition, the following sections will explore the diverse theoretical frameworks and methodologies that clarify why foreign companies often surpass domestic counterparts in their respective industries.

3.1.2 Foreign-Owned Specific Advantages

The theory of multinational enterprises (MNEs) addresses the reasons for their existence and their investment in foreign markets, which lies in the “specific advantages” theory. This approach was first tackled by Hymer (1960) and then developed by Kindleberger (1969). In his doctoral thesis “The International Operations of National Firms”, he introduced the concept of firm-specific advantages or ownership advantages, which are unique strengths that motivate firms to expand their operations internationally. According to Hymer, companies from wealthy countries have easier access to skilled labour and more developed financial markets and by operating in less developed countries, developed firms gain an “established” status giving them advantages over local nationals (Hymer, 1960, p.72). Furthermore, firms will prefer direct investment in foreign entities over licensing to maintain control and fully capture the returns from their specific advantages (Hymer, 1960, p.3).

These firm-specific advantages can be defined as “*unique capability proprietary to the organization. It may be built upon product or process technology, marketing, or distributional skills*” (Rugman, 2005, p.34). Firm-specific advantages include brand strength, organizational culture, technological expertise, and innovation capacity (Chakrabarti & Mitchell, 2013). Therefore, companies in a multinational network have a competitive advantage over their domestic counterparts which are not part of an MNE.

Hymer’s (1960) and Kindleberger (1969) consider that that direct investment only exists because of Market Imperfections. According to Kindleberger, the unique advantages of multinational corporations (MNCs) are effective only when such market imperfections exist. Therefore, when the markets operate efficiently thus characterized by the absence of production or marketing externalities, costless information and no barriers to trade or competition, the form of international trade is the only possible form of international engagement (Calvet, 1981). Dimensions described by Kindleberger as market imperfections can be the scale economies (investing in efficient regions to lower costs) or regulatory barriers and governmental controls.

These market imperfections lead to the utilization of “monopoly advantages,” which are present in the form of superior technology, managerial expertise, access to technology, or ownership rights such as patents or licenses, allowing the company to enjoy a monopolistic situation within the markets (Nayak & Choudhury, 2014).

3.2 The Resource Based-View and Dynamic Capabilities

In the context of firm-specific advantages and monopoly advantages, it is important to mention the Resource-Based View (RBV) theory, which specifies the characteristics that an asset must have in order to be considered as having a competitive advantage. The RBV proposed asserts that for a company to possess unique assets, these assets must be unique, rare, inimitable, and non-substitutable; consequently, firms gain a competitive advantage from resources that are

difficult to imitate (Barney, 1991). For instance, Emerging Market Multinational Enterprises (EMNEs) develop unique ownership advantages (skilled local labour, local knowledge, supportive industries, etc) by leveraging and converting the specific benefits of their domestic markets which are only available to firms with locally complementary resources into competitive strengths through innovation and learning, enabling them to compete globally (Williamson & Wan, 2018).

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The Resource-Based View (RBV) and Dynamic Capabilities Theory are the most accepted frameworks in strategic management for businesses to gain a competitive edge (Priem & Butler, 2001). The dynamic capability theory connects with the resource-based view theory by explaining how firms can maintain superior performance in rapidly changing environments through ongoing proactive and reactive adjustments and entrepreneurial initiatives (Gölgeci et al., 2017) These dynamic capabilities include integrating, building and reconfiguring resources and competencies to cope and shape changing business environments (Pisano et al., 1997).

Furthermore, dynamic capabilities can be classified into three main categories as described by López-Cabrales et al. (2023). Sensing refers to the capability to identify and assess opportunities. Seizing aims to develop the necessary resources to tackle these opportunities and create value. Finally, reconfiguration of resources is the ability to reconfigure its resources and capabilities in parallel to markets evolution. This involves the creation of new combination of prior knowledge or new innovative ones to ensure continuous adaptation. In essence, this last one is essential to preserve operational performance; thus foreign-owned firms need to develop strong dynamic capabilities to perform better in host countries.

3.2.1 The Liability of Foreignness

In international foreign investment, it should be considered that MNEs are subject to those rules and values that operate in the country of destination of the investment. In this sense, the institutional theory considers the social legitimacy required by MNCs to operate in a foreign country. The theory underscores how sociocultural norms, beliefs, values, and the legal framework, including judicial systems, influence the organizational structure and behaviour. (Duoma et al., 2006). Host country regulations can influence location choices and entry strategies (Buckley et al., 2012).

In this context, the theory of liability of foreignness becomes increasingly significant when viewed through the lens of institutional theory. The term “liability of foreignness” describes the extra costs businesses encounter when operating in foreign markets, which local companies typically do not face. These additional expenses arise due to limited local knowledge, discriminatory attitudes, and the challenges of managing geographically dispersed organizations operating across different time zones. (Nachum, 2015). As a result, foreign companies do not have access to certain advantages local companies enjoy from operating in their own market, Jasinak & Patusiak (2014) described several benefits that local enterprises have over foreign companies, which are hindered by their liability of foreignness. These advantages include in-depth knowledge of local supply and distribution chains, familiarity with business environment institutions, technology and production processes tailored to local contractors' requirements, extensive understanding of the domestic market and competitors, and comprehensive knowledge of administrative procedures and legal regulations.

The extra costs foreign firms must suffer when operating abroad can be classified into three different types, as it is argued and analysed in Denk et al. (2012): unfamiliarity hazards (costs from inaccurate market assessments or lack of understanding of local culture), relational hazards (derived cost from lack of trust with local partners due to geographical and cultural distances) and discrimination hazards (unfavourable treatment of host stakeholders with an ethnocentric view). We can predict that in sectors with higher need of local knowledge, such as tourism, the liability of foreignness may play a determinant role in performance of firms.

Thus, these costs originated because of what is known as formal and informal norms. Informal institutions significantly influence firm performance, but their impact varies depending on the country's level of development. Informal institutions such as societal trust influence firm performance, especially in emerging economies where formal institutions may be underdeveloped or inefficient (Kafouros et al., 2022). Societal trust can reduce transaction costs and facilitate economic exchanges, which is particularly beneficial in environments where formal mechanisms of contracts and protecting property are weak, thereby informal institutions can compensate for the shortcomings of formal institutions (Kafouros et al., 2022).

3.2.2 FDI “cherry-picking”

Additionally, studies have also suggested the possibility of considering the “cherry-picking” effect when making this analysis. “Cherry-picking” is defined as the tendency to pick better-performing firms, the more productive or profitable ones (Bebenroth & Chen., 2018). In contrast to the “Cherry-Picking” effect, there is also what is called the “Lemon-Grabbing” effect. Lemon-grabbing refers to the strategy where investors focus on investing in failing firms with the hope of acquiring them at a low cost and subsequently turning them into successful ventures (De & Nagraj, 2013). Foreign investors tend to drive innovation after acquiring these firms by introducing new machinery and organizational practices, significantly impacting the firm’s operations (Guadalupe et al., 2012).

A comparative analysis of yields between foreign and local companies could be affected by the existence of both cherry-picking and lemon-grabbing. Thus, in our sectors it will be important

to determine whether cherry-picking or lemon-grabbing could be occurring. Moreover, recent studies have shown mixed findings about the behaviour of MNEs when acquiring abroad:

From a selection of Spanish firms, it was proved that foreign investors tend to select firms that are profitable inside the market (Guadalupe et al., 2012). Similarly, a study on Japanese firms found that domestic and foreign acquirers use cherry-picking, but with different criteria. Domestic firms focus primarily on the financial health of their targets, ensuring profitability and stability. In contrast, foreign firms prioritize the size and market presence of their targets, seeking firms that offer substantial market potential and expansion opportunities (Bebenroth & Chen, 2018). Alternatively, a study in India suggested that foreign investors engage in cherry-picking and lemon-grabbing. They prefer profitable and stable firms but also invest in firms with lower Total Factor Productivity (TFP), likely due to the potential for productivity enhancements (De and Nagaraj, 2013).

3.3 The Relationship Between Foreign Ownership and Performance

In this section, we explore the empirical literature that has analysed the relationship between foreign ownership and firm performance. In fact, a vast majority of research envelopes multiple measures and metrics under the term performance. One contribution of this study is analysing separately different measures of the so-called performance: profitability, productivity and efficiency of the firm. Understanding how foreign ownership influences productivity, profitability, and corporate governance can provide valuable insights for analysing our results.

While extensive research has explored the performance disparities between foreign-owned subsidiaries and locally owned firms, there is not a definitive conclusion regarding the universally positive impact of foreign ownership on firm performance. The heterogeneity in findings across studies shows the complex link between ownership structure and firm performance. This indicates that the effectiveness of foreign ownership on firm performance is subject to a multitude of interacting factors such as the industry where the firm operates, country-specific factors, and the method used by the researcher. As stated, we aim to contribute to clarify some of these relationships.

As discussed in the previous section, the literature suggests that foreign companies generally obtain higher returns than local ones. Several studies have proved that a positive relationship between foreign ownership and firm performance is positive. For example, in Indonesia, research was done using 264 non-financial companies and making an econometric model using ROE (Return on Equity) and ROA (Return on Assets) as dependent variables it proved that foreign ownership positively impacts these two measures positively (Putri & Setiawam, 2023). Another research was made on Turkey using 42 companies with foreign ownership and 259 domestic firms from the Istanbul Stock Exchange (ISE) for the period 2003-2004. The results showed that firms with foreign ownership generally perform better in terms of ROA; however, there was no big difference in terms of ROE (Aydin et al., 2007).

In Poland, they tested whether there were any differences in ROE and ROA along with the level of indebtedness between foreign-owned companies and local companies. They employed 1,832 domestic and 1,629 foreign large companies based on financial data available from the period

2008 to 2012. The results showed that foreign enterprises exhibited higher mean and median ROE and ROA compared to domestic firms and that foreign companies had a higher debt ratio compared to domestic companies (Jasiniak & Pastusiak, 2014).

However, other studies have proven that there is a negative relationship between foreign capital and firm performance, suggesting that foreign ownership can lead to bad outcomes in profitability and productivity. For example, in the UAE (United Arab Emirates) they used all listed companies from the Dubai Financial Market (DFM) and the Abu Dhabi Stock Exchange (ADX) from 2008 to 2012. Considering the ROA and ROI (Return on Investment), they assess how the composition of capital, especially whether it was sourced from Arab or non-Arab investors affected the profitability of the firm. The results revealed a non-significant relationship between foreign ownership and financial performance (Al-Gamrh, 2020).

There have been other studies that have made the analysis considering different levels of foreign ownership inside the firm. In some cases, the relationship followed an inverted U-shape relationship. For instance, in a study conducted in Vietnam using 288 non-financial companies from the Ho Chi Minh Stock Exchange (HOSE) showed that the ROA and the ROS (Return on Sales), was positively impacted by foreign ownership up to an approximate level of 36.26%, but declined with higher levels (Duong, 2021). Similarly, in the Slovak Republic, they also found an inverted U-shaped relationship between foreign ownership and firm performance: productivity gains only increased up to levels of 61-64% (Hintošová & Kubíková, 2016).

In most of the papers, the researchers have included in the study companies from different sectors, specially from the manufacturing sector. However, there is a scarcity of papers comparing the relationship between foreign ownership and financial performance within different sectors. This gap is addressed by a study carried out in Egypt, which used a sample of 8,815 companies, analysing various degrees of foreign ownership and its effects on the ROA, ROE. In the overall analysis including all the sectors, they found that an increase in foreign ownership of 10% led to increases of 2.3% or 2.1% in ROA and ROE, respectively. However, they also proved that when the level of foreign ownership was close to 100% the profitability of the firms decreased. Additionally, the study analysed the effect of foreign ownership in different sectors which were: information technology, construction, financial, service, agricultural, tourism, and industrial. For the financial industry, they proved that there was a negative effect on the firm performance if foreign capital increased, but for the industrial, service, and tourism sectors, they found a positive relationship while for the technological, constructive, and agricultural they did not find any relationship (Azzam et al., 2013).

Other papers have been assessed during this literature review. Among them, a study in Germany showed that foreign-controlled enterprises have higher labour productivity and pay significantly higher wages compared to domestically owned ones, but it did not affect firm profitability (Weche Gelübcke, 2011). Researchers in Korea showed that foreign-owned firms tend to enhance firm value (Choi et al., 2012). In Canada, they proved that family-foreign owned with foreign ownership exhibited superior accounting performance (ROA) compared to non-family-owned firms (King & Santor, 2008). Finally, in a study made with Portugal and

Grece, it showed that the effect of foreign ownership on profitability was more profound in Portugal than in Greece (Barbosa & Louri, 2005).

In another study, they compared the effects of foreign ownership in Western and Eastern European companies (Horobet, 2023). The study analysed 1.080 businesses from 20 countries between 2009 and 2016. Metrics used included gross investment per turnover, gross operating rate, personnel cost per employee, single wage adjusted labor productivity, and value-added per turnover. The results showed that in the Western EU, foreign-owned companies had higher personnel costs and labour productivity, while locally owned companies excelled in profitability and investment ratios.

In the case of Spain, only one paper has been found that has compared the effects of foreign ownership on firm performance. They used a sample of 477 subsidiaries from Madrid and Catalonia and compared the sales per employee, the EBITDA, and other financial metrics such as financial profitability and tax burden. The results showed higher productivity in foreign subsidiaries but no significant difference in financial profitability (Rojo-Martínez et al., 2021).

Finally, some studies have used measures closer to the idea of efficiency, which involves relating more than one input in the production process to obtain an output. That is, it analyzes how well firms balance their input mix to produce their outputs. In a study carried out in Germany, using 22 firms from the manufacturing sector, as 17 firms from the manufacturing sector, they used the Total Factor Productivity (TFP) to determine whether foreign firms were more efficient than local firms, the TFP was calculated including fixed assets, the number of employees and materials costs to produce an output (sales). The results were mixed, showing that German non-MNEs were less efficient than foreign-owned firms, but there was no difference between German MNEs and foreign-owned affiliates (Temouri et al., 2008). In another research in Sweden, they calculated a TFP using the sales value and discounting from the sales value the employment of skilled workers, the employment of unskilled workers, the inputs of raw materials, energy, and semi-processed goods, the fixed assets and the intermediate goods. Using a population of 51,427 firms from the manufacturing sector with at least 50 employees they found that foreign firms exhibited a higher labor productivity and profitability (Karpaty, 2004). Finally, a study including companies from 118 countries from transitioning and developing economies, using TFP using labor, capital and productivity, as well as other metrics like value added per worker and total factor productivity showed that foreign firms are more productive across the different types of economies (Waldkrich, 2015). Finally, in a study analyzing 105 companies, results indicated that foreign firms have higher productivity (Rasiah & Gachino, 2005).

3.4 Hypotheses Development

This literature review has revealed that the impact of foreign ownership on firm performance is complex and varies across contexts. These findings clearly emphasize the need to consider industry-specific, regional, and firm-specific factors when evaluating the influence of foreign ownership on firm performance. Additionally, there is also a need to explore performance from a multidimensional perspective. This study proposes several hypotheses.

Foreign-owned companies often possess firm-specific advantages, such as technology, expertise, financial resources, etc. This can lead them to higher performance.

- H1. Foreign-owned companies outperform local ones.

Sectors with higher need of cultural knowledge (e.g. tourism), companies may suffer from local knowledge, cultural mismatches or discrimination. Thus, it represents further challenges to preserve their performance.

- H2. Foreign-owned companies find reduced performance in sectors with higher needs of local knowledge.

Also, we observe in the literature make use of different measures within the concept of performance. In that sense, analysing them separately for the same sample of companies may lead to different conclusions.

- H3. Different performance measurements provide mixed results across industries.

4. METHODOLOGY

4.1 The Sample

The methodology followed in this master thesis is a quantitative approach, which involves the systematic investigation of a phenomena through the collection and analysis of numerical data.

In this sense, a benchmark analysis has been followed, which has allowed us to compare the different performance indicators in different industries. For the selection of industries, it has been chosen those that are most relevant to the Spanish economy or that receive the greatest flows of foreign investment. Therefore, the sectors of vehicle and transportation equipment manufacturing, construction, tourism-related activities and trade industries have been selected.

The data has been extracted from Orbis, one of the world's largest databases with a focus on private company financials, ownership, and linkages. The information was gathered as of May/June, 2024. Here are the criteria followed for the sample selection:

- Active companies by 2024.
- Companies established in Spain.
- We selected specific industries upon 2-digits NACE. More information in the following sections. NACE codes are an internationally standardized industry classification.
- Only companies with more than 10 employees in the last available year.

That initial step offered a result in Orbis of more than 60,000 companies. However, further cleaning was made in order to obtain our final sample. Specially, data on ownership and/or its origin is rather scarce in the dataset. Consequently, companies were only kept in the following cases:

- The last year on information was between 2021 and 2023 (both included).
- They provided the exact origin (country) of, at least, 99.9% of its ownership. Additionally, this information had to be updated from the end of 2021 onwards. Otherwise, that company was dropped.
- Full information on the variables of interest was available. Similarly, firms containing odd results (*e.g.*, zero assets) were dropped.
- Finally, if the industry they belong to (2-digits NACE code) offered a sufficient number of firms to run adequate analyses. Particularly, foreign owned companies, which for some specific sub-sectors were almost non-existent or lacking most of the information required.

At this point, the number of firms in our dataset was about 25,000 firms. Finally, companies were classified according to the origin of their capital. Namely, companies were initially divided among 3 groups, as follows:

1. Wholly Spanish-owned firms, where 100% of the capital comes from Spain or 99.9% of the capital comes from the Spain and the rest is unknown.
2. Wholly Foreign-owned firms, where 100% of the capital comes from a foreign country or 99.9% of the capital comes from a foreign country and the rest is unknown

3. Any other type of configuration. Eventually, this group has not been considered in this thesis because it represented less than 1% of the sample¹.

The final sample of this master thesis entails 22,210 firms from 8 main sub-sectors, between the period 2021-2023. That is, no matter the year of data, the observations were pulled.

4.2 The Variables

In order to analyse the hypotheses proposed in this thesis, some variables were selected. We are analysing three main dimensions in this thesis: profitability, productivity and efficiency.

4.2.1 Profitability Variables

- **ROA:** Return on Assets (ROA) is a financial ratio that measures a company's ability to generate profit relative to its total assets. In this thesis, we take the reported value by the company in the data source. It is calculated using the formula:

$$ROA = \text{Earnings Before Interest and Taxes (EBIT)} / \text{Total Assets}$$

ROA indicates how efficiently a company is using its assets to produce earnings. A higher ROA suggests that the company is more effective in converting its investments into profits, making it a more attractive option for investors.

- **ROE:** Return on Equity (ROE) is a financial ratio used by analysts and investors to measure a company's profitability about its equity. In this thesis, we take the reported value by the company in the data source. It is calculated by dividing the net income by the shareholders' equity:

$$ROE = \text{Net Income} / \text{Shareholders' Equity}$$

ROE indicates how effectively a company uses its equity to generate profit. A higher ROE suggests that the company is more efficient in generating returns on investments made by its shareholders. This ratio is particularly important for investors as it reflects the company's ability to create value relative to its cost of capital.

4.2.2 Productivity Variable

- **Sales per employee:** amount of sales, in monetary units, per employee is a productivity ratio that measures the ability of a company to generate output, with their workforce.

$$\text{Sales per employee} = \text{Total Sales (€)} / \text{Number of Employees}$$

This ratio provides insights into how productively a company utilizes its human resources to generate sales. A higher sales-per-employee ratio indicates a more productive workforce, contributing to better overall performance.

¹ Actually, there is a big portion of companies in Orbis lacking complete information about the origin of their ownership, or this information not being updated. We could argue that a lot of them belong to this group with multiple configurations.

4.2.3 DEA Efficiency Measures

To calculate different measures of efficiency, we need to explain first the methodology implemented for this purpose. The approach used in this study is the data envelopment analysis (DEA).

In an industry set, when companies benchmark each other, DEA is recurrent technique to analyse efficiency levels. First addressed by Charnes, Cooper and Rhodes (1978) and Banker, Charnes and Cooper (1984), it is non-parametric method making use of linear programming to mathematically build an industry technology, considering all the firms in the industry. Each unit configures its inputs and outputs sets in different ways, and the technology of the industry is the envelopment of all these sets (see *Figure 1*).

To measure efficiency, firms project to the technology and the efficiency level will be determined by how close or how far they are from that technology. Namely, the closer they are, the higher the level of efficiency, being the companies defining the frontier the most efficiency ones in the industry (fully efficient units). However, that projection can be carried out in two different ways: via input or via output:

- An input-oriented approach would determine the maximum contraction of the inputs of a firm, in order to obtain a given amount of output. That is, how much the inputs should be reduced, while keeping the output levels, in order to be fully efficient. This approach is more convenient for industries where the demand is somewhat stable and the efficiency gains come via input cuts.
- An output-oriented approach would determine the maximum expansion of the outputs of a firm, while keeping the input levels constant. That is, how much the outputs should be increased, while keeping the input levels, in order to be fully efficient. This approach is more convenient for industries with options for demand expansions.

The two mathematical specifications are represented as follows:

Input-oriented DEA

Maximize θ

s. t.

$$\begin{aligned} \theta * x_{iN} &\leq \sum_{i=1}^I \lambda_i * x_{iN} & \forall x = 1, \dots, N \\ y_{iM} &\geq \sum_{i=1}^I \lambda_i * y_{iM} & \forall y = 1, \dots, M \\ \sum_{i=1}^I \lambda_i &= 1 \\ y_i &\geq 0 & \forall k = 1, \dots, K \end{aligned}$$

Output-oriented DEA

Minimize θ

s. t.

$$\begin{aligned} x_{iN} &\leq \sum_{i=1}^I \lambda_i * x_{iN} & \forall x = 1, \dots, N \\ \theta * y_{iM} &\geq \sum_{i=1}^I \lambda_i * y_{iM} & \forall y = 1, \dots, M \\ \sum_{i=1}^I \lambda_i &= 1 \\ y_i &\geq 0 & \forall k = 1, \dots, K \end{aligned} \tag{1}$$

The linear programming model in *equation (1)* is individually executed for all the firms in an industry set. Eventually, a value of θ per each firm is obtained. This parameter corresponds to

the level of efficiency of a given company, as compared to its peers in the industry. Thus, this technique is benchmarking firms, relative to comparable units, and calculating an efficiency score accordingly. Again, there are differences in the interpretation of values, depending on the chosen approach:

- Under an input-oriented approach, firms will obtain a value of $\theta \leq 1$. Firms with scores below 1 are inefficient, so that their input level could be reduced, for the same output. The **higher** the value of θ , the **higher** the level of efficiency, as the company should not reduce its inputs much.
- Under an output-oriented approach, firms will obtain a value of $\theta \geq 1$. Firms with scores over 1 are inefficient, so that their output level could be increased, for the same input. The **lower** the value of θ , the **higher** the level of efficiency, as the company should not expand its outputs much.
- In both scenarios, a value of $\theta = 1$ represents that the company is fully efficient.

Figure 1 depicts a set of six single-input-single-output units, being four of them fully efficiency and defining the frontier ($\theta = 1$ for A, B, C and D, no matter the orientation). There is no other firm outperforming them: less input per output or more output per input. However, for unit E, there are possible changes to be made in order to achieve full efficiency. To project to the frontier E can choose two different orientations. In an input-oriented contraction, it would lie in a linear combination of companies B and C. In an output-oriented expansion, it would lie in a linear combination of companies C and D. We can graphically observe that, because of the configuration of the technology, the proximity with the two different orientations can be different (i.e., arrow size). In other words, depending on the most similar peers to the firms' own characteristics within its industry, and the chosen approach, the efficiency level can be different.

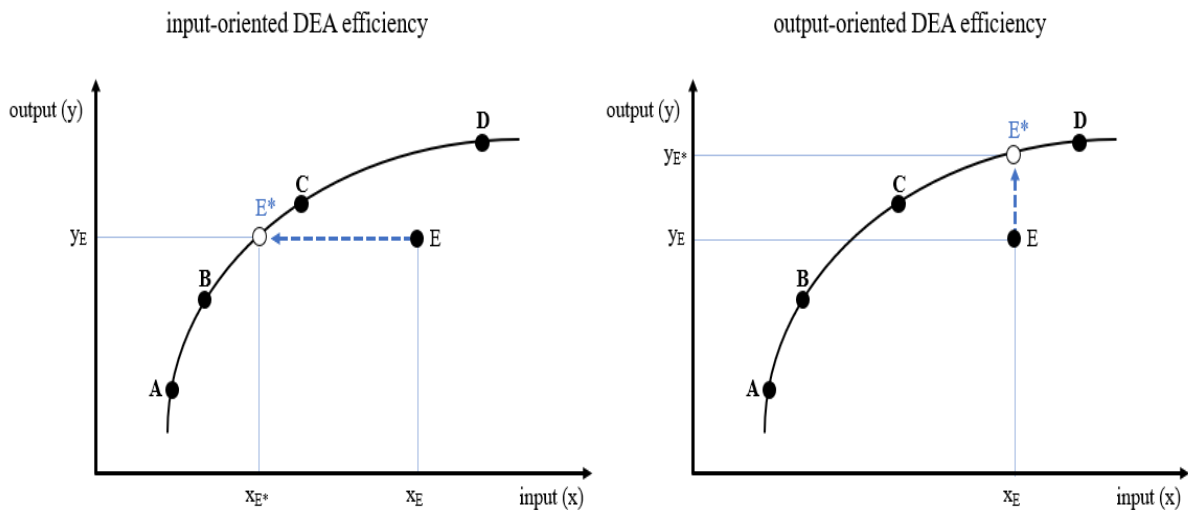


Figure 1. Input- and Output-oriented DEA Efficiency

Source: own elaboration

Accordingly, 6 measures of efficiency were calculated in the context of this study:

- *Input-oriented assets efficiency*. It measures how efficient the company is in the use of its assets to reach a desired level of sales.
- *Input-oriented labor efficiency*. It measures how efficient the company is in the use of its labour to reach a desired level of sales.
- *Input-oriented total efficiency*. It measures how efficient the company is in the combination of its input set to reach a desired level of sales.
- *Output-oriented assets efficiency*. It measures how efficient the company reaching higher level of sales, given its level of assets.
- *Output -oriented labor efficiency*. It measures how efficient the company reaching higher level of sales, given its level of labour.
- *Output -oriented total efficiency*. It measures how efficient the company reaching higher level of sales, with its given set of inputs, assets and labour.

For this thesis, DEA programs were executed for the 3-digits NACE industries. Thanks to that approach, we are comparing observations directly comparable, doing a rather similar type of activity, no matter their size and context.

5. RESULTS

In this section, we compare, at the 2-digits level of industry, the variables of interest: profitability, productivity and efficiency. First thing to explain is that the period of analysis (post-Covid years) present an enormous divergence in the performance of firms, not only in Spain but worldwide. In that sense, building average values would likely present misleading results. We identified in our sample strong outliers, especially in the results of profitability (e.g., 900% ROA) and productivity (e.g., 150,000 th. € sales per employee in the trade sector, being 580 th. € the average value). Accordingly, we decided to make use of median values for all our results, so that we can see central measures of the different variables. That is, the median value, which is mathematically equivalent to the 50th, shows the level splitting the sample, according to that variable, into two equal parts (50% of the firms in the sample obtain a higher value than the median, and the other 50% obtain a lower value).

Table 5 shows the results of the different measures of performance, among sectors and origin of ownership. Shadowed areas indicate, between pairs, which group of firms is outperforming counterparts: Spanish-owned (S) vs. Foreign-owned (FDI). We also introduce in the table some profiling variables that allow us to depict these industries in the Spanish context. As for age, foreign firms are generally younger, except for the manufacturing industries (28 and 29). As explained in section 2, these industries are probably related to investments done decades ago in specific sub-industries.

In terms of size (median values), we can see how, no matter the variable used (labor or assets) foreign firms are always bigger. This is very relevant in the case of the retail sector (47), where foreign firms more than duplicate the size of Spanish ones, in terms of labor. A similar conclusion can be reached with an analysis of the assets. The foreign firms being always bigger will help understand some of the results in the case of the efficiency analysis (that is, the input and output orientation in the analysis will be affected by the location of the industry within its own industry, in terms of size and the peers to be benchmarked to).

In the analysis of profitability, foreign firms dominate in the Spanish context, as we can see that in most of the industries their ROE and ROA outperform the Spanish-owned ones (H1). However, this reverses in the case of the tourism industry: in the both sectors considered (55 and 56), profitability is always better among nationals (H2). In fact, the differences are larger than in the other sectors.

The analysis of productivity (sales per employee) also brings very consistent and strong results. For all industries, foreign-owned firms surpass the Spanish ones (H1). However, it is also true that differences are only relevant for the case of machinery manufacturing (28) and vehicles' wholesale (45). For the case of tourism, the difference is almost non-existent (partially, H2). However, the analysis of performance would be incomplete if we only attend at the productivity, as we are not benchmarking firms to their peers in the industry. For instance, we should compare bigger entities to firms with their similar configurations. For that purpose, the efficiency analysis can complete this view and allow to observe differences. We will observe whether the input and output approach bring any differences in the conclusions.

Table 5. Profitability, Productivity and Efficiency per Sector and Ownership Origin.

			Profile			Profitability		Productivity	Efficiency					
			Age	Size (labor)	Size (th. assets)	ROE	ROA	sales/worker	Input-oriented			Output-oriented		
									Assets	Labor	Total	Assets	Labor	Total
Machinery Manuf. [28]	S	646	29.94	25.5	3,744	7.99	4.19	144	0.31	0.40	0.52	2.66	9.88	2.38
	FDI	126	31.98	51	11,550	11.52	5.95	262	0.41	0.29	0.52	2.14	4.65	1.96
Vehicles Manuf. [29]	S	240	30.89	93	12,004	5.93	2.73	182	0.21	0.18	0.33	4.04	10.35	3.52
	FDI	87	34.08	172	28,849	6.43	3.55	229	0.29	0.13	0.36	2.83	7.07	2.74
Construction [43]	S	3,088	24.24	19	1,533	11.18	5.2	102	0.15	0.52	0.58	4.19	16.17	2.94
	FDI	68	23.55	39.5	6,185	12.8	6.28	158	0.25	0.32	0.56	2.59	7.46	2
Vehicles' Wholesale [45]	S	1,829	28.24	21	3,597	8.79	4.09	265	0.16	0.47	0.519	5.08	19.8	4.1
	FDI	89	24.85	33	13,841	12.53	4.34	583	0.28	0.37	0.517	3.03	7.76	2.54
Wholesale [46]	S	6,840	28.1	19	3,768	10.46	5.45	274	0.09	0.52	0.52	8.12	191.65	7.11
	FDI	1,480	27.84	30	8,999	14.74	7.19	416	0.12	0.34	0.41	5.66	59.84	5.13
Retail [47]	S	3,014	24.51	17	1,979	8.48	3.92	153	0.15	0.58	0.62	4.66	13.34	3.3
	FDI	265	19.65	39	5,881	11.49	4.21	180	0.21	0.30	0.50	3.33	7.94	2.75
Accommodation [55]	S	1,536	24.53	31	4,693	10.32	5.7	99	0.07	0.34	0.44	7.09	7.8	3.26
	FDI	114	23.25	51	12,830	4.88	2.32	100	0.04	0.22	0.37	10.09	5.67	3.47
Food/Beverage [56]	S	2,746	16.72	19	830	15.86	6.1	75	0.08	0.55	0.58	3.89	6.23	2.87
	FDI	42	13.71	24.5	1,702.5	9.75	0.42	82	0.11	0.47	0.554	3.44	5.66	2.41

All values in the table represent median values, except for age that indicates the average value.

S: Spanish-owned firms; FDI: foreign-owned firms

Reminder: input-orientation, higher number indicates higher efficiency. Output-orientation, lower number indicates higher efficiency.

Source: own elaboration

In the analysis of efficiency, we can follow the two different approaches described: input or output. In the output-oriented approach, again foreign firms outperform national ones (H1), as we can see for the majority of the sectors. However, in the input-oriented approach, that is less clear, as for the case of labor and total, the Spanish ones seem to dominate. This is probably related to the size of firms among the two groups. That is, foreign firms are likely to be exemplified by unit E in Figure 1, which is bigger in size and, when projecting in the output direction seems to be more efficient than when projecting in the input direction (arrow size). However, Spanish firms, smaller in size, must be predominantly in the increasing part of the frontier. That means that the input approach would make them more efficient than the output one. Obviously, the final decision on the specific approach depends on individual companies, according to their characteristics and opportunities.

For some sectors, the input approach is more convenient than the output (H3). As a reminder, the input approach seeks to reduce the amount of input, while keeping constant the level of output. We know that some industries nowadays may produce upon demand, so the output figure is not always easy to expand (of course one limitation is that we measure output in monetary terms, not units). Contrarily their effort would be in being efficient in the use of resources, reducing costs via input reductions or better agreements. Thus, in the input-oriented approach, we can observe how Spanish firms always dominate for the case of labor and total, except for the manufacturing industries. This is probably telling us that foreign manufacturing firms are able to use their technology better, in order to compensate lower labor efficiency.

Summing up, we have observed how foreign-owned firms generally outperform national ones in different measures of performance (H1), specially profitability and productivity. However, sectors with needs of local knowledge may benefit national companies (H2). And finally, different measures of performance may differ across industries (H3), leading to different interpretations of the effects of foreign ownerships. Figure 2 easily depicts all our findings.

Sector [NACE]	Profitability		Productivity	Efficiency					
	ROE	ROA	sales/worker	Input-oriented			Output-oriented		
				As.	Lab.	Tot.	As.	Lab.	Tot.
Machinery Manuf. [28]	FDI	FDI	FDI	FDI	S	FDI	FDI	FDI	FDI
Vehicles Manuf. [29]	FDI	FDI	FDI	FDI	S	FDI	FDI	FDI	FDI
Construction [43]	FDI	FDI	FDI	FDI	S	S	FDI	FDI	FDI
					S	S			
Vehicles' Wholesale [45]	FDI	FDI	FDI	FDI	S	S	FDI	FDI	FDI
Wholesale [46]	FDI	FDI	FDI	FDI	S	S	FDI	FDI	FDI
Retail [47]	FDI	FDI	FDI	FDI	S	S	FDI	FDI	FDI
Accommodation [55]	S	S	FDI	S	S	S	S	FDI	S
Food/Beverage (bars) [56]	S	S	FDI	FDI	S	S	FDI	FDI	FDI

Figure 2. Summary of Performance Results, per sector.

Source: own elaboration

6. DISCUSSION

After explaining the results of the different sectors, we analyse and explain why these sectors present variations in their levels of profitability and productivity. For this purpose, the internationalization theories explained in the literature review section will be used.

First, and as the analysis of the different sectors has demonstrated, foreign investment in Spain comes mainly from Europe with some notable exceptions such as the USA, Canada, Mexico, India, as discussed in the different sectors. This scenario is understandable if we consider the reasons for proximity and Spain's membership in the EU, which makes access to these markets easier. Moreover, as explained in the literature review through agency theory, due to geographical distances agency costs may increase, so foreign investors prefer to invest in geographically closer locations to reduce these costs, as analysed in Boubakri et al. (2016) where the associated with asymmetric information and monitoring costs are lower.

Additionally, on average, foreign firms' companies have more employees than national ones. This indicates that foreign companies investing in Spain are generally larger and have greater workforce capacity, which grants them specific advantages over local companies. These advantages translate into greater operational capacity, a wider diversity of skills and knowledge, better coverage, resilience and a higher capacity to manage large projects. In turn, all these capacities attributed to the fact of having a large base of employees should be reflected in form of superior performance indicators compared to Spanish firms.

Therefore, according to the results obtained it is important to mention and explain the characteristics of those industries that do not follow the general patterns of behaviour in the economy. In this case it is important to highlight the sectors 55 and 56 (tourism sector) where the local owned companies outperformed the foreign ones, indeed they also obtained a higher efficiency in the output-oriented approach in the accommodation sector. In contrast the other results that are significant we can find it in the input-oriented metric of efficiency, where in the sectors 28 and 29 the foreign companies obtain higher performance.

First by analysing the results of the tourism sector, the performance in the tourism industry, particularly in hotels, is determined by two components: internal knowledge and external knowledge; internal knowledge refers to the knowledge that is owned and generated within the hotel itself, such as the company's intrinsic value, data repositories, standard operating procedures, organizational routines, patents, and registered trademarks; while external knowledge is acquired through interactions and relationships with entities in the broader business environment beyond the hotel itself. (Marco-Lajara et al., 2016). Therefore, in the context of the tourist sector, this external knowledge will be the knowledge these companies will have to learn from different aspects, such as local distribution chains, local administrative procedures, business practices, local norms and values, etc.

As mentioned in Sjöberg. (2021), companies in the tourism sector tend to integrate vertically with suppliers outside form the local economy and often employ highly international skilled international staff that occupy the managerial positions. In this context, assuming that the hotel companies are working with resources from outside the Spanish economy, they could be

suffering from the so-called liability of foreignness. This refers, as explained in the literature section, to the additional costs that international companies must bear, which local companies do not face due to their established knowledge of the local market (Nachum, 2016). Specifically, these foreign companies could suffer from different hazards as explained in Denk et al. (2012). First, relational hazards due to their lack of integration with the local network, which can hinder their ability to build trust with the local suppliers and establish strong relationship. Indeed, local suppliers might be less willing to engage with foreign hotel companies if they perceive a lack of commitment to the local economy. Unfamiliarity hazards also play an important role as top management positions could be not familiarised with the norms, values and practices carried out in Spain, missing important knowledge necessary to operate effectively in the country.

Furthermore, it is important to mention that Spain is the second most visited country in the world as it has been explained. Consequently, the knowledge and competitiveness of the companies operating in the country is high, and since it is a country with such a highly developed tourism industry, the network of distributors and service providers is extensive and knowledgeable. The possible decision made from the foreign companies to do not use suppliers in the Spanish economy, with a high degree of sophistication, could be a disadvantage for these foreign companies, which translates into lower performance compared to their Spanish counterparts.

In the construction sector, foreign companies obtain higher metrics in all performance indicators, except in efficiency in the input-oriented results. As explained in the literature review section, Spain has one of the most competitive construction sectors globally, with many Spanish companies among the top 100 in the industry. In this sense, foreign construction companies in Spain may be experiencing the liability of foreignness similarly to the tourism sector. Additionally, as García (2019) notes, foreign construction companies can utilize their extensive network of reliable contacts, including international and local firms and advisers, to identify opportunities and access projects that require their unique expertise. These firm-specific assets do not seem to be working in the Spanish market for foreign companies. However, it can be assumed that in this case, Spanish companies, being highly competitive in the construction sector, are the ones possessing these firm-specific advantages rather than the foreign ones.

In the case of the automotive sector and other transportation elements, companies reported higher efficiency in the input-oriented approach (they need less assets to produce an output). The automotive and other transportation sectors are highly technological. It can be deduced that these companies, as established by the Resource Based View, possess assets that are unique, rare, and non-substitutable, as described by Barney (1991). Therefore, the tangible and intangible assets of these companies provide them with significant competitive advantages in terms of productivity which local firms do not have access to. Additionally, it is important to consider that these industries, as previously mentioned, are structured around large factories (vehicles, airplanes, trains) which, in turn, have numerous local suppliers. For example, in recent years, the automotive sector has undergone numerous mergers and acquisitions by manufacturers. These acquisitions not only occur between companies at the same level but also

include component manufacturers. (Sánchez et al., 2010). In this regard, a common practice of high value-added manufacturing industries is to opt for the tactic known as Cherry Picking, which is defined as the tendency to pick better-performing firms, the more productive or profitable ones (Bebenroth & Chen, 2018). Studies have shown that in the manufacturing sector, foreign companies tend to select the Cherries (Balsvik & Haller, 2010; Cirsuolo & Martin, 2009). Vertical integrations and acquisitions are increasingly common in these types of industries, and as evidenced in studies on the manufacturing industry, Cherry Picking strategies are often followed in acquisitions. As a result of the Cherry-Picking effect, companies that are above average in the market are acquired by foreign investors, thus it is arguable that in our analysis the better performance in efficiency of firms with foreign capital is due to the post acquisitions of foreign investors of the top performing firms in the market.

Beyond the sectors that have shown data differing from the observed patterns, two sectors are also analysed in which foreign companies achieved higher metrics in terms of productivity, profitability, and efficiency using an output-oriented approach.

In the trade sector, the data also shows that foreign companies achieve higher returns than local ones. The sectors where foreign companies are concentrated in the trade sector have been analysed, and the results indicate that most companies are involved in the pharmaceutical, chemical, and machinery sectors, among others. In distribution sectors such as pharmaceuticals, cosmetics, or chemicals, it is necessary to comply with patents and directives to market these products. To analyse why Spanish companies in these high value-added sectors do not manage to obtain higher returns than foreign companies, it is important to emphasize that in these sectors there is generally a high concentration of high technological value companies from other countries that have the technology, patents and knowledge necessary for the commercialization of these products. To illustrate this reality, we proceed to analyse some of the sectors included in the NACE where the highest concentration of these foreign companies exists in Spain. For example, in the pharmaceutical sector, only one Spanish company is among the top 50 in global revenue or among those with the highest R&D spending (Statista, 2024b). In the chemical sector, only one Spanish company is among the top 100 in sales (Statista, 2020b). Finally, in the machinery manufacturing sector, no Spanish company is among the world's leaders (Statista, n.d.). Therefore, it is assumed that these companies market these products under licenses and patents. In this regard, Barney's (1991) Resource-Based View theory helps explain why these companies achieve better results by having knowledge, patents, and distribution networks that are difficult for local companies to replicate, giving them a competitive advantage that leads to higher productivity and profitability.

In the construction sector, local companies obtain a higher performance indicators except for the input-oriented result which Spanish firms outperform foreign firms in almost all sectors. As explained in the literature review section, Spain has one of the most competitive construction sectors globally, with many Spanish companies among the top 100 in the industry. In this sense, foreign construction companies in Spain may be experiencing the liability of foreignness similarly to the tourism sector. Additionally, as García (2015) notes, foreign construction companies can utilize their extensive network of reliable contacts, including international and local firms and advisers, to identify opportunities and access projects. Therefore, companies in

the construction sector can identify opportunities in where their expertise is needed, and no local firms can supply. Following Barney (1991) approach of competitive advantages, this companies could possess specialise knowledge or expertise that make them more competitive that heir Spanish counterparts.

Therefore, after analysing each specific sector, we proceed to test the hypotheses proposed in the literature review section, which were:

Regarding H1, all analysed sectors showed that foreign companies are more profitable than those with local capital, except for the tourism sector. Therefore, our results align with various papers reviewed in the literature, such as Nurham et al. (2007), which concluded that foreign capital positively impacts firms in terms of ROA and Operating Profit Margin in Turkey. Similarly, in Poland, companies with foreign capital achieved better ROE and ROA (Jasinak & Patusiak, 2014). Other studies that found a positive relationship between foreign capital and profitability include Arnwati Putri & Setiaven (2023), Jusoh (2015), Lutz et al. (2020), Shirvastav & Kalsie (2017), and Pervan et al. (2012). However in the tourism sector, this relationship dis not hold, so the hypothesis is not fulfilled for this industry.

Furthermore, it has been proven in all sectors that foreign companies achieve higher productivity than local ones. In this regard, the results align with other studies that demonstrated higher productivity in foreign companies (Weche Gelübcke, 2011; Rojo-Martínez et al., 2021; Jurajda & Stančík, 2009; Waldkirch, 2015; Rasiah & Gachino, 2004; Karpaty, 2004).

For hypothesis two, it has been demonstrated that in the tourism sector, the need for local information is crucial for the good performance of companies. Foreign companies, due to their limited knowledge of the Spanish tourism sector environment, may not be taking full advantage of all the benefits offered by this industry in the second most visited country in the world. Therefore, the hypothesis has been fulfilled with tourism being a clear example of an industry that needs a lot of local knowledge if it wants to achieve returns similar to local companies."

For hypothesis three it also have been proved in terms of efficiency, showing that Spanish companies are more efficient in the input-oriented DEA (except for the tourism sector), while foreign firms were more efficient for the output-oriented DEA . These mixed results show that depending on the way efficiency is measured results can be different, confirming our hypothesis.

7. CONCLUSIONS

In conclusion, this work has attempted to demonstrate whether the differences between local and foreign companies in terms of profitability, productivity and efficiency follow a homogeneous pattern across different sectors of the economy, with foreign-owned companies generally achieving higher returns. In this regard, the question posed in the introduction is answered, this relationship does not occur in all sectors of the economy homogeneous.

The analysis of the tourism sector revealed that Spanish tourism companies with 100% local capital are more profitable than those with 100% foreign capital. It also shows that in industries where local knowledge is crucial, such as tourism, Spanish companies are better positioned. Indeed, it has also been shown how in the measurements of efficiency, Spanish firms tend to be more efficient using a input-oriented efficiency approach, except for the automotive sector , while foreign firms were more efficient in the output-oriented approach.

However, the study has some limitations. Primarily, it only used data from one year (cross-sectional), so to draw more definitive conclusions, a panel data approach should be employed. This would allow for more significant conclusions and the ability to determine if some variables influence others. Additionally, the limitation of available information in ORBIS, especially concerning the origin of the capital, has significantly limited the population size.

Therefore, future research should employ a panel data approach and expand the number of industries or countries to identify if the patterns observed in this study are consistent. Additionally, it would be interesting to analyze these performance indicators considering the origin of the capital to determine if there are any potential patterns.

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Annex 1. Additional Internationalization Theories

Agency Theory

The agency theory (Jensen & Meckling, 1976) suggests that managers in control of the firm's day-to-day operations can pursue personal benefits or make decisions that are not directed to maximize the benefit for the shareholders. This situation can create agency costs, which are incurred to prevent managers from acting in their self-interest. Due to the geographical distance, foreign ownership is likely to incur higher agency costs due to factors such as gaps in distance, language barriers, and limited access to information (Hong & Loan, 2017). Therefore, foreign ownership tends to be lower in distant firms due to the increased information asymmetry, monitoring challenges, and greater travel costs, leading investors to prefer investments in closer firms as shown in Boubakri et al. (2016).

Furthermore, foreign capital's impact on firms' performance and profitability is also heavily influenced by the type of international investor. It is argued that the diversity of capital (banks, pensions, funds, individuals, and corporations) and how these various types of capital have different characteristics, goals, investment durations and methods (Aguilera & Jackson, 2003), which as a result can affect firm performance.

There are different types of investors. On the one hand, foreign financial shareholders with their ample capital resources enable enterprises to increase their investment in production and business operations, leveraging their competitive edge in the market (Hong & Loan, 2017). Still, their investment strategy predominantly targets short-term gains, prioritizes asset liquidity, and seeks to elevate the stock's market valuation, making fewer contributions to the operations (Aguilera & Jackson, 2023).

Conversely, strategic foreign shareholders leverage their ownership stakes to advance their strategic goals, which include gaining access to new markets, geographical resources, and economical production (Hong & Loan, 2017). Their capabilities significantly aid domestic firms in acquiring advanced technology, effective management, and financial capital (Duong et al., 2021).

Nevertheless, increasing foreign ownership in a company is generally regarded as beneficial because foreign investors often demand higher corporate governance and take an active supervisor's role within the company's operations (Duong et al., 2021). Consequently, this improved oversight improves transparency, ensures better resource allocation, and enforces accountability, which collectively boost firm performance.

Spillover effects

The impact of these strategic acquisitions extends beyond the benefits to the acquired firms. Foreign ownership often brings superior technological and managerial capabilities, which can create significant positive externalities for the host economy. These externalities, known as spillovers, play a crucial role in enhancing the overall productivity and competitiveness of domestic firms.

Foreign-owned companies, with their advanced technology and knowledge, are anticipated to create positive spillover effects that benefit companies in their host locations, thereby contributing to the overall enhancement of companies. (Horobet et al., 2023). There are two main types of spillovers: horizontal spillovers and vertical spillovers.

- Horizontal spillovers occur when domestic firms benefit from foreign firms operating within the same industry (Wang & Zhao, 2008). Horizontal spillovers can result from channels such as demonstration effects (where the presence and activities of foreign firms in a particular industry serve as an example for domestic firms), movement of labour, or direct competition (Wang & Zhao, 2008).
- Vertical spillovers are benefits that foreign investments bring to different industries, occurring through interactions between foreign affiliates and businesses. For example, when a local supplier provides parts to a foreign company, they learn new skills and technologies (Wang & Zhao, 2008). For example, MNCs often provide technical assistance to help their local suppliers absorb and comprehend the multinational knowledge (Doan et al., 2015). Overall, Additionally, vertical spillovers can be classified into two kinds of linkages as described in Harvanek & Irsova, (2011):

- Downstream linkages (backward spillover): These occur when foreign affiliates purchase inputs from local suppliers, leading to a potential productivity improvement for those local suppliers). Overall, domestic suppliers gain from backward linkages with foreign ownership through improved quality of raw materials, increased production, employment opportunities, greater efficiency in production, and enhanced technological and managerial skills (Talavera, 2001).
- Upstream linkages (forward spillover): These occur when foreign affiliates sell products to local buyers, potentially improving the productivity of those buyers. In this case, foreign firms are motivated by their customer's sales and efficiency, recognizing that these factors can influence the future demand for their own products. Consequently, these firms have a strong incentive to share their expertise in production and access to international markets (Doan et al., 2015).

The knowledge is transmitted to the local companies with different mechanisms. MSCs normally provide technical assistance to facilitate the absorption and understanding of the MNE's knowledge (Doan et al., 2015). Additionally, MNCs provide domestic suppliers with the chance to expand their economies of scale, with consistent and expanded markets for intermediate inputs (Lim & Fong, 1982).

OLI framework

Departing from the understanding of firm-specific advantages and the role of market imperfections in driving foreign investments, the eclectic paradigm of Dunning (1977), also known as the OLI framework, which synthesis of all the above theories merging the concepts of monopolistic advantages, location and internationalization determinants (Janisak & Pastusiak, 2014).

- Firm-specific advantages are the “specific-monopolistic advantages” described by Hymer and Kindleberger. As it has been mentioned before, to be successful in foreign markets, a firm must have asset power, which includes essential resources like proprietary products, advanced technologies, specialized production knowledge, and strong management or marketing skills which provide competitive advantages, leading to the firm's success in its target market as described in Siripaisaipipat and Hoshino (2000). Janisak & Pastusiak (2014) described some of the competitive advantages foreign firms enjoy over local firms, these advantages including the ability to use foreign supply chains including parent companies, availability of the latest technologies, and innovations that enable the foreign enterprises to provide products with better quality and beneficial prices. These advantages are particularly pivotal in industries where knowledge-based assets hold significant importance, as they are easier to be transported internationally and can be supplied to the subsidiaries at zero costs (Horstmann & Markusen, 1987).
- Location advantages refer to the benefits that a particular location offers to a firm engaging in foreign direct investment (FDI). MNEs tend to establish in areas where their capabilities and competitive advantage can be leveraged. The specific advantages of each country can be summarised in three categories as described by Denisia (2010):
 - The economic benefits: These include both quantitative and qualitative factors such as the availability and quality of production resources, the cost of transportation and telecommunications, and the size of the market.
 - Political advantages: These encompass government policies that influence foreign direct investment (FDI), including both general and specific regulations.
 - Social advantages: These refer to factors such as the physical and cultural distance between the home and host countries, cultural diversity, and the local attitudes toward foreigners.
- Internationalization advantages are defined as the benefits that arise from a firm's ability to expand its operations across national borders through foreign direct investment (FDI). In this context, it can be mentioned the “cost of transaction theory”, can be mentioned, which encompasses business culture and other elements that add to the complexity of doing business in a country, including costs associated with contract negotiation, drafting, and enforcement. (Sara & Newhouse, 2005). Consequently, by opting for FDI rather than licensing or exporting, firms can internalize these transactions, thereby reducing these costs associated with operating in foreign countries.