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Three essays on the causes and consequences of the use of mergers and acquisitions

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*To my father Sebastiao, to my mother Ivete and to my brothers Leonardo and Sebastiao
Junior*

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INTRODUCTION

The choice of entry modes to expand the operations of a firm is a topic that has been receiving attention in the literature. Of the various reasons to expand firm boundaries, both domestically and internationally, some key aspects are the need to access new resources and new capabilities, the exploitation of current resources in other environments to reduce risks, the search for more market share, the reduction of costs, and the maximization of firm benefits. In this process, depending on their expansion goals, firms adopt a sequence of entries that may or may not follow an incremental entry approach. For example, at the international level, the Uppsala model refers to a process of gradual entry that takes place through the accumulation of market knowledge (Johanson and Vahlne, 1977). However, firms also might adopt a more committed entry mode if they have already developed internal capabilities to deal with the complexities of an expansion.

To put their expansion in practice, firms choose some combination or repetition of entry modes, which can differ across host countries. Each entry mode has its own characteristics that can demand substantial managerial attention, and a balance between the rewards and risks of adopting each mode can contribute to such choice. In this way, it is critical for academics and practitioners to gain a better understanding of the implications of different sequences of entry. Prior literature describes choices between entry modes, but little research has explored the causes and consequences related to the use of strategic alliances¹, M&As (mergers and acquisitions)² and greenfield wholly-owned subsidiaries³ in a sequence of entry. To do so, this thesis offers three chapters, as described subsequently.

Specifically, to gain access to new resources, firms might initially choose a strategic alliance, which normally implies less commitment and shared risks. If firms need to diversify or access other sorts of resources, they may repeat the entry mode and increase their portfolio of allies. However, firms could also identify business opportunities that require other forms of entry, in which case a combination of different

¹Strategic alliances are defined as arrangements between firms to share resources and co-develop products or services (Gulati, 1998). Strategic alliances can take different forms: contractual agreements limited in time and scope, cross-shareholding between partners, or new firms (joint venture) with shared ownership and control (Garcia-Casarejos et al., 2009), for example.

²M&A frequently appears as a single phenomenon: an acquisition has a change in the majority ownership of the firm and another firm obtains control of and authority over it (Pablo, 1994).

³Greenfield wholly-owned subsidiary refers to the setting up of a new plant (Harzing, 2002).

entry modes may appear as a sequence. For example, firms might engage in both strategic alliances and mergers and acquisitions (M&As) (Harrison et al., 2001). The point is that when they adopt M&A, they probably already have built a set of strategic alliances. Therefore, Chapter 1 refers to how M&As can affect a firm's alliance portfolio.

Existing research into alliance portfolios contextualizes their evolution, suggests a temporal perspective for analyzing the sequence of entry, and calls attention to management research. The literature about post-acquisition management, instead, focuses on the consequences of M&As and the types of firm integration (Wassmer, 2010; Haspeslagh and Jemison, 1991). To accomplish the first research goal, Chapter 1 uses a methodology based on case studies. The Spanish banking sector has long been engaged in strategic alliances and M&As, so Chapter 1 focuses on the expansion of two Spanish banks. The insights gathered, in turn, offer clarification of the factors that appear when these entry modes are adopted and their effects on the relational rents of a set of strategic alliances.

In particular, Chapter 1 reveals that an alliance portfolio may be affected differently by M&As. A M&A leads to the dissolution of some strategic alliances because of the existence of redundancies and conflict of interests regarding definitions within a portfolio. In this case, strong managerial skills are necessary to deal with the interests of each partner and foresee likely incompatibilities when adopting a M&A. That is, after a M&A the focal firm needs to understand the contribution of the strategic alliances, which can require managerial time. Some of them may lose attractiveness over time while others can be formed or have their linkage intensified. This chapter also reveals temporal effects on the management of some strategic alliances.

One of the Spanish banks in Chapter 1 has emphasized international operations in emerging countries, including several investments in Latin America. In terms of foreign direct investments (FDI)⁴ in this region from 1990-2010, Latin America exhibits an increase, likely due to the small growth of developed economies, growth in some emerging economies that provided some demand, and increasing domestic demand in Brazil, Chile, Colombia, Mexico and Peru (ECLAC, 2010). Moreover, foreign investments have also been addressed to Russia, India and China (members of BRIC)

⁴ Foreign direct investment is defined by data.worldbank.org/indicator as net inflows of investments to acquire a managerial interest in a firm that operates in an economy other than that of the investor.

and other emerging nations. In this way, the jump in FDI in Brazil in the period 1990-2010 (ECLAC, 2010), the business opportunities for doing business in the country, and the experience of the Spanish bank with acquisitions prompt another research question. Approximately 40% of Brazilian inhabitants did not have access to a bank account in 2010 (IPEA, 2011) -which indicates potential growth opportunities- and several foreign firms entered in the country in the 1990s through acquisitions. However, doing business in an emerging country may also require an ability to deal with an uncertain scenario. Therefore, Chapter 2 asks, “How might acquisitions lead to a flexible expansion process?”

Some previous articles consider acquisition a more irreversible entry mechanism than strategic alliance, but little research is about flexibility of an expansion process that is based on the commitment of resources through acquisitions in an emerging country. The literature about flexibility usually addresses the ease to change production or customers geographically (Lee and Makhija, 2009) or the ease to enlarge capacity and capabilities (Parker and Wirth, 1999); despite the increase of investments of foreign firms in emerging countries, little research has addressed the topic in terms of bank expansion in these countries. In response, Chapter 2 contains another case study designed to analyze the successful expansion of a Spanish bank that has acquired banks in Brazil. With various sources of information, this study relies on a grounded development approach to achieve insights that can explain flexibility and commitment through acquisitions in the banking sector.

The results emphasize the importance of an organizational learning view: A bank with accumulated experience in acquisitions and an ability to create new knowledge from each entry obtains strategic information about the host country, which influences its subsequent entries. In a foreign expansion, firms must learn to operate within cultural differences, acquire existing operations in unfamiliar locations, and deal with new suppliers, customers, governments, and competitors (Barkema and Vermeulen, 2002). The existence of experiential learning can thus contribute to and help the firm identify potential targets and integrate them into its bidding structure. Hence, Chapter 2 offers two main contributions: It initially adopts a framework of expansion through acquisitions with evidence from a real-world case study to contextualize the elements of an expansion through acquisitions. Second, the interview revealed that the flexibility level is reduced while the bank intensifies commitment through acquisitions

up to an accumulated market share. Based on a real-options approach, each entry of the Spanish bank is contextualized in terms of flexibility and commitment.

Both Chapters 1 and 2 thus entail combinations and repetitions of entry modes. In particular, Chapter 2 focuses on Brazil as a host country; it opened up FDI in the 1990s, after which Spanish investments considerably increased. In the late 1990s, Spain was even among the main investors in the country (Ministry of Economy and Competitiveness⁵). During this time, several Brazilian firms were undergoing privatization, and Spanish investments concentrated in the service sector, such as telecommunications, energy, finance and insurance. As firms continued to enter surrounded by expectations of rapid growth and infiltration of Spanish multinationals, Brazil also opened a logistic platform to access the Iberoamerican region (*Plan Integral de Desarrollo del Mercado [-PIDM -]* Ministry of Industry, Tourism and Commerce of Spain, 2011). This status makes it even more important to study the expansion mode adopted by Spanish firms in Brazil. Their entry may follow a staged or relatively aggressive process, which can be shaped by the strategic moves of other firms. Some literature about entries into emerging economies suggests that the choice of entry mode can be related to business group and industry moves as well⁶. Thus, the determinants of an entry-mode choice might reveal if Spanish firms are more prone to repeat or combine entry modes in their expansion processes into an emerging country.

Chapter 3 centers on the determinants of a second entry in Brazil to achieve information about the initial sequence of entry. With this effort, this chapter investigates whether the second entry of Spanish firms in Brazil: (1) follows the logic of gradual expansion process, (2) is more likely to occur when these firms imitate the movements of other firms within the same business group or home industry, and (3) is more likely to occur through the repetition of an entry mode. This chapter relies on the organizational learning approach and on the internationalization process described by the logic of the Uppsala model (Johanson and Vahlne, 1977). A learning process starts with the initial entry, which then can generate information that is relevant to decisions about subsequent entries. Chapter 3 also provides information related to the use of internal capabilities. Recent research into new multinationals has emphasized that internationalization by firms from middle-sized countries is not necessarily based on

⁵See www.oficinascomerciales.es (accessed January 19, 2012)

⁶For instance, Guillén (2003) used business group and industry levels in his study of the entry of South Korean firms into China.

technology and marketing issues, as predicted in research about traditional multinationals (Guillén and García-Canal, 2010). Thus, the study of Spanish firms' expansion processes in an emerging country can reveal important factors.

Chapter 3's methodology takes into account the duration between events and the mode used in the second entry. Because there are three default forms of entry (strategic alliance, M&A and greenfield wholly-owned subsidiary), they are competing events. The competing risk model considers a specific entry mode as an event of interest within the time window related to the second event and in the presence of competing events. This quantitative analysis uses data from ICEX (*Instituto Español de Comercio Exterior*), including information about 60 firms that have entered at least twice, as well as censoring data (firms that entered just once). Both repetition and imitation take place for the second entry and gradual entry takes place in some sequences.

The three chapters thus offer different contributions regarding the causes and consequences of using M&A in an expansion process. The main features of each chapter are summarized in the following table:

Chapters Aspects	Chapter 1	Chapter 2	Chapter 3
Research Question	How can M&As influence an alliance portfolio?	How might acquisitions lead to a flexible expansion in an emerging country?	What are the determinants of the entry modes used in a second entry into an emerging country?
Theoretical Framework	Relational rents	Grounded development work	Organizational learning Logic of gradual internationalization process theory (Uppsala model)
Methodology	Qualitative two case studies	Qualitative development based on the abductive approach and an in-depth case study	Quantitative Competing risk regression: 60 foreign firms that entered at least twice in an emerging country.
Main Findings	Redundancy in the board can prolong M&A deal-implementation and maintain the overlapping of alliances until the end of co-presidency. Rivalry between partners, competition between merging firm and partner, re-orientation of international expansion and regulation are other elements that affect a portfolio.	Commitment through acquisitions can lead to a flexible expansion process up to a specific market share. Organizational learning may influence flexibility by knowing competitors' movements and by achieving an experiential learning with the mechanism of entry. Two stages of entry through acquisitions show different levels of commitment: the first seeks an initial market share, and the second focuses on establishing strategic positioning. Such phases are contextualized through the real-options view.	Repetition of M&As and greenfield subsidiaries is likely. Imitation of strategic alliances is likely within the home industry. A gradual entry process occurs. Business group is important to complement the logic of gradual entry in Brazil.

Chapter 1 shows that M&As influence a portfolio of alliances in the form of redundancy, re-orientation of expansion strategy and rivalry. Chapter 2 suggests an approach to characterize flexibility and commitment through acquisitions in Brazil based on the market share a firm occupies in this host market and the number of potential buyers, and Chapter 3 shows that firms can imitate and repeat the mode in their second entry in a country. The core results thus reveal the importance of developing a managerial capability to coordinate the sequence of firm entries. With such skill, firms can better identify targets, partners, or opportunities to enlarge their operations through greenfield subsidiaries in a host country, even as they remain aware of the particularities or complexities that are likely to emerge with each choice.

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CHAPTER 1

Managing alliance portfolios after mergers and acquisitions

Abstract

Among other factors, firms engage in strategic alliances and mergers and acquisitions (M&As) to access new markets and resources, increase market share and profits or reduce risks and costs. On the one hand, post-acquisition integration can create serious challenges as the firms confront overlapping resources, cultural distance and differing management process systems. On the other hand, a set of strategic alliances demands an appropriate management to assure joint access to resources and the generation of common benefits. The point is that additional complexities can appear when firms are engaged in both expansion forms. This article describes a case study-based investigation of how M&As affect the alliance portfolios of companies, by influencing the achievement of relational gains. The results show that redundancy affects the relational rents within the portfolio with the delay of some strategic definitions after a M&A.

Keywords: *Alliance Portfolio, Mergers and Acquisitions, Conflict of Interests, Redundancy*

1. INTRODUCTION

In recent decades, the number of strategic alliances⁷ among firms has increased greatly (Dyer et al., 2008) and operations with mergers and acquisitions (M&As⁸) have presented a rise across the world (Gaughan, 2010). Both expansion modes can match the type of resource requirements of a firm in a specific time window, yet the former is a more flexible form to have access to new resources, as firms do not need to pay the market value of those resources and they may be easily dissolved (Sánchez-Lorda and García-Canal, 2005). That is, when firms decide to invest in a M&A, many may already have developed a set of strategic alliances, such that firms may be engaged with both modes. As bidders and targets have their own set of strategic alliances, we shall investigate in this chapter how M&As can affect an alliance portfolio, which is an aggregation of all strategic alliances involving a focal firm (Hoffmann, 2005). To achieve this goal, two Spanish commercial banks are used as case studies.

Firms enter into strategic alliances with different motivations, such as increasing market share and profits, accessing new resources, overcoming uncertainty, reducing risks or costs. It is a way of gaining access to complementary resources without investing alone (García-Casarejos et al., 2009), yet when a firm begins many strategic alliances the demand for a dedicated alliance function to manage the complexity of the portfolio increases (Hoffmann, 2005). Research into alliance portfolios is a relatively new research area in the field of strategic alliances (Wassmer, 2010), yet some articles have already studied alliance portfolio management. For instance, Duysters and Lokshin (2011) have studied the determinants of portfolio complexity and their effects on innovative performance of companies; Lavie (2007) has made a first attempt to link portfolio issues to strategic-alliance formation and performance, and Yamakawa et al. (2011) studied the strategic orientation of the portfolio and firm performance. Moreover, Zaheer and Hernandez (2011) focused on the geographic dispersion of the strategic alliance and subsidiary portfolios and their effects on multinational performance, while Lavie and Miller (2008) developed a framework to explain how the

⁷ Strategic alliances are defined as arrangements between firms to share resources and co-develop products or services (Gulati, 1998) and can be a contractual agreement limited in time and scope, a cross-shareholding between partners or the parties may create a new firm (joint venture) with shared ownership and control (García-Casarejos et al., 2009).

⁸ Although M&As frequently appear as a single phenomenon, an acquisition has a change in the majority ownership of the firm and another firm obtains control and authority over it (Pablo, 1994). In this chapter we consider it as a single phenomenon.

internationalization of an alliance portfolio impacts firm performance. As we can see, many articles emphasize portfolio and firm performance, yet few articles address portfolio and relational rents⁹ produced by partners (Dyer and Singh, 1998). Within a portfolio, some partners may be generating common rents with a focal firm while some other strategic alliances may need adjustments or renegotiations to improve their level of relational rents. Moreover, those that are just formed require a time window to consistently achieve their initial goals. Each of them has an evolutionary process after its formation and it can consist of a sequence of negotiation, commitment and execution stages (Ariño and De la Torre, 1998). In this way, the generation of value may improve when managerial attention addresses the development of such steps after the formation of each strategic alliance.

Both strategic alliance and M&A can be the entry mode chosen by a firm when a business opportunity is identified or when the need for a specific resource arises. In effect, some articles have a focus on the decision between strategic alliance and acquisition (Hoffmann and Schaper-Rinkel, 2001; Dyer et al., 2004), but the point that we call attention to here is related to the effects of M&A in the alliance portfolio of a firm. As firms can combine resources through both strategic alliance and M&A (Harrison et al., 2001) and a M&A event may provide resources that are similar to those of the strategic alliances (Cui et al., 2011), adjustments within an alliance portfolio can be necessary and they may depend on some definitions related to M&As.

Little empirical research addresses the effects of a M&A on a set of strategic alliances (Spedale et al., 2007), yet some insights can be captured in Ariño and De la Torre (1998), in which an acquisition among other factors led to shifts in the perception of equity in a joint venture. In this setting, by addressing attention to the particularities of both entry modes, managers may identify in advance potential incompatibilities and complementarities that may occur when joining the bidder and target's portfolios. Moreover, the justification for this research is strengthened by the fact that the literature suggests that the relational elements of a firm be taken into account when expanding through M&As (Spedale et al., 2007).

⁹ Relational rents are defined by Dyer & Singh (1998) as the generation of profit in a relationship that cannot be generated by a firm in isolation. It can only be created through the contributions between partners.

In terms of the post-acquisition management phase, some problems of integration can occur (Haspeslagh and Jemison, 1991), as different organizational cultures and management process systems create difficulties to achieve benefits (Quah and Young, 2005). The integration process may involve a set of adjustments because bidder and target could be managing their resources in a distinct way. In this fashion, their set of strategic alliances could present a distinct level of synergies, and thus a diversity of forms of interactions can appear within the portfolio of the new firm. In this way, it would not be surprising that a M&A might exert different effects on the portfolio of allies.

Firms can enlarge the size of operations through a M&A, and as a result new types of resources can be demanded. For instance, the run for resources in a specific region can require the analysis of current strategic alliances and the formation of new ones. Moreover, strategic alliances can be submitted to an analysis of their initial objectives and potential to generate relational rents in new projects: A specific relationship can require a continuous monitoring of its goals in order to not lose its attractiveness. In this context of expansion, when firms are also engaged in other expansion initiatives to improve their access to new resources, such as M&As, the point that emerges is that bidders and targets have their own sets of allies, and a conflict of interest between them may occur. The definition of the portfolio of the newly merged firm can delay and, in the end, some strategic alliances can be preserved while others can be terminated or present a reduction in their relational rents. In this way, the management of both M&A and the set of strategic alliances may not be an easy task given the possible volume of shifts in the international environment and in the industry in which a focal firm competes. In the run for new resources, firms may adopt a distinct pace in the adoption of strategic alliances and M&As, and as a consequence the generation of relational rents can vary over time.

Thus, this chapter seeks to clarify how M&As can influence an alliance portfolio of a firm, and to achieve this goal some exploratory research is required. Given the engagement of Spanish banks in strategic alliances and M&As lately, a case-based method is used with two Spanish commercial banks. By adopting such a method, we seek to achieve two main contributions: (1) to enhance an explanation about how M&As can affect the set of strategic alliances of a firm, and (2) to better understand the temporal management of an alliance portfolio after a M&A. A different sequence

pattern of expansion can take place over time, and then a different level of relational rents can be generated by strategic alliances as time progresses.

This chapter is organized with an initial literature review on alliance portfolios and the presentation of relational rents as a theoretical framework. We also provide a preliminary view of an alliance portfolio after a M&A. In Section 3 we describe the methodology and research structure and we summarize our main findings. Section 4 presents a discussion about the results and we close this chapter with conclusions, implications and suggestions for further research.

2. LITERATURE REVIEW

Strategic alliances are used by firms to have access to new resources and capabilities by sharing the risk with partners, and in an international perspective, they can be adopted to reduce the risks of entry and accelerate expansion abroad (García-Canal, 2004). In turn, M&As are an expansion initiative to have access to new resources through the purchase of assets. Both modes can be adopted by a firm to expand its boundaries, though there are few articles that relate a set of strategic alliances to post-M&A management: Prescott and Shi (2011) identify a classification of different sequence patterns of acquisitions and strategic alliances using a temporal perspective and note that the repetition of such initiatives leads to a significant resource allocation over time. It generates an expertise with each entry mode and different patterns of entry can be developed over time.

A sequence of strategic alliance initiatives may lead to a different configuration of the portfolio. Some partners may be very specific to a focal firm by providing unique knowledge and a competitive advantage. In this way, to maintain the generation of common benefits over time, such a level of interaction requires a constant evaluation of goals. That is, a re-evaluation of goals may open perspectives of cooperation in new projects and some strategic alliances can become strengthened while others can be more susceptible to dissolution. The fact of not creating the same prior value and not achieving the expected results may be related to partner opportunism, which is what strengthens the importance of trust between allied firms. Trust effects can facilitate information flows among parties (Gulati, 1995), which in turn supports the formation of

relational capital¹⁰. In the end, by increasing trust levels between partners, the process of value creation is improved with the generation of relational rents.

2.1. Relational Rents

The rents jointly generated by partners can rely on relationship-specific assets, knowledge-sharing routines, complementary resources/capabilities, and effective governance (Dyer and Singh, 1998). Relationship-specific assets allow firms to access information and capabilities not widely available in the market, and with a knowledge-sharing routine, the pattern of inter-firm interactions supports the transfer and creation of specialized knowledge. Complementary resources/capabilities require the combination of a firm's resources with the complementary resources of another firm, and effective governance can generate relational rents by influencing transaction costs or providing incentives to undertake value-creation initiatives through the prior potential sources of rents generation (Dyer and Singh, 1998). These aspects are the source to achieve competitive advantage through strategic alliances.

As strategic alliances enable a firm to share risks with a partner, it is not strange that a firm starts an expansion through strategic alliances before engaging in a M&A. In this way, a firm can have constituted a portfolio of allies before the adoption of a M&A. Within a portfolio, relational rents are appropriated by partners and the appropriation of value not only depends on the nature of a firm's relationships, but also on the distinct partner's attributes and on the characteristics of the portfolio (Lavie, 2007). Such characteristics may be susceptible to shifts when the portfolio is submitted to an external change, as a M&A, because new goals can be defined by the newly merged firm. Bidder and target firms may have built a strong linkage with their partners before the M&A, which can indicate a possible preference for maintaining them. The point is that the portfolio configuration depends on the strategic direction defined by the newly merged firm, and such a definition can delay because both bidder and target firms have their own strategic alliances. In this scenario, a conflict of interests can occur and affect the generation of relational rents and in the end, a rethink about current strategic alliances may lead to the maintenance or dissolution of strategic alliances.

We can observe that the development of an ability to identify in advance potential problems and complementarities within the portfolio when expanding through

¹⁰ Relational capital refers to the ability to engage in mutual information exchanges and to perceive cooperation as an end (Ziggers and Duysters, 2004).

a M&A is a key aspect. However, some external shifts can require a rapid answer of firms in a global competitive scenario, and, therefore, firms have to develop an ability to readjust the alliance portfolio in case of troubles to continue the creation of relational rents.

2.2. Alliance Portfolio

The literature about an alliance portfolio can be categorized into three general research streams: emergence, configuration and management of alliance portfolios (Wassmer, 2010). A firm can better manage the alliance portfolio when it understands its configuration and when it chooses appropriate partners for its strategic alliances initiatives.

2.2.1. Alliance Portfolio Configuration

Hoffmann (2007) presents the number of strategic alliances, dispersion, redundancy (structural factors), and linkage intensity (relational factor) as the elements that characterize an alliance portfolio. The number of strategic alliances determines the quantity of information and resources available; dispersion, instead, is associated with the diversity of information and resources, so that high dispersion indicates the partners are from different strategic groups or industries. Redundancy means an overlapping of strategic alliances, whereas linkage intensity refers to the quality and richness of information and resources that firms can access from their alliance portfolio (Hoffmann, 2007). These elements might be influenced by a M&A, in the sense that the integration of bidder and target firms and the correspondent definition of the set of strategic alliances may alter the portfolio configuration of the newly firm.

In addition, different categories of strategic alliances can co-exist in a portfolio: bilateral agreements (e.g., technology sharing, cross-licensing agreements, joint research), and equity-based ones - e.g., joint ventures - (Reuer et al., 2002). Strategic alliances can also be adopted in a domestic or an international perspective, and firms can either adopt a global alliance that can represent a global, multiglobal or competence-building strategies or a local alliance (García-Canal et al., 2002a). In a global strategy, firms develop several projects in different countries with one key global alliance; in a multiglobal scope, the firm engages in multicountry alliances, instead of with just a particular partner; competence-building alliances enable access to a partner's resources as a means to match the competitive advantages of their international rivals;

and finally, in local alliances, firms choose a local partner to enter into a specific market (García-Canal et al., 2002a).

In this context, the management of an alliance portfolio can be a hard task when attempting to maximize the attainment of relational rents. Moreover, by expanding through a M&A, it may become more complex. In this way, it is worth researching how a M&A can influence an alliance portfolio.

2.2.2. A preliminary view of an alliance portfolio after a M&A

Firms that receive resources through a M&A tend to find their existing resources redundant and less valuable if the acquired or acquiring/merging firm and some of their strategic alliances are from the same industry (Cui et al., 2011). In this way, before a M&A, it is convenient to better understand the configuration of an alliance portfolio. Some of the ongoing strategic alliances may be creating considerable levels of relational rents by being related to project-specific initiatives, yet a M&A might lead to an analysis of each of them. A M&A allows the partner firm to access new resources from the merging or acquiring firm (Cui et al., 2011). In this context, an external change of the portfolio may reflect on the strategic behavior of partners, and a M&A may represent a discontinuity in the generation of relational rents (Spedale et al., 2007).

The necessity to have access to new resources can require a re-evaluation of the current alliance portfolio and a shift in the rhythm of strategic alliances formation and rents creation. As a partner's resources and capabilities may co-evolve and change over time (Dyer and Singh, 1998), even a former strong tie may present problems for a M&A, in that strong ties developed over time may lose their linkage intensity and reduce the level of relational rents. In this context, when expanding through both strategic alliance and M&A, managerial attention also has to be addressed to the capacity to digest targets (Hennart and Reddy, 1997): Digestibility of the target assets is seen as a function of the size and organizational structure of the firm that owns them. It involves the absorption of internal routines, management systems and other cultures and such a process takes time. In this way, the adoption of both sets of strategic alliances and M&A shows that a temporal perspective has to be taken into account in research about the effects of a M&A on the portfolio of allies. A bidder firm may delay in defining the set of allies, because it may need time to understand the characteristics and possible complementarities of those allies of the target's firm or because a M&A can

bring some complex leadership challenges that include defining co-chairman, co-chief executives, the new name of the merged organization, and the location of its corporate headquarters (Piekkari et al., 2005). The point is that in a so called “marriage between equals”, some definitions depend on the strategy to be followed by the newly merged firm, and such a process can take time as well.

After such strategic definitions, some strategic alliances may be maintained while others may be dissolved for different reasons¹¹. In some cases, partners may attempt to undertake unilateral action instead of collaborative interests (Park and Ungson, 2001), which could increase the coordination costs in the management of a portfolio. Some additional explanations to dissolution are provided by Kogut (1988) when studying joint ventures: Conflicts between the parent company and the joint venture are related to the degree of coordination desired by parent with their operations. Depending on the control shares, a partner may exercise power to achieve his objectives and in the end, when he identifies potential to generate further rents, he may acquire the business that was jointly developed by the strategic alliance. Moreover, both a firm and its competitor can have the same partner for some projects and then some private interests may occur with such a strategic alliance. Another problem that may occur after a M&A is the overlapping of functions between target, bidder or strategic alliances.

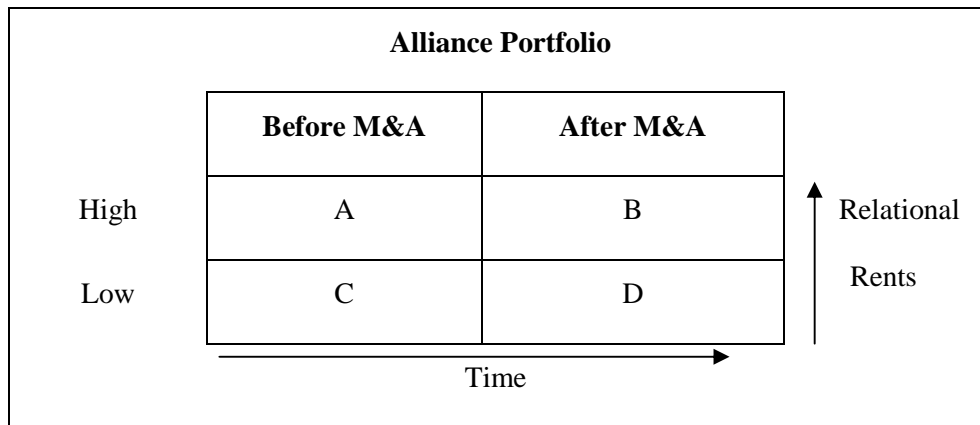
Within the context of the decision between maintenance and dissolution of strategic alliances, management of a portfolio also has to consider their maturation stage as a factor that may delay the generation of relational rents. The process of building trust between partners requires a sequence of stages to gradually increase the commitment between partners through relation-specific investments (García-Canal et al., 2002a). Thus, in order to understand the potential contribution of the current portfolio of allies, such distinction is relevant, because partners can be in a different stage in terms of trust formation. Strategic alliances require time to build trust while M&As involve time to integrate different organizational structures.

As we can see, a portfolio can be constituted by strategic alliances that generate different levels of relational rents and that are in different stages of trust formation. In this way, we suggest, in Figure 1.1, a classification of the set of allied firms before and after a M&A. We propose that strategic alliances may be situated in conditions A and B

¹¹ Dissolution refers to the termination of an alliance, whether by failure (Park and Russo, 1996), acquisition, or achievement of the expected results (Pangarkar, 2003).

when they are generating a high level of relational rents before and after a M&A in comparison to conditions C and D. It is a relative comparison to illustrate the effects of a M&A on the creation of relational rents within the portfolio of a firm. For those strategic alliances that are in the initial stage of development, we assume that they have low relational rents before a M&A.

Figure 1.1: Classification of strategic alliances within the portfolio



The goal of Figure 1.1 is to illustrate that the effects of a M&A on the portfolio of allies may not appear immediately after a M&A. In this way, the attention to some temporal roles such as entry timing, frequency, speed of integration, experience, learning, sequence and rhythm of repetitive cycles can contribute to a better management of strategic alliances and M&As (Shi et al., 2012). Frequency, learning and experience may facilitate target digestibility and strategic alliance development, while entry timing, sequence and rhythm may depend on the goals of expansion, on the experience with each entry mode and on the ability to identify a business opportunity.

Taken together, such factors may enable a better understanding about the effects of M&As on the portfolio over time, though it can be a difficult task for managers when expansion takes place in other host countries. The nature of international expansion of a firm can start with strategic alliances to reduce risks of expansion, to gain specific knowledge about foreign markets and to improve capabilities (García-Canal et al., 2002a), and move to an expansion process based mainly on M&As and complemented by strategic alliances in other businesses. For instance, firms can become more globally oriented and their expansion initiatives can shift over time, which can influence the generation of relational rents. To put the objectives of this chapter in practice, after the conduction of a literature review, we began the development of the empirical section.

3. METHODOLOGY

3.1. Methodology

The literature review showed that there are several articles about strategic alliances and M&As and an emerging literature about the alliance portfolio, yet there is little research that considers the external linkages related to a M&A (Spedale et al., 2007). In this way, we adopted a qualitative research, and as a case-study method can enable a deepen analysis of the problem at hand, we used two case studies to better understand how a M&A can influence the alliance portfolio.

The methodology of Chapter 1 follows an exploratory and descriptive research strategy, and it requires (1) the veracity of generated information, (2) valid constructs, (3) internal consistency and (4) external validity to extend the results to other situations (Yin, 1994). To achieve veracity, multiple sources of information were used and both case-study reports were repeatedly reviewed. Valid constructs is related to the quality of conceptualization and link between initial research question and conclusion – chain of evidence (Gibbert et al., 2008). To achieve internal consistency, the clarification of the research procedures contemplated the adoption of a protocol that shows how the case study was conducted with a chronology of events (Gibbert et al., 2008); we sent this analysis to the interviewees, so they confirmed the information. In terms of external validity, it is difficult to generate a complex theory with fewer than four cases, unless each case features several mini-cases (Eisenhardt, 1989). In this chapter, we find two mini-cases and eight units of analysis in a case study.

To conduct two case studies, we followed Huberman and Miles (1994), who define data analysis as the combination of three linked subprocesses: data reduction, data display, and conclusion verification. To reduce the data, we chose the relational rents view, research question and cases. The data display refers to the organization of data through structured summaries, diagrams or matrices, and conclusion verification represents the result of the displayed data interpretation.

3.2. Case Selection

The choice of the case studies is related to the initial identification of a sector that is engaged in both M&A and strategic alliance. Initially, we verified that the banking sector has been engaged extensively in the pertinent strategic initiatives (García-Casarejos et al., 2009; Guillén, 2006). The European banking sector has

experienced a rapid process of M&As in the past two decades (Ayadi and Arnaboldi, 2008), and in the nineties, a wave of M&As by commercial and saving banks played a key role in the Spanish banking sector (Jaumandreu et al., 2004). Therefore, we chose two Spanish commercial banks for this study.

Our two case studies involved Banco Sabadell and Grupo Santander¹², two banks engaged in strategic alliances and acquisitions. To initiate the case studies, we established a telephone contact with Banco Sabadell to explain the purposes of our research. We then contacted the general manager of corporate development, a member of the executive management committee, who had participated in the strategic alliances and M&As over time. We had an interview on July 28, 2008 with the General Manager of corporate development of Banco Sabadell. On September 14, 2010, and on April 10, 2012, we recontacted the bank to ask about new M&As and strategic alliances initiatives. In the case of Grupo Santander, we had a first contact on April 13, 2009, when we gathered information about the research question, and we conducted an interview on June 26, 2009 with two managers responsible for Latin American operations and strategic alliance deals. For both cases, we collected considerable secondary sources of data, including publications on websites and annual reports. This information enabled us to elaborate a protocol to use in the interviews. Additionally, we also used several scientific articles about Grupo Santander.

3.3. Protocol

To elaborate the protocol, we searched for public announcements of strategic alliances and acquisitions. As Huberman and Miles (1994) propose, we preferred semi-structured interviews for our case studies and developed an interview guide that would enable us to understand the factors that affect the alliance portfolio in each case. All interviews were recorded with the consent of the interviewees and then transcribed, and the protocol pertained to the in-depth interviews with both Banco Sabadell and Grupo Santander is shown in Appendix 1.

3.4. Case Description and Analysis

¹² In this chapter we refer to Banco Santander as Banco Santander (BS), Banco Santander Central Hispano (BSCH), Grupo Santander and Santander.

In this section, M&As and alliance portfolios of both Banco Sabadell and Group Santander are analyzed. We initially present the case of Banco Sabadell, which has been mainly engaged in domestic acquisitions, as stated by its chairman:

‘We still need more presence in Spain to plan other operations abroad. We look for a merger to then grow out of Spain. With more consolidation, we could have projects abroad’ (Josep Oliu, Chairman of Banco Sabadell - El País. July 27, 2009).

In Table 1.1, we list the sequence of M&As¹³ and strategic alliances of Banco Sabadell.

Table 1.1: Strategic alliances and M&As of Banco Sabadell

Year	Acquisition	Partner (of focal firm)	Main Goal	Status of alliance after acquisition
1996	Group Natwest-Spain		National expansion and access to other countries	
2000	Banco Herrero		Regional consolidation and national expansion	
2000		BCP	Cross-sharing	Alliance maintained, but cross-sharing reduced after Banco Herrero acquisition
2001		BCP-Activo Bank (JV)	Develop Internet banking	Alliance terminated (October, 2002)
2002		Dexia Credit Local (JV)	Finance of infrastructure and public sector services	Alliance maintained
2002		Manager Land (BCP)	Improve Internet banking services	Alliance dissolved after objectives achieved
2003		BSFinCom (GE Capital Bank)	Car financing	Alliance dissolved after the acquisition of the partner’s part in 2008.
2004	Banco Atlantico		Transaction with other countries	
2006	Banco Urquijo		Develop products for private bank	
2007	Transatlantic Bank of Miami (US)		Expand in U.S.	
2008		Zurich	Develop Bancassurance	Alliance maintained
2009	United Bank of Florida (Mellon Subsidiary - US)		Improve U.S participation	
2010	Banco Guipuzcoano		Improve market share in specific regions	

¹³ The Bank had not acquired the subsidiary of Mellon United National Bank or Banco Guipuzcoano when we first conducted interviews in 2008. In *La Vanguardia* (September 19, 2010), Josep Oliu explained the objective underlying the Banco Guipuzcoano acquisition: “The operation has the rationale to improve our market share in the Pais Vasco, Navarra and Madrid”.

In Banco Sabadell, M&As had a strategy of strengthening market position, whereas strategic alliances were planned to provide products or services distinct from those already offered by the acquired banks. Table 1 shows that Banco Sabadell's alliances with Dexia Credit and Zurich were maintained, and the interview revealed that the cross-sharing alliance with BCP and a subsequent alliance with this partner were influenced by the M&A of Banco Herrero, which is detailed in a subsequent section.

Unlike the Banco Sabadell case, Grupo Santander had a strong internationalization strategy:

'The international growth strategy of Santander Central Hispano (BSCH) is based on the adaptation of its business model in the different markets it has entered, and it has made efforts in Europe and Latin America. The expansion on European level is based on its presence in Portugal, on the alliance with Royal Bank of Scotland and on the bet on the consumer bank. The focus in Latin America has been very different, following a selective investment process and management improvement' (Emilio Botin, Chairman of Group Santander, ICE-2002).

The Bank has engaged in many strategic alliances and acquisitions, though its main operations were the acquisition of Banesto in 1994, the M&A with Banco Central Hispano (BCH) in 1999 and the acquisition of Abbey National (UK) in 2004. Banesto's purchase enabled a set of acquisitions in Latin America (Guillén and Tschoegl, 2008). The M&A with BCH resulted in the largest bank in the Euro zone, measured by capitalization, and the largest bank in Latin America (Moeller, 2010). The strategic rationale for this M&A was the potential increase in size and scale in a consolidating market. The acquisition of Abbey was the first major cross-border transaction in European retail banking and resulted in the fourth largest bank in Europe (Ghemawat et al., 2006). The bank has been engaged in several strategic alliances and M&As, as Appendix 2 shows, yet an analysis of these M&As shows that the M&A between BCH-Santander (BSCH-Banco Santander Central Hispano) led to considerable effects on the portfolio. Thus, we focus on this phenomenon to explain the impacts on the portfolio of allies.

Banco Santander had adopted both M&As and strategic alliances before its M&A with BCH. Nevertheless, several strategic alliances that started in 1980-1990 were terminated before the M&A with BCH, such as the relationship with Banco Cariplo (Italy), Nomura (Japan), Kemper (U.S), Paribas (France), First Fidelity (U.S) and British Telecom. In terms of M&A, several operations were made in Latin America before the BCH-Santander merger, and this region continued to receive such type of

investments afterwards. In Table 1.2 we show the effect of such M&A on the main strategic alliances of Banco Santander.

Table 1.2: Banco Santander’s main strategic alliances after its M&A with BCH

Year	Partner (of focal firm)	Main Goal	Status of strategic alliance after BS-BCH merger
1987	MetLife	Start a joint venture (Genesis) to offer insurance and pension products (1).	Terminated around 2001.
1988	RBS	Exchange technology, knowledge and joint investments in Europe. Concern about hostile takeover from abroad (1).	Maintained until acquisition of Abbey National in UK.
1995	San Paolo di Torino	Joint investments in Europe. Concern about hostile takeover from abroad (1).	Maintained (San Paolo IMI). BSCH increased participation from 6.9% in 1998 to 10% in 2003.
1998	Inter Alpha Group	Set up joint representative offices (2), and exchange information (1).	Maintained.

Source: (1) Guillén and Tschoegl (2008), (2) Guillén (2006).

*Own Elaboration

In contrast, Banco Central Hispano (BCH) was mainly engaged in strategic alliances before the merger with Santander. This bank had different approaches when setting up strategic alliances in Latin America and Europe (Garcia-Canal et al., 2002a). In table 1.3, we present the effects of the M&A between Banco Santander and BCH on the main strategic alliances of BCH.

Table 1.3: BCH’s main strategic alliances after its M&A with Banco Santander

Year	Partner (of focal firm)	Main Goal	Status of strategic alliance after BS-BCH M&A
1940	Assicurazioni Generali	Develop insurance services (2)	Maintained
1988	Commerzbank	Joint projects in different countries Concern about hostile takeover from abroad (2)	Maintained, but it lost further importance.
1991	Group Luksic	Control and manage banks in South America (1)	Dissolved –BSCH acquired % of Group Luksic
1993	BCP	Joint projects in different countries (2)	Terminated
1994	Société Generale	Joint operations management. Create a division of investment banking and assets management. Concern about hostile takeover from abroad.	Maintained - BSCH increased participation from 1.2% (BCH) to 3.3%. (2) It lost further importance (2).
1995	Group ONA	Control and management of Banco Comercial de Marruecos (BCM) (2)	Maintained
1997	Rothschild	Provide wealth management services, open new bank (2)	Maintained – Rothschild Inter Alpha Group

Source: (1) Casilda and Calderon (2000), (2) Guillén and Tschoegl (2008).

* Own Elaboration.

Before the merger, BCH had started a strategic alliance with European banks, called Europartners, to compete jointly in Europe, and each of its members relied on others to make transactions in their local countries (Garcia-Canal et al., 2002a), yet it

did not achieve its goals and terminated in 1992. In turn, in Latin America BCH looked for strategic alliances (Group Luksic) to build a network and to make joint investments (Garcia-Canal et al., 2002a).

The M&A between Banco Santander and BCH involved the integration of two expansion strategies, and as we can see in Table 1.2 and 1.3 some strategic alliances were maintained while others were terminated. Some of those that were dissolved represented a direct effect of the M&A, while others that were maintained in a short time-window may have terminated later. Importantly, after the M&A, the bank had to manage strategic alliances with banks of different countries in Europe (Germany, Italy, France, Portugal), Chile and the U.S, but some aspects had to be adjusted by the newly merged firm.

3.4.1. Alliance dissolution and redundancy in the board

In Table 3 we can observe that soon after the M&A between Banco Santander and BCH, the former strategic alliances of BCH with Société Generale (SoGen) and Commerzbank were strengthened.

-Société Generale (SoGen): According to an article in *The New York Times* (2000), SoGen would try to benefit from BSCH's strength in Latin America, while BSCH would attempt to benefit from Société Generale's strength in Asia. That is, the increase of relational rents seemed to rely on the international scope of the banks. BSCH increased its stake to 5% to support SoGen against a takeover, and in 2000, they deepened the strategic alliance when SoGen took 3.3% of BSCH, which retained 7% of SoGen, and their strategic alliance was characterized as "strategic alliance between equals" (Guillén and Tschoegl, 2008). However, in 2001, BSCH's stake in SoGen fell to 1.5%, and by 2002, it had sold even that stake. SoGen was an important strategic alliance for BSCH during the hostile bid of RBS over Natwest in the UK in 2000 (ABC - January 15, 2002), yet the shares in SoGen was being reduced.

Such an attempt of a new project brings another important aspect to the analysis of effects of M&As on an alliance portfolio. The international expansion of firms influences the portfolio in the sense that a firm that expands through a M&A can achieve a specific size and geographic scope such that competition against rivals reduces the potential to create relational rents. In the competitive scenario before the M&A between Santander and BCH, the Spanish banking market was smaller than

France's or Germany's, though in terms of market capitalization, Spanish banks were among Europe's largest (The Economist, 1999). That is, they intensified competition in the European zone in a period of opportunities with the European Economic and Monetary Union.

-Commerzbank: The strategic alliance with Commerzbank continued soon after the M&A between BS and BCH as well. The M&A with BCH gave Santander stakes in Commerzbank, Germany's third-largest bank (Guillén and Tschoegl, 2008). At that time, Commerzbank had had a long-standing cooperative agreement with Société Generale (SoGen) and Natwest (Guillén and Tschoegl, 2008). Thus, it seemed reasonable to maintain such a strategic alliance after the M&A. Commerzbank required from its partners a higher participation in its shares to protect against a hostile bid from a German firm (Cobra - main shareholder with 17%) and Santander had intended to increase its shares with the selling of CC-Bank, yet a disagreement about the value of this bank appeared (Guillén and Tschoegl, 2008). At the end, the strategic alliance with Commerzbank lost its relational value in 2003. Commerzbank holdings were classified in BSCH's 2003 annual report as financial investments in "companies which have no lasting relationship with the Group and over which no significant influence is exercised". Without an agreement with Commerzbank about the selling of CC-Bank, this partner left BSCH's board later, and consumer credit became part of Santander's strategy in Germany, achieving 13% of the market share for financing automobile purchases, and the business expanded to Eastern Europe (Guillén and Tschoegl, 2008). In the end, BSCH acquired major market positions in consumer finance in both Germany and Eastern Europe (Guillén, 2006).

The cause-effect linkage between the M&A and the dissolution of such strategic alliances is related to the definition in the board of the newly acquired firm. After the leaving of a former president of BCH from the board of BSCH, the strategic alliances with Commerzbank and Société Générale (former strategic alliances of BCH) lost interest while those strategic alliances with San Paolo IMI and RBS were maintained for a longer time (former strategic alliances of Banco Santander). There was a co-presidency, but Botín (president of Banco Santander) was the actor who was deeply committed to gaining control of the merged bank (Guillén and Tschoegl, 2008). In effect, at the end of 2001 Botín had persuaded some BCH directors to leave the board, including the representative of Commerzbank - former strategic alliance of BCH

(Guillén and Tschoegl, 2008). The relational rents of both strategic alliances with Société Générale and Commerzbank lost value in a relatively short term after the M&A, when compared to that with San Paolo IMI and RBS.

3.4.2. Alliance dissolution and redundancy of strategic alliances

Redundancy in the board of BSCH after the M&A between BCH and Banco Santander led to a slow adjustment of the alliance portfolio. After the M&A, BSCH retained its redundant strategic alliances for two years in which the co-presidents of BSCH remained on the board. Research on the M&A found resource redundancy between the target and acquiring firm can occur (Cui et al., 2011), yet the relation between a M&A and the external linkages of a firm requires a better understanding.

Some delayed adjustments in the portfolio of BSCH are related to redundancy between insurance firms. In 1987, Banco Santander signed an alliance with Metropolitan Life (MetLife); a U.S. insurance company. MetLife took a 0.5% stake and received a seat on the board of directors. In 1989, they started a joint venture called Genesis to offer insurance and pension products. Yet BCH also had a strategic alliance with another insurance company, Assicurazioni Generali, which had a 51% interest in BCH subsidiaries, such as BCH Vida, BCH Pensiones, and BCH Seguros Generales (Guillén and Tschoegl, 2008). In December 1998, Assicurazioni Generali owned 5.8% of BCH; its other main shareholders, BCP and Commerzbank, had 6% and 5%, respectively (Casilda and Calderon, 1999). With the M&A between Banco Santander and BCH in 1999, the two insurance firms coexisted until 2001; in a new holding company, Santander accounted for 60% and Generali and MetLife each held 20%. This bancassurance firm comprised Genesis (*bancassurance* channel), BCH Vida and BCH Seguros Generales (Santander Central Hispano Seguros) and soon became the market leader in Spain (Grupo Santander, 2000). In 2000, BSCH acquired 3.9% of MetLife, then divested it in 2002 (Grupo Santander, 2002). The appointment of Emilio Botín as president in 2001 was nearly simultaneous with BSCH's designation of Assicurazioni Generali as its insurance partner. In this process, Assicurazioni Generali¹⁴ reduced its

¹⁴ Assicurazioni Generali continued to expand in Spain with its subsidiary (Generali España) and started a 50-50 joint venture with Cajamar in 2003. In September 2003, Generali España sold its 20% participation in Santander Central Hispano Seguros to BSCH, which held 100% of the firm (Grupo Santander, 2003). In 2004, Assicurazioni Generali had participation in Commerzbank, Banesto, Société Generale, SanPaolo IMI and other Italian banks and was one of the main shareholders in BSCH.

shares in the three subsidiaries of BCH to own about 1.3% of Santander, in which it has had a director on the board since 1999.

The cause-effect linkage between the M&A and the termination of redundancy in the portfolio is related to the shareholding in BSCH. MetLife was a former partner of Santander but, in the end, the former partner of BCH was maintained in the portfolio. In this setting, the *bancassurance* firm formed by BSCH, MetLife and Assicurazioni was an opportunity for BSCH to learn with both firms and then BSCH negotiated with Assicurazioni Generali.

3.4.3. Alliance dissolution and competition

The analysis of the case studies also brought to light circumstances of competition in which the strategic alliances were terminated. We classified the type of competition in two ways: competition between partners and competition between merging firm and partners.

3.4.3.1. Competition between partners

Competition between partners is another aspect that appeared after a M&A, but it does not necessarily lead to the dissolution of partners. We contextualize it with the analysis of both case studies.

-Banco Santander: The case study about Banco Santander brought to light the topic of competition within the portfolio. First, an aspect that appeared in the BSCH portfolio is the shareholdings in the portfolio of allies of Société Generale. After the M&A between Banco Santander and BCH, a new project started with the partners Commerzbank, RBS, Société Générale and San Paolo IMI in 2000, yet it was never developed because Commerzbank was a shareholder in SoGen's rival (Crédit Lyonnais) and San Paolo IMI was a shareholder in another SoGen rival in France (BNP Paribas) (Guillén and Tschoegl, 2008). It illustrates how shareholdings in rival firms may bring about problems to the generation of relational rents within the portfolio.

Second, the acquisition of Abbey National by BSCH led to the dissolution of a strategic alliance in the UK. In 1988, Banco Santander started a strategic alliance with RBS, maintained by BSCH until 2004. At the time the agreement was signed, RBS was a medium-sized bank and, during the strategic alliance between RBS and Banco Santander, the latter learned about its initiatives in the United States and United Kingdom. They formed a competence-building strategy and it is a well known case of a

mutual learning alliance (García-Canal et al., 2002a). In 1999, BSCH began to step up its expansion process in Europe with RBS and supported RBS in the acquisition of Natwest in 2000-2001. Moreover, they exchanged shares and board seats and developed joint projects over sixteen years (Guillén and Tschoegl, 2008). After these sixteen years in the UK, BSCH identified a target (Abbey National) that suffered poor financial performance (Ghemawat et al., 2006). Both RBS and Banco Santander agreed to terminate their presence on the boards to avoid a possible conflict of interest (Moeller, 2010) because BSCH would become a potential competitor of RBS in the United Kingdom and it explains the cause-effect linkage between the M&A and the dissolution of such a strategic alliance. A particularity of this strategic alliance is that relational capital was maintained after the dissolution of the strategic alliance with RBS: the successful experience with RBS allowed for a further strategic alliance with both RBS and Fortis Bank, such that they jointly acquired ABN-AMRO in 2007.

-Banco Sabadell: The need of Banco Sabadell to achieve a better national market position prompted the acquisition of Banco Herrero in 2000, which brought new portfolio management issues. In 2000 la Caixa owned 12.5% of BPI¹⁵ (Banco Portugues de Investimento; Cordeiro, 2010) and Banco Sabadell established a strategic alliance with its rival BCP¹⁶ (Banco Comercial Portugues) through cross-sharing (initially 10%). BCP was the preferred commercial partner in Portugal, yet at the end of the same year, Banco Sabadell signed a contract with la Caixa and acquired Banco Herrero, its subsidiary. la Caixa became a 15% shareholder of Banco Sabadell and it represented problems to Sabadell's relationship with BCP, because la Caixa already had approximately 12.5% of BPI shares and BCP and Banco BPI were competitors in Portugal. We depicted the influence of the Banco Herrero acquisition on Banco Sabadell's alliance portfolio in Table 1.4.

¹⁵ la Caixa had a strategic alliance with BPI, owning shares in BPI through Criteria. In 2008, its participation increased from 27% to 30.03% (Fernandez and Bustos, 2010). Banco Portugues de Investimentos is a commercial bank that was part of the BPI SGPS holding. Since its founding in 1985, it has engaged in acquisitions. In 1991, BPI acquired Banco Fonsecas and Burnay; in 1996, it acquired Banco de Fomento e Exterior and Banco Borges and Irmao.

¹⁶ In 2000, BCP engaged in the acquisition of Banco Mello and Banco Pinto e Sotto Mayor. It is currently known as Millenium BCP.

Table 1.4 – Contextualization of Banco Herrero acquisition

Date	Event	Country
January, 2000	la Caixa acquires 12.5% of BPI.	Portugal
March, 2000	Banco Sabadell and BCP have a cross-shareholding alliance (10%).	Portugal-Spain
September, 2000	Banco Sabadell acquires 100% of Banco Herrero (Subsidiary of la Caixa). la Caixa becomes shareholder of Banco Sabadell.	Spain
September, 2000	Competition between BCP and BPI, through la Caixa participation in Banco Sabadell (15%)	Portugal-Spain
September, 2000	Cross-shareholding alliance between Banco Sabadell and BCP reduces to 8.5%	Portugal-Spain
March, 2001	Banco Sabadell and BCP start a joint venture Activo Bank.	Portugal-Spain
October, 2002	Activo Bank is dissolved.	Spain

From the perspective of BCP (according to the interview), the participation of la Caixa in BPI represented a threat to BCP's strategic alliance with Banco Sabadell. This conflict in Banco Sabadell's alliance portfolio emerged in our interview as the following quotation shows:

'la Caixa was a competitor of BCP in Portugal. And the problems appeared. la Caixa never had an agreement with BCP. They had a few meetings in Banco Sabadell without any positive result [...] la Caixa had 15% and BCP had 8.5% of Banco Sabadell. They co-existed with Banco Sabadell. la Caixa increased its investment in Portugal with BPI, and BCP identified la Caixa as a competitor in Portugal. Even though it did not mean control of BPI, la Caixa, with approximately 15%, represented a very important participation in the eyes of BCP' (General Manager of corporate development of Banco Sabadell, personal interview, 28 July 2008).

With stakes of la Caixa and BCP in Banco Sabadell, BCP and BPI were partners as well. They jointly participated in some projects, but BCP was trying to strengthen its position in Spain. In 2001, Banco Sabadell and BCP started a joint venture, Activo Bank S.A., to develop Internet usage in the bank. According to the interview, during the joint venture, BCP demonstrated interest in implementing its telephonic customer platform in Spain (it was not in line with the initial objectives of the joint venture) and such particular interest of BCP in Activo Bank, the competition between BPI and BCP, and the reduced costs of the Internet investments gradually led to the termination¹⁷ of this joint venture. With the dissolution of Activo Bank the opportunity to achieve potential benefits with BCP encouraged the bank to start another strategic alliance: Managerland.

There are two aspects of causality that can be mentioned here. First, the cause-effect linkage between the dissolution of a former strategic alliance with BCP and the

¹⁷ Banco Sabadell acquired the shares of BCP and a minority stake of Ibersecurities, which also had invested in Activo Bank.

formation of another one is related to the potential to generate further relational rents with the same partner. The alliance with BCP was in an initial development stage when the acquisition of Banco Herrero took place. That is, as trust between parties takes time to be attained and it reflects on the generation of relational rents, new projects might overcome time-compression diseconomies (García-Canal et al., 2002b) associated with such a strategic alliance. Second, competition between BCP and BPI within the portfolio can affect the strategic alliance between the merging firm (Banco Sabadell) and its partner (BCP).

3.4.3.1. Competition between merging firm and partner

The case study of BSCH also showed the dissolution of strategic alliances in Portugal and in the UK. After the M&A with BCH in 1999, BCH's 1993 strategic alliance with BCP (Banco Comercial Português) was dissolved (conflict of interest), because it included an agreement to not compete in the partner's country. BCP was a rival of BCI (Banco de Comercio e Industria), which had been acquired by Banco Santander Portugal in 1993. With the M&A with BCH, the presence of Banco Santander increased in Portugal, and the strategic alliance was not maintained. The cause-effect linkage between this M&A and the dissolution of such strategic alliance with a Portuguese partner is directly related to competition in Portugal, where Santander had been investing more aggressively than in other regions in Europe.

3.4.4. Alliance dissolution and reorientation of expansion strategy

Another case of dissolution related to international strategy is found in the expansion of Banco Santander and BCH in Latin America. In this region, Banco Santander was used to acquiring shares that allowed it to manage entities¹⁸, while BCH was used to acquiring majority shares in local partners. For instance, in Chile, BCH's strategic alliance with Group Luksic involved participation in the O'Higgins Central Hispano holding. Since 1996, with 50% of Group Luksic, it had a presence in Argentina, Chile, Peru and Paraguay. In Chile, BCH was a market leader through Banco de Santiago, but Group Luksic became interested in consolidating Banco de Santiago instead of investing in new acquisitions with BCH (Casilda and Calderon, 1999). With the M&A between Banco Santander-BCH, the new entity adopted a strategic orientation that differed from BCH's strategy in Latin America. The cause-effect linkage between

¹⁸ This aggressive strategy was related to the quick expansion of BBV (Banco Bilbao Vizcaya) in the region (Casilda and Calderon, 1999).

the M&A and the dissolution of the strategic alliance with Group Luksic is related to the prevalence of Santander's international strategy in the region. That is, the strategic alliance with Group Luksic was dissolved in 1999 through the acquisition of 50% of OHCH by BSCH (Casilda and Calderon, 2000). Afterwards, a set of acquisitions was intensified as an expansion strategy in Latin America.

3.4.5. Alliance dissolution and regulation

The strategic alliance with San Paolo di Torino was initially intensified and it was maintained for a longer period than that with Commerzbank and SoGen (former BCH partners). In the initial stage of such a strategic alliance to the newly merged firm, an initiative to improve relational rents occurred with a new cooperation agreement in 2000, yet regulatory issues seemed to influence the strategic alliance with San Paolo di Torino. In 2000 they signed a cooperation agreement to promote each other's banking services, and in 2001 they faced the opposition of Italian banking authorities to foreign investments in the sector and Santander withdrew two directors from the board of San Paolo, yet the strategic alliance was not abandoned (Guillén and Tschoegl, 2008). In this scenario, the Italian Central bank was reorganizing its financial sector, and some obstacles to cross-border mergers, such as political interference (fostering of national champions), were detected in the attempt of the main domestic competitor of BSCH (BBVA) in acquiring Unicredit in Italy (Vives, 2001). Even with the introduction of a common currency (Euro) during 1999-2002 and an increasing integration of countries into the European Union (Benink and Benston, 2005), cross-country cooperation between European regulators and supervisors still has to be improved (Uhde and Heimeshoff, 2009). That is, regulation issues can also hinder the attainment of relational rents because of the difficulties to expand operations.

In 2003, the banks dissolved a joint venture and created another, and Santander stayed with 50% of Finconsumo (a consumer finance venture in Italy) and San Paolo acquired 50% of Allfunds Bank from Santander (Guillén and Tschoegl, 2008). At that time, San Paolo IMI owned 3% of Santander while the latter owned 5.3% of Sao Paolo IMI, and at the end of 2005, it owned 8.6% and was the second largest shareholder. In this point, we see that the strategic alliance maintained the generation of relational rents. However, in 2006, San Paolo IMI was acquired by Banca Intesa of Milan, which diluted Santander's ownership (Guillén and Tschoegl, 2008). As some other of Santander's competitors such as BBVA were trying to acquire banks in Italy, the strategic alliance

with San Paolo might have represented a step to intensify operations in Italy. Nevertheless, such a purchase of San Paolo IMI made Santander remain with 1.7% of that bank in 2008 (Guillén and Tschoegl, 2008). Thus, the cause-effect linkage between the M&A and the dissolution of its strategic alliance is the acquisition of the target by another firm, which was motivated by national regulation.

As was possible to observe in this section, both Banco Sabadell and Banco Santander were engaged in both strategic alliance and M&A initiatives, and the aspects that influenced their portfolio of allies are summarized in Table 1.5.

Table 1.5: Summary of data analysis

Case	Mini-Case	Unit of Analysis	Evidence	Effects
Banco Sabadell	M&A of Banco Herrero by Banco Sabadell.	Effects of the M&A of Banco Herrero on the BCP and Activo Bank alliance	Competition between partners in Portugal	Decrease of relational rents in the short-term
BSCH	M&A of BCH-Banco Santander.	Effects of the M&A on the alliance with BCP	Competition between merging firms and partner	Dissolution
BSCH	M&A of BCH-Banco Santander.	Effects of the M&A on the MetLife and Assicuarazoni Generali alliances	Redundancy of strategic alliances	Improve relational rents with Assicurazioni Generali
BSCH	M&A of BCH-Banco Santander.	Effects of the M&A on the alliance with Commerzbank	Weakness in linkage intensity (lost strategic value- Redundancy in the board)	Increase of relational rents soon after the merger, followed by a decrease
BSCH	M&A of BCH-Banco Santander.	Effects of the M&A on the alliance with Société Generale	Weakness in linkage intensity (lost strategic value – Redundancy in the board and competition in the portfolio)	Increase of relational rents soon after the merger, followed by a decrease
BSCH	M&A of BCH-Banco Santander.	Effects of the M&A on the alliance with San Paolo	Attempt to increase linkage intensity. Weakness in linkage intensity (Regulation)	Increase of relational rents until the M&A of San Paolo IMI in Italy
BSCH	M&A of BCH-Banco Santander.	Effects of the M&A on the Luksic alliance	Reorientation of expansion strategy	Dissolution through acquisition of a part of an alliance
BSCH	M&A of Abbey National by Santander.	Effects of the M&A on RBS alliance	Potential competition in the UK	Decrease of relational rents

4. DISCUSSION

This chapter provides support for the argument that M&As affect the alliance portfolio. The cases have shown that redundancy on the board of the newly merged

firm, redundancy between strategic alliances, competition between partners and competition between merging firm and partners and definition of international strategy are aspects to be taken into account in an alliance portfolio management when adopting a M&A.

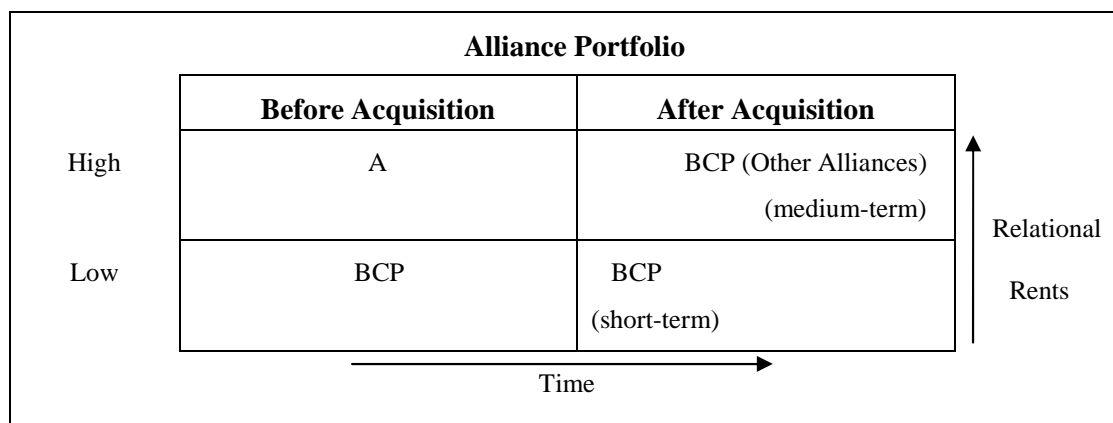
Prior research in alliance maintenance considers the presence of competition a relevant impairment to the chances that an alliance continue (Park and Russo, 1996), and it can be seen in both case studies. In turn, redundancy in the board of BSCH when it became an equal blend of these two predecessor firms tended to maintain the strategic alliances previously formed by each part. The end of redundancy between some strategic alliances and the reduction of linkage intensity in others was related to the definition in the board. For instance, the strategic alliances of Banco Santander (BCH) with the insurance firm MetLife (Assicurazioni Generali) co-evolved until 2001, but with the naming of Emilio Botín to the presidency, the adjustment of the alliance portfolio was no longer delayed as before. The strategic alliances with RBS and San Paolo IMI were maintained for a longer period than that corresponding to the former strategic alliances of BCH (Commerzbank and Société Generale). Another shift occurred in the expansion of BSCH in Latin America after the end of its co-presidency: The adoption of M&As to expand its boundaries in this region followed Banco Santander's former strategy.

Some delays related to M&As have already been mentioned in the literature: in terms of M&As in banking, decisions related to the unification of branch network and to the operation and management of control systems (Sherman and Rupert, 2006). These authors also point out that cultural differences delay integration in other areas, including branches, call centers, international operations and information systems. In effect, both BCH and Santander had a different history, corporate culture and managerial style (Guillén and Tschoegl, 2008). In this way, joining the information gathered in the literature, and that gained through the analysis of the case studies, we propose the following proposition be suggested in this chapter:

Proposition 1: The existence of a co-presidency or a co-chairmanship with a M&A delays some definitions in the alliance portfolio because each member prefers the maintenance of its partners, and the decision about strategic alliances maintenance takes place after the termination of such redundancy in the board.

The slower adjustment of some of BSCH’s strategic alliances and the delay related to such decisions mentioned by the literature (Sherman and Rupert, 2006) indicate that managers have to take into account a temporal perspective in order to better understand the effects of a M&A on the formation of relational rents in a portfolio. Apart from the case of redundancy on the board, when a new alliance is formed, information about the other partner and about the managers involved in alliance management is incomplete (Inkpen, 2008), and partners have to interact to have mutual learning and achieve the initial goals. In other words, the expected relational rents and competitive advantage can arise after a specific time-period. Moreover, M&As involve time to digest targets (Hennart and Reddy, 1997) and to put into practice all negotiated elements. Such a temporal perspective on the alliance portfolio analysis can be seen through a suggested classification of the main strategic alliances of the Spanish banks researched in this chapter, adopting a M&A as an event of reference. To do so, we recap Figure 1.2 and we consider the M&A of Banco Herrero for the case of Banco Sabadell and the Santander-BCH M&A for the case of Group Santander, because it is the point from which we gathered more information about the set of strategic alliances in terms of maintenance and dissolution. The classification is a relative comparison between the relational rents created before and after each M&A.

Figure 1.2: Banco Sabadell’s alliance portfolio after a M&A

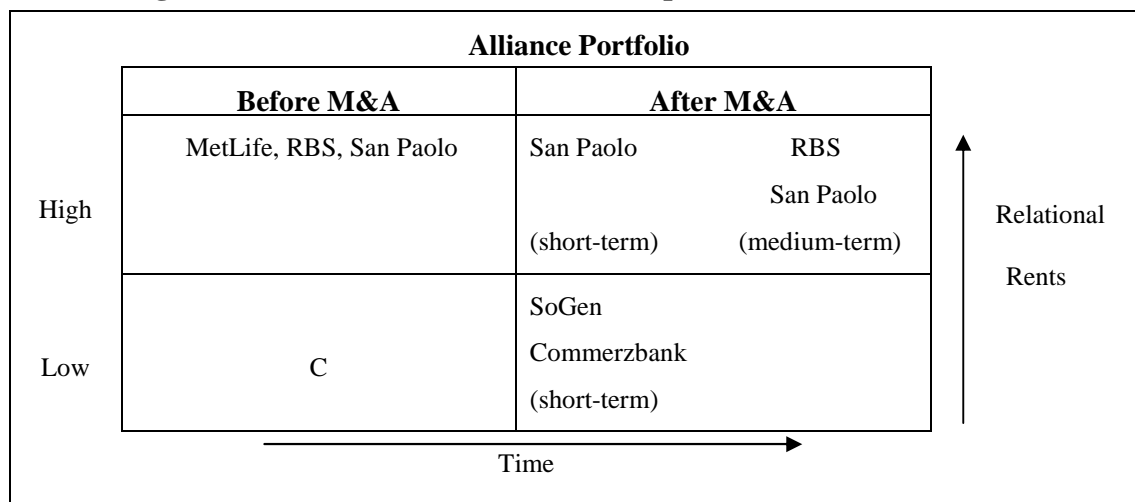


Banco Sabadell had just started a cross-sharing alliance with BCP before the M&A of Banco Herrero. We assume that they did not achieve high relational rents in a short time-window before the M&A because it was the first strategic alliance between the partners. Six months after this strategic alliance formation, Sabadell acquired Banco Herrero and had a reduction in the relational rents created with BCP through the effect on the cross-shareholding (from 10% to 8.5%), and some conflicts between BCP and

BPI (rivals) partially affected the generation of rents of Activo Bank (a joint venture between the same partners). Nevertheless, another strategic alliance with BCP (Managerland) started what indicated that a learning process seemed to begin because the prior strategic alliance with BCP was in the initial stage of development. That is, after the M&A, a set of new projects can start with current strategic alliances and such knowledge can also be applied in subsequent alliance initiatives. The strategic alliances formed by Banco Sabadell later on did not bring about problems to the portfolio. For instance, the last strategic alliance with Zurich had a strong linkage intensity and enabled the bank to strengthen its *bancassurance* business in Spain. It combined the expertise of Zurich in this business and the distribution channel and customers of Banco Sabadell. In this way, in the medium-term Banco Sabadell seems to have improved the relational rents of its portfolio.

In the case of BSCH (based on the M&A between Santander-BCH), before the M&A, the main strategic alliances of Santander were with Banco San Paolo di Torino, RBS and MetLife. Both MetLife and RBS approved the bid of Santander for BCI in Portugal. RBS and Santander were forming joint ventures, particularly in Germany and Belgium, and RBS supported the bid by buying 2% of Banesto's shares from Santander in 1994 (Guillén and Tschoegl, 2008). This strategic alliance represented an important source of knowledge and joint projects were undertaken for the long term, contributing to the generation of relational rents. It was terminated after Santander achieved a global position with the purchase of Abbey National in the UK, which was RBS's competitor. In Figure 1.3, we show the shifts in the portfolio through a relative comparison between relational rents before and after the Santander-BCH M&A.

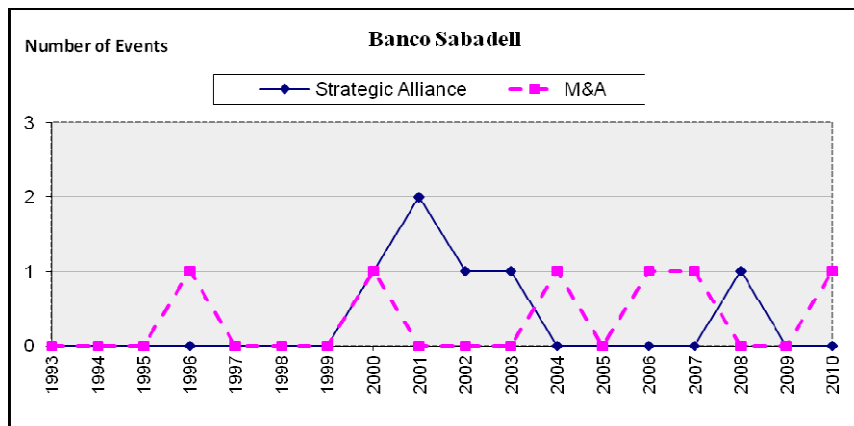
Figure 1.3: Banco Santander's alliance portfolio after a M&A



Soon after the Santander - BCH M&A in 1999, BSCH intensified the strategic alliance with San Paolo IMI, Société Générale and Commerzbank. Santander was interested in strengthening its ties with San Paolo IMI in 2006 (Guillén and Tschoegl, 2008), yet the generation of rents terminated with the M&A with Intesa in 2008. In turn, the strategic alliances with Commerzbank and SoGen lost attractive power, after the termination of co-presidency of the bank. Thus, after a M&A, some strategic alliances may be weakened and dissolved or renegotiated while others may be strengthened over time. By analyzing a single event of M&A, we can observe that some strategic alliances can be terminated in the short-term while others can delay being dissolved.

Both Figure 1.2 and 1.3 illustrate the importance of time in an analysis of the effects in a portfolio, yet another temporal view can be developed when analyzing the use of strategic alliances and M&As over time (Prescott and Shi, 2011). To facilitate the interpretation of the rhythm and synchronization of the portfolio of allies and M&A initiatives, we adopt the number of strategic alliances initiatives in each year¹⁹. In this way, we analyze both case studies by first presenting the sequence of entries of Banco Sabadell in Figure 1.4 (considering number of acquisitions and number of strategic alliances formed per year).

Figure 1.4: Sequence of entry – Banco Sabadell

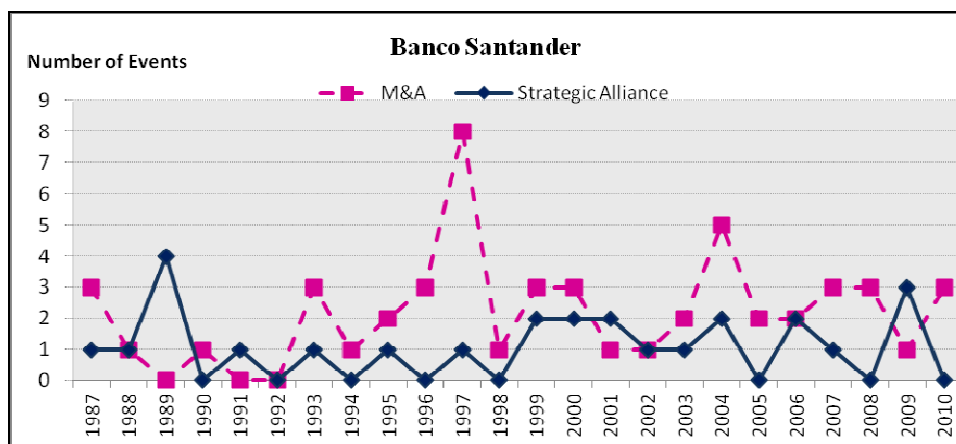


Based on the information of Table 1.1, the sequence pattern of Banco Sabadell’s expansion is observed in Figure 1.4. This graph illustrates a relative synchronized rhythm of M&As and strategic alliances. Both expansion initiatives had different goals and they usually occurred in different years. This analysis about the sequence of events provides

¹⁹ Information about linkage intensity between partners is not easily identifiable over time, and thus we consider that the number of alliances formed per year shows how alliances can co-exist with M&A initiatives over time.

information about how each bank used each entry mode over time. Banks that mainly compete in a domestic region may present a well-developed rhythm of operations, while banks with a more diverse geographical scope of operations may present different patterns. For instance, Banco Santander has a strong international scope and had a different sequence of entry over time, as Figure 1.5 shows (considering number of acquisitions and number of strategic alliances formed per year).

Figure 1.5: Sequence of entry – Banco Santander



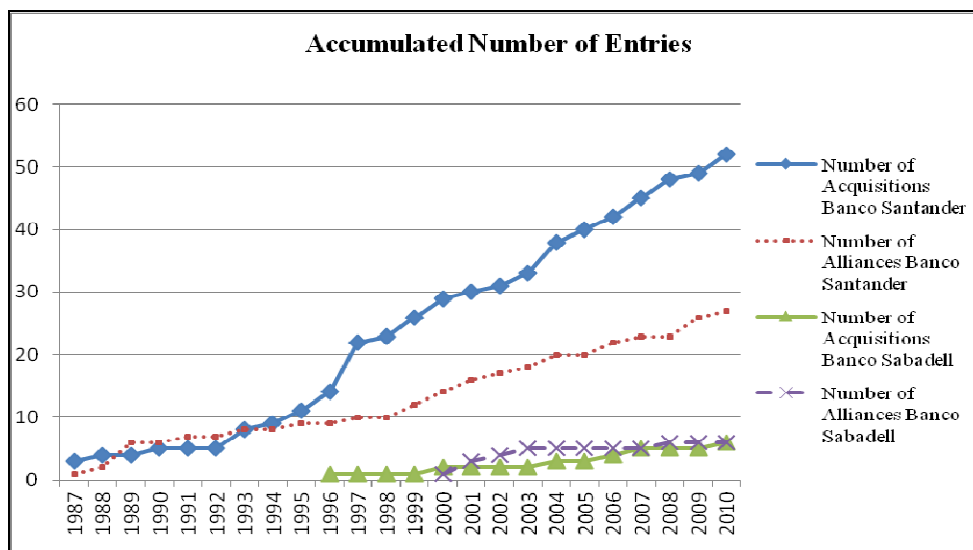
Based on the information of Appendix 2, we see the irregularity in the formation of strategic alliances and M&As in Figure 1.5, characterizing a more unpredictable sequence than that presented by the case of Banco Sabadell. Banco Santander initially used strategic alliances in an international level. Moreover, some M&As were adopted until the integration of Banesto in 1994, which gave Banco Santander the reference scale to future M&As in Latin America (Guillén and Tschoegl, 2008). From this point, the bank addressed growth in Latin America through acquisitions until the M&A with BCH in 1999. After 1999, the newly merged bank slightly incremented the rhythm in the formation of strategic alliances, and the sequence of M&As presented a different rhythm: The bank decided to increase its internationalization level by intensifying market shares in some regions through M&As (Latin America and UK, for instance).

Both Figures 1.4 and 1.5 illustrate shifts in the rhythm of strategic alliance and M&A initiatives. Over time, the portfolio of Santander shows shifts in the number of alliances formed, redundancy and a different level of linkage intensity between partners, but in terms of dispersion some differences are identified before and after the M&A with Abbey National in 2004. Before this event, it had alliances with related (businesses in the same industry tend to have similar assets and operations - Cui et al., 2011) and

unrelated firms, but after this event we realized that the bank allied itself with unrelated firms, characterizing the dispersion element in its portfolio. Contrarily, the strategic alliances of Banco Sabadell continued to be undertaken with unrelated firms to develop new businesses within the bank and it followed a well-paced rhythm. In its portfolio, no considerable shifts in terms of strategic alliances, redundancy and dispersion after the selective set of M&As were found.

Thus, both banks had different rhythms in M&A and strategic alliance initiatives, as they have distinct expansion strategies. As the number of M&As can represent the M&A experience (Shi et al., 2012), by adopting the same reasoning for strategic alliances it is possible to compare Banco Sabadell with Banco Santander in terms of their accumulated experience with both entry modes.

Figure 1.6: Number of strategic alliances and M&As



In Figure 1.6, we can observe the different growth strategies of both banks. The accumulated number of acquisitions and strategic alliances of Banco Sabadell was almost the same. Its expansion strategy is still dependent on domestic activities and it has been following a well-paced rhythm without many problems in the portfolio. In turn, in Banco Santander's expansion we can observe three stages. We can see the intensification of M&As after Banesto's purchase in 1994 and after the integration of Abbey National in 2004. In turn, a slight increase in the number of strategic alliances formed can be seen after the M&A with BCH in 1999.

The analysis of a temporal perspective enabled us to identify different expansion strategies related to the alliance portfolios. The value of current resources and the

corresponding competitive advantage by possessing their assets can reduce over time, and the run for accessing new resources through strategic alliances and M&As can lead to different expansion forms in both the domestic and international scenario. In Table 1.6, we summarize the main characteristics of the expansion of each bank by comparing the period before and after a specific M&A.

Table 1.6: Alliance portfolio before and after a M&A

Event /Period	Before M&A		After M&A				
Bank	Expansion Strategy of Banks	Scope of Strategic Alliances and Orientation	Expansion Strategy of Banks	Scope of Strategic Alliances and Orientation	Effect on Relational Rents (short-term)	Effect on Relational Rents (medium-term)	Major Shifts
Banco Sabadell - M&A of Banco Herrero-2000	Focus on domestic area	Domestic Exploration	Focus on domestic area. Two small acquisitions in the U.S.	Domestic Exploration	<u>Decrease</u> <i>Competition</i> -BCP and BPI	<u>Increase</u>	Experiential learning with BCP and a specific partner in insurance
Banco Santander - M&A of BCH - 1999 (Santander)	Several acquisitions in Europe and some M&As in Latin America	International: Multiregional and Competence-building (RBS) Exploration	Several acquisitions in Europe, Latin America and U.S. in different stages	Domestic and International Exploration	<u>Decrease</u> <i>Redundancy on the Board</i> -MetLife and Assicurazioni Generali	<u>Decrease</u> <u>Alliances Terminated</u> <i>Competition</i> -RBS (c)	Exploration in an international level through M&As and some strategic alliances
BCH - M&A of Banco Santander-1999 (BCH)	Majority shares in local institutions without control management (OHCH: strategic alliance with Group Luksic)	International: Multiregional - Exploitation (Europe) Exploration (Latin America)			<u>Decrease</u> <u>Alliances Terminated</u> <i>Competition</i> -BCP <i>Reorientation of Expansion Strategy in Latin America</i> -Luksic <u>Increase</u> -Commerzbank -SoGen (a) -San Paolo IMI (a), (b)	<i>Regulation and Acquisition by Other Bank</i> -San Paolo IMI <i>Redundancy on the Board</i> Commerzbank, <i>Redundancy on the Board and Competition within the Portfolio</i> SoGen <u>Increase</u> -Alliances in Complementary Activities	

(a) Both partners established another agreement with BSCH in 2000 (Guillén and Tschoegl, 2008)

(b) San Paolo and Santander dissolved a joint venture and started another in 2003 (Guillén and Tschoegl, 2008).

(c) Alliance of RBS was terminated in 2004 after the acquisition of Abbey National in UK.

*Own Elaboration.

Table 1.6 shows that Sabadell had a learning process with the strategic alliance with BCP. The potential to generate new business with the same partner led to new initiatives through strategic alliances to maximize the generation of rents with the partner. In the Santander case, soon after the M&A with BCH, BSCH attempted a new

agreement with SoGen to strengthen its tie, but in the medium-term the strategic alliances with SoGen and Commerzbank were dissolved. In addition, two new initiatives with San Paolo IMI began and, as it was a former strategic alliance of Santander, BSCH attempted to maintain it after the co-presidency. Nevertheless, the value of this strategic alliance was destroyed with the acquisition of San Paolo IMI by an Italian bank: Intesa. This strategic alliance dissolution was also related to regulation. Different regulations between European countries also brought difficulties to improve foreign investments either through a cross-shareholding or M&As in 1999. International consolidation of financial institutions within Europe and within the European Union has been relatively limited, making it difficult to operate or own a financial institution in another country (Berger et al., 2001). In effect, at that time several domestic consolidation initiatives were identified in Europe: In Spain, the M&A between Banco Santander and BCH and between BBV and Argentaria; in France, the M&A between Banque Nationale de Paris (BNP), Société Générale and Paribas, and rumors in Germany and Italy about domestic M&As (Casilda and Calderón, 2000). In effect, there were some barriers to a cross-country consolidation related to differences in language, culture, currency, regulatory/supervisory structures and rules about foreign competitors (Berger et al., 2001). In this context, the internationalization strategy of many banks addressed those emerging countries that were opened to foreign investments.

Finally, based on the information provided in this chapter, we can observe that many factors can lead to a reduction in relational rents within the portfolio, and when firms adopt M&As, some effects on the set of strategic alliances can be detected in the short- or medium-term. It reinforces the importance of entry-mode choice. If the choice of each entry mode relies on specific types of resources and synergies, marketplace of competition, collaboration capabilities and a firm's expertise in managing strategic alliances or acquisitions (Dyer et al., 2004), another aspect that can be added to this set of elements is the effects of M&As on the set of strategic alliances. Such influence can affect the generation of relational rents in a portfolio and it also strengthens the importance of re-evaluation of the initial conditions of strategic alliances, which have to be adapted to the new goals of the newly merged firm. Procedural solutions for conflict resolution can be adopted (Ariño and De la Torre, 1998), yet an aggressive internationalization strategy can turn the alliance portfolio management into a complex task with the dynamism of market competition. At somehow, accumulated experience

with strategic alliances and M&As may contribute to such management in the sense that a firm learns with each partner and each target's integration, and such information can be used in subsequent entries. Expertise in dealing with the particularities of any entry mode is created over time, and this organizational learning approach (Huber, 1991) can contribute to explain a better form of management of an alliance portfolio.

5. CONCLUSION

This chapter contributes to the area of alliance portfolio management, strategic alliance maintenance and dissolution and post-M&A management. We have advanced the view that for firms to get the most from an alliance portfolio, they must understand the influences of M&As, which complements those empirical studies about M&As and external linkages (Spedale et al., 2007). In this chapter we have identified these effects and relate them to the elements of an alliance portfolio as number of partners, dispersion, redundancy and linkage intensity (Hoffmann, 2007), and we have also analyzed the temporal view over strategic alliance and M&A initiatives (Shi et al., 2012).

Redundancy occurred in the board of a newly merged firm (BSCH) and the expansion strategy was clarified after the co-presidency came to an end²⁰. We observed a slow adjustment of the portfolio, with respect to the redundant strategic alliances with the insurance firms (MetLife and Assicurazoni Generali). Competition between partners is another aspect that terminated the linkage intensity in a strategic alliance: Banco Sabadell's partner BCP faced conflicts with BPI (BCP's competitor in Portugal) after the M&A of Banco Herrero, and it led to other problems in the portfolio such as the dissolution of a strategic alliance between merging (acquiring) firm and its partner (Activo Bank). Nevertheless, Banco Sabadell and BCP continued to cooperate in other projects, i.e., a relational element can continue after the cessation of the operation. Competition also occurred in the case of BSCH. RBS and BSCH would become competitors in the UK with the acquisition of Abbey National in 2004 by BSCH. However, the interpersonal relationships between the boards of these banks enabled them to cooperate in the M&A initiative of ABN-AMRO in 2007. That is, the level of relational rents and knowledge gained over time may generate new projects after

²⁰Former subsidiaries of BCH were sold after the end of the co-presidency: In 2002, subsidiaries in Panama and Perú (Bancosur) were sold, and in 2003, it sold Banco de Assunción in Paraguay, and in 2005, Banco Santa Cruz in Bolivia (Guillén and Tschöegl, 2007, p. 111).

becoming competitors in a region. When BSCH was formed, its size enabled them to compete with larger banks and it focused on specific regions to intensify operations. For instance, the aggressive expansion strategy adopted by Santander in Portugal also led to the dissolution of the strategic alliance with BCP after the M&A between Santander-BCH. A competition issue occurred, since BCP had an agreement of no-competition in Portugal, but BCP's rival in Portugal (BCI) had already been acquired by Banco Santander.

A M&A can also lead to a redefinition of expansion strategy in a specific region. The re-establishment of an expansion strategy in Latin America led to the dissolution of the strategic alliance with Group Luksic. BCH had a set of strategic alliances in Europe and a local alliance in Latin America to pool both firms' resources in the region, while Santander had acquired Banesto and other banks in Latin America and was involved in global strategic alliances (García-Canal et al., 2002a). After the M&A between Banco Santander and BCH, the role of BSCH's expansion in Latin America changed in the perspective of BCH: It followed an internationalization strategy based on the development of strategic alliances with European and US partners, but an exception occurred in Latin America, where it used total or majority acquisitions of local banks (García-Canal et al., 2002b).

Based on the information from the case studies, we can see that when a bank does not have a considerable international commitment and it is not the leader in its home country, the role of strategic alliances and M&As for the business may follow a more predictable rhythm than that followed by a bank that is committed to international operations. Santander initially used strategic alliances to accelerate internationalization, yet when it attained a larger size it gained specific knowledge and conditions to commit resources through M&As, reducing the initial dependency on strategic alliances.

In addition, a M&A can require a specific time-period to choose the set of remaining strategic alliances: After the M&A between Banco Santander and BCH, the strategic alliances with Commerzbank and SoGen (former strategic alliances of BCH) made an attempt to be strengthened, but they were dissolved later. Apart from the tendency of each co-president to defend the interest of those strategic alliances they had begun, the case of SoGen also brought an instance of conflicts within the alliance portfolio of BSCH: Both Commerzbank and San Paolo IMI had shareholding in its two different rivals in France. In this way, the costs that a strategic alliance creates in the

portfolio derive mainly from the resolution of conflicts among current relationships (Wassmer et al., 2010), and the coordination costs of a portfolio must be weighed against the relational rents generated by its strategic alliances. Such costs and rents can be affected by a M&A, and some strategic alliances can be terminated while others remain dependent on adjustments that must match the definition of expansion goals of the new merging/acquiring firm.

This chapter also shows that a M&A affects both equity and non-equity strategic alliances. Banco Sabadell had little experience with strategic alliances and faced the termination of a joint venture a year after an acquisition, while Banco Santander, instead, dissolved its non-equity alliance with RBS only after sixteen years. Thus, we can observe that the duration of strategic alliances is related to how they generate relational rents in comparison to their objectives. This process can be complex when a focal firm is also engaged in M&As and the strategic alliance is in the initial developmental stage. The case of Sabadell showed that when the M&A of Banco Herrero brought problems to the generation of relational rents, the potential of the partner led to new joint projects to improve relational rents. In effect, a strategic alliance may not achieve the expected rents for several reasons, such as the formation of trust (García-Canal et al., 2002b) or the need for a renegotiation stage (Ariño and De la Torre, 1998). Moreover, each strategic alliance has its own evolutionary process and each partner can change resources over time when adopting a M&A or when rivals are also engaging in strategic alliances to achieve access to the same resources (market competition), which may alter the current value of the strategic alliance's resources (Cui et al., 2011). Thus, the case of Banco Sabadell reflected an attempt to conduct the relation-specific partner towards the improvement of its cooperation to generate relation rents.

As the design and management of strategies and resources across an entire portfolio of partners is a key aspect to the success of a strategic alliance (Sarkar et al., 2009), it is reasonable to dedicate attention to the generation of relational rents when the portfolio has an external event like a M&A. It is important that the bidder attempts to previously identify possibly incompatibilities in the portfolio when a M&A is undertaken. However, in a rapid-changing sector, when a firm identifies an opportunity of a M&A, the analyses of the potential costs in adjusting possible portfolio incompatibilities may not be taken. Given the dynamics of the business environment

and the potential gains that can be attained through a M&A, a firm can prioritize a quick increase of its market share by adopting this mode: The potential benefits of this operation may be higher than the potential relational rents that might be produced through a current joint venture, for instance. Otherwise, a firm might choose strategic alliances to acquire new resources and gain access to new knowledge and new markets with reduced risks.

In circumstances in which it is not possible to identify incompatibilities in advance, an organizational learning approach (Huber, 1991) might contribute to explain the development of strategic alliance and M&A capabilities. The accumulated knowledge through prior entries may have generated specific knowledge to serve as a basis for the subsequent partner's or target's choices. In this way, the experiential learning with both modes can be a factor to be used in the attempt to re-establish common rents between strategic alliances by adjusting possible differences after a M&A.

6. IMPLICATIONS, LIMITATIONS AND FURTHER RESEARCH

This chapter shows the importance of alliance portfolio management after a M&A and it has both theoretical and managerial implications. In terms of theoretical aspects, this chapter contributes to studies related to alliance portfolio, strategic alliances maintenance and dissolution and post-M&A. It supports the importance of relational elements in M&A studies (Spedale et al., 2007) and shows some elements that require managerial attention when a firm expands through both strategic alliance and M&A. We have found that redundancy in the board, i.e., the balance of power between co-presidents, can delay the adjustment of a portfolio.

Some effects of a M&A in the alliance portfolio may not be seen in the short-term and they can influence the elements of a portfolio such as number of strategic alliances, dispersion, linkage intensity and redundancy over time (Hoffmann, 2007). We also found that the relational rents can be reduced when partners are competitors in other regions and the termination of a strategic alliance can also be influenced by the definition of a new expansion strategy in specific regions after a M&A. Finally, we could also say that a temporal view on strategic alliance initiatives over time (Prescott and Shi, 2011) enables us to identify shifts in the expansion process in which a M&A

can represent a discontinuity or a point from which a different sequence of M&A and strategic alliance initiatives can be developed.

In terms of managerial implications, we can state that managers should be more aware of the impacts in the relational elements when undertaking M&As. Such impacts call attention to those managers engaged in decisions about entry modes to domestic and international expansion. The insight that we have is that both M&As and strategic alliances can be seen in an integrated view instead of being managed in an isolated way. By identifying the effects of a M&A on the alliance portfolio in advance, a renegotiation step may take place with partners before this event in order to maintain the competitive advantage of each strategic alliance. However, this chapter shows that the challenge can rely on how to manage the balance of power in a M&A. This factor can influence the alliance portfolio configuration in terms of the relational rents produced by strategic alliances. This chapter also shows how different expansion strategies lead to shifts in the alliance portfolio, which is also related to industry regulation in different countries. For instance, within the European Union, some barriers between foreign investments were found and some expansion initiatives prevailed within the domestic area in the early 2000s, which contributed to the termination of some international strategic alliances.

In terms of limitations of this study, we can mention that the results may be useful for other banks, but we cannot generalize them because only two case studies were used. Moreover, to attain the objective of this chapter, we focused on the analysis of those strategic alliances that were affected by a M&A, yet those that did not suffer the impact of a specific M&A may be further analyzed in other studies on alliance portfolios. In addition, we considered strategic alliances in this research that were mentioned in articles, books and annual reports of Grupo Santander and Banco Sabadell. If some agreement in a specific region is not included in the set of strategic alliances, we assume they are not so strategic to these banks.

Further research should extend our study by investigating more strategic alliances and M&As, evaluating the extent to which our findings apply to other banks or firms in other sectors, such as technology companies that are continuously updating their resources. In doing so, more insights about this topic could be generated. An analysis of portfolio adjustment using quantitative information could also be studied, and it could take into account the influence of size, diversification and

internationalization level of the bidder firm. In this research, we see that a large Spanish bank with a strong domestic and international market share shows effects in its portfolio in different regions when it adopts M&As. Meanwhile, the case of a smaller Spanish bank that does not have the same international focus shows that even a firm with a pattern of expansion that is relatively predictable presents implications in its portfolio, which can strengthen the interest for more research in this topic.

Finally, this chapter contributes with information that must be taken into account when firms have to choose between strategic alliance and M&A. We call for research about the relation between types of strategic alliances and acquisitions, the effects of changes in alliance portfolios on M&As and the relationship between alliances and M&As when the latter are cash funded.

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Appendix 1 – Interview protocol

-Interview protocol

Case	Banco Sabadell / Banco Santander
Date	
<p>1. Introduction Overview: The case we are writing is about how a M&A can affect the alliance portfolio of a firm. All interviews and documentation is confidential.</p> <p>2. Context How long have you been working in the bank? Did you participate in the deals?</p> <p>3. Historical Perspective Can you confirm for us the strategic alliances and M&As in which the bank has been engaged? Would you like to add some event that is not considered in this list? Which was the goal of each event? Did a strategic alliance lead to a M&A? Did a M&A lead to a strategic alliance?</p> <p>4. Decisions How did the bank solve this aspect related to the portfolio? How does the resource allocation process change after a M&A?</p> <p>5. Future Is there any specific business in which a M&A may affect the portfolio in the near future? What factors will facilitate the management of strategic alliances when maintaining the expansion process?</p> <p>6. Wrap-up Is there any other aspect that is relevant and that we did not cover? <i>New contact:</i> Was any strategic alliance formed in the last year? Was the last set of M&As affected by any strategic alliance?</p>	

Source: Adapted from Crossan and Berdrow (2003).

Appendix 2 – Sequence of entry of Banco Santander

Banco Santander		
Year	Mergers and Acquisitions	Strategic Alliances
1987	Berline Bank, CC-Bank (Germany), Visa Card	MetLife (U.S)
1988	CC Bank – Belgium	RBS (UK)
1989		Banco Cariplo(Italy), Banco Paribas (France), Nomura Securities (Japan), Kemper (US)
1990	Caguas-CFS Bank (Puerto Rico)	
1991		First Fidelity
1992		
1993	BCI (78%), Fincard (Chile), FUSA (Chile)	British Telecom
1994	Banesto	
1995	Interandino (Peru), Banco Mercantil (Peru)	San Paolo di Torino (Italy)
1996	Banco Osorio y la Union, Banco de Venezuela, BCH Puerto Rico (99.2%)	
1997	Banco Rio da Plata, Banco Geral do Comercio, Banco Antioqueño, Grupo Invermexico, 69% Santander Chile, Bancoquia, CASEG (50%), Grupo Perez Compan (Arg).	
1998	Banco Noroeste (Brazil)	Inter-Alpha Group
1999	Banco Santander-BCH , Banco Totta (Portugal), Serfin	Vodafone, Champalimaud (Portugal)
2000	Meridional, Banespa (Brazil), Santiago (Chile), Patagon	New agreement with SoGen, New agreement with San Paolo IMI
2001		Grupo Werhahn, Assicurazioni(Italy), Universities Program
2002	AKB Bank	Bank of America (U.S)
2003	CC Bank(Poland), 50% Finconsumo	New JV with San Paolo IMI
2004	Abbey National (UK), Elcon Finans, DnB Nor's, AbFin, Polske Finansowe	Mutua Madrileña, Fragus Warrant
2005	90% Drive Financial (UK), Bankia Bank	
2006	70% Unifin	RBS-Santander-Fortis; SAG
2007	ABN AMRO, Banco Real (Brazil), Extrobank	BP Solar
2008	Bradford and Bingley, Alliance Leicester (UK), 100% Banco Sovereign (US)	
2009	AIG Poland	Ferrari, Lan, Movistar
2010	Grupo SEB, Banco Zachodni (Poland), MandT Bank	Getnet

Source: Annual Report-Group Santander (2000-2010); Guillén & Tschoegl (2008)

CHAPTER 2

Flexibility and commitment when entering an emerging country through acquisitions

Abstract

With the increase in the number of acquisitions to expand operations abroad, the study of flexibility when committing resources through this mode requires more attention. Acquisition seems to be a more irreversible mode to enlarge the boundaries of the firm because of the price to be paid, yet several entries through this mode have taken place in emerging countries recently. This aspect brings about the question of how to achieve flexibility in an expansion through acquisitions in these countries. Flexibility here refers to the ease with which a firm can change the strategic direction by a departure from an emerging country where it is committed in competing through acquisitions. In order to better understand this phenomenon, the expansion of a Spanish bank in Brazil is adopted as a case study, and the analysis starts with the adoption of an initial framework that combines the amount of investment, majority of stakes, market share and brand coordination. We conclude this chapter by showing that flexibility in an expansion through acquisitions can occur until reaching a specific market share from which an exit can involve strategic losses, and it is contextualized by a real-options approach.

Keywords: Banks, Acquisition, Flexibility, Commitment

1. INTRODUCTION

The need to improve strategic positioning is leading firms to increase their market share in different countries. This need to increase the scale of operations arose with the intensification of competition in both domestic and international markets (Focarelli and Pozzolo, 2008), and some firms have adopted a sequence of acquisitions²¹ in some emerging countries. This entry mode involves the payment of assets of target firms, and the perception of risk to invest in some of these emerging²² countries is high given the risks of expropriation, cultural differences or changes in host-country environment. In this way, when firms incrementally increase investments through acquisitions, each step may have a different level of flexibility. In this chapter we adapt the concept of flexibility used by McCarthy and Puffer (1997), who defined it as the ease with which a strategic direction may be changed. Change here means the departure²³ of a firm from a host country in which its commitment to the expansion was through a set of acquisitions.

The motivation to develop this topic emerged while researching the expansion of firms through acquisitions and strategic alliances²⁴. The literature shows that acquisitions are expensive and difficult to reverse (Brouthers and Dikova, 2009), while strategic alliances do not require the payment of market value to have access to external resources and can be dissolved (Sanchez-Lorda and Garcia-Canal, 2005). The point that calls our attention is that firms that already have a specific capability to manage acquisitions or market knowledge about the emerging country may perceive a lower level of risks related to entries through acquisition. In addition, the number of business opportunities in a huge emerging country may also make the selling of the operation easier, given the availability of players that can intensify operations in the host country.

²¹ An acquisition has a change in the majority ownership of the firm and another firm obtains control of and authority over it (Pablo, 1994).

²² The term “emerging country” refers to that country that promoted capital flows with non-residents and is broadly accessible to foreign investors (International Monetary Fund, 2012). The International Monetary Fund (IMF) classifies the regions in advanced (1) and emerging and developing economies (2), in which an emerging country represents that developing nation that is in a process of rapid growth and industrialization.

²³ We assume that in the analysis of exit from the host country, the selling price covers the expected present value of keeping the operation - floor price (Porter, 1980).

²⁴ Strategic Alliances are defined as arrangements between firms to share resources and co-develop products or services (Gulati, 1998) and can be a contractual agreement limited in time and scope, a cross-shareholding between partners, or the parties may create a new firm (joint venture) with shared ownership and control (Garcia-Casarejos et al., 2009).

In this way, a small acquisition in an emerging country might be related to a flexibility level that is different from that stage in which a firm acquires larger target firms.

Several strategic alliances and acquisitions have been adopted by firms to expand their boundaries abroad, and the process perspective of multinationals – the Uppsala model (Johanson and Vahlne, 1990) – is among the theories that have covered the internationalization of firms. In a specific country, it is expected that firms expand in a gradual way as they gain market knowledge with the development of current activities (Johanson and Vahlne, 1990). With this incremental approach, after sharing the risk through an entry with a partner, a firm can use the corresponding market knowledge and enter the host country again by managing operations alone. In this context, after the adoption of a sequence of entries, it might be thought that the expansion process may gradually lose its flexibility level.

The literature has addressed the entry mode choice (Chang and Rosenweig, 2001; Dyer et al., 2004) and for other reasons this decision can depend on the experiential learning related to an entry mechanism in a similar business (Hayward, 2002) and on how business opportunities match the resource and capabilities needs (Kogut, 1998). The host country can offer a set of valuable resources that matches the interest of the bidder firm, and it can foster firms to follow an entry sequence of considerable involvement and substantial investments or to adopt a more cautious path when expanding in a host country (McCarthy and Puffer, 1997). By not possessing enough market knowledge about a specific emerging country, a less committed entry mode might be chosen, yet when that country presents a huge market for doing business that can represent a potential source of benefits and competitive advantage, an entry through acquisition can occur and it can be a platform for subsequent expansion initiatives through this mode.

When expanding through acquisitions, each entry can enable the creation of new knowledge, and the accumulation of such know-how may be a basis for subsequent entries or for a heavier investment. That is, a firm accumulates market share and develops capabilities from each purchase, and the expertise with the mechanism of entry and the host market can better deal with risks of each subsequent entry. With the intensification of investments, commitment in the expansion process can reach a point from which a firm can have considerable benefits in developing full operation and

services in a host country. That is, before this point, each step of an incremental entry through acquisitions can represent different level of flexibility.

In order to build an initial approach to respond to how acquisitions can lead to a flexible expansion process, we initially conduct a literature review about internationalization, entry modes and flexibility and commitment in the business field (Ghemawat and De Sol, 1991; Figueira-de-Lemos et al., 2011), and we observe that few articles deal with flexibility through a firm's purchases. In this manner, as case studies have made important contributions to the business economics field, such as the GM and Fisher Body case (Coase, 2000) and Safelite (Lazear, 2000), we conduct a case study of a successful expansion of a Spanish bank in Brazil. Specifically, it is a grounded development research that enables us the generation of insights that can help to explain the problem at hand.

In this scenario, the contribution of this chapter is related to the improvement of our knowledge about entry modes in foreign countries, in particular to the emerging ones. Some large countries like Brazil, Russia, India and China (BRIC) have been receiving considerable foreign investments lately. For instance, approximately 40% of Brazilian inhabitants do not have access to a banking account (IPEA, 2011), and, in this fashion, the importance of studying flexibility through acquisitions in such emerging nation is strengthened as it is a large country with an increasing medium class. Moreover, in those countries that present business opportunities and an uncertain environment, when a firm intensifies commitment through a set of acquisitions, managerial attention also has to be addressed regarding the opportunities of exit. In other words, a firm may sell the operation in a host country when there is a need to have capital, the operation is not successful or the perception of an unstable scenario appears. This scenario shows that each entry in a host country requires a trade-off between risks and potential benefits that can be achieved with each entry. In order to contextualize the expansion of a bank we adopt a case-study method, which also allows us to make a comparison between acquisition and another entry mode (joint ventures) in terms of flexibility of a firm's expansion process.

Thus, in order to better understand how acquisitions can lead to a flexible expansion, we structured this chapter as follows. The second section presents a literature review that serves as a basis for the development of this research. The third part draws on the research design with data analysis and findings, while the fourth section has a

discussion about flexibility through acquisitions. At the end, we present the conclusion, limitations and possible aspects that could be studied in future research.

2. LITERATURE REVIEW

In an expansion process firms can repeat or adopt a combination of entry modes and each sequence of entry can present different levels of flexibility and commitment. In this chapter, in addition to contractual agreements, we consider that firms can enter in a foreign market through joint ventures, acquisitions or greenfield investments²⁵ (Chang and Rosenzweig, 2001).

2.1. Entry Modes

Firms that need to expand their boundaries have to choose the appropriate form of entry in a host country. For instance, in a study about joint ventures and acquisitions it was found that the former creates value to shareholders who seem to favor joint ventures between parents from dissimilar businesses and the latter can also create value when bidder and target are from similar businesses (Balakrishnan and Koza, 1993). The explanation of such findings was related to higher transaction costs in dealing with a firm from a different industry. Moreover, when Sánchez-Lorda and García-Canal (2005) studied a process of convergence between two industries, they found that strategic alliances were more valuable to investors in the early stages, while acquisitions were more valuable in the latter stages of such a process.

The choice of an entry mode can also be related to the need to acquire or retain specific capabilities (Kogut, 1988). Depending on the availability of partners or targets in a host country and on the current set of organizational resources, firms may have room to explore new resources and new capabilities and a different sequence of entry can be adopted in this country. Some firms may prefer to enter directly through acquisitions while others may choose strategic alliances. The latter enables partners to rescind their relationship at a relatively low cost, while the former has costs of administering and controlling acquired assets (Balakrishnan and Koza, 1993). The point is that the adoption of less committed entry modes may generate some problems that may hamper the achievement of a flexible expansion. A strategic alliance is not considered an aggressive mechanism of entry by sharing risks with a partner, yet it can

²⁵ Greenfield investment is the setting up of a new plant or another establishment from scratch (Chang and Rosenzweig, 2001).

require managerial time to solve some problems related to competition, unilateral behavior and the non-achievement of initial goals (Das and Teng, 2012). The management of these aspects can be time-consuming because some instability may not be easily dissipated. In this way, strategic alliances can present characteristics that are not easily manageable, which reinforces the importance of comparing them with acquisitions in terms of flexibility in an expansion process.

Furthermore, emerging countries offer many opportunities and have high-quality sources (Cavusgil et al., 2002), and acquisitions in these countries may explore new knowledge and new sources of benefits. In some huge emerging regions, it may not be difficult to find new targets, and therefore firms can adopt a sequence of entry through acquisitions. This autonomy to decide for the appropriate entry mode may also make the decision about the departure of a country easier, without depending on negotiation with a partner as in the case of strategic alliances. It is another point that highlights the importance of studying entry modes in international expansion in the context of flexibility and commitment.

2.1.1. Entry Modes in Emerging Countries

The lack of knowledge of foreign markets is the main obstacle to international expansion (Figueira-de-Lemos et al., 2011). Firms need specific information about the culture, regulation and policies of an emerging country, and it helps with the entry-mode choice. In fact, some prior research focused on expansion in emerging countries and considered both firm and environment factors to explain the phenomenon (Guillén, 2003; Chang, 1995).

The openness of some economies in the 1990s increased the interest of foreign firms, and some authors²⁶ show interest in BRIC countries (Brazil, Russia, China, India) because of their growth potential as emerging regions; they find that prior experience in a host country is a factor that can influence an entry-mode selection. In view of this, a repetition of the entry mode enables the development of capabilities and this can be a key point to subsequent purchases of firms. In this context, the timing of entry is another important aspect to be taken into account. For instance, when local firms lack strong capabilities and resources to compete against foreign entrants, early entrants in

²⁶ Ogasavara and Hoshino (2007), McCarthy and Puffer (1997), Bhaumik (2008) and Lin (2000). More articles related to expansion in emerging countries are found in Appendix 1. Appendix 2 shows some articles about entries of financial service firms.

an emerging country may establish brand loyalty more easily than late entrants (Isobe et al., 2000). It highlights the importance of possessing experiential learning with an entry mode and strategic information about the host country, in which firms can adopt quick penetration through acquisitions to have access to valuable resources and build a competitive advantage.

2.1.2. Acquisitions and Capabilities

Some cases of firms' expansions in host countries can be associated with the logic of the Uppsala model, which argues that the internationalization process evolves over time (Johanson and Vahlne, 1990) and firms gradually increase dependence on foreign countries by choosing new markets sequentially accordingly to the perceived proximity (Forsgren and Hagstrom, 2007). In terms of expansion within a host country, this process perspective reflects an incremental accumulation of market knowledge before the adoption of more committed entry modes.

Furthermore, the adoption of another entry mode may be related to the observation of other players' movements that can generate some valuable information and learning (Huber, 1991). A firm may follow the initiatives of firms from the same environment or use its expertise with an entry mode gained in other expansion initiatives in other regions. In fact, the organizational learning approach considers a change in the organization's knowledge as a function of experience (Argote and Miron-Spektor, 2011), and then the creation of new knowledge from each acquisition becomes part of the organizational learning process of the firm that can be applied in the decision of subsequent entries in a host country. The sequence of events leads to the repetition of practices and routines, which can be an important learning mechanism for the development of capabilities (Eisenhardt and Martin, 2000) such as creating quality and responding quickly to the market: They are important platforms that a firm can build, because they support investment strategies into a set of opportunities (Kogut and Kulatilaka, 1999). In this manner, a sequence of decisions about entries in an emerging country might lead us to think of real options²⁷, because the running of a business has the option of abandoning or waiting for more valuable opportunities (Kogut and Kulatilaka, 1999).

²⁷ Real-options investments are sequential, irreversible investments made under conditions of uncertainty (Adner and Levinthal, 2004b). Irreversibility is the inability to recover the investment costs already expended, and it does not mean that firms cannot change or the transformation is not possible (Kogut and Kulatilaka, 2001).

As we have described in this section, both firm and industry characteristics are dimensions that can be considered in the decision of acquiring new targets and both can influence the flexibility level in an expansion process through acquisitions.

2.2. Flexibility and Commitment

In the literature about internationalization of firms, some articles present the term “flexibility” as the ability of a firm to rapidly shift production to different locations abroad or shift sales to new international customers (Lee and Makhija, 2009). Firms with production units located in multiple countries can benefit from their ability to change production locations in response to unexpected changes (Reuer and Leiblein, 2000). These views are related to the ease to change the strategic use of resources in a geographical scope, yet as this chapter focuses on the expansion of a firm within a specific country the concept of flexibility proposed by Ghemawat and De Sol (1998) is worth being analyzed.

Flexibility can be explained by the distinction between firm-specific and firm-non-specific resources²⁸ and between usage-specific and non-usage-specific resources (Ghemawat and De Sol, 1998). The authors classify a resource as being firm-specific when its value to the firm exceeds its price in the market (otherwise, it is a non-specific or flexible resource). In this setting, the selling of a firm-specific resource may be hampered by difficulties to find a buyer available to pay the correspondent price. A resource is specific to a usage when its value decreases in a different usage application (otherwise, it is a non-specific resource for usage; Ghemawat and De Sol, 1998). In this context, a firm can purchase targets that are differently integrated into the bidder structure and some acquired assets may become firm-specific resources to the bidder, while others not. In this way, attention has to be addressed to the post-acquisition phase in terms of types of target integration (Haspeslagh and Jemison, 1991). Digestion of firms requires skills, as targets can increase in size relative to bidder, and the number and complexity of new procedures and relationships that need to be integrated can also increase (Hennart and Reddy, 1997; Carayannopoulos and Auster, 2010). In this fashion, commitment through acquisitions can also bring some complexities inherent to the task of integrating targets.

²⁸ Resources are the durable factors, assets or capabilities the firm uses for production. Among others, it includes plant and equipment, real estate, patents, brand names, information system, experience and skills of employees, trust relationship between managers and workers and organizational culture (Ghemawat and De Sol, 1998).

In order to preempt some possible integration problems with targets in a firm's expansion, we might think about strategic alliances instead of acquisitions. Contractual agreements and joint ventures and acquisitions require a different level of resources to take place. Strategic alliances involve risk-sharing with a partner, though they require time to achieve the expected gains because trust between partners needs to be developed when there is not prior experience. Moreover, acquisition has a higher commitment meaning of expansion than do strategic alliances because of the price to be paid and the difficulty to rescind the operation (Sánchez-Lorda and García-Canal, 2005). The costs of the acquirer in valuing the assets of targets can be high due to information asymmetries (Villalonga and McGahan, 2005), and the integration of firms can be a hard task. Indeed, both strategic alliance and acquisition can involve a time-consuming process until achieving strategic gains.

This importance of a temporal perspective can be also identified when adopting an industry view. Firms may wait for the appropriate timing to acquire or enter through another mode. They can react differently to the entry of new players, and instead of a rapid entry they may prefer to observe how other firms of the same industry are moving (Wernelfelt and Karnani, 1987). The strategic movements of firms influence their market share and can affect the concentration ratios (CR) of the industry. They can be an answer to other competitors' movements, and firms can look for targets that fit their cost or differentiation strategies (Porter, 1985) to achieve a defensible position in the market or that enables access in a particular target group, segment of the product line or geographic market (Porter, 1980).

In this scenario of changes, the expansion goal of firms may shift over time and, therefore, the commitment through acquisitions may occur in different phases. This chapter has presented, up to now, the main elements of the literature that constitute a basis for the interpretation of the empirical part. From this point on, we introduce the methodological aspects of this chapter. We initially describe the research-design section to present the method we adopt to collect and interpret information related to the research question. Then, we provide data analysis and, at the end of this section, we suggest a manner to analyze how acquisitions can lead to flexible expansion in an emerging country.

3. METHODOLOGY

3.1. Research Design

This research might contribute with insights to the initial literature review about entry modes shown in this chapter. As there is little literature about flexibility through acquisitions, we adopted a qualitative research method based on the case-study method, which is a research strategy that focuses on understanding the dynamics of the phenomenon under study (Eisenhardt, 1989). In doing so, we consider the aspects related to the choice of the case study, data collection and data analysis (Yin, 2009) to generate insights that can be considered in future research about the topic.

In this empirical stage some elements of grounded theory are applied: The direction of this type of research depends on the analyst's way of accounting for change and on the characteristics of data, bringing both researcher and data together to find evidence in the data (Strauss and Corbin, 1990: p.148). Indeed, by adopting a simultaneous development of insights, data generation and data analysis in a dialectical process, the grounded view of this chapter is based on the abductive approach (Mason, 2002: p.182). The abductive logic stresses going back and forth between the theoretical framework, data sources and data analysis (Salmi, 2011), and it allows for the adoption of a framework at the start which can be modified during the research (Dubois and Gadde, 2002).

In order to start the empirical section, we follow Huberman and Miles (1994) by organizing the information with data reduction, data display and conclusion verification. As Huberman and Miles (1994) propose semi-structured interviews to case studies, we prepared a sequence of questions related to the expansion process through acquisitions and with the information gathered in the interview we then conducted the data analysis.

3.1.1. Data Description

Given the rapid rhythm of international expansion by the financial services firms since the early 1990s (Grant and Venzin, 2009), the interest of studying expansion in an emerging country is related to a more aggressive internationalization strategy of European banks outside of the European Union rather than within this region and the fact that most international acquisitions of Spanish banks were in Latin America up to 2000 (Campa and Cobos, 2008). In this region, Brazil has been a very important player: It was vastly underserved in financial services as a result of almost three decades of

high inflation (Carvalho, 2002), and it attracted foreign banking activities in a period of more stable inflation that started in 1994 (Brazilian currency: The Real) which was marked by shifts in the profile of the domestic banking system (Guimaraes, 2002). Within this context, we chose Banco Santander as the Spanish bank to be studied because it has been engaged in several acquisitions in Latin America²⁹ (See Appendix 3), and, in particular, it considerably increased its investments in Brazil. The importance of this country is highlighted by an interview with Emilio Botín - Group Santander's CEO - who states:

'Brazil is a priority in our international strategy and we want to be the first private bank in this country' (Emilio Botín, *Expansión*, 01 November 2008).

In order to collect information about the bank's expansion in Brazil, we initially analyzed some documents about the operation in this country and other articles about internationalization and entry modes. Such information enabled the elaboration of a protocol to prepare the interview and it was organized in a case-study archive that contemplates documents protocol (See Appendix 3). Afterwards, we conducted an interview in Group Santander (Boadilla del Monte-Madrid, 26 June 2009) with two professionals that have been working with Latin American operations (manager of communication sector: Mission America; principal of internationalization: focus Brazil - both are part of the team of Finance Management Department-America Division).

With the information of the interview in hand, we move between the data and original transcripts and we classified text passages and initial information from articles and documents into some codes and concepts (open coding) (Strauss and Corbin, 1990) (See Appendix 4), and then we chose some quotations that could enrich the contextualization of the expansion process in Brazil.

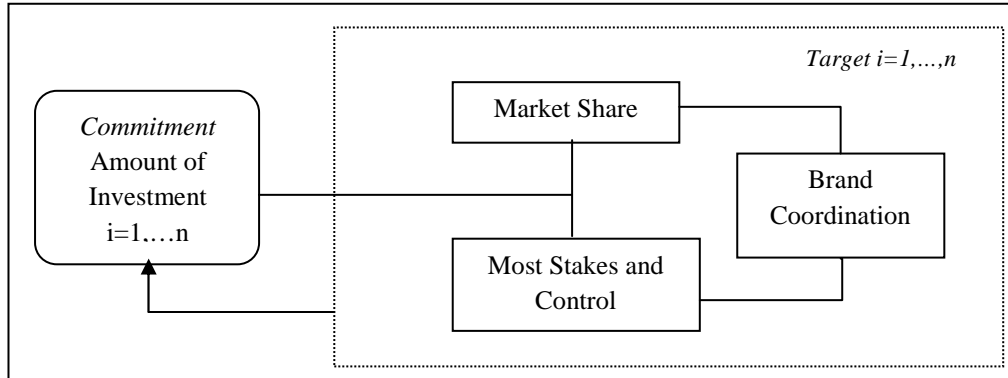
3.1.2. Data Analysis

The review of the literature enabled us to better understand the ongoing research about entry modes and a more detailed notion of the expansion process of Banco Santander through acquisitions. In Latin America, Santander has been very aggressive in seeking majority stakes with full managerial control and brand-image coordination (Guillén and Tschoegl, 2000). Based on the information gained in the interview and

29 Santander entered Argentina, Mexico, Panama, Dominican Republic, Costa Rica, Guatemala, Chile, Ecuador and Uruguay between 1963 and 1982. However, during the late 1970s and '80s, Santander divested from most of these countries, except for Chile and Uruguay (Guillén and García-Canal, 2010; p 153).

other documents, we interpreted that such elements also took place in Santander's growth in Brazil. In this way, in Figure 2.1. we suggest them as key template categories in the initial framework related to the sequence of acquisitions of Santander in Brazil.

Figure 2.1.: Initial framework - Categories and sequence of acquisitions



*Adapted from Guillén and Tschoegl (2000).

The constant comparison between documents, the interview and the initial framework captured from the interpretation of Guillén and Tschoegl's (2000) article enabled a first analysis of the data. Initially, the trajectory of Santander in Brazil attempted to have a better understanding of the scenario. Afterwards, the bank adopted some stages that required different levels of market knowledge and different rounds of investment, as can be confirmed by the interview:

'We started with a telescope (alliance with Banco Intercontinental do Brasil)...we continue with a thermometer (Representative Office)... then, we build a bank (small investment bank), with the opinion that growing organically is too complicated and growing through acquisitions is easier if there is sense in paying to grow' (Joao Gustavo Haenel, personal interview-Group Santander).

This quotation brings a parallel to the logic of a staged view of expansion (Johanson and Vahlne, 1990) in the sense that the steps adopted different forms of entry in the country. However, the analysis goes beyond the logic of gradual entry, as Santander increased its commitment to Brazil through incremental investments in small-medium targets and then in larger ones. By adopting the abductive approach, we realized that decisions to enter in a new market or the acquisition of a firm are examples of investments that can open the door for further business opportunities (Panayi and Trigeorgis, 1998). In this context, the literature in banking already suggested the use of real options to interpret international expansion. For instance, Chase Manhattan bank adopted representative offices that allowed for a window on what important opportunities might come (Cattani and Tschoegl, 2002). In addition, when Panayi and Trigeorgis (1998) studied the international expansion of a bank, they observed that an

initial entry can add strategic value to a firm by serving as the first-stage link to subsequent investments: With the additional information gathered through the first entry, the bank has the strategic option to limit or abandon the project or capitalize on next-growth opportunities.

In the case of Banco Santander, the stage of purchases was characterized by three main, different goals. Initially, the goal was to become the largest financial group in Iberoamerica (El Pais, 16 August 1997)³⁰. Then, in 2000 the main strategic goal of Santander (at that moment it was Banco Santander Central Hispano) in Brazil was the achievement of a relevant position in a market with the greatest potential of Latin America (Grupo Santander, 2000). At the end, with the acquisition of Banco Real, the goal was to become the largest private bank in the country (Emilio Botín, Expansión 01 November 2008).

The information related to each entry is summarized in Table 2.1. According to the key categories of the initial framework, we can see the evolution of some indicators related to the cumulative acquisition process of Banco Santander in Brazil. Table 2.1 shows that first and second acquisitions were within the same expansion goal and they presented considerable differences in terms of amount of investment and market share. The second acquisition brought a new characteristic to the process: brand management by integrating parent with regional brand. The third acquisition occurred in 2000 and was within another expansion goal. It represented a small increase in entry investment and market share and led to a new regional brand (Santander-Meridional). In 2001, Banco Santander considerably increased its market share by acquiring the operation of Banespa, staying with three brands. In 2008, the acquisition of Banco Real represented a considerable increase in investment and market share in comparison to former entries, and the priority of the expansion in Brazil became being the largest private bank. In terms of brands, both Santander and Banco Real brands were maintained separated until 2010.

³⁰ 'Con esta operación queda completado básicamente el programa de inversiones en Iberoamérica'. Brasil es un mercado fundamental dentro de la estrategia de construcción de una franquicia regional de banca de servicios plenos en el continente'. El Pais (Emilio Botín, 16 August 1997).

Table 2.1: Cumulative acquisition process - Initial framework

Target Banco Santander	Banco Geral do Comercio (a)	Banco Noroeste	Grupo Meridional	Banespa(b)	Banco Real (ABN AMRO) (c)
Expansion Goal	Become the largest financial group in Iberoamerica	Become the largest financial group in Iberoamerica	Achieve a relevant position in a market with the greatest potential in Latin America	Achieve a relevant position in a market with the greatest potential in Latin America	Become the largest private bank in the country
Investment (millions of dollars)	220	550	650	4870	17200
% Stakes and Control of Target	51%	50%	97%	67% (97.9% in 04/2001)	Absorption (Consortium Santander-Fortis-RBS acquire ABN-AMRO).
Market Share in Deposits (ex-post)	0.32%	1.26%	1.6%	4.3%	9.78%
-Ranking (Deposits)	33	12	11	7	5
Market Share in Credits (ex-post)	0.33%	1.62%	2.21%	5.27%	13.95%
-Ranking (Credits)	37	11	10	6	4
Brand	Santander	Santander + Santander Noroeste	Santander Meridional + Santander	Santander Meridional + Santander + Banespa. In 2006: Santander Banespa	Santander + Banco Real In 2010: Santander
Year	1997	1998	2000	2001	2008

(a) In this year, Santander also acquired 50% of Caseg (an insurance management firm);

(b) Banco Banespa was acquired at the end of 2000 and its impact appeared in the balance of 2001. The investment of 4.870 billion dollars refers to the total of 97.9% and can be found in <http://web3.cmvm.pt/sdi2004/emitentes/docs/fsd1961.pdf>. (c) Banco Real was acquired in October, 2007 and its impact appeared in the balance of 2008. The value of investment is found in Business Week (10 February 2008). The investment of Banco Geral and Banco Noroeste is found in El País (16 August 1997). Categories of Initial Conceptual Framework are in bold.

Source: Annual Reports – Group Santander; Brazilian Central Bank.

The first period of small-medium acquisitions terminated with the large purchase of Banco Banespa, which was followed by the acquisition of Banco Real. In order to understand such a jump in 2000, we analyzed the information based on the abductive approach by comparing the key template categories of the initial framework with a new classification of categories which emerged during the research (See Appendix 4). They are related to firm and industry attributes that are taken into account when committing resources through acquisitions. A firm's attributes influence an expansion process in terms of market share because of its capacity to invest and its internal capabilities to integrate firms and maintain the operation, while industry attributes can generate effects on market share through the strategic movements of competitors.

3.1.2.1. Firm's Attributes

The quick entry through small-medium acquisitions in Brazil and the shift to a larger target in the same year suggests an analysis of current resources and capabilities to the contextualization of flexibility through acquisitions.

-Resources and Capabilities

According to the resource-based view (RBV) of the firm, the focus is on the exploitation of existing firm-specific assets, and firms are heterogeneous, with respect to their resources and capabilities (Teece et al., 1997). In Santander's expansion in Brazil, some home-based resources were exploited: After the acquisition of the first big bank (Banespa) in Brazil, the bank homogenized resources through the implementation of a technology- information solution. As banks are characterized by increasing consolidation and integration instead of an increasing modularity (Schilling, 2000), the integration of banking services is facilitated by a pattern of the information-technology system. Santander replicates technology in acquired entities and adopts a standardization of products with centralization in the use of information technologies for cost advantages and the sharing of the same modular and open architecture (Kase and Jacopin, 2008).

Moreover, as the bank had been engaged in several acquisitions before consolidation in Brazil, its expertise with this entry mode became another specific resource and enabled the development of capabilities. In terms of the firm's resources,

the bank tended to maintain local teams of target firms to facilitate the adaptation to the host country, as the following quotation shows:

‘The Bank has been very smart in maintaining the local employee teams. These local teams think as local people, have their local contacts and work as a local team’ (Joao Gustavo Haenel Neto, personal interview - Banco Santander).

The maintenance of local teams appears to be a source of relevant information after each purchase: Human capital is a source of success in banking through the generation of stable relationships with customers (Ferreira et al., 2011). In addition to the firm’s resources and capabilities, the whole expansion process was also motivated by another factor contemplated by the initial framework: The seeking for most shares and managerial control over targets.

-Majority of Stakes and Management Control

To put into practice a set of acquisitions in a country, it is worth knowing the aspects related to asset ownership and guarantee over acquired assets because of the property rights. If the law in a host country is not favorable to investors, they may be reluctant to invest in that country unless they become the controlling shareholders (Doing Business, 2012). In Brazil, investor protection is weak and there is evidence of minority-shareholder expropriation (Leal and Oliveira, 2002), yet Santander has been a controlling shareholder in all targets in this country. Moreover, such control was accompanied by decisions related to brand image. Given the intangibility of banking activities and the importance of specific-resources, attention can also be extended to brand protection, as a brand can represent considerable value to a bank.

-Brand

To cover Brazilian territory, Banco Santander acquired banks in different regions and usually maintained the brand of the acquired firm (together with the Santander brand) to achieve identification with local customers. As geographic brand-names are a manner to link a service with a region, and the information is related to “we are one of you, a neighbor, not some out-of-towner or a foreigner” (Turley and Moore, 1995), regional brand identity was maintained because of the strong affiliation of customers with their region. After the acquisition of the largest bank (Banco Real) in 2008, the bank maintained brands separately as well until their unification in 2010. Thus, brand

coordination is also related to the management of another element that constituted the initial framework: market share.

3.1.2.2. Market Share and Industry Attributes

As mentioned earlier, in an expansion abroad firms can decide to increase market share based not only on a firm's attributes but also on the competitors' behavior. The structure of Brazil's banking sector seems closer to an oligopolistic behavior (Belaish, 2003), i.e., an increase in market share is a decision of the players who know it can influence the strategic positioning of other firms. Such an oligopolistic reaction already characterized the international expansion of German, Scandinavian, Singaporean and Spanish banks (Guillén, 2005), and before the first acquisition of Banco Santander in Brazil other foreign banks had already entered (Citibank, BankBoston, Banco Sudameris, HSBC, Caixa Geral de Depósitos, Banco Espírito Santo - joint venture). Around 1997, the privatization of some state-owned banks took place and Santander and other foreign banks like BBVA, HSBC, Sudameris and ABN-AMRO acquired banks in a scenario characterized by the large presence of domestic state-owned banks that had almost 50% of the market share in deposits, or approximately three times the scale of foreigners (Guimaraes, 2002).

The configuration of the Brazilian market structure changed over time with the expansion of some foreign and domestic players and the departure of others in the 2000s (Appendix 5). Even though Santander's main competitor in Spain (BBVA) had a strong presence in Latin America, it sold its Brazilian operation (acquired in 1998) to Bradesco in 2003 on the grounds that BBVA (BBV) lacked sufficient market share to compete (The Banker, 2010) and it would be too expensive for BBVA to achieve a profitable scale in Brazil (Guillén and Tschoegl, 2008). This case of departure shows that if a competitor does not respond to rivals in the appropriate time-window, such a delay can affect the improvement in market share: In relation to Santander, an increase in market share might be an expensive investment, as that bank had 4.3% of the market share in deposits while BBVA had 1.4% in 2002 (Appendix 5). That is, early irreversible commitment may secure future market share and discourage rivals from investing (Pacheco-de-Almeida et al., 2008). In this way, waiting to invest to maintain its flexibility level was a less valuable option for a firm that wanted to reach a leading position in an industry that was showing strong demand for deposits.

An increase in market share by foreign players also depends on the barriers erected in a host country. Some key entry barriers in the banking sector are capital requirements, economies of scale, technology, branch networks and customer loyalty (Guillén and Tschoegl, 2008). To start to operate in Brazil in the early 1990s, each entry of a foreign bank was approved on a case-by-case basis to recapitalize troubled banks or to encourage development in particular sectors of the economy (Peek and Rosengren, 2000). In terms of scale, Santander built an initial market share with rapid entries, and that enabled it to maintain the distance, with respect to its main competitor, BBVA. Moreover, capital requirements for the entry of foreign banks had a minimum capital equals to twice that required by domestic banks (Hawkins and Mihaljek, 2001), yet it was reduced to the same level as domestic players - Resolution n. 2212 (1995). In terms of branch networks and customer loyalty, as it is not easy to displace a bank that has many physical branches, and as people have trust in their bank they are reluctant to change to a new entrant (Guillén and Tschoegl, 2008), foreign banks face a greater resistance to improve market share in Brazil given the extensive branch network of big public and private domestic banks (Freitas, 2010). With regards to technology, at the moment of the first Santander acquisition in the country, the Brazilian banking system was lacking in modernization and it was an attractive aspect for foreigners. After the acquisition of Banespa in 2000, the consolidation of an internal technological system started and the Bank provided new products and services to face the rivalry: The bank launched the “super products” that have already differentiated its portfolio in Spain, like super-deposits, super-funds, super-mortgages and super-credits, among others.

3.1.2.3. Data Analysis and Flexibility through Acquisitions

The adoption of an initial framework as suggested by the abductive approach helped us to better understand the expansion process of Banco Santander in Brazil. We built a preliminary notion about its cumulative acquisition process by the analysis of market share, amount of investment, most stakes and management control and the shifts of brand (Table 1). Comparing the information provided by these elements with the interview, we became aware of the relevance of market share to the research about flexibility through acquisitions.

As a starting point, when commercial banks that compete for deposits and credits (Cool et al., 1989) expand operations through acquisitions within a country, they shift their level of commitment. An acquisition of a small bank can represent a rapid

way to have access to a specific set of resources and an initial market share. For instance, a bank that initially enters in a foreign market uses some home-country resources (such as capital and managerial skills), while also seeking to access other resources locally which it cannot develop quickly, such as distribution, local image, market know-how and customer base (Petrou, 2009). In this setting, an initial small acquisition can be a platform from which the bank can continue the expansion process by gathering more information about host country and industry. The importance of such initial small acquisition also can be seen in the following quotation of the interview:

‘When a small bank is owned it is easy to leave a country’ (Joao Gustavo Haenel, personal interview-Group Santander).

It shows that the departure of the market is an option that can occur, yet if a quick entry enables access to a market share that represents an advantage over competitors, the option for maintaining an expansion process can be taken. Nevertheless, when a firm has already established a larger market share, firms may address the differentiation of products and services to attract and retain customers and the option of waiting for a new investment can be valuable. In fact, Santander increased its commitment to the country over time until the achievement of a relevant market share, as the quotation shows:

‘We are not really in a country if we have a market share lower than 10%’ (Joao Gustavo Haenel, personal interview-Group Santander).

This quotation shows the importance of market share in an expansion process and it constitutes an insight that there is a reference point from which the bank does not consider the departure of a country an advantageous decision. The point here is that market share is a factor to be considered in research about flexibility in the expansion of a bank, and it is highlighted by an interview of Emilio Botín - Group Santander’s CEO - who states:

‘The market share in retail banking in Colombia is far from the 10% that we wish to reach in the markets where Santander operates’ (Emilio Botín, El País, 07 December 2011).

In any host country, 10% of the market share is the goal to be reached by the bank, and it did in Brazil by expanding through acquisitions. Before achieving this level, if a firm expansion fails, if a firm needs to have access to more capital or if it perceives a future uncertain scenario, a departure can take place and several potential buyers might absorb such an operation. On the contrary, when a firm starts to acquire

large targets and attains a considerable market share, the number of players that are capable of acquiring the operation is reduced in comparison to that expansion based on small acquisitions.

Using the abductive approach, we researched other sources of information related to the departure of Banco Santander from other countries such as Venezuela and Colombia. Santander had approximately 10.5% of the market share in deposits and credits when it left Venezuela in 2009³¹, and it had 2.7% of the market share in credits when it departed from Colombia in 2012³². These examples strengthen the relevance of studying flexibility in an expansion through acquisitions, because Latin American countries had to face some turbulent periods. At the beginning of the 2000s, even though some banks left Brazil, Banco Santander kept its operation in the country. It shows the importance of analyzing the investment options in a host country. After a first entry, a firm can decide for new investments, abandonment or deference from the expansion process, which suggests the adoption of the real-option theory³³.

To better understand how acquisitions can lead to a flexible expansion process, we conducted an analysis of each purchase of Banco Santander in Brazil. Each entry is contextualized in terms of number of players, market share and concentration ratios (CR) as the bank became one of the main players, and its expansion goal was addressed to become the first private bank in the country. From 1997 to 2009, the incremental expansion of the bank enabled it to raise the level of capturing deposits by achieving scale through acquisitions, and the total number of banks was reduced from 212 in 1997 to 135 in 2009 (Appendix 6). In Brazil, the concentration ratios (CR) of deposits and credits shows a trend of large market share in the hands of few players and a greater variation of CR5 (five main players) and CR10 (ten main players) occurred over time: the main 10 players in 1997 represented around 70% of market share in deposits and credits, while they had approximately 86% in 2009 (Appendix 7).

In Table 2.2 we present the accumulated acquisition process of Banco Santander in Brazil, taking into account the fact that the bank became definitively committed to the operation when it reached 10% of market share (according to the interview). In the

³¹ Source: www.elmundo.es/mundodinero (May 22nd, 2009; access on June 1st, 2012)

³² Source: www.abc.es/20120625 (access on June 20th, 2012)

³³ In the field of finance a firm's market value comprises two components: The first is the present value of those cash flows that will be generated by assets and the second is the present value of growth opportunities (McGrath et al., 2004).

interpretation of this table, we assume that the expansion process in Brazil is not influenced by shifts in the host country's or in the other countries' risk level. Moreover, from the abductive approach, we found that brand coordination is a relevant aspect in terms of commitment to the country, which is shown in both the initial framework and the interview.

Table 2.2: Flexibility and commitment after each purchase

Year	Target	Objective	Indicators					
Year	Target	Expansion	Amount of investment (million R\$)	Market share (Deposits + Credits)	Number of competitors	Number of competitors with higher market share (Deposits)	Number of competitors with higher market share (Credits)	Number of Brands
1997	BGC	Largest in Iberoamerica	242	0.32%	212	32	36	1
1998	Noroeste	Largest in Iberoamerica	605	1.26%	198	11	10	2
1999	No	Largest in Iberoamerica	No	1.57%	181	10	9	2
2000	Meridional	Relevant position in Brazil	1040	1.93%	167	10	9	2
2001	Banespa	Relevant position in Brazil	7792	4.83%	156	6	5	3
2002-2007 (a)	Organic Growth	Relevant position in Brazil	No	4.93%	137	7	6	3 (b)
2008	B. Real	Largest private bank in Brazil	30960	11.93%	135	4	3	2
2009	No	Largest private bank in Brazil	No	10.53%	135	4	3	2
2010	No	Largest private bank in Brazil	No	9.83%	136	4	3	1
2011	No	Largest private bank in Brazil	No	9.33%	136	4	5	1

(a): Average for period of organic growth; (b) Brands unified in 2006. * Own elaboration.

As the bank's goal is to achieve 10% in markets in which it operates, a sequence of acquisitions might occur, as is seen by the following quotation:

'Growth is growth through market share. The greater the market share, more scale, bargain power and power to attract customers' (Joao Gustavo Haenel- Personal Interview-Group Santander).

Taking into account the huge dimension of the country and the high level of ‘de-bankarization’, a sequence of acquisitions after an initial entry occurred and reached 10% of the market share in a gradual manner. In each purchase, a certain level of knowledge and capabilities is developed, and organizational adaptations and a tradeoff regarding the ways to pursue opportunities can take place (Adner and Levinthal, 2004). The options of abandonment, deferral and expansion through another acquisition appear as strategic opportunities. Taking into account market share (deposits and credits) and the number of potential players, the expansion of Santander in Brazil is contextualized in the following:

-BGC: This first acquisition was guided by rules because the government required a case-by-case selection in the first entry (Peek and Rosengren, 2000) and it occurred in 1997. The bank remained with 51% of BGC to begin to compete against several small players and it was an opportunity to learn the negotiation style and regulation in the host country. As this initial purchase had the smallest amount invested and involved only 0.33% of market share in deposits and credits, it might be characterized as a flexible entry. That is, a small operation in a hypothetical case of failure, perception of uncertainty or need to increase capital can be easily sold as there are several potential buyers. By applying the real-options approach, the first acquisition represented a platform option, i.e., a powerful step from which a new path of investment opportunities could take place (Smit and Moraitis, 2010).

-Banco Noroeste: This acquisition represented an increase in the size of the acquired bank, but the expansion goal was still related to strengthening operations in Iberoamerica. With the purchase of BGC and Noroeste, in 1998 Santander became one of the 12 largest banks in the country, with an accumulation of 1.26% of market share in deposits and credits. As the market share was far from the condition of total commitment of the operation (10%), many players might potentially acquire the operation in a hypothetical departure, yet the level of flexibility was lower than that related to the prior acquisition. Nevertheless, after this acquisition, the bank maintained the brand Santander-Noroeste separated from the parent brand, opening the possibility to leave the investment. In this stage, we observe that the initial investment is complemented by this second acquisition, which brings new information to the firm to choose for the abandonment or deferral options to limit losses or to undertake the expansion option by acquiring another firm.

-Grupo Meridional: This acquisition in 2000 represented a geographical diversification in the south of Brazil, where the brand was weak. With the duplication in the number of branches, the accumulated market share of deposits and credits reached a total of 1.93%. In 2000, the expansion focus shifted from improvement in Iberoamerica to exploring the potential of Brazil. There were fewer banks if compared to that moment when Banco Noroeste was purchased, but the number of larger banks was almost the same. Moreover, the accumulated expansion process was far from that point of relevant engagement to the operation in the host country (10% of market share), and thus it might be still characterized as a flexible condition through acquisitions. In parallel, the bank maintained the regional brand to assure proximity with local customers. The Bank formed the brand “Santander Meridional”, instead of integrating it into the brand “Santander” (represented by the former BGC and Banco Noroeste) and by maintaining separated brands, it opened the possibility to abandon the project in case of failure or need of capital or perception of uncertainty. On the contrary, with a total integration of brands the option of abandoning might not be chosen, yet the deference of investments could occur until the achievement of synergies between firms.

Importantly, Meridional was the last acquisition of small-medium-sized targets. The idea of learning and adaptation continued with this acquisition, but from this point, Santander started to considerably increase its amount of investment and market share.

-Banespa: This was the first large acquisition in Brazil and represented a considerable increase in the amount invested and in the market share in deposits and credits (from 1.93% to 4.83%). It seems that the bank identified new possible avenues to increase commitment. In other words, Santander identified the opportunity to increase market share through the purchase of a large bank (Banespa), which represented another platform-acquisition option. It was another stage in which the bank implemented home-based capabilities and developed other core capabilities.

Banespa fitted well with Santander’s long-term strategy for the region (together with Chile, Mexico and Argentina, Brazil became one of the core markets of Santander in Latin America), and Brazil became a relevant point for the Group as it was in a fast growth rhythm (Casanova and Hoerber, 2010). With this acquisition, the bank was still far from that level of 10%, from which it is not easy to leave the country. The market for deposits was increasing (Appendix 6) and the maintenance of operations had a strategic value for the bank. In this stage, a hypothetical scenario of exit might not be

attractive to the bank once the country was showing prospects of growth, the demand for deposits was increasing and the market share of the bank was evolving over time. Moreover, foreign banks such as ABN-AMRO and HSBC were acquiring banks in Brazil (Appendix 4) and such moves were showing a trend of a more disputed rivalry among them and against domestic banks (leaders), which were also engaged in expansion through acquisitions.

In this stage, the expansion process had flexibility, yet it might be more difficult to find buyers that would be available to pay for the corresponding selling price of such an enlarged operation. In parallel, after this acquisition, the brand “Banespa” remained separated from the parent brand and co-existed with “Santander Meridional” and “Santander”. That is, the option to abandon was a protection against an unsuccessful acquisition. However, in 2006 these brands were integrated into the brand “Santander Banespa”, which illustrated the commitment to the operation. It seemed that the option of abandoning the acquired parts was closed with the unification of brands after the information-technology integration.

When a staged entry takes place, managers can choose a further acquisition, defer or even abandon the process, and it depends on how the uncertainty related to the option is resolved (Warner et al., 2006). By accessing information about the target market, consumers and institutional environment, the knowledge gained can reduce uncertainty in future decisions regarding investments (Brouthers and Dikova, 2010). In this stage, Banco Santander had already accumulated experience with former acquisitions in Brazil, yet after the purchase of Banespa in 2000, the bank decided for an organic growth period in which it developed several internal initiatives related to products/services and technology. In this scenario, managers retained flexibility, and only in 2008 did Santander absorb another bank again.

-Banco Real: As a result of the consortium with RBS (Royal Bank of Scotland) and Fortis, with the acquisition of ABN-AMRO in 2007, Santander stayed with the operation of ABN-AMRO in Brazil, which required considerable investment in comparison to other acquisitions. With such a commitment level, Santander started to compete aggressively with the main leaders and it got closer to the largest private bank position, with 11.93% of total deposits and credits. The absorption of Banco Real represented the duplication of market share in Brazil (Grupo Santander, 2007), and it was at that point (10%) from which a departure would represent a strategic loss. For

instance, Santander acquired Banco Real and became a large player in a sector in which few players concentrated market share.

With that purchase, the bank believed that its scale and market leadership would provide opportunities to meet customers' needs operating as a full-service bank (Banco Santander, 2012). "Economies of size" means not only reduction in operational costs but also the offer of a wide range of products, improvement in the quality of services and opportunities to realize a more rapid rate of innovation (Backman and Sauvain, 1961). In this fashion, the importance of a firm's capabilities to the study of commitment and flexibility through acquisitions is strengthened. The adoption of acquisitions to attain economies of scale and produce a high growth rate can lead to a relevant ranking, which can be an instrument to generate trust with customers in the banking sector (Fanjul and Maravall, 1995). Thus, it seems that the key is in 'how' things are done rather than 'what' is done, and that quality of management offers greater promise of success than does size (Walter, 2009).

In parallel to this analysis, brand coordination also took place. In terms of brands "Santander" and "Banco Real", they were maintained separated until 2010, when their unification represented more engagement to the operation. The absorption of Banco Real showed that the expected present value of maintaining the operation in this country became high. In effect, it reinforced the importance of creating a position for future organic growth by making early acquisitions to prevent the threat of competitor moves (Smit and Moraitis, 2010). The opportunities found in the Brazilian banking sector enabled the bank to strengthen its market share in an incremental way through acquisitions. In the first stage, Santander adopted quick entries to achieve an initial market share that reduced the threat of entry of other rivals (BBVA) and it also showed capabilities to integrate its operation and segment its activities in a geographical scope by the absorption of branches in different regions of the country. In the second stage, it adjusted the structure by implementing a technology solution, strengthening its network and introducing new products and services and reached a scale to benefit from its target customer base. These different steps in the expansion of Santander in Brazil suggested that the real-options theory (Zardkoohi, 2004; Adner and Levinthal, 2004) is useful for the analysis of flexibility in an expansion through acquisitions. Considering the set of initial entries, and applying the real-options view we can observe an interrelation of

decisions designed to build a strategic position in the growing Brazilian market (Panayi and Trigeorgis, 1998).

By knowing that the bank is effectively committed to a country after 10% of the market share, a departure before reaching that threshold might mean that the bank did not achieve enough scale and market leadership to provide a full service to its customers. That is, when the bank has a lower market share, it has smaller stocks of knowledge and both the options of abandonment and expansion may be exercised when the uncertainty is resolved. Moreover, a firm can postpone new investment and preserve flexibility. In summary, it would be easier to leave the country when the market share is small, as abandonment may be less costly. The costs of keeping the operation in a turbulent environment may be so high that an appropriate strategic decision can be related to departure.

4. DISCUSSION

This chapter shows that acquisitions can lead to a flexible expansion in an emerging country when the market share of a firm is below the threshold of 10%. When Santander reached that level of market share in Brazil, it attained considerable scale in its operations. Moreover, when taking into account that a large number of citizens does not have access to a banking account (IPEA, 2011), the decision to keep the operation in this country could lead Santander to achieve future gains. In fact, it became one of the largest banks with the acquisition of Banco Real in 2008.

Usually, the expansion of Santander involves the identification of countries with a low level of banking penetration where there is room for modernization (Parada et al., 2009). In Brazil, it adopted a gradual expansion that started with a strategic alliance and continued with a representative office, an investment bank and, in the end, a set of acquisitions³⁴. These prior entries helped to create initial knowledge about the host banking sector until reaching a strong commitment to the country through acquisitions. This trajectory showed a shift from an initial set of small-medium to large-scale acquisitions in a short time-window and it indicates an ability to identify opportunities and to create new knowledge from each purchase. It might be related to the expertise with acquisitions in other Latin American countries like Peru, Venezuela and Chile, which might have been useful in its expansion in Brazil (See Appendix 4). Indeed,

³⁴ It is not the establishment chain proposed by the Uppsala model, but the idea of a gradual approach is valid regarding the expansion in Brazil.

internationalization through acquisitions can be explained by the adoption of a learning perspective (Barkema and Vermeulen, 1998). For instance, expertise in dealing with regulations and governments and expertise in managing large-scale operations are some capabilities developed by some Spanish firms that started operations abroad (Guillén and García-Canal, 2010).

The expansion of Banco Santander in Brazil showed that the escalation of commitment through acquisitions can be seen through a real-options view. The future was highly uncertain and many changes could occur between the time of the initial stage and the time of the second stage of investments (Zardkoohi, 2004). In this case study, the set of small-medium acquisitions allowed for enough information to the bank, and Santander started to acquire larger banks while other foreign banks were leaving the country. The initial market share accumulated with small acquisitions served as a basis for a large-scale entry that meant a competitive advantage in relation to its main home-country competitor (BBVA). It indicates that early acquisitions can be considered a growth option (Warner et al., 2006), as the goal of Santander in any country is to attain 10% of the market share. In this way, it could make incremental investments and opt to defer or to grow (Brouthers and Dikova, 2010). Firms can use the growth option to invest in another target or they can wait and see the players' movements (defer) and gain experience, gather market-specific knowledge and possibly establish a brand image (Brouthers and Dikova, 2010).

The real-options view indicates that firms can adopt platform acquisitions that can change future acquisition opportunities for the firm and for competitors (Smit and Moraitis, 2010). The banking industry in Brazil works closer to an oligopolistic form and, therefore, a bank knows that its initiatives can affect the movements of other players, who may imitate the entry mode and reduce the perceived uncertainty about a foreign market. In this way, a firm may choose an entry mode without waiting to reach market-specific knowledge from former entries (Forsgren, 2002), as the organization-learning approach not only considers experiential learning but also the observation of other players' movements (Huber, 1991).

In this context, we also suggest that industry factors are another element to take into account in the analysis of flexibility in an accumulated acquisition process. An expansion can also depend on entry barriers, like the maximum number of branches per bank and minimal capital requirement or shifts in the regulation of Central banks about

control of rivalry, and these elements can influence the number of competitors and the concentration of the market. In fact, when Santander achieved 10% of the market share, expected present value of continuing the business was high enough that it might be very difficult to sell the operation. A buyer might appear and cover all the costs of the operation, but the firm would have strategic losses if it took into account the increasing demand for bank accounts in the country and the potential gains related to economies of scale and the opportunities to introduce new products and services.

In the case of Santander's expansion in Brazil, the expertise with former acquisitions was complemented by the seeking of management control and most shares and brand coordination. Brand is a very relevant resource in banking and its evaluation is a way to show how the quality of assets can be perceived by customers. Santander usually preserved the brand of the acquired banks with the exception of the first entry (BGC) before consolidating them into one brand. The unification of brands resulted in more commitment to the host country, and after the acquisition of Banco Real in 2008, the brands were unified into "Santander" in 2010.

This chapter also allows for a comparison among entry modes when expanding in an emerging country. Entry-modes choice is one of the most critical strategic decisions for the firm that can affect future decisions and operations in a host country (McCarthy and Puffer, 1997). For instance, a bank might have accumulated the same market share through a joint venture and still maintain the flexibility in the expansion process despite the lack of control. However, if a joint venture is used to attain 10% of the market share, this expansion would not be classified as flexible. This aspect illustrates that a strategic alliance may not lead to a flexible expansion and a debate about the appropriate entry mode can take place when a bank needs to enlarge operations. A bank may prefer to have control of operations abroad to implement its business model or to be preserved against the weak protection of the shareholder's rights in a host country and thereby acquire targets instead of adopting a joint venture. In this setting, it would avoid the sharing of know-how with a partner and a managerial effort to monitor the partner's behavior.

Nevertheless, by committing resources through acquisitions, information asymmetry may appear, with respect to potential targets. If an entrant is unfamiliar with differences with the host country's culture, language and legal system, it may face problems in assessing the real value of a target and greater difficulties in negotiating the

takeover in the post-acquisition integration stage can appear (Petrou, 2009). Moreover, different organizational cultures and management systems can be a barrier to achieve gains (Quah and Young, 2005). Contrary to acquisitions, contractual agreements and joint ventures protect firms from this type of integration problems and reduce such risk due to the sharing of resources. Importantly, alliances with previous partners can entail a high degree of involvement among partners, which can reinforce the relationship (Sánchez-Lorda and García-Canal, 2005). In this case, the termination of a strategic alliance might be friendly or partners could continue with other projects, possibly characterizing a flexible expansion through strategic alliances. The counter argument is that this mode can require much time to achieve a level of trust that generates greater relational rents between partners.

To conclude, an ability to identify and integrate targets can make the commitment through acquisitions easier, and it can present different stages. For instance, speed of entry can build an initial market share that may deter entries of other players and it might be considered a dimension of flexibility through acquisitions in an emerging country. However, before reaching the threshold of a large market share, the option of deference can be adopted to maintain a flexible condition regarding the market.

5. CONCLUSION

This chapter provides information to better understand how acquisitions can lead to a flexible expansion in an emerging country. In the expansion case of Santander in Brazil, we have found that expansion through acquisitions can be flexible when the accumulated market share does not achieve a threshold of 10%. Above this point, departure from the country means strategic losses, as it corresponds to a market leadership position in which the bank can provide a full set of services and products to customers. However, when the firm has a smaller market share it is easier to find potential buyers, because the size of the market for potential buyers is larger.

Prior literature has shown that Santander's internationalization strategy had different stages of learning: building capabilities in the home-country, creating alternatives of growth in foreign markets through small-scale acquisitions or strategic alliances and finally a large-scale foreign entry and rapid integration (Parada et al., 2009). This logic of incremental entry allowed the bank to adopt an opportunistic strategy when entering through partial and full acquisitions in Latin America (Cardone-

Riportella and Cazorla-Lapis, 2001), and it was also found in its expansion in Brazil. Such logic of gradual commitment through acquisitions enabled the identification of two phases in such host country. First, the bank had a rapid entry to achieve an initial market share. Second, the acquisition of a larger bank led to a period of organic growth with attention to the integration of the information technology system of acquired banks and, afterwards, another large bank was absorbed. That is, the expansion process through acquisitions had different stages and, as acquisition decisions are considered irreversible investments with substantial uncertainty (Alvarez and Stenbacka, 2006), we suggested the adoption of real options to interpret flexibility when expanding through this mode.

The initial sequence of small-medium acquisitions can serve as a platform, allowing the firm to make subsequent investments to exploit host-country advantages and capabilities (Gilroy and Lukas, 2006). Firms that undertake small investments may perceive a low downside risk because the potential for loss is relatively small, while large projects may benefit more from a real-option perspective since firms face a higher downside risk because of the size of the resource commitment being considered (Brouthers and Dikova, 2009). In the particular case of Santander in Brazil, the considerable jumps in terms of market share reflected the existence of platform acquisitions until the achievement of a market leadership position. In other words, given the characteristics of irreversibility and uncertainty of acquisitions, the real-options approach can offer a dynamic view to interpret flexibility in an expansion process by considering different types of strategic-level options in the expansion of a bank: abandonment, deferral and growth options.

This chapter also shows the importance of the knowledge gained in the whole expansion process. Each entry enables the creation of new knowledge and it complements the already accumulated experience (Forsgren, 2008). The combination of existing and new knowledge served as a basis to increment the investment strategy through acquisitions until the absorption of Banco Real. In this instance, Santander joined the best of both banks by benchmarking business strategies, key personnel, technology and processes (Banco Santander, 2012). The incremental commitment through acquisitions in Brazil enabled Santander to diversify the set of firm-specific resources, with the knowledge about the host market, a wider distribution network and a larger customer portfolio. That is, the entry through small acquisitions helped to sustain

the improvement of positions in the country and it did not mean a slow form of entry. In fact, the gradual commitment through acquisitions avoided the risk associated with a heavy investment, and this form to expand operations enabled Santander to face domestic competition which quickly answered to the entry of other foreign banks through acquisitions as well.

Importantly, the expansion in Brazil was related to the ability to turn around troubled targets. The first large purchase (Banespa) had operational drawbacks, yet Santander had the ability to adjust the operation and generate operational gains. Furthermore, we observed that some characteristics of the host country can also influence the decision to commit resources through acquisitions. Brazil is a huge country and presents prospects of growth, and the risk of not investing in that region might represent a loss in terms of competitive position in Latin America. Specifically, a considerable part of the population in Brazil does not have a banking account and an increasing demand for deposits has been taking place. The social difference that exists in the country shows that there is still room to capture new customers to strengthen the generation of benefits through banking accounts or the selling of strategic products and services. This perception of potential gains led to an increase in Santander's market share of credits and deposits over time.

6. IMPLICATIONS, LIMITATIONS AND FURTHER RESEARCH

This chapter indicates the importance of studying flexibility of a firm's expansion in an emerging country. The literature analyzed the choice between joint ventures and acquisitions (Hennart and Reddy, 1997; López-Duarte and García-Canal, 2002), but very few contextualize them in terms of flexibility and commitment through acquisitions in the banking sector. In this way, this chapter contributes to a debate that interests both firms that expand operations abroad and academicians that research the use of entry modes in firm expansion and internationalization.

In terms of the academic field, despite the literature considering acquisition as a more irreversible mechanism of entry than a strategic alliance, an expansion through this mode can be flexible when the market share does not reach 10% of total credits and deposits. By achieving this threshold, the bank recognized it is definitively committed to the operation in the country, i.e, departure from the country would prevent the attainment of potential benefits of scale when providing a full set of products and services for its customers. In other words, keeping the operation would reflect a high

expected present value of continuing the business. Moreover, we also suggested the adoption of the real-options approach for the analysis of incremental commitment through acquisitions. In this setting, smaller acquisitions led to growth options and larger targets were acquired. That is, the use of real options explains the escalation of entry in an emerging country and may help managers to have a better understanding of the entry sequence of firms.

Moreover, another interest in the academic field could be related to other types of flexibility that might be measured. A firm's strategic flexibility that addresses operational improvements when integrating acquired firms might be related to the topic developed in this chapter. That is, a firm that expands through acquisition increases its number of branches and can raise the total deposits and credits per employee. In this fashion, some firms' structural measures might be suggested to compound a flexibility index that could include market share as well. This aspect might also be of interest to those managers that are involved with decisions about purchasing or postponing acquisitions, as they would better understand the effect of an acquisition on the number of branches, market share, the volume of operation per employee and the financial margin of the acquiring bank.

In terms of limitations, the results presented can be influenced by the particular characteristics of the bank used as a case-study. That is, other banks that have entered in Brazil or in other emerging countries could provide more information for the topic covered in this chapter. Furthermore, a comparison between banks that reached the same market share through a set of acquisitions in a host country could be done in terms of flexibility, as they may have conducted different stages of commitment. Further research could address the analysis of investments through acquisitions in other emerging countries in order to verify how the expansion took place in terms of sequence of events, speed of entry and size of targets. In some of these countries, firms can prefer to adopt a gradual entry through other modes rather than acquisition because of the perception of future uncertainty. As a consequence, a debate about flexibility and commitment through the use of other entry modes can take place.

Moreover, a case-study in other sectors is another interesting aspect to be mentioned. It might not only enable the analysis of market share and the existence of a threshold but also enrich the debate about divestitures. As banks can have several branches distributed geographically, closing a branch seems to be easier than the

ceasing of an operational unit in other sectors such as manufacturing. Integration in the banking sector involves some characteristics that may facilitate the optimization of services provision rather than in other industries. For example, in manufacturing firms, modular systems may make the integration and cessation of operations a more difficult and costly task. Thus, the interpretation of this study is not extensive to other sectors, and studies of firms from other rapidly changing sectors could also bring new elements to the research of this topic.

This case-study also sheds light on those instances when managers face difficulties to sell an operation that has a small market share (below threshold). These cases may be related to a large number of small players in the same industry that can be attempting to depart, and thereby a buyer has several business opportunities with the set of targets. In this context, managers of potential target firms may have an easier departure if they reduce the selling price in relation to competitors or if they signal their distinctive capabilities to the market in order to be chosen by bidder firms. The first alternative might not be profitable, while the second one may have a selling price that covers the present value of keeping the operation (to contextualize flexibility through acquisitions we assumed that a hypothetical departure from Brazil has a selling price that covers the expected present value of maintaining the operation until the threshold).

To close, as Banco Santander divested in other regions to finance investments in Brazil and as it is engaged in other growth initiatives in Latin America, Continental Europe, the UK and the US, a point that could be further researched is how acquisitions around the world can influence commitment through acquisitions in an emerging country. For instance, a firm can accelerate the entry process in a region and delay acquisitions in others.

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Appendix 1 - Literature about entry modes in emerging countries

Author (Year)	Title	Journal
Dong and Hu (1995)	Mergers and acquisitions in China	Economic Review- Federal Reserve Bank of Atlanta
Shi et al. (2001)	Market entry mode selection: The experience of small firms in Hong Kong investing in China	Asia Pacific Business Review
Guillén (2003)	Experience, Imitation and the sequence of foreign entry: wholly-owned and joint-venture manufacturing by South Korean firms and business groups in China, 1987-1995.	Journal of International Business Studies
Clever and Quer (2005)	Choice of market entry mode in China: the influence of firm-specific factors	Journal of General Management
Bhaumik and Gelb (2005)	Determinants of entry mode choice of MNCs in emerging markets: evidence from South Africa and Egypt.	Emerging Markets Finance and Trade
Paik (2005).	Risk management of strategic alliances and acquisitions between Western MNCs and companies in Central Europe	Thunderbird International Business Review
Galan and Gonzalez- Benito (2006)	Distinctive determinant factors of Spanish foreign direct investment in Latin America	Journal of World Business
Cajueiro and Tabak (2008)	The role of banks in the Brazilian interbank market: Does bank type matter?	Statistics Mechaniscs and its Applications
Du, J and Girma, S. (2009)	The effects of foreign acquisition on domestic and export markets dynamics in China	The World Economy

Appendix 2 – Literature about entry modes used by financial firms

Author (Year)	Title	Journal
Ursacki and Vertinsky (1992)	Choice of entry timing and scale by foreign banks in Japan and Korea	Journal of Banking and Finance
Claessens, Demirgüç, Huizinga (2001)	Foreign entry affects domestic banking markets	Journal of Banking and Finance
Focarelli and Pozzollo (2001)	The patterns of cross-border bank mergers and shareholdings in OECD countries	Journal of Banking and Finance
Berger, Bonime, Goldberg, White (2004)	The dynamics of market entry: The effects of mergers and acquisitions on entry in the banking industry	Journal of Business
Focarelli and Pozzollo (2005)	Where do banks expand abroad? An empirical analysis	Journal of Business
Magri et al. (2005)	The entry and the activity level of foreign banks in Italy: an analysis of determinants	Journal of Banking and Finance
Sengupta, R. (2007)	Foreign entry and banking competition	Journal of Financial Economics
Focarelli and Pozzollo (2008)	Cross-Border M&As in the financial sector: Is banking different from insurance?	Journal of Banking and Finance
Azofra, Olalla and Olmo (2008)	Size, target performance and European bank mergers	American Journal of Business
Francis, Hasan and Wang (2008)	Bank consolidation and new business formation	Journal of Banking and Finance
Marciukaityte, D., Roskelley, K. and Wang, H. (2009)	Strategic alliances by financial service firms	Journal of Business Research
Hernando,Nieto and Wall (2009)	Determinants of domestic and cross-border bank acquisitions in the European Union	Journal of Banking and Finance

Appendix 3 - Interview protocol

-Interview protocol

Case	Banco Santander
Date	26 June 2009
<p>1. Introduction The goal of this interview is to collect information about the acquisitions in Brazil. We wish to know if a set of acquisitions in an emerging country can lead to a flexible expansion. How can it occur? The interview is going to be tape-recorded and transcribed and the information is confidential and used in the academic environment.</p> <p>2. Context Were you engaged in the expansion process in Brazil?</p> <p>3. Historical Perspective Do you confirm that the acquisitions of the bank in Brazil are these ones? Is there any event to be added to this list?</p> <p>4. Decisions Does the bank acquire a specific type of target? Can banks with operational troubles be an attractive target? Initial acquisitions do not imply limits to other acquisitions: Is there a policy of acquisition? How is rivalry analyzed? Is the trajectory of Banco Santander in Brazil the same as that adopted in Latin America in terms of entry modes? Is the expansion process of Banco Santander initially related to the constitution of an investment bank? Is there any point of no-return? Which acquisition considerably increased the commitment to the host country?</p> <p>5. Wrap-up Is there any other aspect that is relevant and that we did not cover?</p>	

Source: Adapted from Crossan and Berdrow (2003).

Appendix 4 - Some major acquisitions of foreign banks in Latin America

Host Country	Bidder Bank	Target Bank	% Stake (a)	Acquisition Date
Argentina	Santander BBV	Banco Río de la Plata	35	1997
		Banco de Crédito Argentino	100	1997
	OHCH HSBC Bank of Nova Scotia Citibank	Banco Francés del Río de la Plata	52	1996
		Corp Banca	100	1999
		Banco Tornquist	100	1996
		Banco Roberts	70	1997
		Banco Quilmes	25	1995
		Banco Mayo Cooperativo	100	1998
Brazil	Santander	Banco Geral do Comercio	50	1997
		Banco Noroeste		1998
		Grupo Meridional	80	2000
		Banespa	97	2001
		Banco Real (ABN AMRO)	76	2007
	BBV HSBC ABN AMOR	Banco Exel Economico	55	1998
		Bamerindus	100	1997
		Banco Real	100	1998
		Bandepe	100	1998
		Paraiban	100	2001
		Banco Sudameris	95	2003
Chile	Santander	Banco Osorno y la Union	51	1996
	BBV	BHIF	55	1998
	OHCH	Banco Santiago	43	1995
	HSBC	Banco O'Higgins	10	1993
Colombia	Santander	Banco Antioqueño	55	1997
	BBV	Banco Ganadero	59	1996
	Standard Chartered	Banco Nacional del Comercio	54	1998
		Banco Extebandes	>50	1998
Mexico	Santander	Grupo Financiero InverMexico	61	1997
	BBV	Banco Serfin	80	1999
		Banco Oriente and Banco Cremi	100	1996
	BBVA	Probursa	70	1991
		Banco Comercial Mexicano	30	2000
	BCH HSBC	Hipotecaria Nacional	100	2004
		GFBital	8	1992
	Bank of Nova Scotia Bank of Montreal Citibank	Banco Serfin	20	1997
		GFinverlat	55	1992
		GFBancomer	16	1996
		Confia	100	1997
	BCP HSBC	Banco Nacional de Mexico	100	2001
		Bital	8	1992
		Bital	100	2002
Peru	Santander	Banco Interandino and Intervalores	100	1995
	BBV	Banco Mercantil	100	1995
		Banco Continental	60	1996
	OHCH	Banco del Sur	49	1995
	HSBC	Banco del Sur	10	1997
	Bank of Nova Scotia	Sudamericano	25	1997
	Standard Chartered	Banco Extebandes	>50	1998
Venezuela	Santander	Banco de Venezuela	93	1996
	BBV	Banco Provincial	40	1996

(a) Initial stake; OHCH was a joint venture between BCH (Banco Central Hispano) and Grupo Luksic in Chile. Source: Adapted from Guillén and Tschoegl (2008).

Appendix 5 – Documents and data comparison

Id.	Open Coding (Quotation in Interview – I - and Text Passages in Secondary Sources - S)	Open Coding	Initial Classification of Categories	Template Categories - Guillén and Tschoegl (2000)	Suggested Classification of Categories
1	I-A target needs to have a strategic meaning and a financial logic.	Acquisition	Criteria		Expansion through acquisition
2	I- Organic growth is very complicated and growth through acquisitions is easier.	Acquisition	Acquisition		Expansion through acquisition
3	I-Control through acquisitions allows the bank to implement its bidder's management model and its strategy.	Control	Control	Majority of stakes with full managerial control	Commitment
4	S- When considering expanding abroad, the key criteria are “proximity” and “potential leadership” (Parada et al., 2009).	Strategy	Criteria		Commitment
5	I-HSBC is strong where Santander does not have focus.	Focus and Competitor Moves	Focus		Industry
6	I-Different trajectories in other countries because of distinct markets, regulation and each country has its own characteristics.	Countries and Barriers	Countries		Industry and Country
7	S- <u>Political capabilities and industry expertise</u> have a key function in taking advantage of the windows of opportunity related to market-oriented reforms in infrastructure and financial services (Guillén and García-Canal, 2010).	Political Capabilities and Industry Expertise	Firm Capabilities and Knowledge		Firm Attributes- Organizational Learning and Capabilities
8	I-The bank maintains local teams because they think and work as domestic people and have their local network.	Maintenance of Local Teams	Firm Capabilities and Knowledge		Firm Attributes- Resources and Capabilities
9	I-We started with a strategic alliance, office and investment bank, and then, small acquisitions, large-scale acquisition.	Staged Process (Uppsala Model)	Learning Process		Commitment

Id.	Open Coding (Quotation in Interview – I - and Text Passages in Secondary Sources - S)	Open Coding	Initial Classification of Categories	Template Categories - Guillén and Tschoegl (2000)	Suggested Classification of Categories
10	S- The foundations of Banco Santander's international strategy were the <u>competences developed at its homebase</u> (step 1): focus on core business (retail banking) in preference to product diversification, leadership role and taking advantage of deregulation in the domestic market (hence achieving early mover advantage), combining back-office centralization with front-office decentralization and initiative and skill development (Parada et al., 2009).	Home-Base Competences	Firm Capabilities		Firm Attributes – Capabilities
11	S- Retail banks leverage <u>technology</u> to cut <u>costs</u> and support marketing (Guillén and Tschoegl, 2000).	Technology, Cost and Marketing	Technology		Firm Attributes Technology
12	S-They may use marketing to enhance brand reputation and awareness, segment the market, cross-sell products and generate customer loyalty (Guillén and Tschoegl, 2000).	Marketing, Brand Reputation and Customers	Marketing	Brand Coordination	Firm Attributes- Brand
13	I-Five years after the acquisition of Banespa (2000), the information technology system was concluded and the integration of information technology and financial management was in 2006 and the unification of brands occurred in 2007.	Brand Unification	Marketing	Brand Coordination	Commitment and Brand
14	I-In the "Pre-Acquisition phase" it is important to estimate synergies: reduction of costs and scale that leads to income synergies.	Costs and Economies of Scale	Cost		Flexibility
15	I-In 2001, a plan of technological improvement started. If there are good products, the bank could attract new customers quickly.	Technology and Diversification	Diversification and Customers		Firm Attributes and Market Share

Id.	Open Coding (Quotation in Interview – I - and Text Passage in Secondary Sources - S)	Open Coding	Initial Classification of Categories	Template Categories - Guillén and Tschögl (2000)	Suggested Classification of Categories
16	I-Before acquiring Banespa (SP), the bank had acquired another bank in the south (RS) and a bank in RJ (Geographical Complementation through acquisitions: SP, RJ , RS).	Geographical Segments	Diversification and Geography		Commitment and Market Share
17	I-Market Share (with at least 10% you are really in the market).	Market Share	Market Share	Market Share	Commitment and Market Share
18	I-We have to grow more than the market.	Market Share	Market Share	Market Share	Commitment and Market Share
19	I-The focus of the business is on the UK, Latin America and Iberian Region.	Focus and Countries	Focus		Commitment
20	I-We analyze asset quality, because a portfolio can be currently healthy but with morosity and losses in the future.	Asset Quality	Asset Quality		Flexibility
21	I-The departure from a country can occur when the institutional environment is not favorable for purchases.	Departure and Institutions	Departure		Flexibility
22	I-When it is a small bank the departure from the country does not imply in many problems and difficulties.	Size, departure and Flexibility	Size, Departure and Flexibility		Flexibility
23	I-A bank with 5000 employees (Santander) acquired a public bank with 28000 employees.	Size and Flexibility	Size and Flexibility		Flexibility and Commitment

S= Secondary Sources; I = Interview

Appendix 6 - Market share of deposits and credits in the Brazilian banking market

-Total Deposits (%)

Bank*	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Banco do Brasil	18.5	19.2	20.57	22.55	20.2	19.4	20.9	22.4	20.19	20.2	20.3	20.3	21.27	25.49	26.3	27.1
Itau	4.74	6.4	7.18	7.27	8.6	7.5	8.5	7.63	7.38	7.6	8.0	8.9	17.5	14.95	15.0	15.4
Bradesco	6.09	7.3	9.91	11.75	11.3	10.9	12.2	11.86	12.01	11.1	10.7	10.9	13.07	13.08	13.5	13.3
Santander	-	0.32	1.26	1.18	1.6	4.3	4.3	3.8	4.1	4.6	4.3	4.4	10.18	8.9	8.2	7.4
CEF	21.9	20.9	20.35	19.22	19.4	18.3	16.5	16.5	16.04	15.7	15.5	15.3	12.98	13.63	15.0	15.9
HSBC	-	2.3	2.3	1.97	2.5	2.4	2.8	3.1	4.03	4.3	4.8	4.8	5.13	4.97	5.4	4.5
Votorantim	0.2	0.4	0.43	0.54	0.7	1.2	1.6	1.8	2.29	3.0	2.5	1.6	1.49	1.85	1.6	1.6
Safra	1.15	1.4	0.93	1.11	1.4	1.7	1.6	1.77	1.75	1.7	1.7	1.2	1.15	1.03	1.0	1.0
Citibank	0.66	0.7	0.52	0.54	0.4	0.3	0.3	0.25	1.05	0.9	0.7	0.8	0.66	0.95	1.1	1.0
Banrisul	1.07	1.1	1.36	1.27	1.5	1.5	1.4	1.56	1.35	1.3	1.3	1.4	1.13	1.25	1.3	1.4
Nossa Caixa	3.18	3.7	3.6	3.48	3.6	4.2	3.9	3.87	3.85	3.6	3.5	3.5	2.92	-	-	-
ABN AMRO	0.28	0.3	0.44	2.64	2.6	2.5	3.4	5.45	5.66	6.6	7.1	5.8	-	-	-	-
Unibanco	3.09	2.3	2.63	2.88	4.1	5.1	5.7	5.31	5.94	5.4	4.7	5.2	-	-	-	-
BankBoston	0.26	0.4	0.45	0.86	0.4	0.4	0.8	0.67	0.54	0.6	-	-	-	-	-	-
Credit Suisse	-	-	-	-	-	0.2	0.2	0.32	0.42	0.3	0.4	0.4	0.27	0.23	0.3	0.2
BBVA	-	-	1.06	1.4	1.6	1.5	1.4	-	-	-	-	-	-	-	-	-
Sudameris	0.77	0.9	1.27	1.27	1.4	1.3	1.2	-	-	-	-	-	-	-	-	-

Source: Brazilian Central Bank. *Foreign Banks in Bold

Appendix 6 - Market share of deposits and credits in the Brazilian banking market (continuation)

-Total Credits (%)

Bank	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Banco do Brasil	14.4	17.3	18.3	17.5	17.5	17.7	18.8	20.4	19.6	19.2	19.4	17.4	20.16	24.0	23.5	22.7
Itau	4.8	5.3	5.7	5.6	6.7	8.9	11.1	10.7	10.8	10.2	11.0	10.8	19.8	16.6	16.8	16.5
Bradesco	5.9	6.8	9.02	9.6	11.4	12.3	13.4	14.0	13.1	13.9	13.2	13.4	14.2	12.7	13.0	12.7
Santander	-	0.33	1.6	1.92	2.21	5.21	5.27	5.02	5.0	5.91	6.3	5.53	13.95	11.7	10.5	10.7
CEF	21.4	23.4	25.7	22.5	19.2	5.7	5.7	6.0	6.0	6.6	6.3	5.7	6.68	9.1	10.7	11.9
HSBC	-	1.4	1.56	1.5	2.4	2.4	2.6	3.1	3.2	3.4	3.4	3.5	4.4	3.1	3.2	3.2
Votorantim	0.16	0.18	0.16	0.19	0.3	0.7	0.9	1.1	1.6	2.3	2.3	2.6	3.09	2.8	3.1	3.4
Safra	0.8	1.1	1.1	1.8	1.9	2.6	2.6	3.2	3.1	2.9	2.9	2.3	1.62	1.7	1.9	2.1
Citibank	1.2	1.4	1.63	2.0	2.4	3.2	3.1	2.3	1.9	2.0	1.9	3.0	1.69	1.4	1.2	1.2
Banrisul	0.7	0.8	0.68	0.6	0.6	0.7	1.0	0.9	1.0	0.9	0.7	0.76	0.86	0.9	0.9	0.9
Nossa Caixa	2.5	0.5	0.6	0.8	0.8	0.9	1.0	1.0	1.0	1.0	1.0	0.9	1.12	-	-	-
ABN AMRO	0.8	0.9	0.53	3.1	3.4	3.9	4.6	6.6	6.1	7.0	9.2	10.4	-	-	-	-
Unibanco	4.0	3.6	4.05	4.5	5.5	6.4	6.8	7.0	6.9	7.1	6.3	6.2	-	-	-	-
BankBoston	0.9	1.3	1.0	1.8	1.8	2.8	2.3	1.9	1.9	1.7	-	-	-	-	-	-
Credit Suisse	-	-	-	-	-	0.5	0.12	0.08	0.2	0.18	0.34	0.39	0.5	0.4	0.3	0.3
BBVA	-	-	0.43	0.6	0.9	1.3	0.02	-	-	-	-	-	-	-	-	-
Sudameris	1.3	1.2	1.86	2.1	1.8	2.3	2.1	-	-	-	-	-	-	-	-	-

Source: Brazilian Central Bank

Appendix 7- Market share and concentration (total deposits)

D=Deposits	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CR3D*	0.498	0.500	0.479	0.511	0.538	0.513	0.501	0.512	0.522	0.497	0.486	0.483	0.479	0.531	0.552	0.562	0.582
CR5D*	0.598	0.610	0.595	0.622	0.646	0.641	0.631	0.658	0.657	0.635	0.634	0.638	0.631	0.765	0.774	0.787	0.788
CR10D*	0.730	0.742	0.727	0.755	0.771	0.781	0.785	0.821	0.821	0.839	0.848	0.841	0.830	0.886	0.867	0.891	0.879
HHI**	0.106	0.104	0.100	0.107	0.114	0.108	0.104	0.109	0.114	0.105	0.105	0.104	0.103	0.130	0.140	0.144	0.147
Santander D	-	-	0.32%	1.26%	1.18%	1.6%	4.3%	4.3%	3.8%	4.19%	4.6%	4.30%	4.40%	10.18%	8.9%	8.2%	7.4%
Santander (Ranking)	-	-	33	12	11	11	7	6	8	8	7	8	8	5	5	5	5
Santander (Ranking- Foreign Control)	-	-	8	3	5	4	1	1	2	3	2	3	3	1	1	1	1
Number of Banks (I+II)*	247	230	212	198	181	167	156	146	142	139	134	133	132	135	135	136	136

Source: Brazilian Central Bank

* BNDES was excluded because it is a bank for development issues. The total number of banks involves commercial and multiple banks.

** The Herfindahl – Hirschman is a measure of concentration that takes on a value of 1 in the case of monopoly and approaches 0 as the number of firms in the market becomes large with each firm having an equal share. The concentration ratios (CR_i) show how the market share changed over time between the first three, five and ten competitors in the Brazilian market. It is defined as: $CR_i = \sum_{i=1}^k S_i$. The Herfindahl-Hirschmann index: HHI (Bikker and Haaf, 2000) shows the relevance of big firms in the

concentration level and is defined as: $HHI = \sum_{i=1}^k S_i^2$.

Evolution of total deposits (market and Santander)

Year	Total Deposits- Market (mil R\$)	Total Deposits- Santander (mil R\$)	Year	Total Deposits-Market (mil R\$)	Total Deposits- Santander (mil R\$)
1997	284,554,678	919,282	2004	546,663,679	22,912,874
1998	293,371,092	3,718,709	2005	647,546,693	29,982,206
1999	316,170,242	3,760,041	2006	741,211,940	31,925,294
2000	319,346,367	5,005,540	2007	882,436,075	39,191,915
2001	362,756,604	15,840,844	2008	1,223,591,665	124,619,433
2002	443,755,451	19,390,573	2009	1,275,307,484	113,543,575
2003	468,338,931	18,222,183	2010	1,435,945,754	117,638,191

Appendix 7- Market share and concentration (total credits)

C=Credits	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CR3C	0.471	0.451	0.480	0.531	0.495	0.481	0.388	0.433	0.451	0.435	0.432	0.390	0.416	0.542	0.533	0.536	0.519
CR5C	0.560	0.558	0.569	0.633	0.596	0.604	0.509	0.558	0.586	0.565	0.573	0.591	0.581	0.748	0.742	0.747	0.745
CR10C	0.697	0.687	0.662	0.734	0.711	0.733	0.686	0.740	0.783	0.758	0.784	0.800	0.784	0.872	0.840	0.851	0.849
HHI	0.093	0.087	0.104	0.117	0.100	0.094	0.071	0.083	0.092	0.086	0.088	0.091	0.090	0.129	0.126	0.127	0.12
Santander C	-	-	0.33%	1.62%	1.92%	2.21%	5.21%	5.27%	5.02%	5.00%	5.91%	6.30%	5.53%	13.95%	11.70%	10.5%	10.7%
Santander (Ranking)	-	-	37	11	10	10	6	6	7	7	7	6	7	4	4	4	5
Santander (Ranking- Foreign Control)	-	-	9	3	4	5	1	1	2	2	2	2	2	1	1	1	1

CHAPTER 3

Experience and imitation as determinants of a second entry in an emerging country

Abstract

The literature about entry mode is extensive, but we know little about the determinants of entry mode in the second entry of firms in an emerging country. A firm may or not repeat the first entry mode, and to better understand if the second entry is more related to experience or imitation, we researched the entry of foreign firms in Brazil, accounting for firm, group and industry factors. We tested our hypotheses using data of Spanish firms that entered in this host country from 1988 to 2008. As we distinguish three causes of default to entry - strategic alliances, mergers & acquisitions (M&As) and greenfield wholly-owned subsidiaries - we used a competing-risk model to analyze the choice of the second entry. We found that a first entry through a M&A or greenfield wholly-owned subsidiary influences positively and significantly the repetition of these entry modes, when comparing them to a first entry through strategic alliance. Moreover, with respect to the movements of the home industry's competitors, we found a significant and positive effect on the choice of a strategic alliance as second entry, which suggests that imitation also took place in Brazil. Imitation also occurs at a business group level, in which firms tend to choose a M&A when firms of the same business group initially enter through this mode.

Keywords: *Sequence of entry, competing risks, experience, imitation*

1. INTRODUCTION

The study of determinants of entry-mode choice of foreign firms in an emerging country has received attention lately. Firms that internationalize operations can adopt different sequences of entry, repeating or adopting a combination of entry modes. Among other approaches, the literature about internationalization has discussed entry in foreign countries by addressing attention to the gradual-entry process-Uppsala model (Johanson and Vahlne, 1977) - and to the entry-mode choice (Chang and Rosenzweig, 2001), but little research analyzes the second entry in an emerging country. In this chapter, we seek to contribute to the field of foreign expansion of firms by providing empirical analysis of the elements that influence the second entry of Spanish firms in Brazil, taking into account three causes of default to enter in a host country: strategic alliances, mergers and acquisitions (M&As) and greenfield wholly-owned subsidiaries³⁵.

Some research focuses on the incremental paths that can be followed in an internationalization process - namely the establishment chain³⁶ (Araujo and Rezende, 2003) – in which an increase in resource commitment leads to an improvement of market knowledge and a staged entry sequence takes place starting from countries with closer proximity. However, more firms expand rapidly into foreign markets to reach global scale in a short time and this trend is counter to the conventional theory of gradual internationalization (Chang and Rhee, 2011). In this way, the study of determinants of second entry in an emerging country can allow for a better understanding of the sequence of entry. In the literature, we find that some research focuses on the study of firm, group and industry factors on expansion abroad (Guillén, 2003; Chang, 1995), in which repetition and imitation of entry modes can occur in a sequence of entry.

³⁵ Strategic alliances are known as arrangements between firms to share resources and co-develop products or services (Gulati, 1998) and they can take different forms: they may be a contractual agreement limited in time and scope, cross-shareholding between partners or the parties may create a new firm with shared ownership and control (Garcia-Casarejos et al., 2009). A M&A frequently appears as a single phenomenon and an acquisition has a change in the majority ownership of the firm and another firm obtains control of and authority over it (Pablo, 1994). In turn, greenfield wholly-owned subsidiaries are classified as the setting up of a new plant (Harzing, 2002). In this chapter, when we mention greenfield subsidiaries, we refer to greenfield wholly-owned subsidiaries;

³⁶ The establishment chain refers to a gradual increase in resource commitment to a foreign market, going from low commitment modes of operation (e.g., exporting) to high commitment (e.g., manufacturing subsidiary).

It is not surprising that firms that achieve a closer relationship with host-country customers through the first entry intensify the level of resources invested in that country through the same entry mode used in a prior entry or adopt a more committed entry mode in their second entry. When firms find business opportunities in an emerging country, they choose an entry mode that matches their resources requirements in both first and second moves. In some instances, the choice of the second entry can be related to an initial expansion plan, but some operations abroad can also rely on the results of a prior entry. A non-successful experience with a first entry may make the firm accelerate the second entry or wait until attaining more strategic information before this choice. In this context, firms may repeat or choose another entry mode.

In those cases that the first entry is through a strategic alliance and the second one is through a M&A or a greenfield wholly-owned subsidiary, a firm would be following the logic of incremental approach. However, if the first entry does not involve the choice of a partner, the second entry would not be within a gradual process of expansion (logic of Uppsala model), because the initial adoption of a M&A or a greenfield wholly-owned subsidiary requires organizational capabilities to integrate targets and to develop new resources in the firm, respectively. Such organizational capabilities can be developed over the sequence of entries. Prior experiences with the same entry mode can contribute to subsequent entry-mode choices in an emerging country. The lack of them may imply a delay in the expansion as firms can be subject to diseconomies of time compression (Barkema and Vermeulen, 2002), which can also appear with trust formation when they adopt strategic alliances (García-Canal et al., 2002). In this way, firms can spend time until the achievement of the potential benefits when adopting a cautious strategy of entry, yet other firms can have quick entries and use more committed entry modes to increase market share. Therefore, the duration between first and second entry can differ considerably across firms.

As little research has been devoted to the analysis of the factors that affect the sequence of entry in an emerging country, in Chapter 3 we attempt to better understand the determinants of the second entry in an emerging country. To achieve this goal, we use data from ICEX (*Instituto Español de Comercio Exterior*), which involves the entry of Spanish firms in Brazil from 1988-2008. Since 1992, Spanish companies have acquired a key presence in the global economy, especially in Latin America and Europe (Guillén, 2005), and Brazil was South America's largest economy, with its industry and

service sectors in continuous growth (Cavusgil et al., 2002). Particularly, the analysis of the data enables us to examine if the entry mode used in the second move relies on the logic of gradual approach, on the experience gained with the first entry or on the imitation of other firms' initiatives. Prior research shows that entrants tended to follow the entry-mode patterns of earlier entrants (Lu, 2002), yet the doubt is if it prevails when entering in an emerging country.

Another important aspect of this chapter is related to methodological issues. To identify the factors that influence the sequence of entry by focusing on the second move, we adopt a survival-analysis technique. It is not common in strategic management, and specifically in the literature on entry-timing decisions (Fuentelsaz et al., 2002), and we use a competing-risks regression (Fine and Gray, 1999) because the choice of one mode preempts the existence of other modes as second entry. With the results generated by this methodology, we expect to offer contributions as very few empirical articles have been dedicated to the study of entry of foreign firms in Brazil and few articles have emphasized the prevalence of factors when entering a country for the second time, accounting for the role of firm, business group and industry level. Finally, first and second entries can be a combination of distinct entry modes and, thus, different initial entry routes can occur. In this way, we provide a theoretical analysis of the second entry under the logic of gradual entry - Uppsala model (Johanson and Vahlne, 1977) and organizational learning (Huber, 1991).

To put the objectives of this research into practice, this chapter is structured as follows. We begin with a theoretical framework in section 2 and a methodological approach in Section 3. In Sections 4 and 5, we present the results and a discussion about the main findings, respectively. Finally, Section 6 presents the conclusions and Section 7 shows some implications and limitations of this research.

2. THEORETICAL FRAMEWORK

The first entry in an emerging country represents an opportunity to gather information about potential investments in that region, and it strengthens the importance of studying the entry-mode choice in the second entry. An analysis of risks and potential rewards through the use of each entry mode can occur as the first entry of a firm in a host country starts a learning process that can reduce the perception of risk associated with the entry-mode choice.

2.1. The internationalization process of the firm

A well-known form that accounts for the behavioral aspect of firm expansion in an international scope is the staged model (Uppsala model), which considers the lack of knowledge about foreign markets a key obstacle to internationalization (Forsgren, 2002): An increase in market knowledge through a firm's current activities may lead to an increase in market commitment, which, in turn, leads to a further increase in market knowledge.

Nevertheless, not all expansion initiatives follow this incremental logic. A firm that expands may not have the required skills to deal with a specific mode, and the "learning by doing" approach can lead it to develop them in the host country. In addition, firms may have already developed the required set of capabilities in home country before going abroad. Some multinationals have expanded around the world very rapidly in innovative ways without following the gradual staged model of internationalization, but rather with their capabilities developed in their home countries (Guillén and García-Canal, 2010). That is, a firm can initially enter a host country through a M&A or a greenfield wholly-owned subsidiary instead of sharing the risks with a partner. With a prior entry, the point to be addressed is if the determinants of a second entry are more related to a firm's or other firms' prior movements.

2.1.1. Sequence of entry and firm level

When a firm needs to enter for the second time in an emerging country it may repeat or shift the mode previously used, and it may need to balance the rewards and risks inherent to each possible mode. For instance, joint ventures can overcome the lack of knowledge about the local market, but they may expose a firm to contractual risks associated with the goals of the local partner (Guillén, 2003). On the contrary, M&As and greenfield wholly-owned subsidiaries do not lead to this type of troubles. The latter avoids the sharing of control but requires time to build resources, while the former permits full appropriation of rents but may present problems with the integration of targets.

Each entry mode has its own particularities, and the combination of first and second entries of firms can reveal if firms follow or not the logic of the staged model. If a first experience with a strategic alliance reduces the perception of risk in entering the region, a subsequent entry may not require a partner. In other words, an experience with

joint ventures may lead the firm to a position to choose a whole ownership mode in a subsequent entry (Guillén, 2003), and then the second entry through a greenfield wholly-owned subsidiary or M&A can be part of a logic of an incremental entry process that starts with a strategic alliance. In this way, we propose the following hypothesis:

Hypothesis 1: *The second movement of the firm in an emerging country has a more committed entry than that adopted in the first entry in that country.*

The second entry can be a case-by-case analysis, as firms can have different reasons to expand in a host country and it can lead to repetition or a shift of entry modes. Firms can repeat the entry mode as supported by the organizational learning approach (Huber, 1991), in which the transfer of an organization's experience occurs from one event to a subsequent one (Barkema and Schijven, 2008). The point is that the type of business opportunity found can require a quick access to resources to preempt its access by competitors, and it can be facilitated by the possession of specific skills. For instance, firms develop knowledge and skills through a M&A in terms of due diligence, deal negotiation, financing and integration, and they build a historical perspective related to the entry mode (Collins et al., 2009). Since this prior experience through a M&A influences the likelihood of their choice in foreign markets (Collins et al., 2009), it is not strange that a set of M&As take place in an emerging country. With the same reasoning, a first entry through a greenfield wholly-owned subsidiary and strategic alliance may lead to a subsequent repetition of the entry mode. The literature shows that a prior alliance experience leads to more opportunities to enter through strategic alliances, possibly because of the creation of capabilities and reputation (Dyer and Singh, 1998). In other words, once the capability is created, a firm can have more facility to enter through the already experienced entry mode again.

By taking into account past experience for future decisions about foreign expansion (Guillén, 2003), the capabilities created can lead to a repetition of entry modes. The existence of such capabilities can also be explained by the organizational learning view. Organizations need several types of skills that are mostly acquired in a learning-by-doing manner through the development of coordination skills and routines that are the consequences of repeated interaction (Dikova et al., 2010). In this context, when firms have already developed the capabilities inherent to a specific entry mode, it is not strange that they repeat it in a subsequent entry.

Such experience can reflect on the value creation of entry modes as well. The value created by an acquisition or strategic alliance relies on a firm's acquisition or strategic alliance capabilities that are developed through the repeated experience (Villalonga and McGahan, 2005). In this way, when expanding operations in an emerging country, experience with the first entry mode (experiential learning) can be more important than the market knowledge gained with the first entry. That is, when a firm better knows how to manage the mechanism of entry, this knowledge can be more important in the decision of the second entry. In this way, taking into account the organizational learning approach, we propose the following hypothesis, with regards the second entry in an emerging country:

Hypothesis 2: *The first entry mode implemented by a firm in an emerging country has the highest likelihood of being implemented in the second movement of the firm in that country.*

As we mentioned, firms can enter a host country without depending on the market knowledge provided by the gradual entry, but rather by using the experiential learning through a mechanism of entry. The point is that the types of business opportunities offered in an emerging country can vary and the adoption of the same entry mode may not match the opportunity. Moreover, the first entry may not have created enough market knowledge to decide on the appropriate entry. When firms lack this knowledge, they may acquire some strategic information in the competitive environment. By observing the movements of players, a firm can gain information that can be used in the second entry in the emerging country.

Firms not only take into account their own experience in entry-mode choices but also the experiences of other firms (Guillén, 2003; Chang 1995). Such information can be acquired in terms of the business group (Chang, 1995) and home industry (Guillén, 2003), and it highlights the importance to study imitation when entering an emerging country: Firms have a tendency to implement the same decisions as other firms with greater frequency as the number of other firms engaged in a specific decision increases (Delios et al., 2008).

Given that another source of knowledge is found within a group of firms and among competitors, we now contextualize the strategic information³⁷ provided by a business group, which may lead to a competitive advantage when compared to those firms that are not affiliated to a group.

2.1.2. Sequence of entry and business group level

A business group is an organizational structure with a collection of firms that are legally independent, bound together by formal and informal ties (George and Kabir, 2008). Those firms that belong to a group are tied to each other due to exchange, ownership or control reasons (Guillén, 2003) and then, depending on the strength of the tie between a firm and its business group (Khanna and Palepu, 2000), a firm can gather reliable knowledge for its expansion process. That is, the nature of the relationship within a business group may influence the access of firms to more knowledge.

Business groups can be contextualized under the organizational learning approach, which considers that the acquisition of knowledge can come from the observation of other organizations (Huber, 1991). Prior research has studied business groups in terms of their founding, performance and their level of diversification in emerging countries (Yiu et al., 2005), while some articles have also researched business groups in developed countries (George and Kabir, 2008). The importance of a business group is related to the ease that affiliated firms have to access resources that normally are unavailable to independent firms, such as: access to distribution channels, financial resources from other group member firms, and group brand names can help affiliated firms when they are facing competition (Hoskisson et al., 2004). That is, the possible access to the resources of the business group may attract firms to the host country, and they may follow the initiatives of the members of the group. The experience of prior entries of firms that belong to the same business group in an emerging country may facilitate information about potential partners, targets, country-specific laws, local management systems and other business opportunities that a firm without a business group probably might not attain.

In particular, business groups' affiliated firms can have advantages in an international expansion to institutionally weaker countries (Garg and Delios, 2007).

³⁷ Johanson and Vahlne (2009) recognize the importance of a network position in the expansion process to illustrate the relevance of having access to strategic information in a host country.

They can share information and knowledge with other firms from the same business group and, thereby, it makes sense to consider the business group in the study about the entry of European firms into a Latin American country. In particular, “liability of foreignness” can arise with unfamiliarity with foreign markets and the cultural, political, economic, institutional and regulatory differences (Garg and Delios, 2007). In this fashion, the entry in a huge emerging country may strengthen the advantages of belonging to a business group.

As the first entry may not have provided market knowledge that might allow for the choice of a more committed entry mode in the second entry, we might initially think that the repetition of the first entry mode might be the choice. However, the business opportunity may require another entry mode, and the firm may not have had any experience with the required mechanism in the host country. It might need to collect information to not miss opportunities to invest, and as a consequence, it can follow the initiatives of those firms from their business group. In this context, the second entry of a firm can be influenced by the strategic movements of firms within the same business group, instead of a prior experience with a mechanism or the trend to follow a gradual-entry process.

In order to better understand if prior entries of Spanish firms that belong to the same business group influence another member of the group to imitate the entry mode, we built Hypothesis 3 to verify the prevalence of imitation within the business group in the second entry in an emerging country:

Hypothesis 3: *The greater the number of firms of the business group that initially enters through a specific mode in an emerging country the higher the likelihood that a firm of the same group choose that entry mode in its second entry in that country.*

As mentioned earlier, in an expansion a firm may need the information generated by other firms instead of relying on its experience or on a gradual entry. The expertise with a specific entry mode, the incremental entry or the imitation of entries within the business group may not produce a competitive advantage. Firms of the same business group may operate different activities in the host country, so then another environment in which a firm can collect strategic information is the home industry.

2.1.3. Sequence of entry and industry level

Firms may be influenced by other external factors in the choice of the second entry. The environmental context can have effects on the experience that firms acquire, and it can include elements as competitors, clients, institutions and regulators (Argote and Miron-Spektor, 2011). In this way, firms may also address attention to home industry movements when choosing the mode for the second entry. Some research has found that international entry can be related to an imitative response to the movements of other firms in the home-country industry (Fernhaber and Li, 2010; Guillén, 2003).

The entry of some players may add strategic information to a firm in terms of host industry, and the same entry mode used by main competitors can be adopted by a firm. Firms may match the moves of home-industry competitors to prevent them from exploiting the foreign market or enhancing their competitive position on a worldwide basis (Guillén, 2003). Even those firms that do not compete globally, but have some investments abroad, may follow firms from the same industry because competitors's movements can signal existence of potential sources of benefits in the host country. By imitating competitors, the risk associated with the decision to internationalize is reduced (McDougall et al., 1994) and, therefore, the risk of being different is reduced. In this way, the industry perspective can provide firms an opportunity to learn from the experiences of other players (Guillén, 2003).

Furthermore, in some instances firms perceive competitors' behavior and need to react quickly (Chang and Rhee, 2011). When an early entrant has strong capabilities, follower firms need a rapid imitation to build a competitive position in the foreign market (Delios et al., 2008). In this way, quick imitation may preempt the increase of differences in market share between early entrants and followers. In this manner, when firms from the home industry expand to an emerging host country, it is not strange that the second entry of a firm be influenced by the imitation of competitors' movements within the same home industry rather than the logic of gradual approach, experiential learning or imitation within a business group.

Hypothesis 4: *The greater the number of firms of the home industry that initially enters through a specific mode the higher the likelihood that a firm of the same industry choose that entry mode in its second entry in that country.*

Thus, the firm, group and industry level are dimensions to be considered in research concerning entry-mode choice. Repetition or a combination of entry modes can occur in the sequence of entry as firms possess different levels of market knowledge and a distinct set of firm capabilities and resources, so that a careful analysis of potential businesses has to take place before the second-entry choice.

Each entry mode has its own peculiarities, as M&As require time to digest targets, greenfield wholly-owned subsidiaries need time to establish their own operation in the host country and strategic alliances require time to build trust among partners. Thus, as the three entry modes require a time-window to reach their initial objectives, and as the expansion goals of a firm may change after the first entry, we take into account the duration between first and second events in the analysis of second-entry choice, and this is detailed in the following section.

3. METHODOLOGY

This section describes the methods used to know the likelihood of entering through a M&A, strategic alliance or greenfield wholly-owned subsidiary as a second move in an emerging country. In this chapter we applied a non-parametric and a semi-parametric method³⁸ that have been used in survival analysis research. These methods have mainly been used in medical and epidemiological research and emphasize the importance of time to an event of interest³⁹. Before a more detailed view of these methods, we initially present a description of the data.

3.1. Data Description

Data: The data used in this work are collected by ICEX (*Instituto Español de Comercio Exterior*) and involve the entry of Spanish firms in Brazil from 1988-2008. There is a total of 213 firms and the total number of entries is 377: 152 firms entered once while 61 firms had at least two entries. Among firms that entered at least twice, it was not possible to recover information⁴⁰ of only one firm and, as a consequence, the data involving a second entry were reduced to 60 firms. Among firms that entered once, it was not possible to find information for 12 firms, so then, 140 firms are used. A

³⁸ Non-parametric models do not present a concrete relation between co-variates and the dependent variable, while parametric and semi-parametric models take into account the effects of co-variates on the risk function in the estimation (Fuentelsaz et al., 2004).

³⁹Survival analysis has been known in economics as duration models, in engineering as reliability techniques or analysis of time until failure and in sociology as analysis of the history of an event (Fuentelsaz et al., 2004).

⁴⁰ We searched for this information in Osiris, Sabi and Duns and Bradstreet databases.

comparison between firms that entered once and those that entered at least twice is shown in Table 3.1.

Table 3.1: Summary of characteristics

Summary	Period (%)		Sector*(%)	Activity (%)	Age	Size
	1988-1998	1998-2008				
Entry	1988-1998	1998-2008	Manufacturing	Diversification**	Average	Average
Once	17.1%	82.9%	46.35%	59.2%	40.47	5.08
At least twice	11.7%	88.3%	36.7%	59.32%	40.02	6.49

*Other main sectors include Agriculture, Construction, Mining and Services.

** In this table, diversification refers to the cases in which the main activity developed in the host country is different from the core activity developed in the home country.

On average, both groups of firms have similar characteristics in terms of age, focus on diversification and period in which most entries occurred. Most entries of Spanish firms occurred in the 2000s (predominantly in 2000), as Brazil opened up the economic frontier in 1990 and inflation stabilization occurred in 1999. The first information of data is from July, 1988, and the last one is from December, 2008. We attempted to recover prior entries, but as our focus is on the period of economic openness, we considered entries after 1988.

3.2. Variables

In the current research, the type of second entry is of interest, and each firm is associated with this event of interest as it is explained in the following.

Dependent Variable

The dependent variable is the entry mode used as a second move of Spanish firms in Brazil (strategic alliances, M&As and greenfield wholly-owned subsidiaries), taking into account the time-window between first and second entry. The duration between entries is measured by the number of days and the end of the measurement period for those firms that do not complete this spell (right-censored observations) is on 31 December 2008. The events of interest (M&A, strategic alliance and greenfield wholly-owned subsidiary) are measured in separated scenarios with their competing risks. Each event of interest presents different features: a M&A can contemplate a total, partial or shared acquisition, a strategic alliance can be a joint venture and other cooperation agreement and a greenfield wholly-owned subsidiary can be a production plant or a specific contract. In terms of concession and contract with the administration and public firms, Spanish firms or consortiums of firms in which at least one Spanish

firm participates are classified into a strategic alliance (when there is at least one partner) or into a greenfield wholly-owned subsidiary (when firms enter without a partner).

Independent Variables

The independent variables were classified into explanatory and control ones. The explanatory variables are related to a firm, group or industry level. In terms of firm level, as some research has reported the importance of learning from one's own experience (Ingram and Baum, 1997), we adopt: first entry through M&As, first entry through strategic alliances and first entry through greenfield subsidiaries. We measure this investor's prior experience as a dichotomous outcome of whether firms had already used such entry modes or not.

In terms of group-level analysis, we initially define a dummy variable, *Parent_Group*, to indicate if the firm is part of a business group at the moment of entry (Chang, 1995). We assume zero if firms that enter in Brazil have the same name of the business group and it reflects that the firm does not belong to a business group. We assume a value of 1 for cases in which the identification number of firms within a group is different or when the name of a firm is different from the name of the business group. The assumption is that the decisions of entry are undertaken independently by each firm. In parallel, we use three variables to mention the number of events of interest undertaken by each group. And, then, we adopted iterative variables between *Parent_Group* and these quantitative variables, which resulted in the number of firms of the same business group that initially enters through each specific entry mode. In order to test the hypothesis of imitation within the industry, we use the number of firms of the same industry that initially enters through each entry mode as independent variables. Industry was measured by the first four digits of SIC - Standard Industry Classification - (Aguilera and Dencker, 2011).

In terms of control variables, we adopt *age*, *size*, *regulated_industry* and *first_entry_after_2003*. Age relates to the experience of the firm (Levinthal, 1991; Ingram and Baum, 1997), while size represents the amount of resources of a firm. The entry of larger firms in new markets is related to their possession of more resources and a greater capacity to overcome entry barriers (Fuentelsaz et al., 2004). We adopt the number of employees to characterize the size of the firm (Tveteras and Egil-Eide, 2000; Segarra and Callejon, 2002). In this work we use *ln_employees* to avoid a high dispersion of

data (Delios et al., 2008). Moreover, to characterize the industry that was engaged in the privatization stage, we adopt the control variable *regulated_industry*. It is a dummy variable with a value of 1 when the Spanish firm enters in energy, financial, insurance and telecommunication industries, otherwise it is zero. Finally, in terms of control variables for host-country level, we considered the starting of the first PT's Government in Brazil in 2003 as a relevant fact, because the use of a time-period (phases) can illustrate differences in policy regime (Kronborg and Thomsen, 2009). It is a dummy variable with a value of 1 when the first entry of a firm is after the transition to the first PT's government stage, otherwise it is zero.

3.3. Empirical Approach

The non-parametric approach of this chapter is based on Kaplan-Meier (1958) curves and on log-rank tests (Peto and Peto, 1972). The former estimates the hazard function of events of interest until a certain time and the latter compares the difference between groups of a variable using the temporal ordering of failures. As a semi-parametric method, a competing-risks regression estimates the effect of co-variables on the choice of second entry. This data analysis is empirically analyzed in Stata 11.0.

3.3.1. Data Analysis

Each observation of data is related to a firm and it shows the duration between the first and second entry. The descriptive statistics of data are in Appendix 1, in which we also include a graph that presents those cases that entered once and a general distribution of events within a time-window between the first and second events. This graph shows the right-censoring cases of firms that entered once and the duration between the first and second events of those firms that entered at least twice in Brazil. The largest duration between first and second entry was approximately 3000 days.

The correlations between pairs of quantitative variables are in Appendix 2 and do not have high values, and the t-test for binary variables is presented in Appendix 3. The empirical analysis of this chapter also allows for the identification of the paths followed by firms accounting for the first and second entry. To do so, we adopted a specific contribution of the Markov process⁴¹ (Fink, 2008) to the set of Spanish firms that entered in Brazil, as Figure 3.1 shows.

⁴¹ The treatment of the theoretical foundations of the Markov chain modeling is found in Fink (2008).

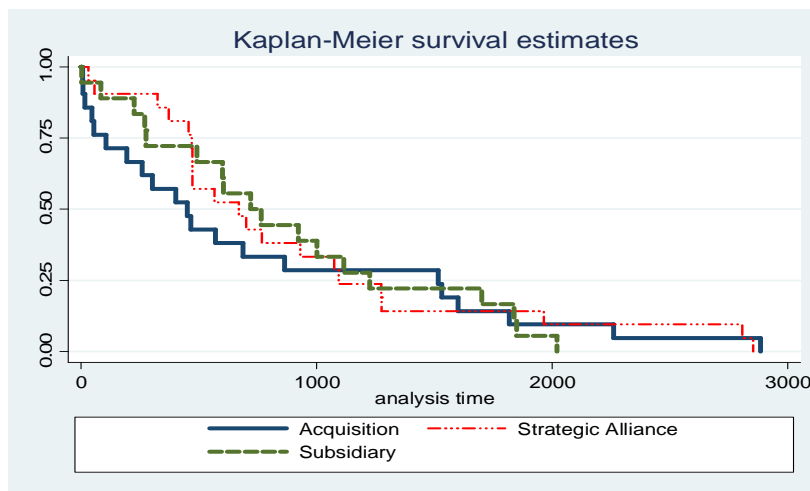
occurred for the M&A-M&A path. As we can see in Table 3.2, the standard deviation for some paths is very high in comparison to the average.

Table 3.2: Firms that entered at least twice (60 firms)

Entry Mode			Firms	Duration between Events (Days)	
Path	First Entry	Second Entry	Number	Average	Standard Deviation (Days)
1	S.All.	M&A	5	816.2	569.91
2	M&A	M&A	14	512.35	800.72
3	G.Sub.	M&A	3	1797.66	403.6
4	S.All.	S.All.	11	944.54	797.7
5	M&A	S.All.	5	957.4	1074.2
6	G.Sub.	S.All.	5	785.8	523.97
7	S.All.	G.Sub.	3	1612	459.36
8	M&A	G.Sub.	6	633.5	696.35
9	G.Sub.	G.Sub.	8	808.62	535.86
Total			60	847.65	752.3

In order to examine the distribution of failure events related to the second entry, we conduct a non-parametric analysis. By adopting Kaplan-Meier estimators⁴² (Kaplan and Meier, 1958) to the second entry in Brazil, we see in Figure 3.2 that the three entry modes as second entry reflect different duration, with regards to the first entry.

Figure 3.2: Distribution of events of interest as second entry



The Kaplan-Meier estimation shows that the time-window between first and second entry for strategic alliances and greenfield wholly-owned subsidiaries is greater

⁴² The most common method to estimate the probability of an event is the non-parametric focus, generally defined as the method of Kaplan-Meier (KM) (Pintilie, 2011).

than that for M&As until approximately 1000 days after the first entry. In effect, the use of M&As as second entry has an accelerated rhythm soon after the first entry and diminishes over time. An analysis of the first quartile for the second entry shows that 25% of acquisitions (M&As) occurred in a shorter period of time if compared to greenfield subsidiaries or strategic alliances. The median of second entry also shows acquisitions (M&As) related to a shorter time-window, while greenfield subsidiaries seem to require a larger time after the first entry. The figure also shows that the end of third quartile presents a shift in the distribution of acquisitions (M&As). Finally, the last quartile of duration between events shows that 25% of greenfield subsidiaries occur in a shorter time-period if compared to 25% of strategic alliances and 25% of M&As.

Assuming that we do not have strong *a priori* reasons for imposing a specific functional form on the dependence of a firm's hazard rate on time, we modeled another non-parametric analysis with explanatory variables. To disentangle the second entry choice, we analyze some Kaplan-Meier graphs in Appendix 4 and each of them is accompanied by a log-rank test⁴³ (Peto and Peto, 1972). This test is appropriate for identifying the variables that determine the hazard rate without making a distributional assumption on this rate. This non-parametric analysis makes no assumption about the functional form of cause-specific hazards and makes no assumption about how hazards differ among groups (Cleves et al., 2010). The log-rank test is a formal way to see if a variable affects the cause-specific hazard for an event of failure.

After this non-parametric analysis, we conduct the empirical section with firm, group and industry level variables. To accomplish the objective of this chapter, we need a technique that takes into account the possibility of three entry modes as events of interest such as a second move in Brazil.

3.3.2. *Competing Risk*

Some applications of survival analysis techniques in management are shown in Appendix 5. In this chapter, we adopt a competing-risk approach, because the occurrence of one of the events precludes the occurrence of the other events (Klein and Moeschberger, 2003; Lee and Wang, 2003). In the context of this chapter, the choice of an entry mode as a second move in a host country prevents the choice of other types in

⁴³ This test is used to compare the cause-specific hazard functions between groups (Group 1 and Group 0) for one specific cause (or event of interest). The null hypothesis is that Groups 1 and 0 have the same mean. For quantitative variables, we calculated the median value to submit this hazard test for each cause.

the second entry. With a competing-risk model, we know the probability of choosing an event of interest accounting for the time-window between first and second events in the presence of competing events (Fine and Gray, 1999). A competing-risk model is a hazard model that describes the likelihood of occurrence of a certain event within an interval between two events. The estimation of covariates on a hazard does not specify a parametric form. Instead, it ranks events temporally and generates relative subhazards. A more detailed definition of competing-risk regression is found in Fine and Gray (1999), in which a sub-hazard appears as an instantaneous probability of failure from cause k and is detailed in Appendix 6.

With regards to the application of competing-risks⁴⁴ models in a similar management field, a growing body of literature has been using them to examine exit hazards (He et al., 2010). When Esteve-Pérez et al. (2010) researched the exit route of firms, they briefly compared the use of survival methods to traditional techniques (logit and probit), arguing that the latter focus on the average probability of occurrence of an event during the sample period. For the authors, survival methods are more appropriate to analyze exit, since they allow for the accounting of both whether and when an event occurs, controlling for the evolution of the risk of each exit form over time. The same reasoning is valid for entries of firms in a host country. With respect to traditional estimation models, they are not appropriate to research situations in which duration (or time) until the occurrence of a specific failure is the main interest (Fuentelsaz et al., 2004).

In Chapter 3, the time between first and second events can be related to firm experience (first entry) and strategic movements within the business group and home industry of the firm. In this way, we run a competing-risk regression in which each event of interest has two competing risks and firms that entered once are censored information: The right-censoring might alter the hazards of the events of interest (Gichangi and Vach, 2005), and models including censored data are considered more efficient (Van der Goot et al., 2009).

In the following table, we show the estimate of a competing-risk hazard model. It determines the hazard of sub-distribution (subhazard ratio) for each event of interest

⁴⁴ For instance, Dickerson et al. (2003) conduct a competing-risks analysis of acquisition activity in the United Kingdom.

in the presence of competing risks. The coefficients, sub-hazards ratio and standard deviation are shown in the subsequent table. An estimated sub-hazard ratio of a covariate greater than 1 means that there is a higher incidence of event of interest, controlling for other variables and the fact that other competing risks can occur.

Table 3.3: Competing risks regression

Event of Interest	M&A		Strategic Alliance		Greenfield Subsidiary	
	Coefficients and Hazard Ratio –M&A (1)	Standard Deviation (Hazard Ratio) M&A(1)	Coefficients and Hazard Ratio – Strategic Alliance(2)	Standard Deviation (Hazard Ratio) Strategic Alliance(2)	Coefficients and Hazard Ratio – Greenfield Subsidiary (3)	Standard Deviation (Hazard Ratio) Greenfield Subsidiary (3)
Competing	(2) + (3)	(2) + (3)	(1) + (3)	(1) + (3)	(1) + (2)	(1) + (2)
Firm Level						
First_Entry_M&A	1.38*** (3.99)	2.18	-0.61(0.54)	0.36	1.17(3.22)	2.31
First_Entry_G.Sub.	-0.34(0.71)	0.57	-0.65(0.57)	0.35	1.67*** (5.35)	2.93
Group Level						
Par*Number_Group_M&A	0.86** (2.37)	0.94	-0.53(0.59)	0.27	1.67*** (5.33)	3.47
Par*Number_Group_S.All	-1.88(0.15)	0.27	0.58(1.79)	0.84	-1.07(0.34)	0.45
Par*Number_Group_G.Sub	0.48(1.60)	1.26	-0.31(0.73)	0.61	-1.34(0.26)	0.33
Industry Level						
Number_Ind_M&A	-0.0085(0.99)	0.31	-0.62(0.54)	0.22	-0.54(0.58)	0.39
Number_Ind_S.All	-0.36(0.69)	0.28	0.96** (2.62)	0.99	0.83(2.29)	1.29
Number_Ind_G.Sub	0.73*** (2.06)	0.53	-0.20(0.81)	0.27	-0.95* (0.38)	0.19
Control Variables						
Age	0.0014(1.00)	0.01	-0.025**(0.97)	0.012	0.037***(1.04)	0.013
Size (ln_employees)	0.54***(1.72)	0.37	0.45***(1.57)	0.32	0.04(1.04)	0.24
Regulated_Industry	0.84(2.31)	1.46	0.93(2.55)	1.76	-2.12(0.12)	0.18
1 st Entry_After_2003	0.49(1.63)	0.94	0.58(1.78)	1.026	-1.03(0.35)	0.29
No. of Obs.						
	200		200		200	
No. of Failures						
	21		21		18	
No. of Competing						
	39		39		42	
No. of Censored						
	140		140		140	
Wald chi2 (df)						
	100.39		134.86		62.27	
Prob > chi2						
	0.000		0.000		0.000	

Level of Significance : *= p<0.1, **= p<0.05, ***= p<0.01 . Sub-hazard Ratios are in parentheses.

When the event of interest is a M&A, an interpretation of the Variable “First_Entry_M&A” shows that a firm that has initially entered through M&As has 3.99 times more probability to enter again through M&As if compared to the reference variable “First_Entry_S.All”. Another form to interpret the sub-hazard ratio can be seen for Number_Ind_G.Sub . When it is greater than 1, a higher presence of firms from the same industry through subsidiary is associated with higher incidence of M&As, controlling for other variables and the fact that strategic alliances and subsidiaries can also occur as second entry. The coefficient is the ln (sub-hazard) and it is beside the sub-hazard ratios. The test of time-varying co-variables for M&As as the dependent variable revealed that *Par*Number_Group_M&A* and *Size* may present a time effect with p=0.026 and p=0.028, respectively. Time-varying effects are also found for strategic alliances as the dependent variable for the control variable *Age* with p=0.021, yet they are not found for subsidiaries as the dependent variable.

4. RESULTS

Table 3.3 presents the results of the competing risk regression for the choice of the entry mode in the second move in Brazil. It permits the analysis of the influence of firm, group and industry factors on the decision among a M&A, strategic alliance or greenfield wholly-owned subsidiary by the examination of the hazards of sub-distribution for the event of interest, also known as the sub-hazards (Fine and Gray, 1999).

Each independent variable (covariate) has an incidence in the event of interest in the presence of competing risks. For instance, when the event of interest is a M&A the coefficient of 1.38 for a previous M&A (*First_Entry_M&A*) means that when a firm has already entered in the country through this mode and not by *First_Entry_S.All*, the log of hazard is increased by 1.38. Another interpretation takes into account the exponential value of the coefficient. A previous experience through a M&A (*First_Entry_M&A*) instead of *First_Entry_S.All* multiplies the sub-hazard by 3.99. To the cases in which the variable under study is continuous, the interpretation is similar. For instance, an additional competitor of the same home industry that enters through a greenfield subsidiary increases the probability of a firm to enter in Brazil for the second time through a M&A by 2.06 ($\exp(0.73)$).

To begin the interpretation of sub-hazards (in parentheses) of a competing-risk regression, we recap the hypotheses proposed in this chapter. Hypothesis 1 is related to gradual expansion and it predicts that the second movement of the firm in an emerging country has a more committed entry than that adopted in the first entry in that country. We did not find a significant result for the adoption of a M&A or greenfield subsidiary, which led us to conclude that a gradual entry may occur as an initial entry sequence in Brazil (as the Markov model shows in Figure 3.1), but the second entry through a more committed mode is not significant.

With regards to hypothesis 2, it is related to experiential learning, while hypotheses 3 and 4 are related to imitation. Hypothesis 2 predicts that a firm that initially adopts a specific entry mode in an emerging country is more likely to repeat it in the second entry in that country. In Table 3.3 we see that a M&A has 3.99 times more likelihood to occur when the first entry is through a M&A, and a greenfield subsidiary has 5.35 times more likelihood to occur when the first entry is through a greenfield

subsidiary. Both firm experience with a M&A and greenfield subsidiary in Brazil show significant influence on the repetition of such modes as second entry when the first entry is through strategic alliance (*First_Entry_S.All.*). A possible explanation for the repetition of both a M&A and greenfield subsidiary may be related to a preference of controlling the operation abroad. In this way, the threat of opportunistic behavior that might occur through strategic alliances is preempted (Lu, 2002). Moreover, a previous experience with a M&A can overcome the complexity of some activities inherent to this process such as due diligence, negotiation and firm integration, while the knowledge gained through a first subsidiary also brings relevant information about local issues and how business is doing in the host country. Thus, we found support for hypothesis 2 when the event of interest is a M&A or greenfield subsidiary, yet as the same evidence of repetition was not found with strategic alliance as an event of interest, we partially support hypothesis 2.

With regards to the imitation issue, we recap hypotheses 3 and 4. Hypothesis 3 considers that the greater number of firms of a business group that initially entered through a specific mode in an emerging country the higher the likelihood that firms that belong to that business group adopt it in its second entry in that country. We find that imitation within a business group of firms significantly influences the choice of M&A as the event of interest in the presence of competing risks, yet we did not find the same evidence for strategic alliance or greenfield subsidiary as the event of interest. Thus, hypothesis 3 is partially supported. Imitation is also examined in terms of industry level in hypothesis 4, which predicts that the greater the number of firms of a home industry that initially entered through a specific mode in an emerging country the higher the likelihood that firms that belong to the same industry choose it in their second entry in that country. It was only found when the event of interest was a strategic alliance. We see that a unit increase in the number of firms that enter through this mode implies a significant likelihood of 2.62 times for firms of the same industry to choose a strategic alliance as a second entry, which is partial support for hypothesis 4.

Some additional aspects related to business group and industry factors are worth noting. With respect to the latter, when a M&A is the event of interest, it is significantly influenced by unit increase in the number of firms of the home industry that initially entered through greenfield subsidiaries. It leads to an increase of 2.06 times in the likelihood to choose a M&A as second entry. It seems that the entry of competitors

through a greenfield subsidiary influences the choice of a quicker mode to have access to new resources, and a M&A is a rapid form of entry. It is confirmed by the fact that when the event of interest is a greenfield subsidiary, competitors' movements through this mode significantly and negatively affect the choice of a greenfield subsidiary as second entry. That is, by observing entries through greenfield subsidiaries, firms have tendency to enter through a M&A rather than imitating the entry mode.

With regards to the business group's factors, a unit increase in the number of firms of the same business group that firstly enter through a M&A implies that the choice of a greenfield subsidiary as second entry by a firm of the same business group is 5.33 times more likely to occur. This seems that the strategic information generated by a firm that acquires may signal other firms of the same business group a favorable environment to enter through greenfield subsidiaries as well.

Up to now, we interpret the shifts of sign and magnitude of parameters of explanatory variables across the scenarios of events of interest. In terms of control variables, we see that the sub-hazards of *Age* are very close to 1 in all scenarios, which means their effects may be similar, but significant only for a strategic alliance and subsidiary. In order to check how the transition of policy regimes affects the decision of second entry we do not find significant results that firms that initially entered after the starting of PT's government in 2003 had influence on the choice of a specific entry mode in the second entry. With respect to the *Regulated_Industry* variable, before adding the *Size* control variable, it significantly influenced the second entry through strategic alliances ($p < 0.005$), because several strategic alliances were formed in industries that were in a privatization process. Nevertheless, when introducing the *Size* control variable, *Regulated_Industry* lost a significant effect on the choice of strategic alliances, which indicates that larger firms allied themselves to have business opportunities in the host country. We might initially think that some large firms in the sample might not have enough capabilities to enter through the other modes or they might still have doubts about committing resources in the second entry without a partner, yet some types of strategic alliances can demand a large amount of resources (size), as is detailed in the next section. *Size* is also significant when a M&A is the event of interest and, as it represents the resources of a firm, it seems to help firms to overcome potential entry barriers through a M&A.

In order to validate the competing-risk method, we have the regression with time-varying covariates in Stata 11.0, as explained in Appendix 6. We adopted the function of time analysis that presented the highest Wald chi2 (the default is $\exp(t)$, and it has the highest Wald chi2 if compared to $\exp(\ln(t))$ or $\exp(t^{0.5})$). With regards to the tests, we submit the quantitative variables to a multicollinearity test (VIF). The variance inflation factor (VIF) is below the suggested cutoff value of 10, indicating multicollinearity is not a significant concern (Cohen et al., 2003). As the individual variation inflation factor (VIF) is lower than five, it does not indicate a level of moderate multicollinearity (Larose, 2006). Moreover, we calculate the Levene test to assess the equality of variances in different samples and we have analyzed the χ^2 in the association between binary variables. In terms of goodness of fit, when the event of interest is a M&A, the results of the model had a Wald test of 100.39 ($p < 0.000$), when the event of interest is a strategic alliance the results of the model had a Wald test of 134.86 ($p < 0.000$) and when the event of interest is a greenfield subsidiary, the results of the model had a Wald test of 62.27 ($p < 0.000$).

5. DISCUSSION

This research about the determinants of the second entry of Spanish firms in Brazil shows that the second entry is related to both firm experience and imitation. Experiential learning and imitation within the business group are significantly found when a M&A is the event of interest. Moreover, both experiential learning and information within the business group have significant effects on the choice of greenfield subsidiaries as second entry. Importantly, we found that imitation within the home-industry level prevails over other factors when a strategic alliance is the event of interest.

Based on such results achieved through the competing risk regression for the second entry in Brazil, we suggest a classification of the initial sequence in terms of organizational learning (Huber, 1991) and the logic of the Uppsala model (gradual entry). When the first entry is through a M&A or a greenfield subsidiary, the sequence of entry has a competitive capabilities approach, since firms do not adopt the logic of gradual entry. In this classification, we do not name the initial sequence of entry as the Uppsala model, because exportation is not treated in this chapter, but the initial choice of a strategic alliance followed by a greenfield subsidiary or a M&A is considered a gradual entry. The Markov model in Figure 3.1 shows the existence of a logic of

gradual entry through the strategic alliance-greenfield subsidiary (or strategic alliance-M&A) path, which led us to verify the results of the competing risk regression. We found that the second entry through greenfield subsidiary (or M&A) is not statistically significant when the first entry is through a strategic alliance, i.e., the logic of gradual entry- Uppsala model (Johanson and Vahlne, 1977)- can occur but the second entry through a more committed entry mode is not significant. In Table 3.4, we contextualize the second entry in terms of prior experience and imitation.

Table 3.4: Second entry and theoretical approaches

Entry mode		Firms	Significant results of competing risk regression	Possible theoretical approach
First entry	Second entry	Number	Determinants of entry-mode choice	Classification based on the mode adopted in the second entry
S.Alliance	S.Alliance	11	Imitation	Organizational learning
	M&A	5	Experience with G.Subsidiary in home industry and imitation within business group	Logic of gradual entry Organizational learning
	G.Subsidiary	3	Experience with M&A in business group	Logic of gradual entry Organizational learning
M&A	S.Alliance	5	Imitation	Organizational learning
	M&A	14	Repetition, experience with G.Subsidiary in home industry and imitation within business	Experiential learning (Organizational learning)
	G.Subsidiary	6	Experience with M&A in business group	Organizational learning
G.Subsidiary	S.Alliance	5	Imitation	Organizational learning
	M&A	3	Experience with G.Subsidiary in home industry and imitation within business group	Organizational learning
	G.Subsidiary	8	Repetition, experience with M&A in business group	Experiential learning (Organizational learning)

In terms of the organizational learning approach (Huber, 1991), firms can learn from a prior experience with the mechanism of entry and through the imitation of the strategic movements of other firms. The repetition of a M&A or greenfield subsidiary can be related to a set of capabilities. Firms with developed capabilities can initially start up a plant or enter through a rapid mode like a M&A to achieve an initial market share and to have access to valuable resources before their competitors. Recent literature about new multinationals show that some organizational, managerial, project-execution, political and network capabilities can be the basis for the internationalization of several Spanish firms (Guillén and García-Canal, 2010). In this way, some

organizational capabilities may permit the use of riskier entry modes from the beginning of the expansion process in a host country.

Importantly, the choice of a M&A is also significantly influenced by prior entries within the same business group. This imitative behavior is also found for strategic alliances as an event of interest in the second entry in terms of home-industry level. In this way, it might seem that some firms might have some doubts in investing aggressively in the host country, or a first entry through strategic alliance might not be enough to achieve market knowledge that enables a shift of the entry mode in the second move.

Indeed, apart from the sharing of risks with a partner, the adoption of a strategic alliance in the second move in Brazil can be attributed to the need to access new projects in infrastructure. Some industries were in a privatization stage in the 1990s and several consortiums between firms took place. Specifically, from the total number of strategic alliances adopted as second entry (21), nine are consortiums and five are joint ventures, which represents that this type of entry was not only constituted by cooperation agreements. Most consortiums occurred during the privatization stage, a period in which the Brazilian Government took actions to enable the entry of foreign firms in some industries such as energy, finance, insurance and telecommunications. In parallel, Brazil started to control inflation in 1999 after the shift to Brazilian currency (the Real) in 1994, and the business environment began to attract new investments. Thus, it would not be strange that firms imitate competitors that enter through strategic alliances when the host country has a lack of infrastructure, the need to modernize managerial skills and methods and provides a possibility for long-term business exploitation.

With regards to the business group, the number of M&As⁴⁵ significantly affects the second entry of a firm that belongs to the same business group. This effect is seen in the choice of the M&A and greenfield subsidiary, but the relevant point is that the magnitude of the effect on the choice of the latter is almost the same of the variable *First_Entry_Sub.*, which highlights the importance of a business group in the second-entry decision. In turn, firms from the same home industry that initially entered through greenfield subsidiaries have a significant and a positive effect on the second entry

⁴⁵ Fifty percent of the total number of M&As (22) represented 50% of shares of target (11) and only three cases represented less than 10% of shares.

through a M&A. That is, more firms that enter through a greenfield subsidiary signal to their competitors the potential to build resources in the host country, which can motivate competitors to initiate a rapid entry to achieve access to new resources.

To summarize, this chapter allows us to identify how an initial sequence of entry can be related to experience and imitation by the examination of the second entry of Spanish firms in Brazil. In terms of prevalence of factors in the entry-mode choice, we found that imitation within the industry prevails over other elements when the second entry in Brazil is through a strategic alliance. In the case of the M&A as second entry we did not find prevalence of some variables, but both repetition and imitation within the business group had positive and significant results when controlling for other variables. The second entry through this mode is also complemented by the observation of other firms of the same industry that entered through a greenfield subsidiary. In terms of the subsidiary as second entry, no prevalence was found. This choice is not significantly influenced by imitation within the business group or home industry, yet the experiential learning and gathering of information within both the business group and home industry significantly influenced the decision to enter.

6. CONCLUSION

We broaden the notion of multinationals entry by studying the determinants of second entry of foreign firms in an emerging country. The empirical evidence shows that the second entry of Spanish firms in Brazil can be explained by a multilevel approach, as prior literature suggested (Guillén, 2003; Luo, 2001). We can see that entry sequence in Brazil cannot be fully explained by the logic of gradual entry. This logic contemplates the behavior of the firm and does not consider the influence of other firms' movements.

This chapter complements some previous research about firm expansion and determinants of entry-modes choice in emerging countries (Guillén, 2003; Luo, 2001; Chang, 1995). For instance, a prior study about the expansion of Brazilian public firms in Brazil (from 1996 to 2007) showed that a firm's accumulated experience in joint ventures is relevant for the choice of the same entry in a future transaction (Kayo et al., 2010). In this way, if Brazilian firms show a trend of repeating strategic alliances, it would not be strange that the second entry of Spanish firms were through this mode as well. In fact, in the presence of competing events, imitation within the home industry prevails when strategic alliances are the event of interest, yet when a M&A or

greenfield wholly-owned subsidiary is the event of interest, the business group and firm levels also have significant effects.

Firms that had a first entry through a greenfield subsidiary or M&A instead of a strategic alliance are more likely to repeat them in the second move. It supports the view that firms take into account past experience in entry decisions (Collins et al., 2009). The repetition of a M&A or greenfield subsidiary shows the importance of organizational capabilities developed in the home country or through other expansion initiatives. The use of such modes as a first entry may be related to expertise in identifying and integrating targets or starting-up plants abroad, and it shows that the traditional staged model of expansion (Johanson and Vahlne, 1977) is not useful in these circumstances. With the evidence of organizational learning, in terms of experiential learning with a mechanism of entry and imitation, the second entry in Brazil indicates that the logic of gradual entry has to take into account the existence of business groups and industry. In fact, the logic of gradual entry is complemented by a recent article of Johanson and Vahlne (2009), in which the authors add the strategic position of a firm in a network as a relevant source of information to the expansion plan. In the context of this chapter, a contact or the experience of a member of a business group in the host country can create valuable information that influences the choice of M&A or greenfield subsidiary in the second entry. By the way, M&As are a way for a resource-rich company to quickly buy itself a position in a network in a foreign market (Johanson and Vahlne, 2009), and firms can decide for this mode to have rapid access to new valuable resources.

Finally, an important aspect is that the logic of the Uppsala model does not take into account the fact of belonging to a business group. Those firms that do not belong to a business group are very likely to enter for the second time through a M&A in regulated industries ($p \leq 0.05$). In turn, the imitation of strategic alliances within the home industry is not significant for those firms that do not belong to a business group, i.e., firms that do not belong to a business group did not imitate the use of strategic alliances within the industry. Moreover, the results of this chapter also indicate that, instead of imitating the strategic movements within a business group, firms can adopt another entry mode. Organizational learning refers to searching (Huber, 1991), when firms scan for information about environmental changes and the knowledge acquired leads them to choose an entry mode that allows for a better fit between the firm and its environment. Thus, these results appear to show that a business group helps firms to

execute the choice, and they reinforce the importance for firms of grasping information within the competitive environment.

7. IMPLICATIONS, LIMITATIONS AND FURTHER RESEARCH

This chapter contributes to research about factors that influence entry-modes choice and entry sequence in emerging countries. Given the openness of the Brazilian economy in the 1990s, many foreign firms started a period of investment in this country that continued in the 2000s, and thus it extends the contribution of this chapter to practitioners that are engaged in projects of business expansion, negotiation and deals.

The main theoretical contribution of this study relies on the disentangling of the factors that affect the entry-mode choice in the second entry of firms, by considering multilevel determinants (firm, business group and industry) in the presence of competing events. In this context, we observed the role that imitation and repetition play in the choice of second entry, and we found that a firm's previous experience through a M&A or greenfield subsidiary significantly determines their future choice in the second entry, indicating that the results are supported by the organizational learning approach. Repetition of a M&A or greenfield subsidiary is likely to occur when the reference variable at firm level is the strategic alliance, and a gradual entry does not explain the expansion of Spanish firms in Brazil. Moreover, the choice of a M&A is influenced by imitation within the business group, which revealed the importance to complement the logic of gradual entry, and a major finding in this research is related to the occurrence of imitative behavior in the adoption of strategic alliances.

These aspects also have managerial implications, because they highlight the importance to contemplate firm, business group and home industry characteristics in the decision of second entry. It can generate insights regarding the aspects that may prevail in subsequent entries or in expansion in other countries. In this context, as this research focuses on Brazil as the host country, experience of expansion in other countries is not contemplated here and there can be room here for further research. There may be a relational approach between previous experience in other countries and the sequence of entry used in a specific one. Another extension of this work could consider how the investments differ among regions in Brazil. If the liability of foreignness may lead firms to choose the mode with fewer risks, when firms that enter a market do not have a relevant network position they face the liability of outsidership, which does not necessarily refer to countries (Johanson and Vahlne, 2009). In a large country where

cultural and environmental differences exist among regions, the view of parts of the country as entirely different markets can be considered: The regions can offer different incentives in terms of fiscal aspects and be more attractive to foreign players and specific industries. Through this approach, research could assess the relationship among regions in the host country, network position and the sequence of entries.

We could consider, as a limitation, the assumption that all firms that entered at least twice continued their operations in the host country after the first entry. In this way, a possible cessation of the first operation or a departure from the country and a reentry are not reported here but could be included as an extension of this work. Moreover, further research may distinguish between partial and full acquisitions and between joint ventures and cooperative agreements. Some different effects of the covariates on the incidence of events of interest might appear. In this chapter, we had to group the type of entry modes because we had only 60 firms that entered at least twice. Another study could classify partners as similar or less-related firms to verify if similarity among resources might justify an entry through M&As to achieve economies of scale, while a lack of this similarity might lead to the choice of strategic alliances (resources complementarity). At the outset, further research should address attention to the initial entry sequence in other emerging countries or study the sequence of all entries in the same host country.

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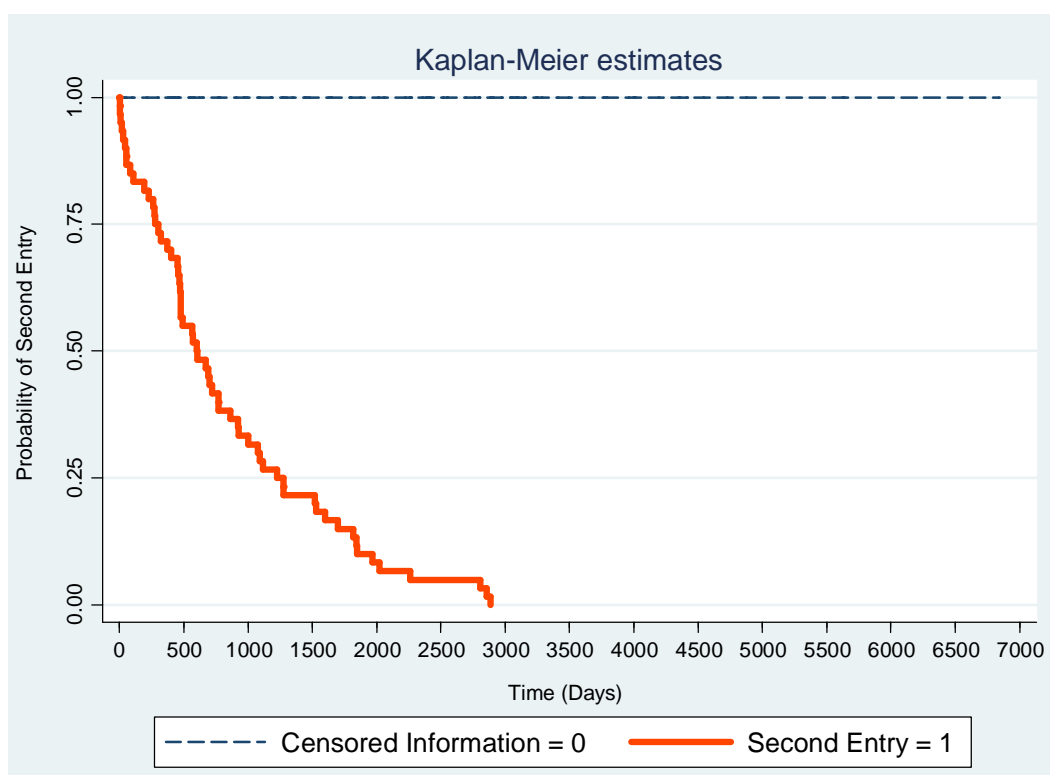
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Appendix 1: Descriptive statistics and distribution of failure

-Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Explanatory					
<u>Firm</u>					
First_entry_M&A	200	0.124	0.33	0	1
First_entry_S.all	200	0.094	0.293	0	1
First_entry_G.sub	200	0.079	0.079	0	1
<u>Grupo</u>					
Par_number_gr_M&A	200	0.11	0.114	0	4
Par_number_gr_S.all	200	0.149	0.149	0	3
Par_number_gr_G.sub	200	0.079	0.079	0	2
<u>Industry</u>					
Number_ind_M&A	200	0.368	0.896	0	5
Number_ind_S.all	200	0.363	0.743	0	4
Number_ind_G.sub	200	0.338	0.845	0	6
Control					
Age	200	31.28	29.42	0	157
Ln_employees	200	5.46	1.973	0	10.56
Regulated_Industry	200	0.185	0.389	0	1
_1 st _Entry_After_2003	200	0.338	0.474	0	1

-Distribution of failure between censored and non-censored information



Appendix 2 – Correlation matrix – Quantitative variables

Variable	Par*Number_ _Gr_M&A	Par*Number_ _Gr_S.All	Par*Number_ _Gr_Sub	Number_ Ind_M&A	Number_ Ind_S.All	Number_ Ind_G.Sub	Age	Ln_employees
Par*Number_ _Gr_M&A	1	0.396***	0.191***	0.106	0.076	0.073	-0.0008	0.087
Par*Number_ _Gr_S.All		1	0.498***	0.021	0.209***	0.009	-0.03	0.03
Par*Number_ _Gr_G.Sub			1	0.019	0.192***	0.066	0.02	0.035
Number_Ind_ M&A				1	0.301***	0.25***	0.202** *	0.147**
Number_Ind_ S.All					1	0.559***	0.151**	0.110
Number_Ind_ G.Sub						1	0.157**	0.032
Age							1	0.247***
Ln_employees								1

Appendix 3 – Statistical testing for binary variables (t-tables)

a) Group mean comparison test - Two sample t-test

Quantitative Binary Variables	<i>Par*Number_ Group_M&A</i>	<i>Par*Number_ Group_S.All</i>	<i>Par*Number_ _Group_G. Sub</i>	<i>Number_Ind_ M&A</i>	<i>Number_Ind_ S.All</i>	<i>Number_Ind_ G.Sub</i>	<i>Age</i>	<i>Ln_employees</i>
First_Entry_M&A	-0.99 (0.32)	-0.044(0.96)	2.09(0.037)	-1.87(0.064)	0.521(0.603)	1.216(0.22)	-1.58(0.11)	-1.91 (0.059)
First_Entry_S.All	-0.108(0.91)	-1.21(0.22)	-0.13(0.893)	1.58(0.11)	0.182(0.855)	-0.53(0.59)	0.86(0.38)	1.84(0.06)
First_Entry_G.Sub	1.205(0.23)	1.72(0.08)	-0.33 (0.73)	0.296(0.767)	-0.69(0.488)	-0.511(0.609)	0.63(0.52)	0.101(0.91)
Regulated Industry	-2.18(0.03)	-1.29(0.20)	-0.50(0.61)	-3.42(0.001)	-0.581(0.56)	-0.372(0.709)	-1.46(0.15)	-2.12(0.04)
1 st _Entry_after_2003	0.209(0.83)	0.95(0.34)	-0.68(0.49)	-2.08(0.04)	1.42(0.15)	1.248(0.213)	-0.509(0.61)	1.07(0.28)

Level of significance to accept the alternative hypothesis where there is a difference in the means of variables is in parentheses.

Levene's Test: Null Hypothesis: Variances are equal

b) Measures of Association (Pearson:chi2)

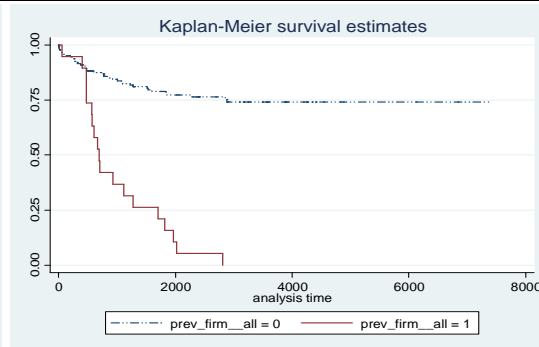
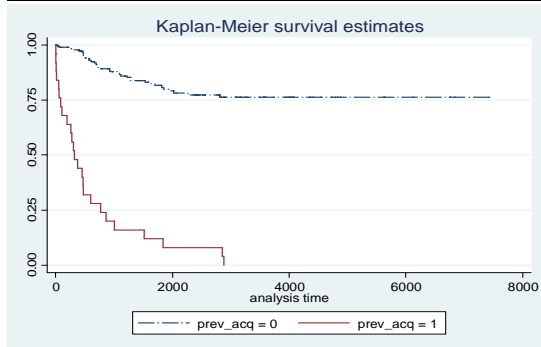
Binary Variables	<i>Regulated_Industry</i>	<i>1st_Entry_ after_2003</i>
Regulated_Industry	-	0.054(0.815)
1 st _Entry_after_2003		-

Level of significance to accept the alternative hypothesis where there is a difference in the means of variables is in parentheses.

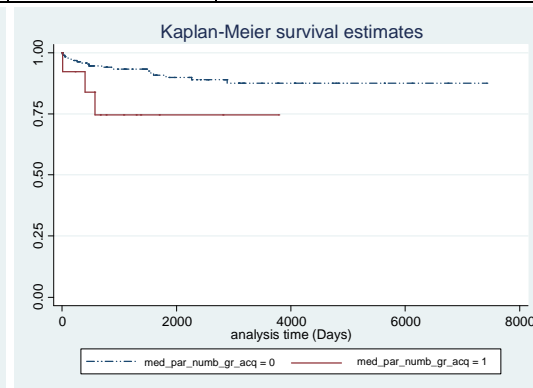
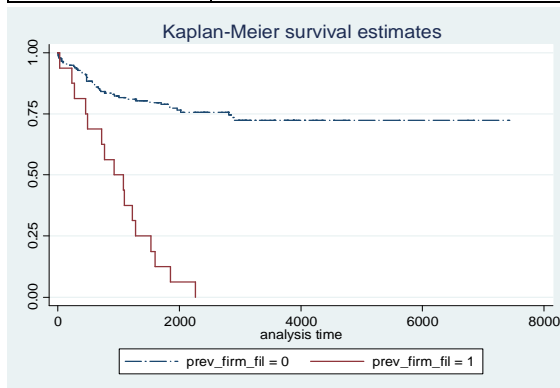
Appendix 4 – Kaplan-Meier and log-rank tests

4.1) Event of Interest: M&As (Analysis Time = Number of Days)

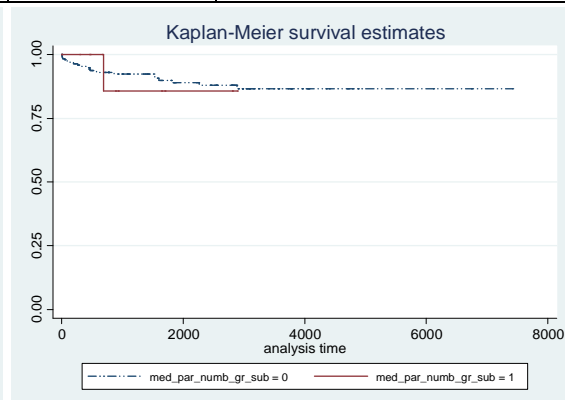
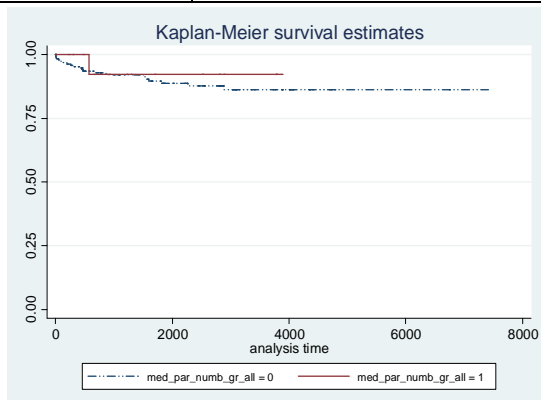
Covariate	First_Entry_M&A	Covariate	First_Entry_S.All.
Log-Rank Test	130.72 (0.000)	Log-Rank Test	4.53 (0.033)



Covariate	First_Entry_G. Sub.	Covariate	Median PA*Number_Group_M&A
Log-Rank Test	2.84 (0.092)	Log-Rank Test	4.33 (0.037)

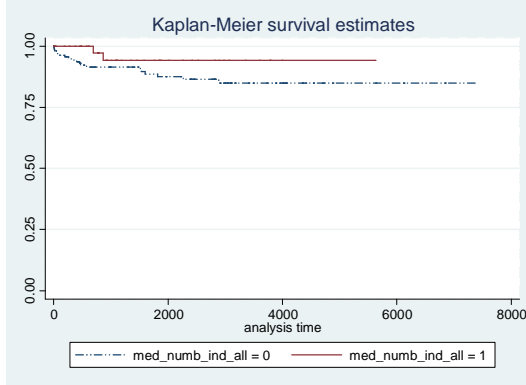
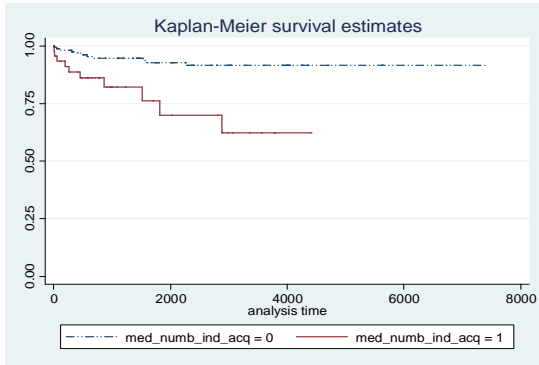


Covariate	Median PA*Number_Group_S.All	Covariate	Median PA*Number_Group_G.Sub
Log-Rank Test	0.20 (0.65)	Log-Rank Test	0.0 (0.95)

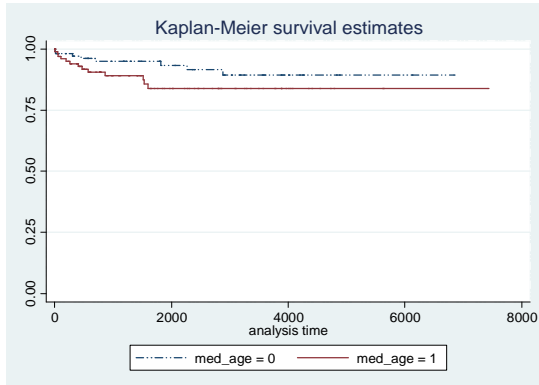
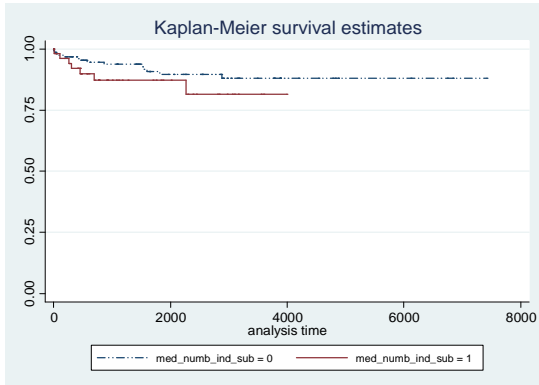


Appendix 4: Kaplan-Meier and log-rank tests (Continuation)

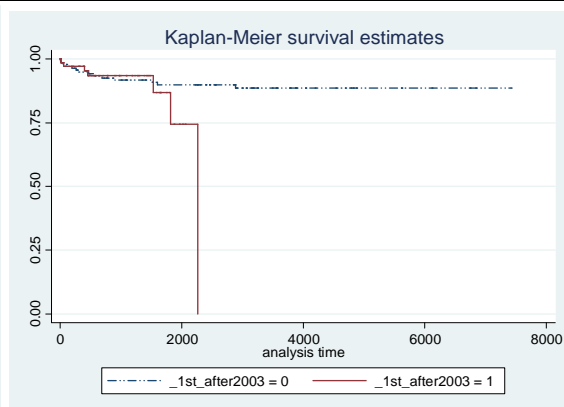
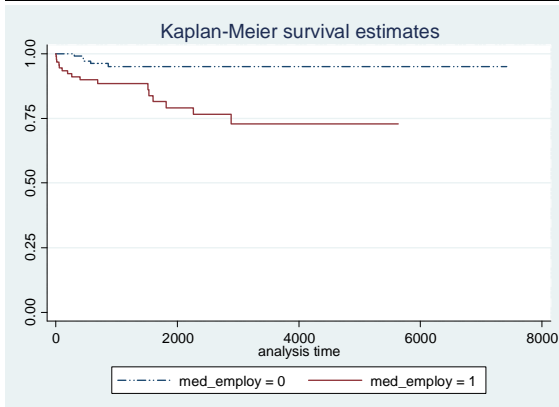
Covariate	Median Number_Ind_M&A	Covariate	Median Number_Ind_S.All
Log-Rank Test	13.24 (0.0003)	Log-Rank Test	1.70 (0.19)



Covariate	Median Number_Ind_G.Sub	Covariate	Median Age
Log-Rank Test	1.54 (0.21)	Log-Rank Test	2.13 (0.14)



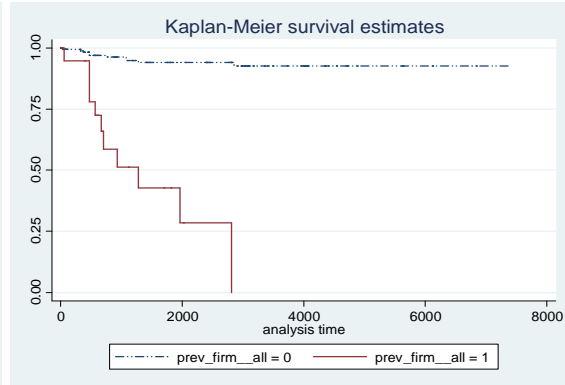
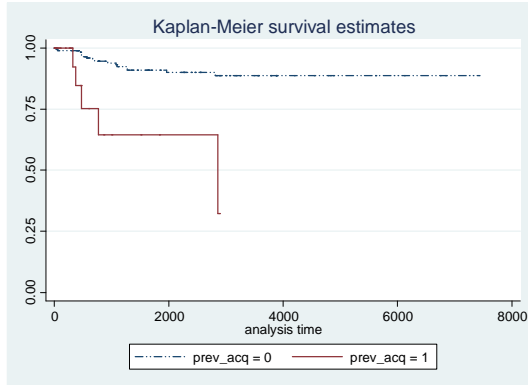
Covariate	Median Size	Covariate	1st EntryAfter 2003
Log-Rank Test	12.16 (0.0005)	Log-Rank Test	1.16 (0.28)



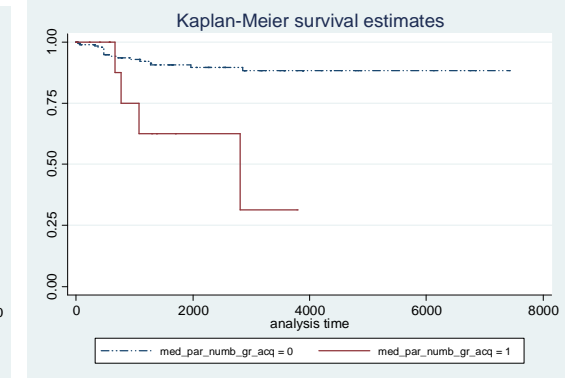
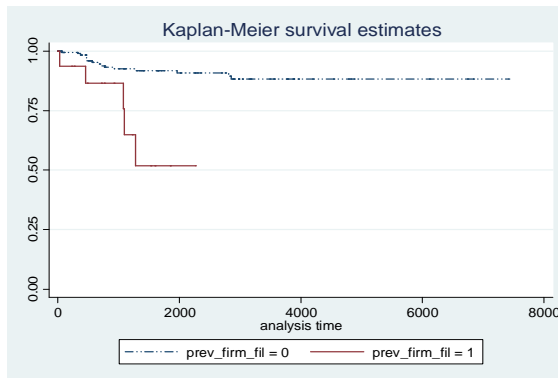
Appendix 4: Kaplan-Meier and log-rank tests (Continuation)

4.2) Event of Interest: Strategic Alliances (Analysis Time= Number of Days)

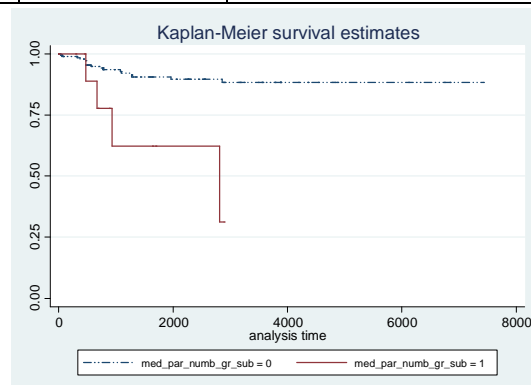
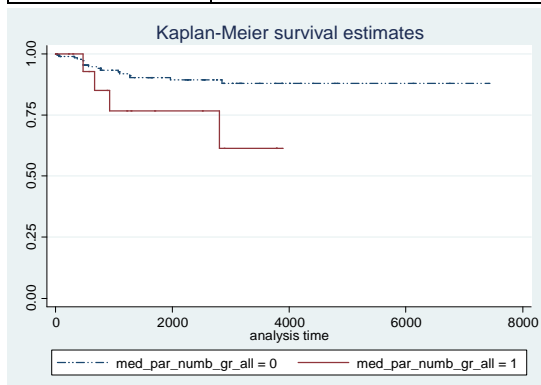
Covariate	First_Entry_M&A	Covariate	First_Entry_S. All
Log-Rank Test	16.92 (0.000)	Log-Rank Test	69.08 (0.000)



Covariate	First_Entry_G.Sub	Covariate	Median PA*Number_Group_M&A
Log-Rank Test	13.52 (0.0002)	Log-Rank Test	9.53 (0.002)

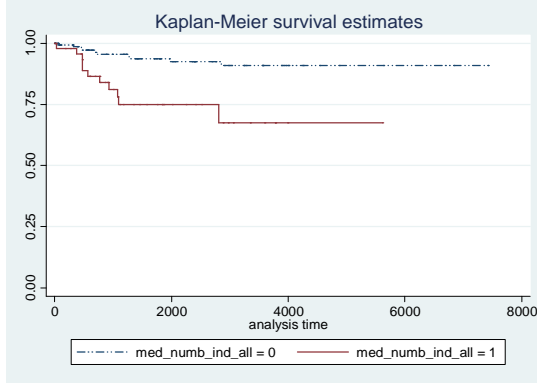
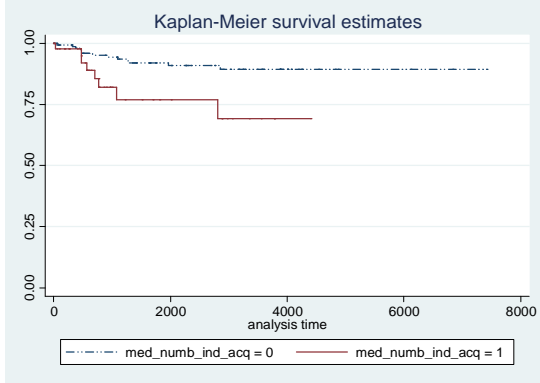


Covariate	Median PA*Number_Group_S.All	Covariate	Median PA*Number_Group_G.Sub
Log-Rank Test	4.36 (0.036)	Log-Rank Test	11.88 (0.0006)

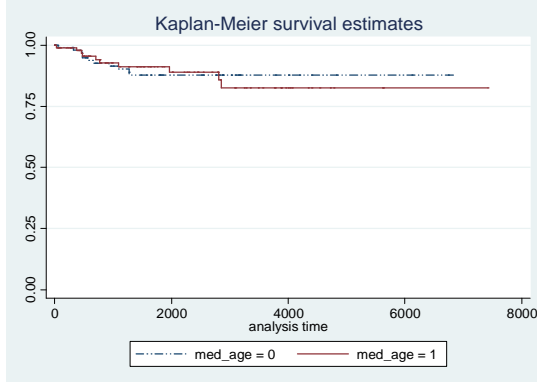
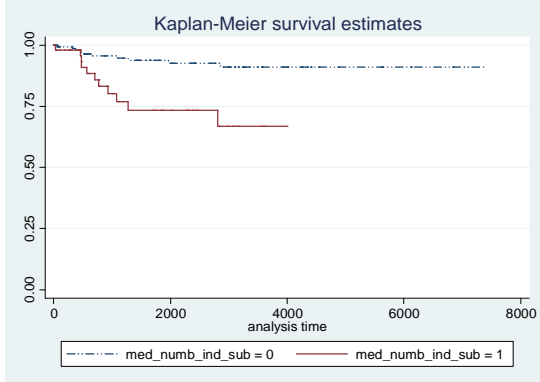


Appendix 4 – Kaplan-Meier and log-rank tests (Continuation)

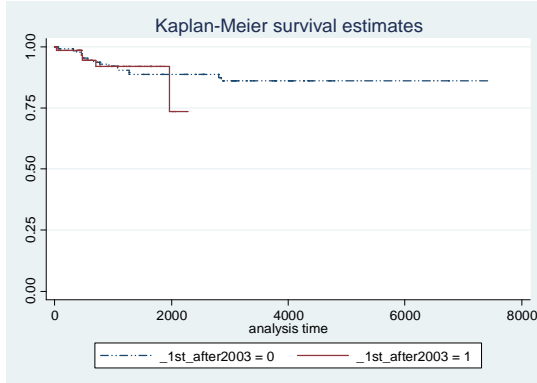
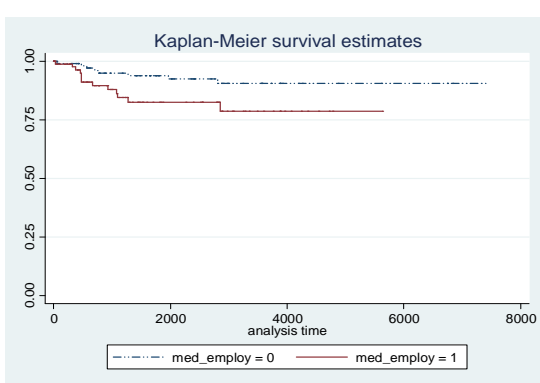
Covariate	Median Number_Ind_M&A	Covariate	Median Number_Ind_S.All
Log-Rank Test	7.23 (0.0072)	Log-Rank Test	12.48 (0.000)



Covariate	Median Number_Ind_G.Sub	Covariate	Median Age
Log-Rank Test	12.71 (0.0004)	Log-Rank Test	0.05 (0.817)



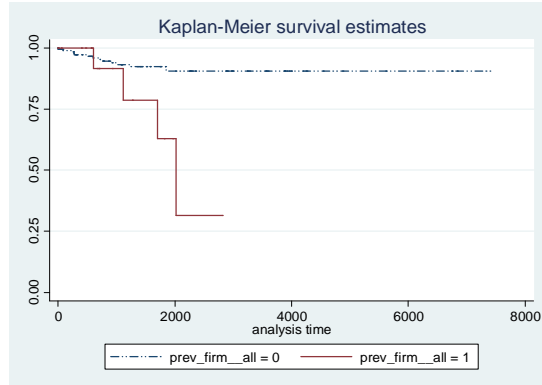
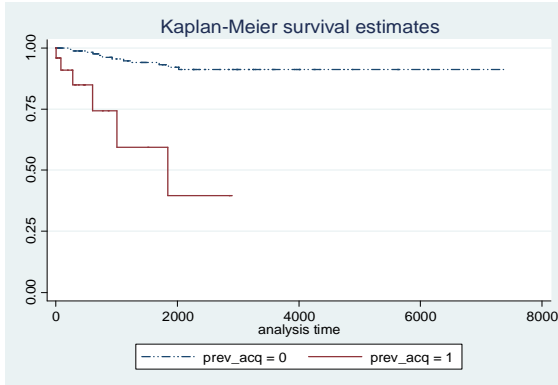
Covariate	Median Size	Covariate	1st EntryAfter 2003
Log-Rank Test	4.71 (0.03)	Log-Rank Test	0.04 (0.84)



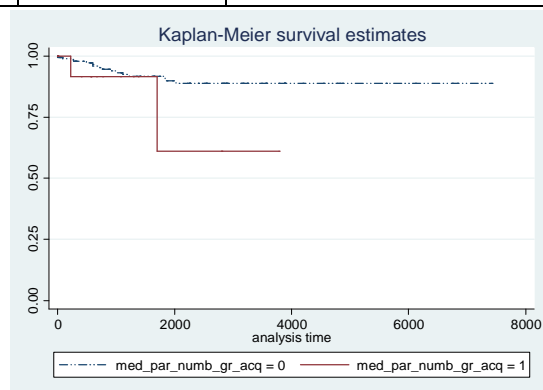
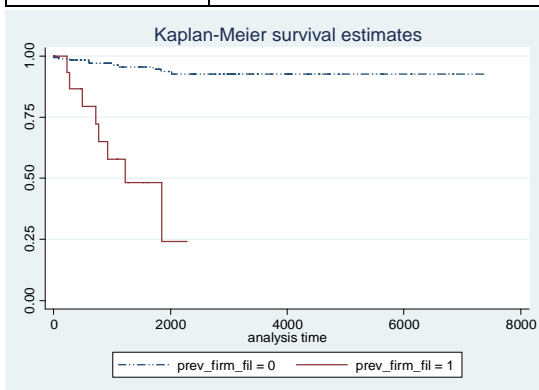
Appendix 4 – Kaplan-Meier and log-rank tests (Continuation)

4.3) Event of Interest: Greenfield Wholly Owned Subsidiaries (Analysis Time = Number of Days)

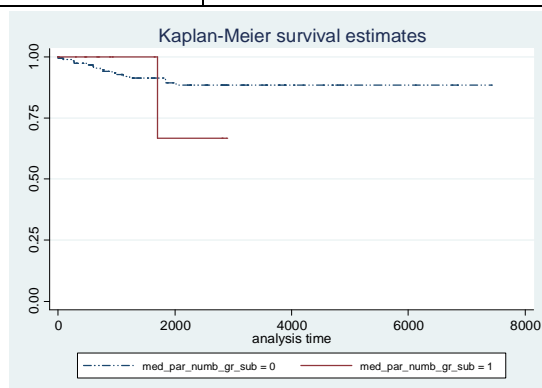
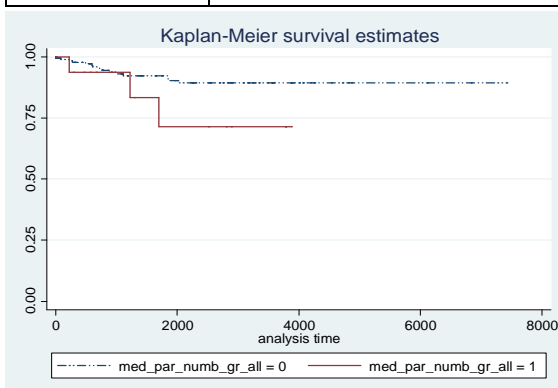
Covariate	First_Entry_M&A	Covariate	First_Entry_S. All
Log-Rank Test	30.09 (0.000)	Log-Rank Test	7.79 (0.0052)



Covariate	First_Entry_G.Sub	Covariate	Median PA*Number_Group_M&A
Log-Rank Test	52.32 (0.000)	Log-Rank Test	1.88 (0.17)

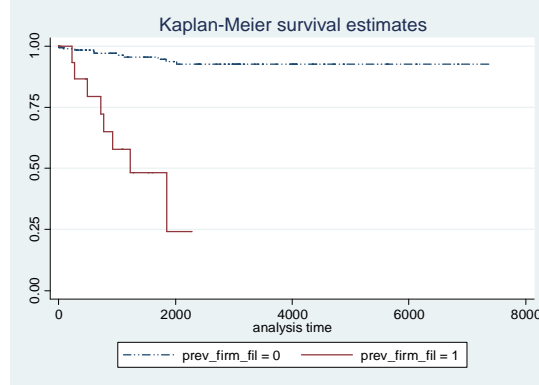
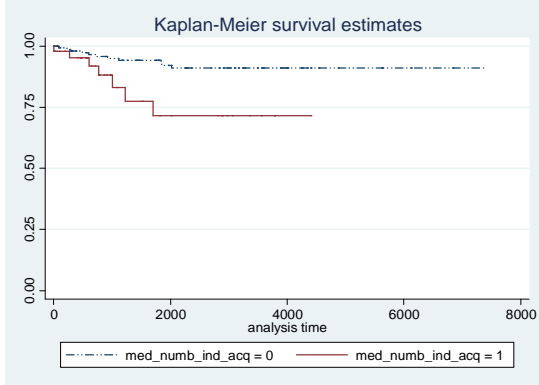


Covariate	Median PA*Number_Group_All	Covariate	Median PA*Number_Group_G.Sub
Log-Rank Test	2.44 (0.12)	Log-Rank Test	0.11 (0.73)

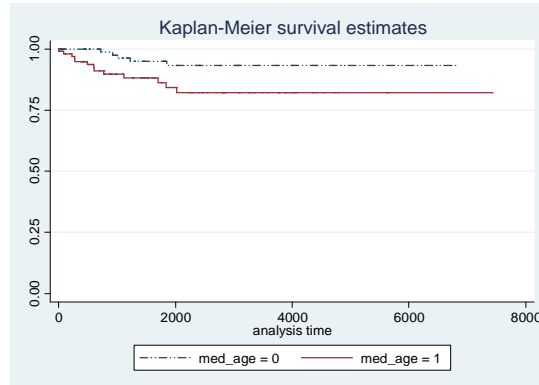
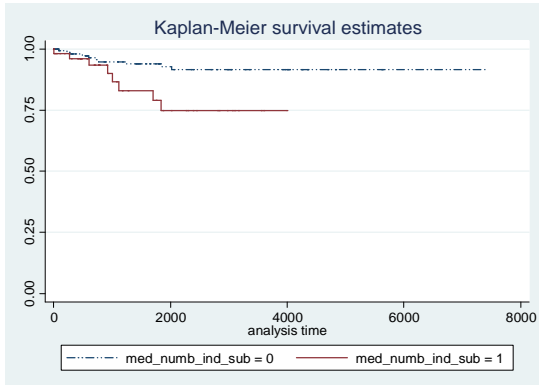


Appendix 4: Kaplan-Meier and log-rank tests (Continuation)

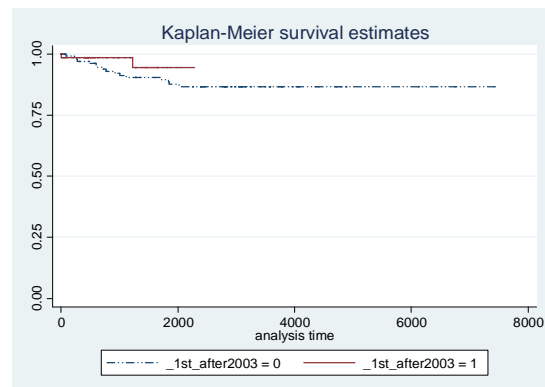
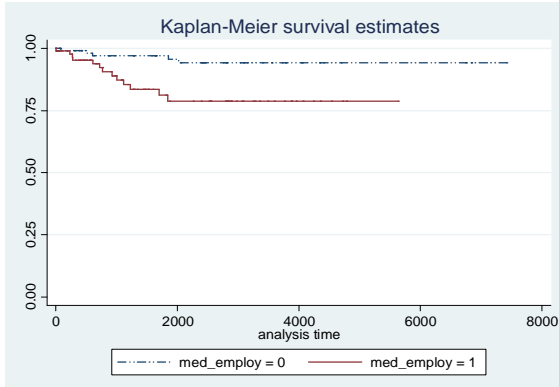
Covariate	Median Number_Ind_M&A	Covariate	Median Number_Ind_S.All
Log-Rank Test	7.36 (0.0067)	Log-Rank Test	9.32 (0.0023)



Covariate	Median Number_Ind_G.Sub	Covariate	Median Age
Log-Rank Test	5.88 (0.015)	Log-Rank Test	5.26 (0.018)



Covariate	Median Size	Covariate	1st EntryAfter 2003
Log-Rank Test	8.77 (0.0031)	Log-Rank Test	1.25 (0.26)



Appendix 5 – Articles related to duration analysis in business

Author (year)	Objective	Method	Variables
Levinthal (1991)	Analysis of likelihood of firm survival from the media sector	Parametric analysis	Age, heterogeneity and capital
Amburgey, Kelly and Barnett (1993)	Study the likelihood of survival of Finnish firms and organizational changes	Parametric models (log-linear function)	Population, density, frequency of shifts, age at failure
Morita, Lee and Mowday (1993)	Application of survival analysis	Conceptual article	Conceptual article
Ingram and Baum (1997)	Survival analysis of hotels in U.S	Piecewise exponential model	Age, size, growth, number of tourists, experience and participation in a hotel chain
Asplund and Sandin (1999)	Survival of new products in Sweden	Weibull model	Period, product, market and sales
Fotopoulos and Louri (2000)	Analysis of factors that influence survival of manufacturing firms in Greece	Cox Regression	Location, size, growth, benefits.
Tveteras and Egil-Eide (2000)	Analysis of factors that influence survival and exit of firms from Norway	Cox Regression	Number of employees, sector growth, employees rate vs. sector, sales per employee
Klepper and Simons (2000)	Study firm survival and technological change in U.S tire industry	Logit and Cox	Location, size, initial entry.
Agarwal and Audretsch (2000)	Analysis of the impact of size and technology on firm survival	Non-parametric and Cox Regression	Size, life-cycle of industry, technology level.
Segarra and Callejón (2002)	Analysis of Gibrat's law with a sample of Spanish firms	Cox Regression	Number of employees, industry, publicity, industry growth and R+D.
Mata and Portugal (2002)	Compare survival of foreign and domestic firms in Portugal	Logit	Origin, size, growth, industry, concentration ratio and personal education level
Fuentelsaz et al. (2002)	Understand the factors that influence entry decisions	Cox Regression	Size, profitability, proximity, previous experience, competition, demand, market growth
Disney, Haskel and Heden (2003)	Study the entry, survival and exit of firms	Cox Regression	Country, industry, age
Dhanaraj and Beamish (2004)	Study the effect of equity ownership on the survival of international joint ventures	Cox Regression	Industry, number of partners, culture distance, age of subsidiary, size, member of OECD, country policy.
Esteve-Perez et al. (2004)	Survival and exit of Spanish Manufacturing firm	Non-parametric techniques and Cox Regression	Age, age of group, size, size of group, export, R+D, foreign capital, type of society
Fuentelsaz et al. (2004)	Present the use of survival analysis in business-economics field	Main models of survival analysis	Conceptual article

Author (year)	Objective	Method	Variables
Mesa and Ortega (2007)	Survival analysis in the exports process of Spanish manufacturing firms	Weibull Function	Type of exports and destination
Strotmann (2007)	Determinants of survival of German manufacturing firms	Cox Regression	Initial size, industry size, industry growth, technology level and economy of scale
Taymaz and Ozler (2007)	Impact of foreign ownership on industry in terms of entry and exit processes	Cox Regression	Number of employees, publicity, marginal benefits, market share
Gaur and Lu (2007)	Study of impact of institutional distance and experience on the survival of firms	Cox Regression	Number of employees, age, distance, sector, corruption.
Esteve-Perez and Mañez-Castillejo (2007)	Research the determinants of survival of Spanish manufacturing firms	Discrete-time proportional hazard model (complementary log-log model)	Size, R&D, industry, technology, exports intensity and foreign ownership
Sinha and Noble (2008)	Examine the adoption of manufacturing technologies on survival of firms	Cox Regression	Probability to adopt technologies, timing of adoption, magnitude of adoption, size, R&D.
Kronborg and Thomsen (2009)	Relation between foreign ownership and long-term survival	Cox Regression	Size, industry, time and subsidiaries
Schafer and Talavera (2009)	Survival of small business firms	Discrete time proportional hazard model (complementary log-log model)	Gender, age, education, firm size, manufacturing sector, service firms, revenues
Van der goot, Nan giersbergen and Botman (2009)	Analyze the survival of internet firms	Cox Regression and Parametric log-logistic hazard model	Size, reputation, age, risk, cash flow and revenues.
Holmes, Hunt and Stone (2010)	Study the survival of firms in the UK	Log-logistic hazard model	Size of plant, sector growth and macroeconomic variables
Sohn and Jeon (2010)	Analyze the failure of SMEs in paying back the loans by distinguishing two causes of default to owner and company	Weibull Competing Risk	Factor Variables: Level of technology, knowledge and experience, capability of management, market potential, competition intensity.
Geroski et al. (2010)	Analyze the effects of founding conditions on the survival of new firms	Semi-parametric discrete proportional hazard model	Size, college, entry rate, concentration, GDP growth and exit rate
He et al. (2010)	Examines the odds of being acquired, going private or going bankrupt	Competing Risk, Cox and Nonparametric techniques	Profitability, growth, size, turnover, stock performance.
Kosová and Lafontaine (2010)	Study the growth and survival of franchise chains	Tobit, Weibull and Cox	Age and size

Appendix 6 – Competing Risk Regression

In this chapter, we apply a method that was initially developed in survival analysis studies. Survival analysis methods are based on the concept of hazard rate, which is, in this research, the probability that firm i enters for the second time in Brazil after period t conditional upon survival up to that time t and conditional on a vector of covariates $X_i(t)$, where T is the survival time and continuous and h'_k is an instantaneous entry rate of firm i . It is a cause-specific hazard function for each event of interest k (Lee and Wang, 2003; Cleves et al., 2010):

$$h'_k(t) = \lim_{dt \rightarrow 0} \frac{\Pr[t \leq T < t + dt, K = k | T \geq t, X_i(t)]}{dt}, \quad k=1, \dots, j \quad (\text{Eq.1})$$

In this research, each entry mode k is considered to be an event of interest in separate scenarios with two competing events (n). That is, to measure the likelihood of entering through a M&A, we establish the M&A as an event of interest, and a strategic alliance and greenfield subsidiary are its competing events. The same reasoning is valid when strategic alliances and greenfield subsidiaries are events of interest. The duration (or spell) between first and second entry is denoted t and it is an observation of a random variable T . Firms that enter once do not have their spells completed (are right censoring) while firms that enter at least twice have their spells completed in a t period.

Definition: With a competing risks analysis, a firm can enter only through one entry mode as its second move at time t , and each firm i has a correspondent timing associated with each event t_{ik} , where k is the event of interest. The terminology of competing-risk models uses cause-specific hazards and cumulative incidence⁴⁶ instead of using the terms hazards and cumulative hazards, commonly used in the survival analysis field. We consider the hazard for the event of interest, $h_k(t)$, and that for competing events, $h_n(t)$. These hazards, when combined, form a total hazard $h(t) = h_k(t) + h_n(t)$. The total risk of any event happening, i.e., the overall hazard rate, is

$$h(t) = \sum_1^j h_i(t) \quad (\text{Eq.2})$$

⁴⁶ Cumulative incidence function (CIF) is the marginal probability, the crude incidence, and the absolute cause-specific risk (Fine and Gray, 1999). Cumulative incidence functions at time t for cause k is the probability of failing from cause k before time t (Cleves et al., 2010).

As the probability of occurrence of an event depends on the frequency of other events, a representative number for the distribution of events of interest and for the competing risks is estimated, i.e., the failure due to cause k has probability $h_k(t)/h(t)$. In a specific time, a partial survival is defined as the relative hazards of events of interest and competing risks.

Subhazards: In this work, we use the specification of Fine and Gray (1999), which make it easier to observe the effects of covariates through the hazard of subdistribution or subhazards. The concept of subdistribution hazards or subhazards proposed by Fine and Gray (1999) assumes that the subhazards depend on the cumulative incidence of each risk (cause-specific cumulative incidence subhazards). That is, according to Muñoz (2011) (E= event type; T= time to event):

$$\lambda_k(t) = \frac{P(T \in dt, E = k)}{P(T \geq t) + P(T < t, E \neq k)} \quad (\text{Eq.3})$$

Competing-risk regression proposed by Fine and Gray (1999) models the hazard of subdistribution (subhazards) accounting for the existence of other causes of failure (Pintilie, 2006). That is, the concept of hazard of subdistribution (subhazards) of an event of interest k also relies on the probability of other failure events that took place until time t . In this way, a picture in a specific time t presents the relative subhazards, and it is always lower than the cause-specific risk of each cause, which is defined by Muñoz (2011) as follows:

$$\mu_k(t) = \frac{P(T \in dt, E = k)}{P(T \geq t)} \quad (\text{Eq.4})$$

Characteristics - The estimation of the cumulative incidence of events by the competing-risks model proposed by Fine and Gray (1999) has some characteristics that are summarized by Muñoz (2011): (i) partitioning the cumulative incidence of a composite event as the sum of the cause-specific cumulative incidences and (ii) most analyses assume proportionality of the subhazards (which is a simplification of the competing-risk processes).

Fine and Gray (1999) sustain the use of competing risks when the proportionality of subhazards holds. However, the assumption of proportionality of the subhazards of groups can be a simplification of the competing-risk processes, and subhazards proportionality is very unlikely to hold (Muñoz, 2011). Then, a

complementation to this method can be found in Stata 11.0 (which had the participation of one of the authors, Fine) which allows that relative subhazards be time-dependent. The method thus is adjusted through the distinction between the subhazards of time-invariant and time-dependent covariates.

Model in Stata - We use the competing-risk regression to model the hazard function in period t for event k . The interpretation of subhazards of all events over time allows for the estimation of cumulative subhazards which allows for the calculation of the cumulative incidence function for an event of failure k (Eq.3). An alternative model for the cumulative incidence of a specific event of interest k is calculated in this way:

$$CIF_k(t) = 1 - \exp\{-H'_k(t)\}, \quad (\text{Eq.5})$$

where $H'_k(t) = \int_0^t h'_k(t) dt$ is the cumulative subhazard (Stata, 2011) or, as defined

by Marubbinì and Veisecchi (1995), the cumulative failure rate that represents the sum of a constant instantaneous rate h over time.

In Stata 11.0 a competing-risk regression is semi-parametric in that the baseline subhazard $h'_k(t)$ is left unspecified, while the effects of covariates x are assumed to be proportional:

$$h'_k(t) = h'_{k,0}(t) \exp\{\beta_1 x_1 + \dots + \beta_j x_j\}, \quad (\text{Eq.6})$$

where $h'_{k,0}(t)$ is the baseline hazard. In this way, the regression produces estimations of β or the exponentiated coefficients (subhazards). The hazard rate increases or decreases accordingly to variations in baseline hazard and in covariates. A positive (negative) coefficient means that the effect of increasing a covariate is to increase (decrease) the subhazard and thus increase (decrease) the cumulative incidence function.

Validation - The assumption that the effect of covariates is proportional on the subhazards for the event of interest is tested for the scenarios in which the M&A, strategic alliance and greenfield subsidiary is the event of interest. With time-invariant covariates, the relationship between subhazard and baseline subhazard is given by Eq. 7. The test of the proportionality assumption is made by running a regression for time-varying covariates specifying time as t . In this way, when acquisitions are the event of

interest, a competing risk regression assumes the following relationship between subhazards and the baseline subhazard, for some specified function of time $g(t)$:

$$h'_{k}(t) = h'_{k,0}(t) \exp\{\beta_{1x_1} + \dots + \beta_{jx_j} + g(t)(\gamma_{1x_1} + \dots + \gamma_{jx_j})\} \quad (\text{Eq.7})$$

When acquisitions are the event of interest, the variable *size* and *Par_Numb.Gr_M&A* showed an indication that the proportionality assumption could be violated with a 5% of significance level. In this way, the final equation would include both time-invariant and time-varying subhazards for both variables. When the event of interest is a strategic alliance, only the variable *age* showed an indication that the proportionality assumption could be violated with a 5% of significance level. As a consequence, the final equation would include both time-invariant and time-varying subhazards for age. Finally, when subsidiaries are the event of interest, no evidence of violation of proportionality assumption was found with a 10% of significance level.

To summarize, the difference between competing risk regression and other competing-risk models can be due to the parameters and the specification of the cumulative incidence function. In the approach of Fine and Gray (1999), cumulative incidence functions are dependent on all cause-specific hazards.

CONCLUSION

In this thesis we have drawn attention to topics related to the use of different entry modes in the expansion of firms. In the current global environment in which firms have to quickly adapt to new requirements by customers and to the intensity of competition, firms can follow an entry strategy that can contemplate distinct entry modes. They may adopt an incremental or an aggressive expansion process. The former takes place when the first entry enables the firm to gain enough market-knowledge to use a more committed mode in a subsequent entry, and the latter occurs when a firm does not adopt a strategic alliance from the beginning and thus does not share risks with a partner. In fact, a sequence of entry may involve repetition or combination of different entry modes in a way that matches a firm's expansion goal. As most entries of firms are through strategic alliances, M&As and greenfield subsidiaries, we researched their use in both a domestic and international scope to capture the elements that can appear when raising the commitment level to a country.

In order to better comprehend the essays on the causes and consequences of using M&As in the expansion process of firms, this thesis was organized in three chapters and an analysis of both qualitative and quantitative data was provided. In Chapter 1, we showed how M&As can affect an alliance portfolio by analyzing two Spanish banks that have different expansion strategies and size. The description of both Banco Sabadell and Banco Santander's expansion evolution enabled us to contextualize distinct circumstances in which the portfolio of allies can be affected by M&As. We found some direct effects that led to the dissolution of strategic alliances soon after the M&A, and some other findings are related to redundancy in the board that delayed some portfolio definitions. Moreover, we identified that the expansion strategy of a firm can change after a M&A in some regions: By enlarging size through a M&A, the newly merged firm can attempt to intensify linkage intensity with some current strategic alliances in a specific region, while another internationalization strategy based on M&A can be adopted in another one. Focus on international operations led to a more dynamic context of shifts with a different rhythm of strategic alliances formation and M&As. The need for specific resources can change when a firm starts to compete in an international context, i.e., the increment of size through a sequence of M&As can change the initial contribution of strategic alliances to an expansion process. Instead of allying themselves to have initial access to new markets and resources, firms can adopt

M&As after achieving specific market knowledge and enlarge market share to gain business advantages on an international scope.

This accumulated market knowledge and the experiential learning with different mechanisms of entry may contribute to the design of new expansion projects and to develop abilities to deal with particularities of each entry mode. Due to an alliance portfolio perspective, the detection of some possible incompatibilities in advance might facilitate the negotiation process with partners, as some new joint objectives could be established in order to maintain the relationship. Thus, in order to improve the generation of relational rents within a portfolio after a M&A, attention has to be paid to the adjustment or renegotiation of alliances' goals, which can change when a new expansion strategy takes place.

In addition, the interest of this thesis also addressed the study of a sequence of acquisitions because they have been adopted by firms to enter emerging countries lately. This type of countries can be within a period of regulatory, political and economic changes, and this environment and the characteristics of the host industry in which a firm operates can be factors that influence the sequence of entries. But since investment through acquisition requires the payment of assets of target firms, our interest centered on the flexibility that could be achieved through the use of this mode. When firms enter an emerging country, some type of flexibility can be associated with the expansion process, since a departure may occur when a crisis or an uncertain period occurs in a region (for instance, Latin America in the 1990s), when the operation fails or when a firm needs capital.

The main goal of Chapter 2 was thus to understand how a sequence of acquisitions can lead to a flexible expansion process. The main contribution is that acquisition as a more irreversible mechanism than is a strategic alliance can lead to flexible expansion. In the particular case of Banco Santander in Brazil, the expansion might be reversible when it did not reach a market share from which it was definitively committed for operation in the host country (10% of the market share). Indeed, an incremental entry through acquisitions revealed periods with distinct levels of flexibility. In Chapter 2, we identified two periods marked by differences in the size of targets that corresponded to different market share: an initial small-medium and then a large-sized one. A low market share is related to more availability of potential buyers and means a more flexible condition for expansion in case of leaving the country. That

is, the bank does not have considerable losses when it is in the beginning of the expansion, assuming that the selling price covers the price of maintaining the operation. With the same reasoning, a larger market share (but still far from the point in which it is totally committed to the market) leads to a less flexible condition through acquisitions because the number of potential buyers is reduced.

Chapter 2 also contributes with a comparison with other entry modes. Opening a greenfield subsidiary can delay the growth process in an emerging country, while entering through a joint venture requires negotiation between partners. In an extreme situation, a bank might establish a joint venture from the beginning of its entry process and achieve more than 10% of the market share, which would not characterize a flexible expansion. At the end, a debate about the appropriate entry mode and its characteristics closes this chapter.

Even though both Chapters 1 and 2 provide information about retail-banking cases and thus the findings can not be generalized, some valuable aspects can be gathered from them in order to plan entries through strategic alliances and M&As. By examining the expansion processes of the banks, some new perspective about learning across entry modes is gathered and calls attention to more research about entry strategies and internationalization in other emerging countries. In Chapter 2 we verified that Banco Santander started a sequence of acquisitions in a scenario of economic openness in Brazil that started in the 1990s. In that period of economic openness of Brazil, Spanish firms from several sectors entered that host country, and Chapter 3 studies the second entry of these firms in Brazil.

The comprehension of the determinants of each entry mode can help firms to better respond to new expansion initiatives and an analysis between risks and rewards of each entry mode can take place. Chapter 3 shows that the characteristics of a host country (Brazil), prior experience of firm, business group and home-industry initiatives can be relevant elements to explain entry-mode choice. Organizational capabilities can be developed with each entry and can help to improve the post-entry process, but the entry choice can use specific information within a business group and home industry. In Chapter 3, we take into account M&As, strategic alliances and greenfield wholly-owned subsidiaries as events of interest.

Prior studies have researched sequence of entry in emerging or matured economies, though the importance of the second entry is the definition of the initial

sequence of entry. The first entry of firms can represent an attempt to have an initial analysis of the host country and its industry, and the second one can reveal if firms are more prone to pursue a more committed expansion or to follow the logic of gradual entry with different entry modes. Some firms can see the emerging market as an opportunity to achieve market leadership and thus invest quickly to assure an initial market share, while others can prefer to incrementally develop market knowledge. Among other reasons, firms can be averse to committing a large amount of resources in the initial sequence of entry, as the environment is uncertain or it does not have the corresponding capability.

The findings of Chapter 3 are contextualized in terms of gradual entry and organizational learning (experiential learning and imitative behavior). Experiential learning was found in cases of second entry through M&As and greenfield subsidiaries, while imitation was related to the second entry through strategic alliances. This imitation could have been motivated by the opportunities in the infrastructure industry that were offered in the host country. Some Spanish firms undertook contracts with partners (strategic alliance through concession) to diversify the level of activities and to intensify operations in the country. The main point of this chapter is that the business-group level complements the gradual-entry approach to explain the entry of Spanish firms in Brazil.

Thus, given the increase in the number of expansion initiatives of firms, the results reported in each chapter reveal the importance of developing research about entry strategies. This topic helps managers that are engaged in the development of expansion issues in terms of characteristics, implications of each entry mode and sequence of entry. All chapters contribute to a better understanding of causes and consequences in the use of M&As. Even though each host country has different characteristics and firms have to adapt to each local condition, the elements that appeared in the chapters are important enough to be considered in planning a firm's expansion in any region. In Chapter 1 we had the opportunity to analyze the interrelation between entry modes, highlighting the importance of the design and revision of strategic alliances' goals and the consequences in the portfolio when adopting M&As. In Chapter 2, we saw that commitment through acquisitions in an emerging country can lead to flexible expansion, while in Chapter 3 we observed that the determinants of second entry are related to the imitation of other firms (strategic alliances) and the

repetition of M&As and greenfield subsidiaries, which shows that a gradual-entry approach is not enough to the entry analysis of Spanish firms in Brazil.