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SUMMARY

The aim of this study is to examine the determining factors of a firm's performance, as a direct consequence of its diversification strategy in its expansion into foreign markets, considering certain factors like the market, the product and the company itself. As a novelty, the methodology employed uses the event-study to estimate the excess of returns generated by its shares on the Stock Market, based on a sample of 35 expansion announcements into external markets corresponding to 11 diversifying companies. A regression analysis is also carried out to examine the impact of these factors, market, product and company, on the excesses in returns observed. The empirical application carried-out in Spain, has allowed us to detect that, on average, the impact of the news about a company's expansion on the returns on its shares is positive, its determining factors being the speciality of the product offered and the level of development in the target country.

Key Words: International Marketing, Expansion strategies, Diversification, Event-study, Performance.

1. INTRODUCTION.

The adoption of a strategy for expansion into foreign markets is an extremely important decision for the management of a company. It may be prompted by the saturation of its current markets, its potential opportunities in new markets if it exploits its resources, or by the need for competitive action, following similar decisions by its competitors, among other reasons. Such a decision requires an evaluation of the attractiveness of these markets, their entry barriers, the probable reaction of the existing companies or of other potential entrants, as well as the company's own skills and resources (Ramsler, 1982).

From the International Marketing perspective, such a long-term decision requires (Ayal and Zif, 1979): a) the identification of potential markets and the establishing of an order of priority for its entry into these markets; b) it must decide on the extent of the Marketing effort to which it will commit itself; and c) decide on the timing of such expansion and the extent of marketing effort it will invest in each of these potential markets. Focusing on this third aspect, two strategic alternatives for expansion into external markets have been thoroughly debated in the existing literature: i) Market Concentration, which characterizes the company that directs its marketing efforts towards a few key markets and expands gradually in time into new markets; and ii) Market Diversification, which describes the rapid entrance into a great number of markets at the same time, the company dividing its marketing efforts among them all.

In general, there is no consensus among the authors as to which of these strategies, concentration or diversification, lead to a better performance. This lack of agreement is explained, by Piercy (1982), who, among others, assumes that the choice of an appropriate expansion strategy is independent of the performance. Since such a choice depends on certain factors like the nature of the market, that of the product and that of the company itself, one could hardly recommend a specific strategy for all situations.

Other authors claim that there are technical problems in the evaluation systems previously employed. On the one hand, there is some disparity among the ways in which each particular type of concentration or diversification strategy for exterior expansion is put into operation. Most of the studies carried-out use a single variable to represent a particular expansion strategy. Nevertheless, because of the multidimensional nature of these strategies, several indicators should be used jointly. In this regard,

Lee and Yang (1990) propose several dimensions, relating to the company's level of experience, the number of countries it decides to operate in, and the marketing effort it devotes to the different new exterior markets.

On the other hand, there are the limitations of the methods used to evaluate performance. Most of these studies have based their evaluations, principally, on the financial information contained in the accounting statements of the companies. The particular conclusions arrived at, however, are, to a great extent, incomparable among one another, due to the great disparities that exist among the variables employed. Likewise, the accounting data used may well be insufficient since it doesn't take anticipated future profits into account, and furthermore, confusion could arise as a result of deficiencies inherent in their different systems of accounting. Finally, accounting statements don't always distinguish very clearly between profits from local activities and those from foreign markets (Katsikeas et al., 1996).

Alternatively, and as a novelty, we propose using the "event-study" approach to estimate the excesses in returns generated by the foreign expansion strategy. This method is based, on the one hand, on the portfolio theory of financial economics on the premise that stock markets are efficient. On the other hand, it is founded upon the belief that the prices of a company's shares reflect its strategy (i.e., overseas strategy) far better than its accounts system does. In an efficient stock market, share prices effectively reflect all the available information on a given company. Indeed, any new information received by the stock market about the company (i.e., from overseas expansion activities) is immediately reflected, by the investors' reactions, in the market price of the shares. Furthermore, any change in the share price reflects, without bias, the future fluctuations in the firm's treasury flow. As a result, with the introduction of new information about a specific overseas expansion, the observation of the behavior of the share price of the company, over time, would allow an explicit analysis of the underlying change in the unbiased predictions of the stock market. The latter would relate to the company's future performance derived from such an international activity. This will allow us to differentiate the returns derived from the international activity separated from the impact of other events, in this way avoiding problems originating from the use of accounting measures.

The aim of this study is to examine the determining factors of a firm's performance, as a consequence of its diversification strategy -defined operationally by several indicators- in its expansion into foreign markets, in terms of market, product and company factors. As a novelty, our paper adopts a different approach, based on the use of the prices of the firms' shares on the stock markets, which avoids the evaluation problems previously mentioned. The empirical application is carried-out on a sample of

35 announced expansions into external markets by eleven Spanish companies that were trading on the Madrid Stock Exchange between 1992-1996, all of which have adopted the diversification strategy.

This study is presented in the following order: The second section, which follows, reviews the relationship between expansion strategies into external markets and the firms' performance. The third section describes the research design, defines the collection of data, operationalization and measurement, and justifies the method of analysis employed. The results obtained are described in the fourth section, and finally, our conclusions are presented.

2. RELATIONSHIP BETWEEN EXTERNAL EXPANSION STRATEGY AND THE FIRM'S PERFORMANCE.

The literature has analyzed the relationship between the strategies of expansion into foreign markets (concentrated versus diversified) and the performance of the companies concerned. However, conclusive evidence has not been obtained regarding which of these strategies lead to better performances.

Some authors, such as Robinson (1967), Tookey (1975) and Attiyeh and Wenner (1981) recommend the concentration strategy in external expansion. They support the traditional concept that great market shares in a few key markets produce profits on the long term. This suggestion was empirically supported by the BETRO (1976) and ITI (1979) reports. Other authors, contrary to this concept, among whom Hamermesh et al. (1978) and Piercy (1981a) stand out, recommend the market diversification strategy, basing their recommendations on the belief that lower participations in widely dispersed markets would be more profitable than concentrating on a few key markets. It was empirically demonstrated by Hirsch and Lev (1973), Piercy (1981a), and Cooper and Kleinschmidt (1985).

This lack of consensus is explained by Ayal and Zif (1979), Piercy (1982), Lee and Yang (1990), Katsikeas and Leonidou (1996), and Bradley and O'Reagain (1998). These authors argue that one could hardly recommend a specific expansion strategy for all types of situations, in the sense that the choice of the appropriate strategy depends on diverse factors related to the product, the market and the company itself. In short, Ayal and Zif (1978, 1979) and Piercy (1981b) propose a diversified strategy for expansion into external markets in the following situations, outlined below, and a concentration strategy for all other cases.

A. Characteristics of the Company: i) Internal Barriers: There is no consensus around this aspect. On the one hand, Ayal and Zif (1978, 1979) consider that the absence of internal restrictions for the company (availability of productive, financial and human resources) favours diversification in its expansion strategy. On the other hand, in the opinion of Madsen (1988), the companies that are most interested in diversifying their efforts into different markets are the smaller ones, due to the fact that they don't have the necessary resources for an a concentration strategy to be successful. In any case, and following the proposal of Katsikeas and Leonidou (1996) concerning the relation between size and strategies of overseas expansion, we propose H_1: the internal barriers of the company, expressed in terms of its size, have an influence on the strategy of overseas expansion and its performance.

B. Product factors: i) Products of a specialized nature. Owning these products constitutes a proactive incentive for exporting which, in turn, influences the specific strategy of overseas expansion (Katsikeas and Leonidou, 1996). In fact, diversification is favoured with products of very specialised types, where most countries have relatively small markets (Piercy, 1981b). For this reason we suggest H_2: diversification and its performance have been determined by the specialised character of the product. ii) Non-repeat-purchase products. Products of this nature are better suited to diversification or market spreading (Piercy, 1981b). In line with this, H_3: the non-repeat-purchase products are associated with the diversification and its performance.

iii) Standardisation of the products. The difficulties of meeting the required product specifications of the customers in the importing countries, represent a problem for exporting which affects the choice and expansion into overseas markets (Katsikeas and Leonidou, 1996). If a company's entry into new markets requires few changes to its production processes, there would be no need for considerable investment, and it is very probable that it could enjoy the advantage of lower costs derived from the experience gained as a result of its increased production. In such cases, there should be greater motivation to employ a diversification strategy (Ayal and Zif, 1978, 1979; Piercy, 1981b). Alternatively, from the point of view of control of the chosen strategy, ease of control is more typical in the case of standardized products or those that are not very sophisticated, which do not require close and frequent communication between the company and its clientele. A diversified strategy in such cases would be more advantageous since the costs of communication would not increase appreciably as the number of contacts grow (Ayal and Zif, 1978, 1979). Hence H_4: the standardisation of the product is what motivates diversification and influences the performance.

C. Market factors: i) The growth-level of the market. If the growth ratios of the company's

current markets are small, a diversified expansion would help it to reach its desired growth-level more quickly, but in many different markets (Ayal and Zif, 1978, 1979). Likewise, the entry into new markets or into declining markets would suggest a diversification strategy, since it would allow the company to obtain an adequate sales volume in the new markets and/or to maintain a steady volume in the declining ones (Piercy, 1981b). In line with this, H_5: the level of growth of current or new markets determines diversification and its performance.

ii) Sales instability in markets. Diversification would allow the firm to reduce its risk level when demand in its current markets is unstable (Ayal and Zif, 1978, 1979). On the other hand, concentration in new markets with unstable demands (ie.: countries in which there are great fluctuations in the exchange rates of their currencies) would be very risky for the firm (Piercy, 1981b). In short, H_6: the instability of current or new markets favours diversification and its performance.

iii) Economies of scale in distribution. With regard to this dimension, the authors do not arrive at a consensus. Ayal and Zif (1978, 1979) suggest that firms are motivated to diversify when the distribution costs in the new markets are too high and their economies of scale in distribution do not arise as a result of increases in market shares. On the other hand, Piercy (1981b) points out that diversification is favoured when the cost of physical distribution or of the administrating of orders in the new markets would be reasonably low (ie., through an independent channel). In any case, and given that the competitive advantage derived from the effectiveness of distribution system is a determining factor in the specific strategy of overseas expansion (Katsikeas and Leonidou, 1996), we propose H_7: distribution has an influence over the strategy of overseas expansion and its performance.

In spite of these hypotheses which, supposedly, directly affect the choice of a specific expansion strategy, and the firm's performance, there is not sufficient empirical evidence to support the assumption that the implied factors of product, market or company have any significant influence on the company's performance. It is also argued that operational problems arise in the measuring of the variables of the performance, based on the accounts balance sheets, as well as in the use of a single variable for putting the expansion strategy into operation. Basing our study on the above-mentioned data, we begin by choosing several different indicators to reflect the multidimensional nature of the expansion strategy, and, as a novelty, we use stock market rates to measure the performance. The purpose of it all is to carry out an analysis centered exclusively on the diversification strategy in external expansion, and on the company's performance as a consequence of it, employing factors like the market, the product and the company itself.

3. RESEARCH DESIGN.

3.1. Collection of Data.

The following data-collection process is developed basically by McWilliams and Siegel (1997), and Navyar (1993): In the first stage, and starting with the companies that were trading on the Madrid Stock Exchange between 1992 and 1996, a sample of companies that carry-out activities in external markets was selected. Constraints on budgets, time and accessibility have limited the number of companies we were able to contact during the second stage, so that finally thirteen companies were selected, from the sectors of banking, publishing, food, construction materials, machinery, commercial distribution and petroleum. Measured in terms of their assets, their sizes vary between 12,472 million and 10 trillion pesetas in 1996, their average assets being 1.44 trillion pesetas. In other words, a group of large international Spanish companies trading on the Madrid Stock Exchange.

In the second phase, primary data was compiled on the companies that conform to the sample, by means of telephone interviews with executives from each company who were familiar with their external markets. The field work was carried out in October, 1998. The objective of the information obtained was the classification of the companies, according to the type of strategy -concentrated versus diversified- used in their external expansion programs. This was based on the following dimensions, proposed by different authors, to make the original hypothesis of Ayal and Zif (1979) operable: V_1, Expansion Experience, measured in years (Fenwich and Amine, 1979; Lee and Yang, 1990; Katsikeas and Leonidou, 1996); V_2, Geographical Dispersion of the external markets, measured in the number of countries into which the company expands (Fenwich and Amine, 1979; Lee and Yang, 1990); and V_3, Assignment of Marketing Efforts, obtained by the ratio between the percentage of their marketing budget, in their five main external markets and the percentage of their sales in these markets (Lee and Yang, 1990).

By virtue of the operational scheme proposed by Lee and Yang (1990), the companies that follow a concentrated expansion strategy are identified as those who direct their marketing efforts towards a few key markets and, with time, expand gradually into others. In other words, they are characterized by: V_1 Less than five years, and V_2 fewer than five countries; V_1 Longer than five years and V_2 fewer than twelve countries; or V_1 Less than five years, and V_2 between six and twelve countries, and V_3 more than one. On the other hand, the companies that diversify do so by a quick entry into many markets and the assignment of marketing efforts. Amongst their operational features are the

following: V_1 Less than five years and V_2 in more than twelve countries; V_1 More than five years and V_2 in more than twenty countries; or V_1 More than five years, V_2 between thirteen and twenty countries, and V_3 less than one. The results obtained from the thirteen executives who participated in the survey, -one from each company in the sample- allowed us to classify all of the companies selected for the sample, except two, into the diversification group. For this reason, our study was centered exclusively on the diversification strategy.

In the third stage, the first news items about the companies' intentions of entering into foreign markets, employing the diversification strategy, are identified; their markets were identified by the executives of the companies concerned, during the phone survey. To identify the first new releases, the necessary search was made in the BARATZ database which provides information published in more than twenty-eight different newspapers of national or regional coverage, as well as those of general and/or specialized content. The date of the event is defined as the first day on which the news was disclosed in any of the publications included in the database. In this way, we were able to select eighty-four external expansion news items, on the eleven companies of the sample who follow a diversification strategy. In brief, this procedure for the collection of data ensures the identification of a diversification strategy in those companies that expand, over time, into different foreign markets.

In order to identify any abnormal behavior in the returns on these companies' shares, in the fourth stage we have selected the k length of the "event window". In other words, the five days prior to the publication of the news release and the five days following it (-5;+5) are taken into consideration. This is due to the fact that although most of the information received about external expansion is usually reflected quite rapidly in the price of the companies' shares, such information can sometimes leak out before its formal announcement, or its effects on the share price may take some time to be noted.

In the fifth stage, we eliminate those news items in whose event windows other important announcements about the company were published. Such announcements include mergers, the granting of government contracts, damage suit, the introduction of new products, important changes in a key executive, labour disputes, and the declaration of dividends or of unexpected earnings, among others events. This facilitates the exclusive evaluation of the effect of their expansion announcements, and eliminates the possibility of including confounding effects. We also excluded those events within whose period of estimation of abnormal returns another news item about the expansion of the same company was published.

This process of elimination finally reduced the sample from eighty-four to thirty-five news releases about the entry into external markets of eleven companies, all pursuing a diversification strategy. Five companies carried-out three expansion movements each, two of them made only one, and the others carried-out seven, five, four and two, respectively. Table I outlines the distribution of the news items and categorizes the companies according to industry and year. We can observe that four industries dominate the sample of expansion news: Banking (20%), Food (20%), Petroleum (20%) and Machinery (17,1%).

In the sixth stage, data is compiled on the daily returns on the share price of the 11 companies that follow a diversification strategy and about whom there have been 35 news items published about their expansion. Finally, to analyze the determining factors of the excesses of returns, information on the different variables was compiled for each of the news items.

"Take in Table I"

3.2. Operationalization and Measurement.

We use stock exchange data instead of accounting records to measure the companies' performance. The data presented represents the daily returns observed during the period 2nd of January 1992 - December 31st 1996 for the companies concerned, all of whom trade on the Madrid Stock Exchange; a time period in which daily stock market information has been readily available. As a subrogated variable of the true return on the market portfolio, the IBEX-35 index is used as a reference, as it is the most representative index of the Spanish Continuous Stock Exchange. The information was obtained from the Madrid Stock Exchange Information Service.

Finally, to analyze the determining factors of the excesses of returns, information on the following variables was compiled for each of the news items: 1. Factors for the company to which the news item refers: i) The size of the company. This reflects, to a certain extent, their available resources and, therefore, the internal barriers to expansion they might have. These, in turn, are reflected in the assets of the company, in pesetas, during the year of the event (Chaney et al., 1991; Koku et al., 1997; Farrell and Frame, 1997). This information was obtained from Intertell.

2. The characteristics of the product mentioned in the news item about the firm's expansion: i)

The specialised nature of the product (Piercy, 1981b), measures this with a dummy variable, in which 1 means that the company produces very specialized products, and 0 means it doesn't. ii) The non-repeat nature of the purchase (Piercy, 1981b), using a dummy in which 1 means that the event is concerned with the sale of durable products, or both durable and repetitive, and 0 if the goods have repeat-purchase (Horsky and Swyngedow, 1987). iii) Standardization (Piercy, 1981b), with another dummy, where 1 indicates that the product has had to be adapted to its target market, and 0 that it hasn't. This information was obtained by a qualitative analysis based on personal interviews the authors had with several experts on the sectors involved.

3. Characteristics of the market: 3.I. Growth of the market, which implies two dimensions: i) the accumulated average annual rate of growth in sales for the company during the five years preceding the event date[1], calculated from data obtained from Duns & Bradstreet. It reflects the growth rate of the company's markets before their expansion and this dimension was proposed by Ayal and Zif (1979); and ii) it appraises the average accumulated rate of growth in GDP of the target country during the five years preceding the event date, according to the "World Economic Outlook" published by the International Monetary Fund (1997). It is an indicator of the growth rate of the company's new markets. This dimension was proposed by Piercy (1981b).

3.II. Stability of the demand in the markets, specified by two variables: i) a quantitative one, or the level of the company's sales stability (E_k) during the five years preceding the event date[2] (Hirsch and Lev, 1971), and which is summed up in the appendix. It reflects the degree of stability of the company enjoyed in its markets before embarking on the expansion, according to Ayal and Zif (1979); and ii) another qualitative dimension, or the target country's level of development, which is a proxy of the stability of the target market (Piercy, 1981b). Where, 1 indicates that it is a developed country and 0 that it isn't (Bodur, 1994), based on the corresponding classification in the "World Economic Outlook" of the International Monetary Fund (1997).

3.III. The type of distribution channels employed. This characteristic focuses on the cost and the risk involved in the distribution of the product in the target country (Ayal and Zif, 1979; Piercy, 1981b). It is measured with a dummy variable, in which 1 indicates that it is a company-owned channel, and 0 means that it is either franchised, a partnership or a joint-venture[3] (Cavusgil and Kirpalani, 1993). Information provided by BARATZ.

3.3. Event-Study Approach.

The "event study" method attempts to measure the impact of an unanticipated event (news of expansion into external markets of companies that are employing the diversification strategy) on their share prices. Simply expressed, its basis is the evaluation of a market model for the company event, and the subsequent calculation of its abnormal returns. Its basic hypothesis is that the abnormal returns reflect the reaction of the stock market to the advent of new information. The returns on the share price of a company i, on the day t (R_{it}), is expressed by the following model: $R_{it}=\alpha_i+\beta_i R_{mt}+\varepsilon_{it}$ (1). In this model, R_{mt} is the return on the market portfolio of stocks on the day t; α_i is the return on the share price of firm i, which is independent of the market; β_i is the sensitivity of the return on the share i to the variations in the return of the market; and ε_{it} is the random disturbance.

The estimation of the above equation allows us to calculate the daily abnormal return (AR) prompted by news published about the company i (2): $AR_{it}=R_{it}-(a_i+b_i R_{mt})$, where a_i and b_i are the OLS parameter estimates obtained in the regressions (1) for the period T preceding the event. In other words, the return on the shares is adjusted by subtracting the expected return from the present return, so that any significant difference is considered abnormal, in other words, an excessive return.

Next, we aim to evaluate the effect that the news received about companies that choose to expand into external markets following the diversification strategy has on the prices of its shares. Consequently, the following tests are proved: i) the significance of the average of standardized abnormal returns for the N news about the companies, on the date of the event (t=0)

$$\overline{SAR_t} = \frac{1}{N}\sum_{i=1}^{N} SAR_{i,t} \quad (3)$$

where $SAR_{it}=AR_{it}/S_{it}$[4], using tests of Boehmer et. al (1991) and of Corrado (1989). ii) The significance of the average standardized cumulative abnormal returns in the event window (k days) for news item N:

$$ACAR_t = (1/N) * 1/\left[(T-2)/(T-4)\right]^{1/2} \sum_{i=1}^{N} CAR_{it} \quad (4)$$

where $CAR_i = \left(1/k^{1/2}\right)\sum_{t=1}^{k} SAR_{it}$.

Finally, we attempt to identify the factors of the company, product or market, that could be determinant in these excesses of returns. In so doing we demonstrate the validity of the hypotheses outlined in the previous chapter, with regard to the influences on the companies' performance. To do so,

we propose a cross-sectional regression model where the abnormal returns (AR) are explained by the firms' diversification into external markets, through different indicative variables, those of the factors of the company, product and market.

4. RESULTS OBTAINED.

4.1. The Characterization of the Sample Companies.

This section seeks to define the sample of eleven companies -identified as companies that have pursued a diversified expansion strategy, with the procedure outlined in section 3.1 of "Collection of Data"- based on the average values of the factors "company", "product" and "market", which are all decisive factors in the selection of a foreign expansion strategy.

Therefore, regarding the "company" factors, the firms included in our sample can be characterized by their great size -few internal barriers to expansion-. They constitute an average asset of 1.04 trillions pesetas during the event year. Regarding the characteristics of the product, 10.91% of sample firms offer specialized products in their expansion; 44.85% of sample companies with non-repeat purchase products; and 68.7% of number of diversified companies sells standardized products. Regarding the characteristics of the market, 90.9% of the sample companies have an average accumulated annual growth rate in sales during the five years preceding the event date of over 10%; in other words, current markets of rapid growth. Furthermore, 80% of the news items are about expansion into countries whose accumulated average annual of growth rate in GDP during the five years preceding the event date is either very low or very high. Our sample of diversifying companies offers an average level of sales stability (E_k) during the five years preceding the event date, at 8,681, what is indicative of great instability in sales in their current markets. Also, 67.53% of the sample of diversifying companies seek entry into developed countries, in other words, very stable[2] new markets. Finally, 66.26% of the sample of diversifying companies anticipate using their own distribution channels when expanding into the target country.

4.2. Estimate of the Excess in Returns Generated by the Diversification Strategy in Expansion into Foreign Markets.

The second stage of the methodology attempts to estimate the excesses of returns generated by the diversified expansion strategy, employing the "event-study" method. To do so, we consider the parameters of the market model (1) for a time period T of 75 days (from day t-80 to day t-6 relative to

the event date, t=0), the time interval generally used in these types of studies. The estimated parameters allow us to calculate, on the event date, the abnormal returns (2) obtained by these companies as a result of their diversified expansion strategy.

The distribution of abnormal returns (AR), and that of the standardized abnormal returns (SAR) for the 35 news releases on the event date (t=0) are leptokurtic and present positive skewness, which suggests a violation of the hypothesis of implicit normality in the parametric tests. The application of the Jarque-Bera test to both distributions, nonstandardized (χ^2_2=41.10; prob=0.000) and for the standardized version (χ^2_2=124.4; prob=0,000), also allows us to rule-out normality. On the other hand, on the day after the event day (t=1), these distributions are symmetrical and mesokurtic, the normality test being acceptable for both distributions, for the nonstandardized (χ^2_2=1.56; prob=0.456) and for the standardized version (χ^2_2=1.77; prob=0.412). We therefore use parametric and non-parametric contrasts of the significance of the average of the abnormal returns.

Table II presents the estimation of the averages of the abnormal returns (average AR) and of the standardized abnormal returns (average SAR (3)) on each of the different days of the event window, for the 35 news releases. The average of the abnormal returns on the day after the date on which the event was published is 0.82%, which is statistically significant according to Boehmer et al's parametric test (t=3.218; p<0.01), as well as Corrado's non-parametric test (t=2.749; p<0.01). This percentage represents the highest gain in excessive returns during the ±5 days surrounding the event date. In short, what it means is that, on average, the diversifying companies who announce their foreign expansion obtain a gain of 0.82% in excessive returns on the day t=1.

Since the distributions of the abnormal returns on the event date and on the following day both have "outliers", all the previous analyses have been replicated, except for the aberrant cases. This brings us back, basically, to the conclusions already expressed in this text. Finally, in the last column, we present the percentage of strictly positive abnormal returns, for a total of 35 for each day, showing that in 71.4% of the cases there are positive abnormal returns on the day immediately following the event date (t=1). This proportion is significantly higher, at a significance level of less than 5%, than the average percentage of positive returns observed during the estimation period (50.09%).

“Take in Table II”

An alternative analysis consists of examining the excesses on the accumulated returns for different windows around the event day. Table III presents the averages of the cumulative standardized abnormal returns (ACAR) in different windows surrounding the event day. Six time intervals show an ACAR statistically significant at less than 5%, including every day +1, which suggests that the investors' reactions are somewhat delayed. In fact, the window (0;+1) is significant at lower than 1% whose corresponding ACAR is 0.47%.

"Take in Table III"

4.3. Identification of the Decisive Factors of the Creation of Excesses in Returns in the Diversified Foreign Expansion Strategy.

Having demonstrated that the diversification strategy in foreign expansion is associated with positive changes in the company's value, it is now interesting to discover if there are certain characteristics about the company (its size), the product (specialized, standardized, or of non-repetitive purchase), and about the market (its growth, stability, or distribution channels) that may be used as good indicators. To do so, the abnormal returns (AR) are regressed on these variables, to the day after the event date (t=1).

A previous analysis of the correlation matrix among the variables shows the presence of a certain multicollinearity whose impact on the final results is limited by the selection of independent non colinearized dimensions. Done this way, the equations presented for the model represent different combinations of the variables of the company, product and market, designed to collectively solve the multicollinearity problems. Table IV summarizes the results of the cross-sectional regressions.

"Take in Table IV"

Also, the homoscedasticity contrast by means of the tests of White and Breusch-Pagan allows us to accept the null hypothesis of equality of variances of the residuals. The Jarque-Bera test also demonstrates the normality of the residuals. However, although the Durbin-Watson test rejects the existence of autocorrelation of the residuals of order 1, the Breusch-Godfrey test detects autocorrelation of order 2. As a result, the estimate is made by OLS[5] keeping in mind that the degrees of significance of the coefficients have been arrived at by using variance-covariance matrixes that are robust to Newey-

West's general forms of autocorrelation.

The coefficients of determination and the adjusted R^2 of the equations are around 39% and 23% respectively. In other words, the independent variables of the model explain a relatively acceptable percentage of the variability of the endogenous variable, being quite similar to those obtained in other event-studies. The application of the tests of joint significance of the variables allows us to conclude, in all of the equations, that significant information is obtained by introducing company, product and market factors. That is to say, the factors analyzed are collectively significant at less than 5%. On the other hand, the significance tests of the individual parameters demonstrates that the variables "speciality of the product" and "degree of development in the target country" are the ones that have the greatest influence on the abnormal returns of the diversifying companies. They are statistically significant in all the equations at less than 5%, while "distribution channel" is only significant at less than 10%. These results coincide, basically, when the dependent variable is SAR.

4.4. Discussion.

The evidence seen of significant positive returns on the day after the publication date of the event, (t=1), and of cumulative average returns on two days (0;+1), suggests that, on average, the market reacts positively to news of the foreign expansion of companies, pursuing a diversified strategy. In the first place, the results obtained on t=1 demonstrate that, on average, the news of the expansion of these companies, pursuing the diversification strategy, is associated with positive excesses in returns.

In the second place, the analysis of the abnormal returns that surround the publication date of the event helps us to understand the existing uncertainty over the actual dates on which they occur. It should also help researchers to see the accumulated effect of an event. We must not forget that the effect could be spread out over several days surrounding the event date, given the gradual availability of information and, consequently, of the interpretation of the impact of the event on the company's future profits. Concretely, the ACAR obtained in the windows preceding the event, (-5;-2) and (-5;-1), are not statistically significant, which suggests that there was no leakage of information before the announcement. In the windows (-2; 0) and (-1; 0) no significant ACAR is obtained either, which suggests two possibilities. On the one hand, that there were no leakages on the days preceding the formal publication of the news item (for example, with a press conference), and, on the other hand, that the investors continue to be neutral on the very day that the news is published (t=0). The greater significance during the period (0;+1) is plausible to the extent that news of a company's diversified

expansion could motivate investors to re-examine the strategies of product positioning and marketing implied in the company. It would seem, therefore, that once they have reviewed these strategies, they generally make a positive valuation of them, and react accordingly.

In any case, suffice it to indicate that the results obtained in this study are not really comparable to others carried out using event-study, since we have found no other studies done on this subject. At most, our method has been applied by Navyar (1993) to the diversification strategy introduced by Ansoff for product-market expansion, but not from an international marketing perspective. On the contrary, marketing researchers have used the event study to examine the impact of different phenomena on the market value of the companies. These focus on product strategy, such as the introduction of new products (Eddy and Saunders, 1980; Chaney et al., 1991; Koku et al., 1997), the recall of products (Jarrell and Peltzman, 1985; Pruitt and Peterson, 1986; Hoffer et al., 1987, 1988; Bromiley and Marcus, 1989; Davidson and Worrell, 1992), the changing or extension of a brand (Simon and Sullivan, 1993; Lane and Jacobson, 1995), or the modification of client service (Navyar, 1995). They also spotlight other aspects related to promotion, such as the changing of the company's name (Horsky and Swyngedouw, 1987), a change of advertising slogan (Mathur and Mathur, 1995), a change of advertising agency (Rutherford et al., 1992; Mathur and Mathur, 1996), the use of the sponsorship (Farrell and Frame, 1997), the recruiting of famous people for advertising campaigns (Agrawal and Kamakura, 1995), the advertising on financial relationships (Bobinski and Ramírez, 1994), or the regulations and norms about false advertising (Peltzman, 1981).

Thirdly, the regression analysis allows us to conclude that two dimensions ("specialized product" and "level of development in the target country") prove to be the decisive variables in the model. The positive sign of the variable "specialized product" indicates that the presence of this characteristic is associated with some positive excesses in returns. Therefore, we can confirm the H_2 hypothesis that diversification and its performance are determined by the specialised character of the product. On the other hand, the positive sign of the variable "level of development in the target country" indicates that the stability of the demand in the target market is associated with some positive excesses in returns. Consequently, we cannot confirm the H_6 hypothesis that the instability of new markets favours the diversification and its performance. Finally, the "distribution channels" dimension is only significant at a level of 10%, which prevents us from drawing conclusions in relation to the influence of H_7 on the strategy of overseas expansion and its performance (in any case, the negative sign suggests that the existence of their own channels implies high costs and distribution risks in the target market, which reduces the performance of the company).

5. CONCLUSIONS

The implication that the choice of a diversified overseas expansion strategy and the company's subsequent performance derived from it, may be explained by certain factors, (such as the market, the product and the company), has prompted additional research. Namely, an examination of these phenomena in the context of the Spanish market, analysing thirty-five foreign expansion announcements published about eleven companies trading on the Madrid Stock Exchange between 1992 and 1996, all of whom chose the diversification strategy. The procedure employed for the collection of data, (with phone interviews and the application of different approaches to make the typology of the expansion strategies operable), ensures that the companies examined here are representative of those that choose the diversification strategy in their gradual expansion, over time, into different foreign markets.

As a novelty, we chose the "event-study" technique as our method of analysis. On the one hand, this is based on the portfolio theory, taken from financial economics, that assumes that stock markets are efficient. On the other hand, it assumes that the companies' share prices reflect their strategies better than their balance sheets do. This method aims to measure, specifically, the impact of an unanticipated event on the share prices, estimating a market model for each announcement of expansion and calculating the subsequent abnormal returns. The various regression analyses then carried out, have allowed us to examine the impact of the factors of market, product and company on the excesses in returns. The methodology employed here has proven to be particularly useful in analyzing the impact of the diversified foreign expansion strategies on the companies' performance, as well as in avoiding some of the problems inherent in the methods employed so far.

The empirical application carried out in Spain allows us to conclude that positive and significant returns are detected on the day following publication of the event (t=1) as well as cumulative average returns on two days (0;+1). This suggests that, on average, the market reacts positively to the announcement of a company's diversified expansion into external markets. Finally, the behavioural model proposed proves that the excesses in returns on the shares of the companies studied depend, fundamentally, on the specialized nature of their products, and on the level of development in the target country.

The results obtained in this study have various implications for company management and for public policies. At the level of public management, this work offers public authorities a guide to

stimulate, amongst the businesses of a given country, certain strategic alternatives of product/market in face of overseas expansion by means of diversification. With regard to company management, these results offer decision makers three indicators for measuring overseas diversification (number of countries, exporting experience, and marketing efforts allocated to different countries). It also offers an alternative method of calculating the profitability of the international activity of a company. Both can serve not only to assess the expansion policy of the company itself but also to analyse and interpret their competitors activities.

Although this study has tried to increase our knowledge of the influence of diversification strategy of overseas expansion on the performance, it suffers from various limitations which restrict the generalisation of its results. Firstly, the lack of sufficient information prevented us from examining other group of determining factors of the performance. Secondly, we need a greater number of empirical studies that use different size samples, industries, and geographical areas in order to validate the results of this work, which is the only empirical research supported by the use of data from the stock market. Finally, we would recommend that future research of a longitudinal nature be carried out in order to examine the causal relationship between choice of overseas diversification and its performance.

6. APPENDIX.

The level of the company's sales stability (E_k) is calculated by means of the average squared deviation of the actual change in sales, defined with a model of exponential growth: $E_k = \frac{1}{n}\sum_{i=1}^{n}\left(Y_{k,i} - \overline{Y}_k\right)^2$ where, $Y_{k,i}=X_{k,t+1}-X_{k,t}$; $X_{k,t}$=log(sales of the company k in the period t); $\overline{Y}_k$ 1=average value of the differences between two successive X's, $Y_{k,i}$, of a given time interval; and n=number of differences between two successive X's, $Y_{k,i}$, of a given time interval. The greater the deviation is, the less stable the series will be.

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Endnotes

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[2] The data of this sales time series are expressed in present peseta values so that they incorporate the inflation process. We deflate them by using the price index of the GDP, obtained from the Boletin Economico (1997) of the Bank of Spain, to be able to homogenize them in constant values, and taken as a basis the peseta value of the year before the event date.

[3] None of the companies that announced their expansion employed independent channels, so that this alternative has been omitted.

[4] $$S_{it} = S_i \sqrt{1 + \frac{1}{T} + \frac{(R_{mt} - R_m)^2}{\sum_{t=1}^{T} (R_{mt} - R_m)^2}}$$

where S_i is the standard deviation of the residuals of the regression, estimated before the publication of the news; and R_m is the mean return of the market portfolio for the estimation period.

[5] In the opinion of Karafiath (1994), this OLS procedure seems to be more suitable than other more complex ones when the abnormal returns are the dependent variables; and this situation also holds for heteroscedastic and correlated residuals with independent variables.

Table I. Distribution of news items on external expansion according to industry and year

Industry	No. of news	% of news	No. of firms	% of firms	News per firms	Year	No. of news
Publishing	1	2.9	1	9.1	1.0	1992	4
Banking	7	20	2	18.2	3.5	1993	8
Food	7	20	1	9.1	7.0	1994	5
Construction Materials	3	8.6	1	9.1	3.0	1995	9
Machinery	6	17.1	2	18.2	3.0	1996	9
Comercial Distribution	4	11.4	2	18.2	2.0		
Petroleum	7	20.0	2	18.2	3.5		
Total	35	100.0	11	100.0	3.2		

Table II. Excess returns of the sample of news items about the foreign expansion for the diversifying companies

Event day	Average AR (%)	Average SAR (%)	t(a)	t(b)	Cumulative Average AR (%)	% of positive abnormal returns
-5	0.14	-8.07	-0.366	-0.406	0.14	51.4
-4	-0.17	-27.04	-1.715	0.155	-0.03	40.0
-3	0.41	16.10	0.701	-0.219	0.38	51.4
-2	0.39	29.60	1.299	0.845	0.77	57.1
-1	-0.03	-3.82	-0.129	-0.014	0.74	54.2
0	0.25	25.06	1.193	0.973	0.99	62.8
+1	0.82	43.50	3.270***	2.740**	1.81	71.4*
+2	-0.19	-9.00	-0.360	0.593	1.62	48.5
+3	0.41	8.72	0.442	0.646	2.03	57.1
+4	0.19	4.15	0.448	0.184	2.22	42.8
+5	0.42	33.96	1.690	0.342	2.64	54.2

(a) Statistic t based on the parametric contrast of Boehmer et al. (1991).
(b) Statistic t based on the nonparametric contrast of Corrado (1989).
***=Prob<0.01; **=Prob<0.05.

Table III. Average of the cumulative standardized abnormal returns in several windows surrounding the event day

Time interval	ACAR	t[a]
(-5;+5)	0.36	2.13**
(-5;-2)	0.06	0.34
(-5;-1)	0.04	0.24
(-2;0)	0.29	1.69
(-1;0)	0.15	0.88
(0;+1)	0.47	2.80***
(-1;+1)	0.37	2.21**
(0;+2)	0.35	2.08**
(-1;+5)	0.41	2.41**
(+1;+5)	0.39	2.29**

[(a)] Statistical test based on the contrast $Z=ACAR_t N^{1/2}$, which follows a standardized normal distribution for large N; ***=Prob<0.01; **=Prob<0.05.

Table IV. Decisive factors of the excess in returns on the share price (Standard errors in brackets)

Variable	Equation 1	Equation 2	Equation 3	Equation 4
*** Characteristics of the company:**				
Size of the company	-3,5E-13		-4,7E-13	
	(0,000)		(0,000)	
*** Characteristics of the products**				
Specialized Product	0,014***	0,014***	0,013***	0,013**
	(0,004)	(0,004)	(0,004)	(0,005)
Non-repeat purchase product	0,004	0,005	0,005	0,005
	(0,004)	(0,003)	(0,004)	(0,003)
Standardized Product		0,001		0,001
		(0,004)		(0,005)
*** Characteristics of the market:**				
Sales growth in present markets	-0,0007	-0,0001		
	(0,002)	(0,002)		
Growth of GDP in target country	0,00009	0,00003	0,00009	0,00005
	(0,000)	(0,000)	(0,000)	(0,000)
Growth stability (E_k) in present market			-0,0009	-0,0006
			(0,001)	(0,001)
Level of development of target country	0,012**	0,012**	0,013**	0,012**
	(0,005)	(0,004)	(0,005)	(0,005)
Distribution channels	-0,012*	-0,012*	-0,011*	-0,012*
	(0,006)	(0,006)	(0,006)	(0,006)
Intercept	0,004	0,003	0,003	0,003
	(0,003)	(0,003)	(0,003)	(0,003)
R^2	0,387	0,385	0,394	0,388
Adjusted R^2	0,228	0,226	0,237	0,230
$F_{7,27}$	2,437**	2,422**	2,514**	2,455**

Note: The levels of significance of the parameters have been obtained by employing a robust matrix of covariances in the presence of Newey-West's autocorrelation, with 2 lags; ***=Prob<0.01; **=Prob<0.05; *=Prob<0.10.