Spanish companies investing abroad financed through COFIDES

CHARACTERISTICS, OBJECTIVES, ENVIRONMENT AND DEVELOPMENT

ECONOMIC STUDIES SERVICE
COFIDES

Universidad Politécnica de Cartagena

UC UNIVERSIDAD DE CANTABRIA

UNIVERSIDAD DE MURCIA

Spanish companies investing abroad financed through COFIDES

CHARACTERISTICS, OBJECTIVES, ENVIRONMENT AND DEVELOPMENT

ECONOMIC STUDIES SERVICE COFIDES

Universidad Politécnica de Cartagena

UC UNIVERSIDAD DE CANTABRIA

UNIVERSIDAD DE MURCIA

Research team:
Domingo García Pérez de Lema (Director of the study)
(Universidad Politécnica de Cartagena)

Antonio Aragón Sánchez
(Universidad de Murcia)

Francisco Javier Martínez García
(Universidad de Cantabria)

Carlos Martínez-Abarca Pastor
(Universidad Politécnica de Cartagena)

Esther Ortiz Martínez
(Universidad de Murcia)

The following divisions and teams from COFIDES took part in the study:
COFIDES CEO Office
Salvador Marín Hernández, Chair and Chief Executive Officer
Raúl Moreno Castro, CEO Support Unit
Silvia Rodado García, CEO Support Unit

Internal Control Division
María Victoria de Luis Durán, Head of Division
Carmen Álvarez León, Internal Control

ISBN: 978-84-09-02365-3
Depósito Legal: M-17230-2018

FOREWORD

This study, sponsored by the *Compañía Española de Financiación del Desarrollo* (COFIDES) focusing on Spanish companies investing abroad, contains very relevant data on this activity which generates employment and wealth not only in the host countries but also in the home country of the investment, i.e. Spain.

It is an extremely useful study insofar as it combines academic analyses, whose theoretical-conceptual contributions are key to understanding investment processes, with the results of a survey conducted in 2013 and 2017 among a representative group of Spanish investors giving us very direct insights into the perceptions of companies. It is, therefore, an excellent collaborative initiative between the academic world, with researchers from several Spanish universities, and the private sector.

One of the main benefits of a study like this, based on the actual experience of COFIDES client companies, is that it helps us to better understand the needs of private Spanish investors abroad. For economic policy makers it is essential to have first-hand information on the structures and processes of foreign investment, on how strategic decisions are made, what motivates companies to reach out to other markets, how they operate and what they think the future holds.

The Government's efforts are mainly oriented towards policies that generate economic growth and employment in our country. Contributing to these objectives in the international arena is an essential part of the strategic activity of this Secretariat of State for Commerce. In this context of continuous support for Spanish companies operating abroad, communicating the advantages that business internationalization has for the economy as a whole is essential both in terms of recognizing the work of those who are already involved in this process and encouraging other entrepreneurs to branch out into foreign markets.

This study analyses the distinctive characteristics of companies that decide to invest abroad, assesses the strengths and attractiveness of Foreign Direct Investment (FDI) and gives insights into the real demands and needs of private investors.

Among the advantages of FDI set out in the study, I would like to highlight two very specific ones: its contribution to increasing the size of markets for companies and its ability to spark competition among foreign investors. This increased competition generates better levels of efficiency and a set of positive indirect effects, both at origin and destination, in terms of innovation, economic growth and job creation.

The relevance of the foreign sector in an increasingly internationalized economy like that of Spain, confirms the need to continue supporting initiatives such as this publication, led by an organization like COFIDES with over 30 years of experience in supporting the internationalization of Spanish companies through FDI.

My most sincere thanks to all those who have directly and indirectly devoted their time and effort to working with such rigour on this study. Their work and their conclusions encourage us to continue working in support of the internationalization of the Spanish economy.

Marisa Poncela García
Secretary of State for Commerce

TABLE OF CONTENTS

1. INTRODUCTION

Due to the complexity and dynamic nature of the business environment, greater knowledge of organisations is required as is insight into the variables or factors that have become the key elements for competitive success. Growing global competition, the removal of barriers to international trade and better communications and information networks, have motivated Spanish companies to position themselves in international markets as their principal competitive strategy.

Companies can internationalise through export or foreign direct investment (FDI), depending on the strategy they pursue. Export can be an effective method to gain international traction without employing a disproportionately large amount of capacity and resources. However, FDI can do more to internationalise companies over the medium and long term. The traditional theory underpinning FDI is based on three main pillars: (1) the imperfections of the domestic market that arise because investing companies have advantages in terms of access to technology, raw materials or other materials to which local competitors do not; (2) the company's competitive advantages stemming from its "know-how" due to the company's intangible assets: technology, human resources, a differentiated organisational structure and (3) the specific local advantages of the country where the investment is made including the size of the local market, local investment incentive policies and lower labour costs than in the country of origin.

To ensure the development of effective internationalisation and the appropriate design of external promotion programmes, public agents and managers need to identify the main characteristics that determine the factors that motivate companies to internationalise through FDI and those that lead companies to pay greater attention to the foreign market. FDI is highly beneficial for companies as a form of internationalisation. Companies that engage in FDI tend to be bigger and produce a greater amount of goods and services than those that operate exclusively on the domestic market. These characteristics allow them to make better use of economies of scale and give them greater financial capacity, which in turn leads them to make bigger investments. This means that they earmark more resources for R&D, are more innovative and are more accustomed to working in highly competitive markets. This makes them more efficient allowing them to produce significantly more than non-internationalised companies. Likewise, these companies are more active in terms of human resources (they create more employment, they attract more qualified workers, they have more and better training programmes and they have a more global mindset).

This study called "***SPANISH COMPANIES INVESTING ABROAD FINANCED THROUGH COFIDES: CHARACTERISTICS, OBJECTIVES, ENVIRONMENT AND EVOLUTION***", shows the results of a survey conducted at two different points in time, **2013 and 2017**, aimed at Spanish investors established beyond our borders, in order to gain insight into the type of companies that decide to invest abroad, to evaluate the strengths and attractions of FDI and to know the real demands and needs of investors.

The following elements are analysed in this paper:

- Indicators on the investing companies engaged in FDI to analyse the demographic characteristics of the investors, the nature of said investments and the type of companies and their ownership scheme.
- The objectives pursued by companies in their investment decisions abroad, the internal factors contributing to FDI decisions and those other factors that pose a barrier to foreign direct investment.
- The sources of financing used by companies to engage in FDI.
- Indicators to assess the effects that FDI have on investing companies. Specifically, effects are measured in relation to competition, on the company's own competitive capacity and in relation to its corporate social responsibility.
- Indicators on the investment environment abroad, including the political, economic and social environment, the business environment and the labour, fiscal and financial environment.
- Growth expectations and economic and financial diagnoses of the companies that internationalise through FDI.

2. FOREIGN DIRECT INVESTMENT OF SPANISH COMPANIES

Economic literature has thoroughly addressed the problems surrounding FDI. The general consensus is that investment outflows are determined by the characteristics of countries and companies. Therefore, companies' specific assets such as natural resources, differences in technological development or human capital, degree of innovation, degree of openness of the economy, political development and stability and culture are the elements that determine whether they invest outside of their country of origin. Researchers, however, have focused mainly on the study of FDI from the perspective of multinationals. Through this approach, the *Theory of industrial organisation* is based on the hypothesis that multinational companies make investment decisions in order to exploit their specific capabilities and to achieve a degree of monopoly power. Hence, they invest in countries where they have a comparative advantage in terms of technology and access to raw materials or other materials that are unavailable to local competitors.

This section includes the results of the personal surveys conducted in 2013 and 2017 targeting Spanish companies that invest abroad in order to analyse the differences between two different periods in the economic cycle. This chapter likewise includes a brief methodological review of the design of the questionnaire and field work and the aggregate results classified according to the characteristics of the investing company, the investment environment and the effects of engaging in FDI.

2.1. Methodology

The sample population for the empirical study was made up of companies that had at least one ongoing FDI project with the *Compañía Española de Financiación del Desarrollo, COFIDES, S.A., S.M.E.* (Spanish Development Finance Institution) in April 2013 and March 2017. (COFIDES is a joint state and privately owned company founded in 1988 that provides medium and long-term financial support for viable private investment projects in foreign countries where there is a Spanish interest with a view to contributing, with profitability criteria, to host country development and to the internationalisation of Spanish enterprises and the Spanish economy). The 2013 survey sample was composed of 101 companies. The sample finally obtained in 2013 was comprised of 35 companies that engaged in FDI, i.e. a response rate of 34.65% of the total population. The 2017 survey sample was composed of 154 companies and a response was received from 35 companies accounting for 22.72% of the total number. Although the sample is small, we would stress its value insofar as it provides business level information on the companies surveyed, unlike most company internationalisation studies which tend to focus almost exclusively on exports and use secondary data from official macroeconomic statistics complemented with examples or particular cases of companies, usually large, without delving into their inner workings and hence missing out on important information.

The information was obtained through a survey sent by e-mail by COFIDES addressed to the head of each of the companies surveyed between the months of May and June 2013 and between April and May 2017. The companies surveyed answered a structured questionnaire prepared by the research team.

The questionnaire was designed based on a review of the theoretical and empirical literature on engagement in FDI and the prior knowledge that the COFIDES research team and technical staff had regarding the reality of multinational companies, while trying to incorporate the most relevant variables to achieve the objectives set. As for the variables, there is an initial section reflecting general data on the size and age of the company, whether it is a family-run enterprise, the academic background of the top manager (CEO), type of FDI, ownership scheme of the FDI, etc. The next section then goes into greater detail such as the degree of importance that the company gives to different internal factors and resources. A pre-test was conducted as was a control test in the preparation of the survey in order to guarantee maximum reliability and quality of the data collected. The entire process was very useful in adapting the questionnaire to the business reality of investors established abroad. Our aim was to create a questionnaire able to collect accurate information covering our needs while trying to minimise possible interpretation and data collection errors during the information collection stage. Lastly, we would stress that all statistical information has remained confidential at all times throughout the different stages of this research.

2.2. Indicators regarding investing companies

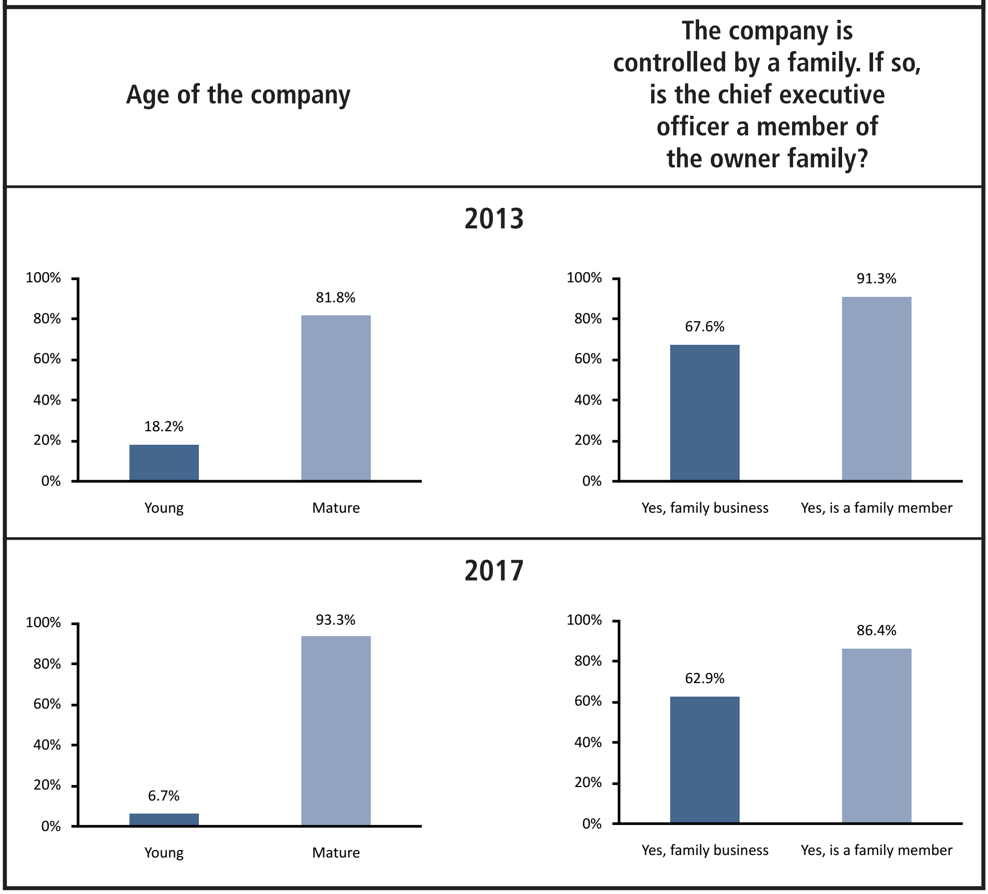
2.2.1. Description of companies

This section sets out the main demographic characteristics of the companies surveyed. It includes information on when the company was first constituted, whether or not it is a family business and, if so, the degree of involvement of the owner family in the management of the company, the gender of the CEO and his/her level of education, i.e. university graduate or not.

Figure 1 shows that 93.3% of the companies surveyed in 2017 and that make up the sample are mature companies that have been in operation for more than 10 years and therefore are consolidated in their different sectors of activity. In contrast, 6.7% are young companies that have been operating for fewer than 10 years. The number of mature companies is higher compared with the 2013 survey (Figure 1).

The study also shows that in 2017, 62.9% of the Spanish companies engaging in FDI were family businesses where 100% of the capital and control was in the hands of the family owners. Moreover, in family-owned businesses 86.4% of the companies' chief executive was a family member. The percentage of family-owned businesses was lower in 2017 in comparison with 2013 (Figure 1).

Figure 1. Age and family affiliation



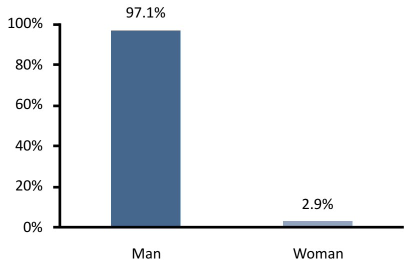
Regarding the gender and educational background of the CEO of companies engaging in FDI, Figure 2 shows that in 2017 the CEO or top executive of the company was male in 94.1% of the cases which means that only 5.9% of companies that engage in FDI were headed by women. Compared with 2013, the results show a three point increase in the number of women at the helm of these companies (Figure 2).

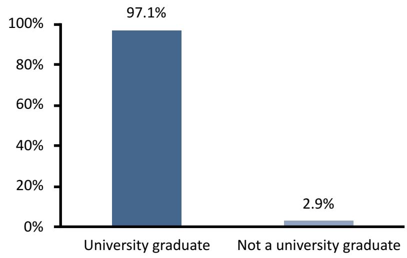
We were unable to collect data regarding the academic preparation of the head of companies in 2017. However, as these are structural figures, it is safe to say that there were no relevant changes with respect to 2013 when 97.1% of those surveyed had a higher education degree which means that only 2.9% of CEOs did not have university studies (Figure 2).

Figure 2. Gender and academic background of the CEO

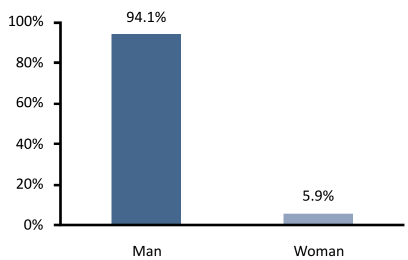
Gender of the CEO | **Academic background of the CEO**

2013





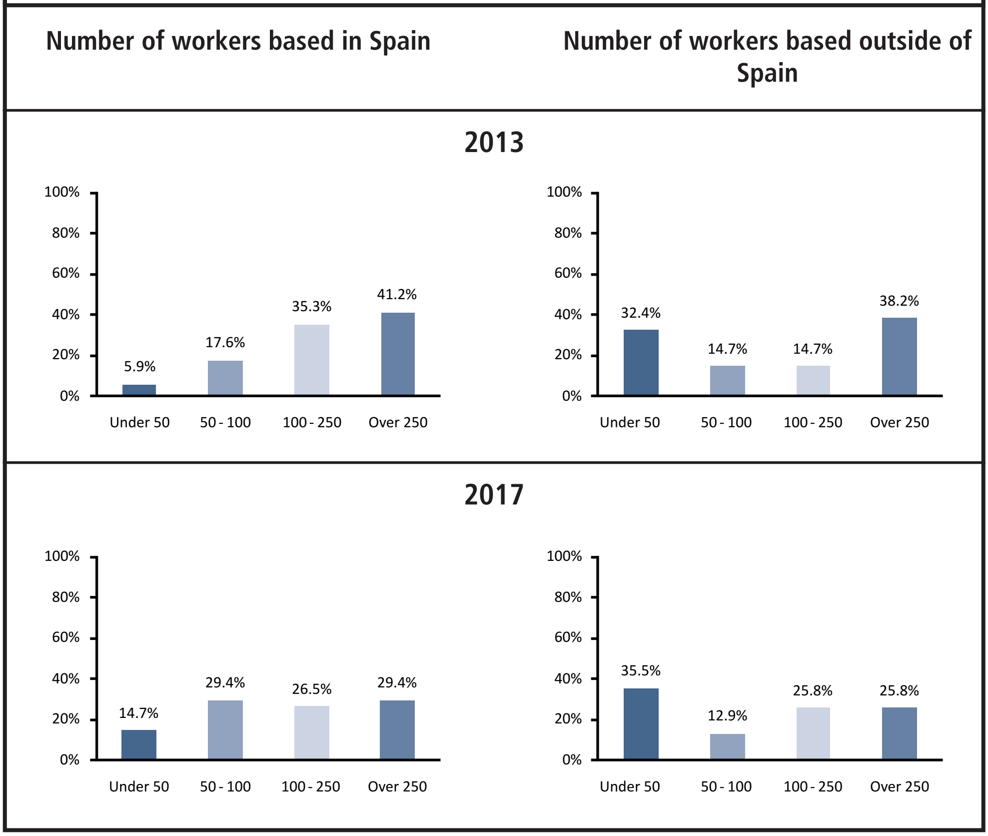
2017



2.2.2. Nature of the FDI

We will now classify companies investing abroad according to the number of workers employed when the survey was conducted, distinguishing between employees of the parent company in Spain and those from the countries where the investment was made. Figure 3 shows that SMEs are the most prevalent among those surveyed accounting for 70.6% of the total (11.8 percentage points more than in 2013), followed by larger companies with over 250 workers which account for 29.4%. This shows SMEs eagerness to engage in business abroad. If we zoom in on company size based on number of workers (Figure 3), compared to 2013 the number of Spanish companies with fewer than 50 and between 50 and 100 workers engaging in FDI in 2017 rose while the number companies with between 100 and 250 and over 250 workers fell (Figure 3).

Figure 3. Number of workers based in Spain and abroad



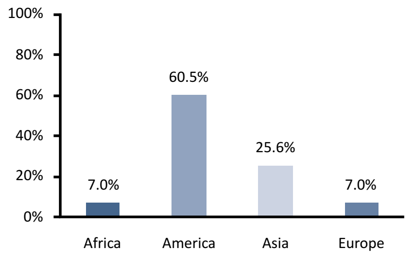
Regarding the size of companies operating outside of Spain, figures show a reduction in the number of companies with over 250 employees from 38.2% in 2013 to 25.8% in 2017, while the percentage of those with fewer than 50 employees in 2017 increased, i.e. 35.5% compared with 32.4% in 2013, and the percentage of companies with between 50 and 250 employees grew to 38.7% (Figure 3).

Figure 4 shows an analysis of the main regions where companies have invested. Specifically Figure 4 shows that in 2017, 61.0% of the companies engaged in FDI in the Americas, 19.5% in Asia, 14.6% in Europe and 4.9% in Africa. A comparison with 2013 figures (Figure 4) shows a significant increase in investment percentages in Europe (7.6 points) and a decrease in Africa (2.1 points) and Asia (6.1 points); percentages in the Americas remained stable.

Figure 4. Region of investment

Region of investment with COFIDES

2013



2017

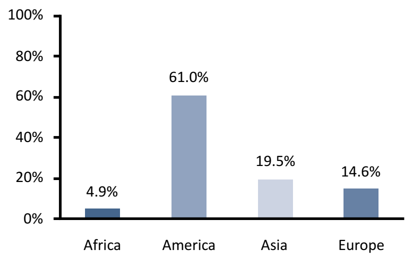


Figure 5 shows companies' degree of internationalisation and the importance of the sales resulting from FDI out of total sales abroad. Of the group of companies engaged in FDI, most are highly internationalised. Specifically, 62.9% of the companies make over half of their sales in international markets while the domestic market continues to predominate in the case of the remaining 37.1%. Compared to 2013 figures, 2.8% fewer companies invoice more than 50% of their total in international markets (Figure 5).

Regarding the impact of FDI on international sales, 55.2% of companies believe that more than 50% of foreign sales are made in the form of direct or local sales arising from FDI. In contrast, 44.8% of companies make less than 50% of their international sales through their subsidiaries established as a result of foreign direct investment. Compared to 2013 (Figure 5), there was a 3.5% increase in the number of companies affirming that more than 50% of their sales abroad were made thanks to direct or local sales resulting from FDI.

Figure 5. International sales and direct sales abroad

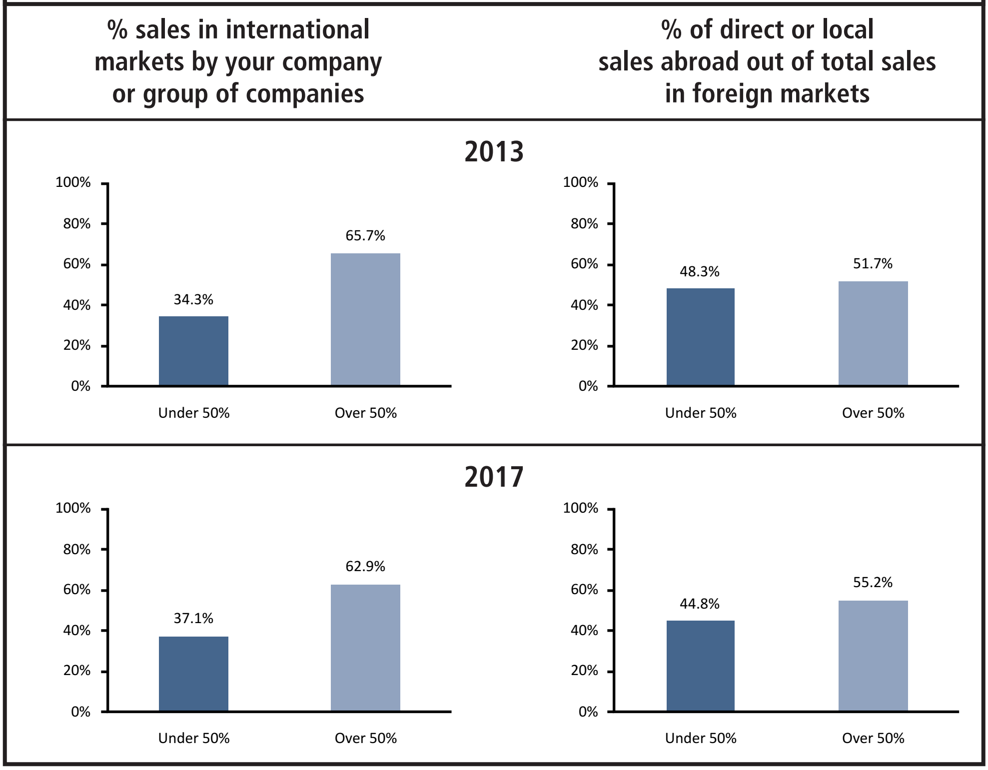
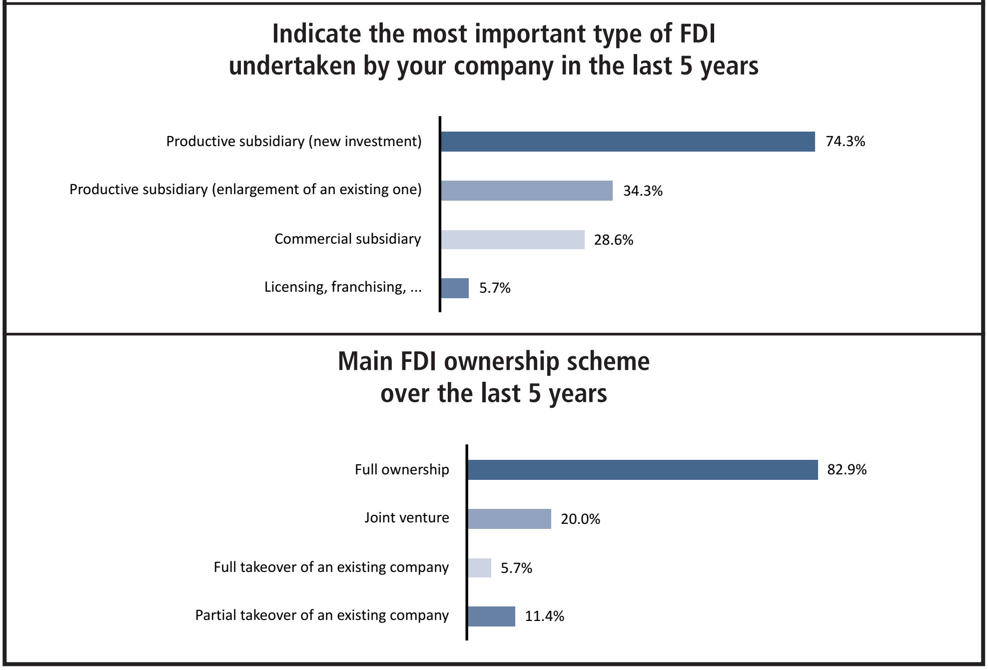


Figure 6 shows the type and ownership scheme of FDI companies included in the study. In 2017, 74.3% of Spanish companies that had engaged in FDI in the previous 5 years reported that it was through the creation of a productive subsidiary abroad (greenfield investment), while in the case of 34.3% of the companies, FDI was by expanding the production capacity of an already existing subsidiary abroad (brownfield) or the opening of a commercial subsidiary (28.6%). A less significant number (5.7%) was through licensing arrangements or franchises. In comparison with 2013 (Figure 6a), there was a 5.7% decrease in the number of companies engaging in FDI in the preceding 5 years through the creation of a productive subsidiary abroad via new investment. There was a 5.7% increase in the number of companies engaging in FDI by expanding the productive capacity of an already existing subsidiary (brownfield). The biggest variation vis-à-vis 2013 was the 8.6% increase in the number of companies that had launched new commercial subsidiaries. A fewer number of companies went abroad through licensing arrangements or franchises.

Regarding the ownership scheme of FDI companies in 2017 (Figure 6), full ownership was the dominant formula (82.9%), followed by joint ventures (20%). The partial

Figure 6. FDI type and ownership scheme

2017



acquisition of an existing company (11.4% of the companies) and the total acquisition of an existing company (5.7%) was less frequent. Compared to 2013 data (Figure 6a), the full ownership scheme increased by 5.8% while the remaining FDI ownership schemes all declined in number.

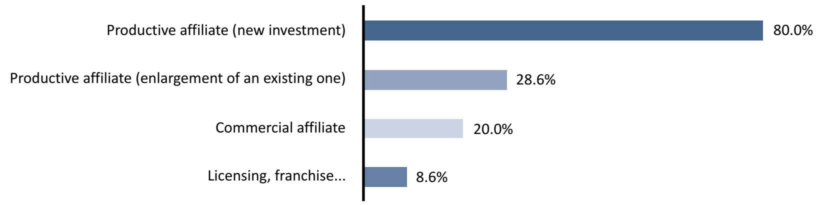
Figure 7 traces shareholding trends of Spanish companies that have engaged in FDI. In 2017, 82.9% of companies kept the same shareholder make-up after having engaged in FDI, a 5.5% increase over 2013.

2.9% of companies claim to have reduced the number of shareholders since embarking upon FDI while 8.6% have more shareholders (7.5% fewer companies than in 2013) as a result of foreign direct investment. In this latter case, FDI has led to the entry of new partners. In 5.7% of the companies, FDI has led to shareholders taking control (an increase of 2.5% over 2013).

Figure 6a. FDI type and ownership scheme

2013

Indicate the main type of FDI undertaken by your company in the last 5 years



Main FDI ownership scheme over the last 5 years

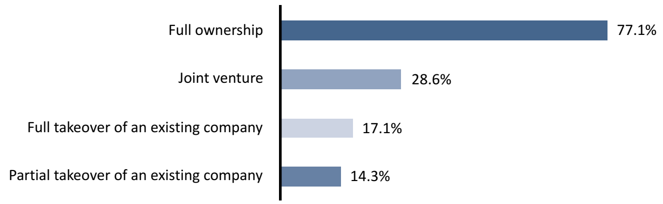
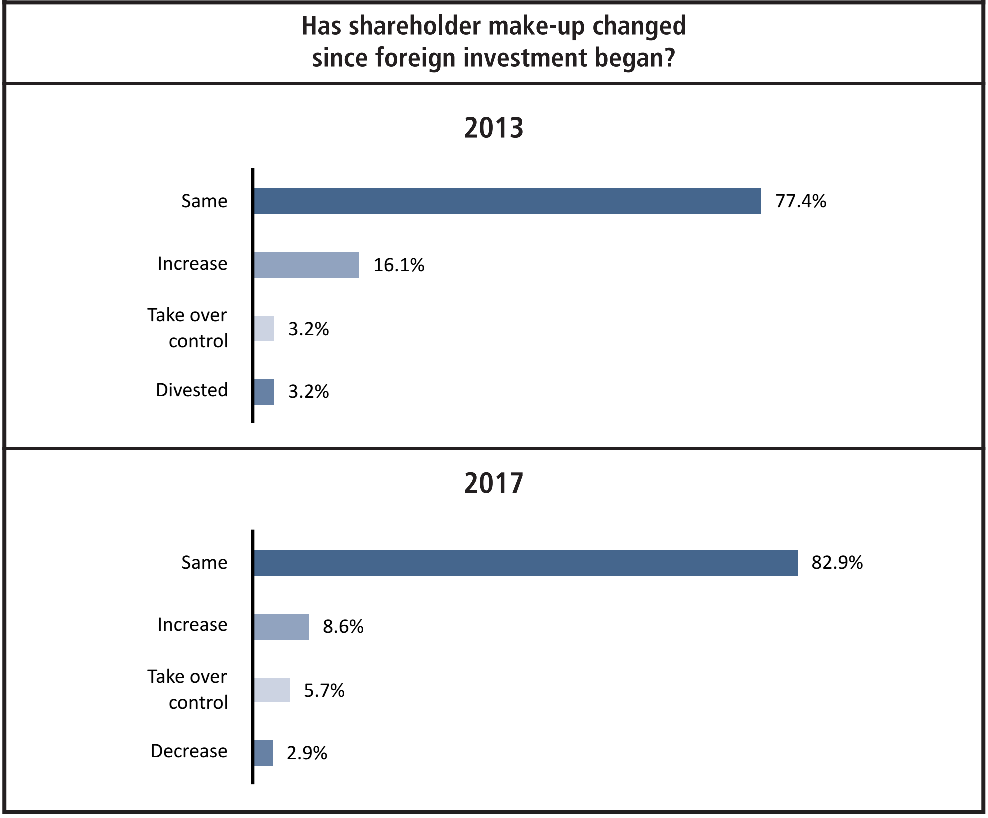


Figure 7. Shareholding trends in companies engaging in FDI

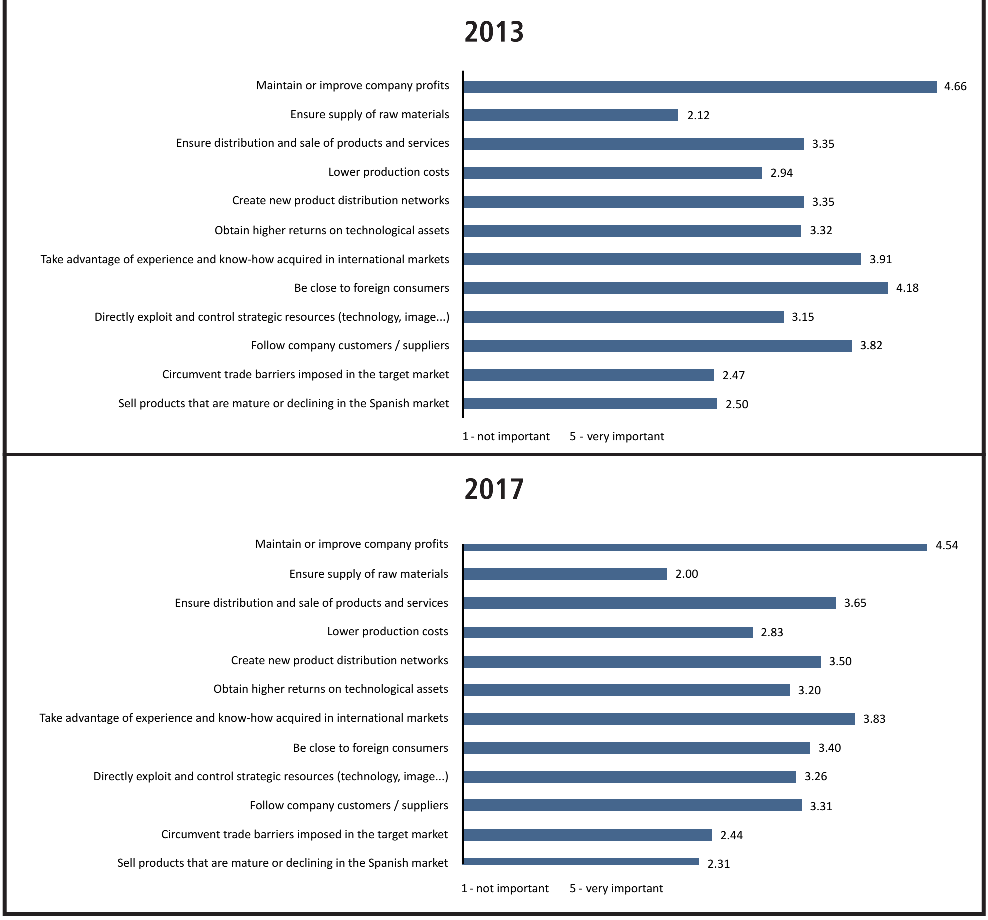


2.2.3. Objectives of FDI in host countries

Figure 8 shows the priority that companies put on the different objectives they seek by engaging in foreign direct investment. The following correspond to 2017 in rank order of importance: (i) maintain or improve company profits (4.54); (ii) take advantage of experience and knowledge acquired in international markets (3.83); (iii) ensure the distribution and sale of products and services (3.65) and (iv) create new product distribution networks (3.50). In comparison to company responses in 2013, a lower priority is placed on the need to be close to foreign consumers (3.40 versus 4.18 in 2013) and to follow company customers / suppliers (3.31 versus 3.82 in 2013). On the opposite end of the spectrum, the least important objectives of companies engaging in FDI include: (i) ensure the supply of raw materials (2.00); (ii) sell products that are mature or on the decline in the Spanish market (2.31); and (iii) circumvent trade barriers imposed in the destination market (2.44). In this case, the 2013 and 2017 figures are very similar (Figure 8).

Figure 8. Objectives of FDI

Indicate the importance of the following objectives when engaging in FDI



2.2.4. Internal factors determining FDI

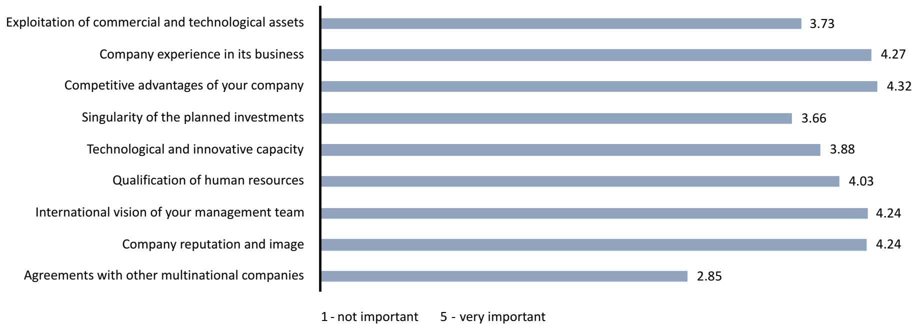
Figure 9 shows the importance that managers gave in 2017 to internal factors of the investing company when engaging in FDI. When investing in foreign countries, the most relevant factors for Spanish companies were the competitive advantages of the company itself (4.26) and the company's experience in its business (4.26); followed by the international vision of its management team (4.21), the qualification of its human resources (4.09) and the reputation and image of the company (4.03).

The least important internal factors for FDI were agreements with other multinational companies (2.90); the singularity of the proposed investment (3.56) and the exploitation of commercial and technological assets (3.58). It should be noted that these factors have not changed substantially since 2013.

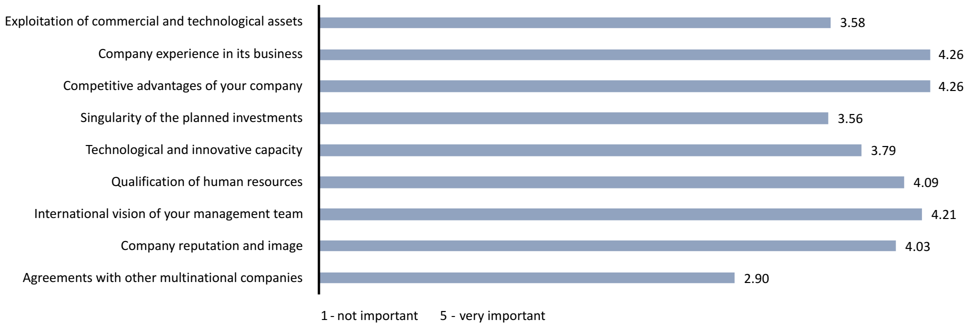
Figure 9. Internal factors determining FDI

Assess the importance that the following internal factors have for your company when engaging in FDI

2013



2017



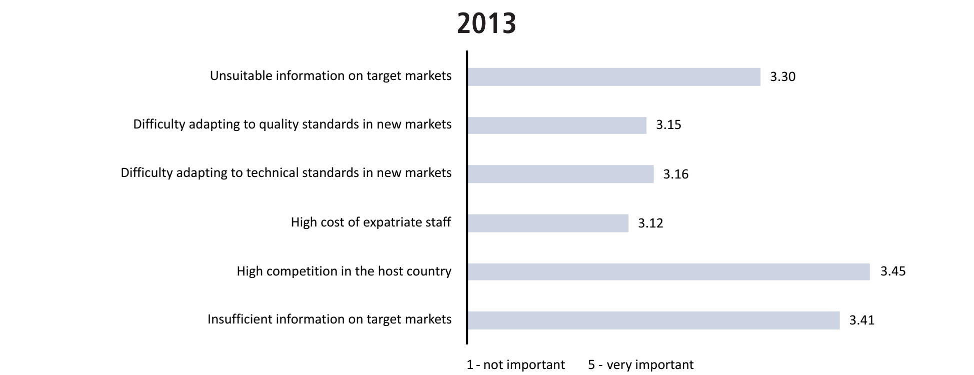
2.2.5. Internal factors as barriers to FDI

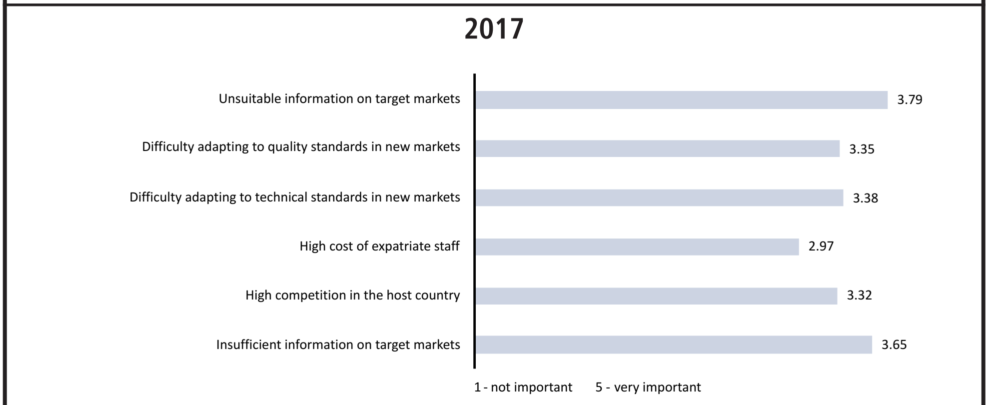
Figure 10 shows the internal factors of companies that could constitute a barrier when engaging in FDI. The companies surveyed in 2017 listed the following main barriers: unsuitable information on the markets of destination (3.79); insufficient information on the markets of destination of the investment (3.65) and difficulty adapting to technical standards in new markets (3.38). The following are less important barriers to FDI: high cost of expatriate staff (2.97) and the high level of competition in the host country (3.32).

Following are the most important differences vis-à-vis 2013 (Figure 10): (1) in 2017 more importance was placed on information barriers, both in terms of quality and

Figure 10. Internal factors as barriers to FDI

Rate the importance of the following barriers when engaging in FDI





quantity; (2) difficulty in adapting to technical or quality standards in new markets became a more important barrier in 2017 than it was in 2013; and (3) the high level of competition in the host country, one of the main barriers in 2013, was no longer perceived as an important barrier to FDI by companies in 2017.

2.2.6. Sources of financing for FDI

Figure 11 shows the importance of the different sources of financing available to companies undertaking a foreign direct investment project (measured on a scale of 1 to 5 where 1 = not important and 5 = very important).

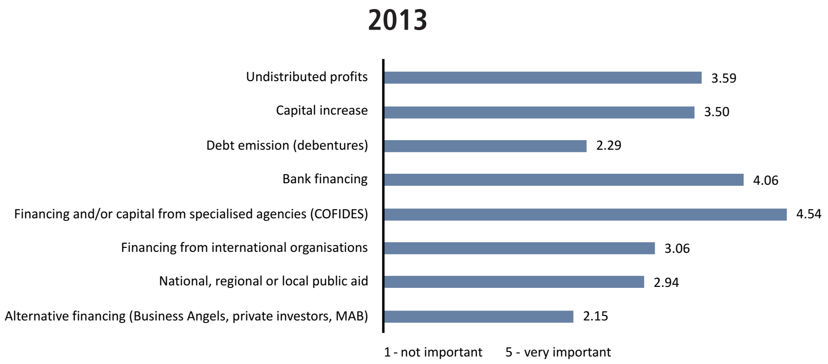
In 2017 Spanish companies pointed out that the main source of financing for their FDI projects were funds in the form of loans or capital received from specialised institutions such as COFIDES with a rating of over 4 (4.03); followed by resources obtained from financial institutions (bank financing, 3.77); and in third place, shareholders' equity in the form of undistributed profits (3.59). This same order of preference was expressed in the 2013 survey.

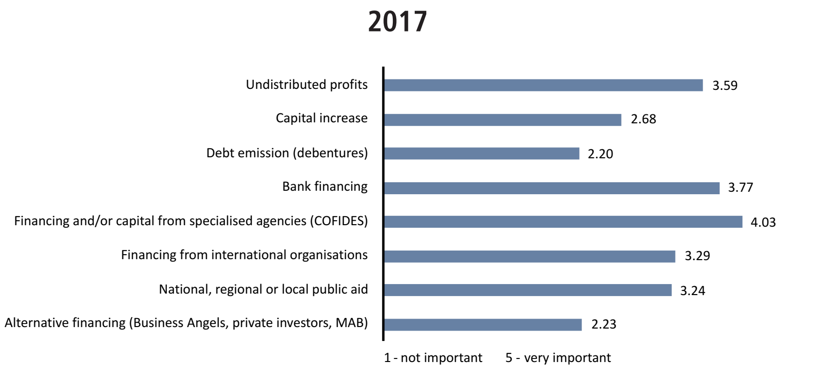
Alternative sources of financing were the least frequently used in 2017 (2.23), such as those obtained from 'business angels', private investors, MAB (alternative equity market in Spain), etc.; and debt emission through debentures (2.20). Data similar to those obtained in 2013.

Funding from international organisations or state, regional or local public aid rose in importance in 2017 with values of 3.29 and 3.24, respectively.

Figure 11. Sources of financing for FDI

Rate the importance of the following sources of funding for foreign direct investment projects (FDI)





2.3. Indicators of the effects of FDI

This section analyses a series of indicators that measure the effects or results of foreign direct investment. It looks at how FDI impacts companies with regard to competition, the competitive capacity of the investing companies themselves and development of Corporate Social Responsibility.

2.3.1. Having regard to competition

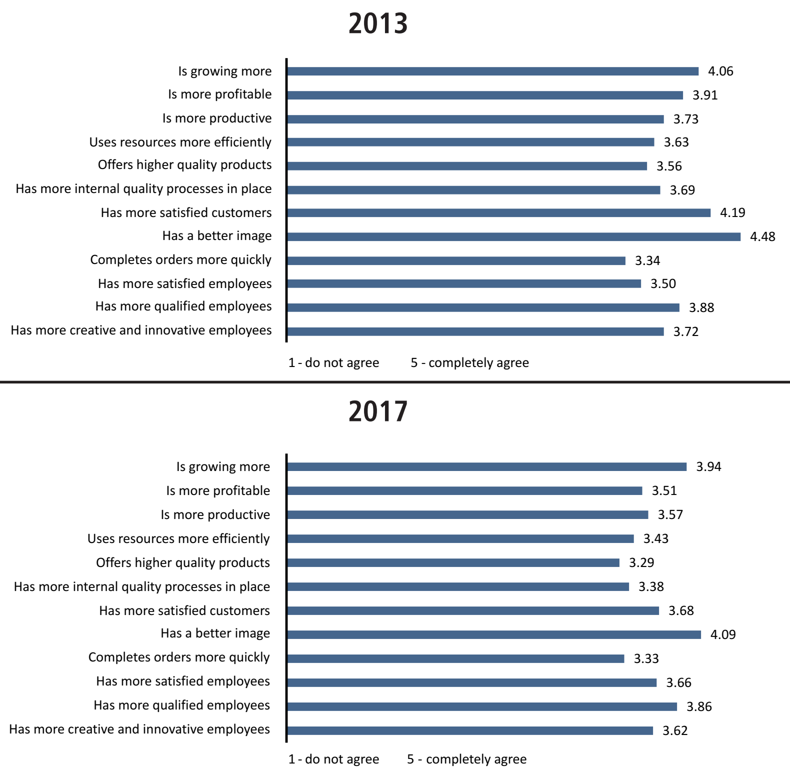
Figure 12 shows the effects of FDI in relation to the main domestic competitors. It should first be noted that in 2017, as in 2013, all the items analysed scored higher than 3 which indicates that companies that engage in FDI are well positioned, although in 2013 the scores were generally higher for all of the variables analysed.

More specifically, companies directly investing abroad pointed out that they had improved their image in comparison with competitors (4.09); grew more than competitors (3.94); had more qualified employees (3.86); and had more satisfied customers (3.68). Compared to the survey conducted in 2013, ratings were lower in 2017 with respect to customer satisfaction (4.19 in 2013 and 3.68 in 2017) and the profitability of the organisation (3.91 in 2013 and 3.51 in 2017).

In contrast, the items least affected by FDI in 2017 were the offer of higher quality products (3.29), process orders faster (3.33), and more internal quality processes (3.38). Although all scores were above 3 on a scale of 1 to 5.

Figure 12. Impact of FDI on competition

As a consequence of FDI, and in comparison with your main domestic competitors, over the last two years your company

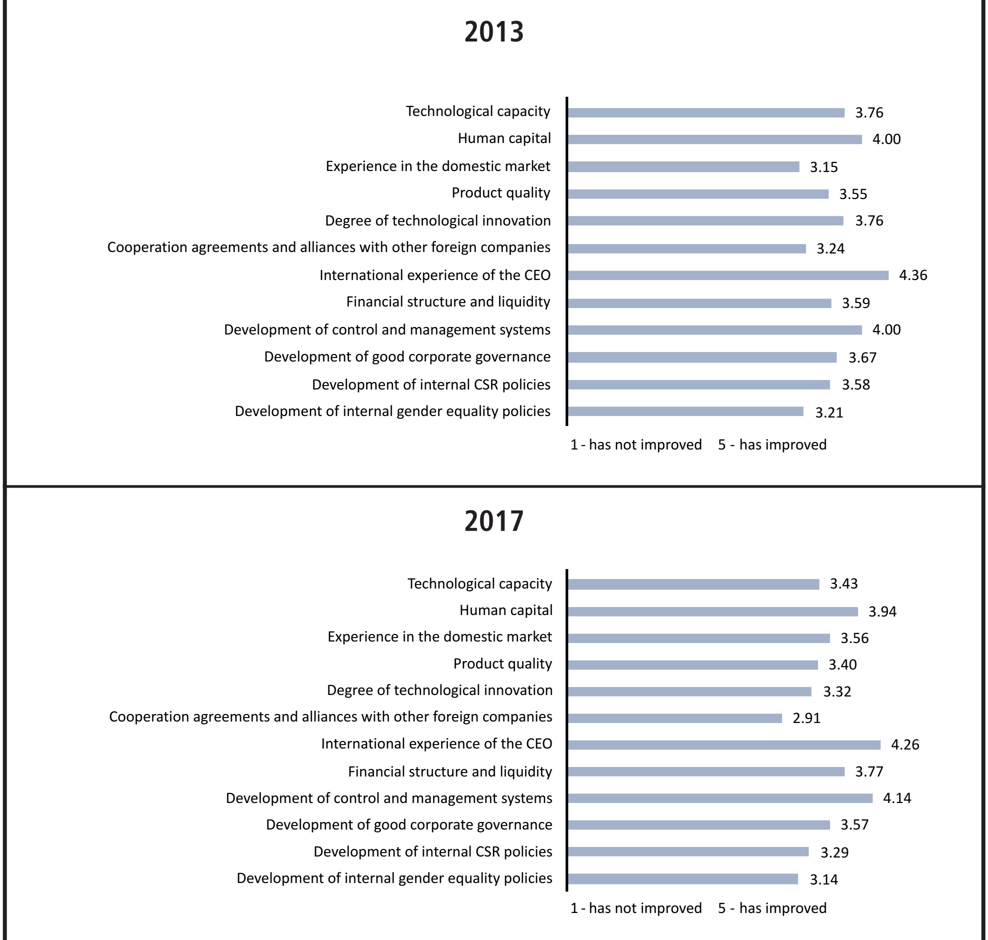


2.3.2. Having regard to competitive capacity

Figure 13 shows the impact of FDI on the competitive capacity of companies. Following are the main positive effects of FDI in rank order of importance: the international experience obtained by the company's CEO (4.26); development of management control systems (4.14) and increased capacity of human capital (3.94). The situation

Figure 13. Impact of FDI on competitive capacity

Assess your company's FDI experience with regard to the following factors



was very similar in 2013 which confirms that the international experience gained by the CEO, human capital and the development of management control systems continue to be the factors most enhanced by FDI.

On the other end of the spectrum, FDI has proven to have only a minor impact with respect to cooperation agreements and alliances with other foreign companies (2.91); development of internal gender equality policies (3.14); and development of internal corporate social responsibility policies (3.29). Compared with the 2013 data, this latter factor did not appear among the last three.

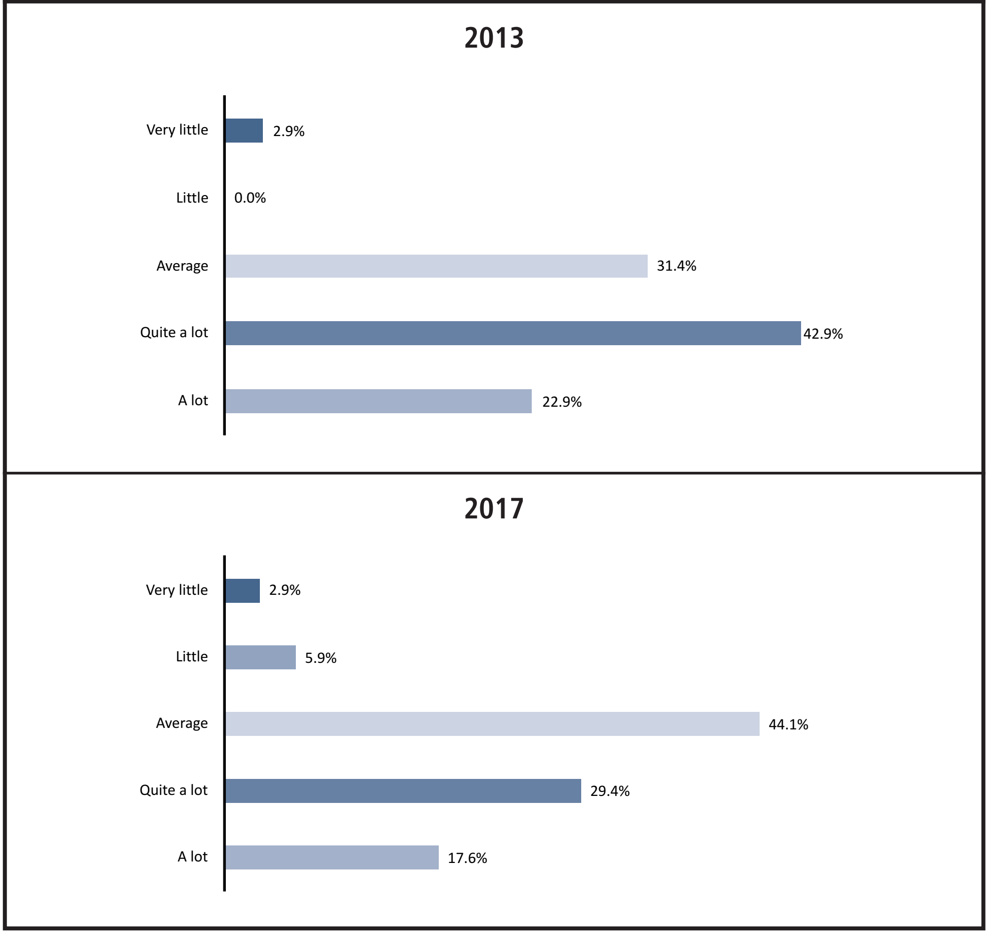
2.3.3. Having regard to Corporate Social Responsibility

Companies engaging in foreign direct investment tend to be international and immersed in a globalised world and are therefore subject to today's increased information requirements and markets' numerous stakeholders. Therefore, this type of company must produce more than 'traditional' financial information. It must also focus on and furnish information about other values under the umbrella of Corporate Social Responsibility (CSR). It was therefore worthwhile to include a specific section in this questionnaire on the assessment of CSR in this type of company to explore whether there is a link with its investment activity abroad and whether this assessment is specifically reflected in the publication of non-financial information; if such information is not published we tried to find out why and if it is, in what format and in accordance with what regulations or guidelines.

In 2017, 44.1% of companies rated the importance of implementing Corporate Social Responsibility (CSR) measures as average, 47% described it as quite or very important and only 8.8% expressed the view that it had little or very little importance. Figure 14 shows that, compared to the 2013 survey, these assessments are on the decline. In 2013 more companies (65.8%) rated CSR as being quite or very important and a lower proportion considered it to be of 'normal' (31.4%) or of little or very little importance (2.9%).

The main reason given in 2017 by companies that decided not to publish information regarding CSR is the cost involved in the preparation and publication of this type of information (score of 3.57). The cost-benefit function of preparing and publishing non-financial information is negative for these companies. Moreover, most non-financial information is not compulsory and that is the second major reason why this type of information was not published in 2017 (3.46). In 2013 however, the main

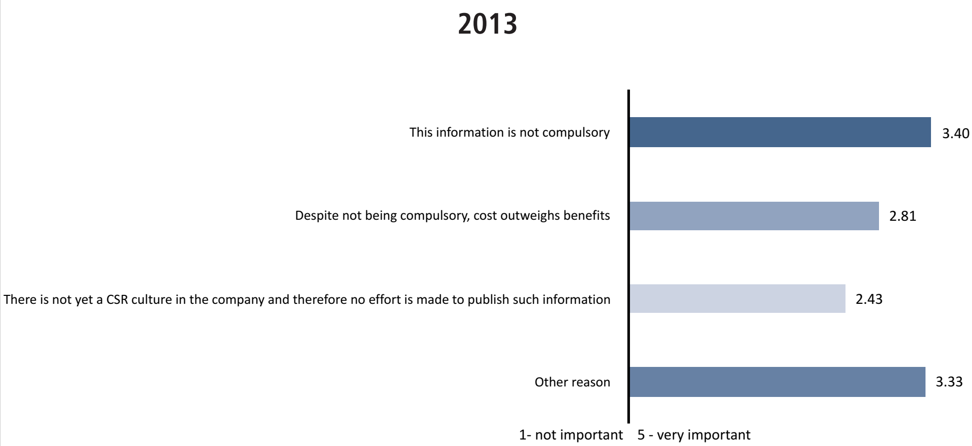
Figure 14. How Corporate Social Responsibility (CSR) is valued at your company

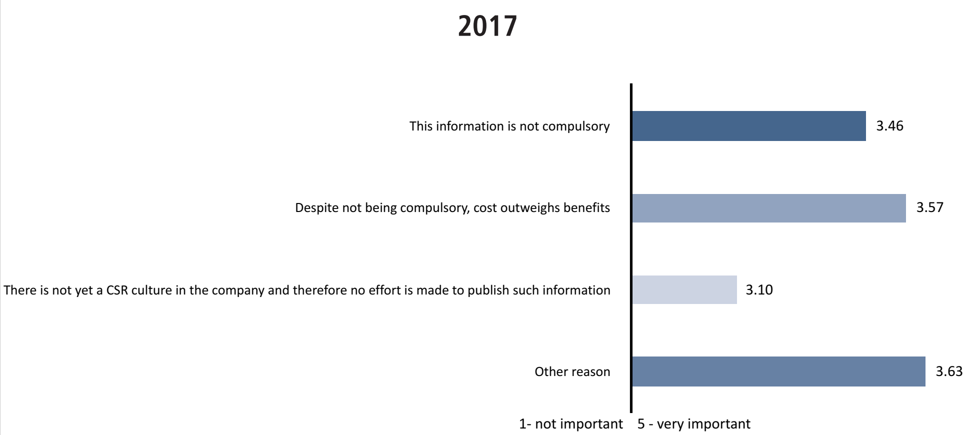


reason for not publishing CSR information was the fact that it was not compulsory (3.40) (Figure 14a).

Figure 15 offers an analysis of the importance that companies engaging in FDI gave to developing CSR according to the 2017 survey: 78.1% of companies believe that the development of CSR is a positive factor in taking FDI decisions while 21.9% do not believe this to be the case. Thus, the perception that CSR is a positive factor when

Figure 14a. If it is not published, mark the reasons why





engaging in FDI has increased over 8 percentage points since 2013 when 69.7% of companies considered it to be a positive factor. However, the number of companies that do not believe that CSR has a positive effect on FDI has likewise increased from 0% in 2013 to 21.9% in 2017. Figure 15 would appear to indicate that opinions concerning CSR and its impact on FDI have become more polarised over this four-year period. There is no neutral assessment - companies either believe that it has a positive effect or that it does not.

However, even though companies believe that CSR is good for FDI (a perception that has increased over time), the percentage of companies that do not publish CSR information has also increased, reaching 74.3% in 2017 compared to 62.9% in 2013 (Figure 15). There is also an indisputable decline in the number of companies that publish this non-financial information, 25.7% in 2017 compared to 37.1% in 2013 (Figure 15). Although some companies surveyed claimed that they do not publish this type of information because it is not compulsory for SMEs, others stress the fact that the publication of CSR activities and non-financial information in general is highly valued by local stakeholders.

Figure 15. Importance of CSR

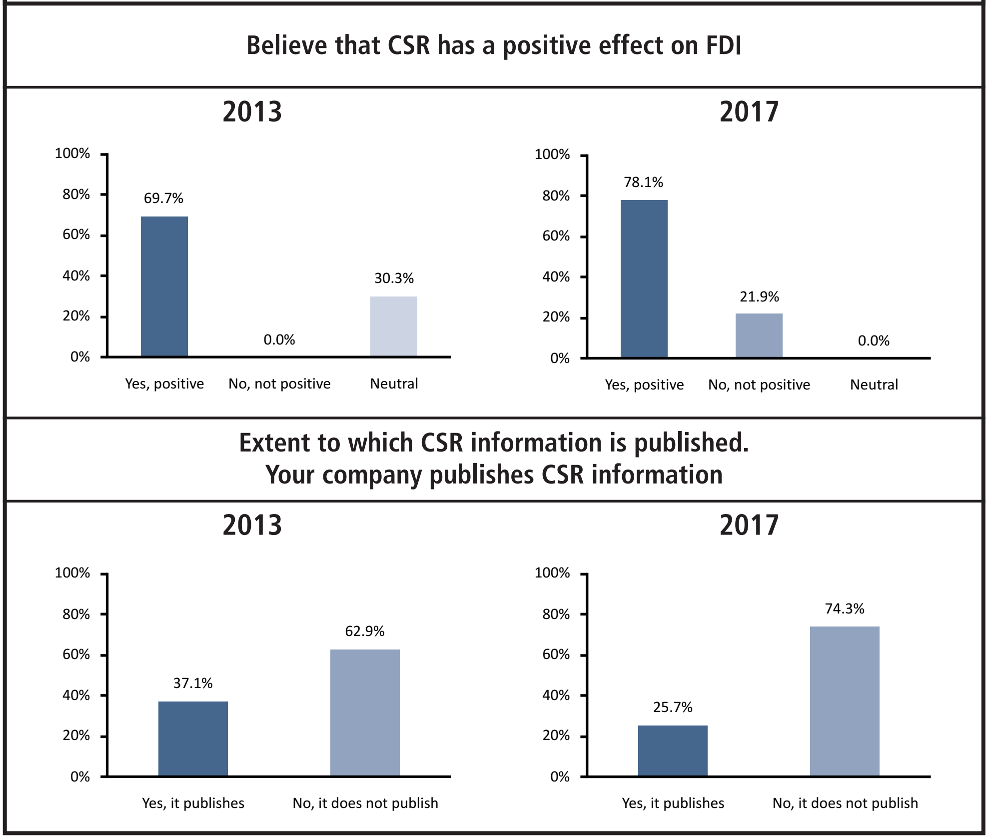
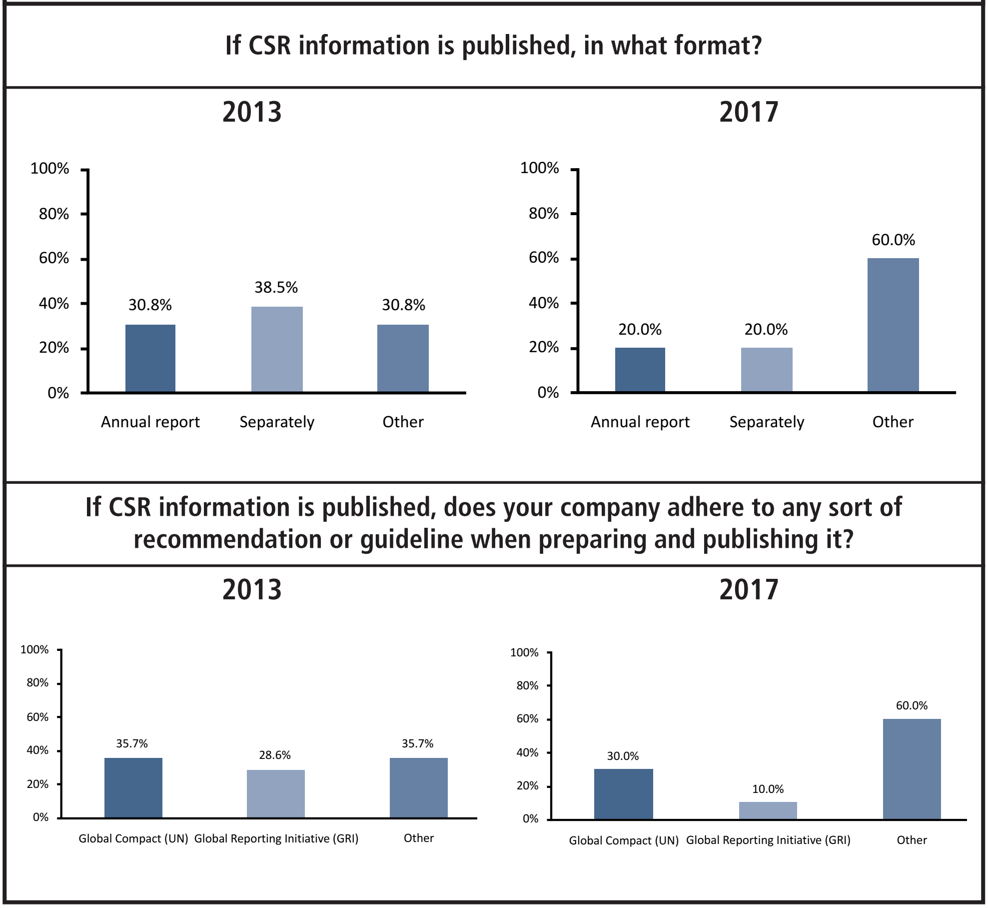


Figure 16 shows the answers to the question regarding how CSR information is published and guidelines followed in drafting and publishing such information. In this respect, companies that engage in FDI have changed the way they publish this information and the guidelines they follow. Only 20% continue to include CSR information along with financial information in their annual report. The remaining 80% mostly separate these two types of information or use some other format. In 2013, 38.5% published the information separately and 30.8% used a different format while in 2017 more than half of the companies (60%) used a different format and only 20% published financial and non-financial information separately. Examples of other

Figure 16. CSR publication format and recommendations



publication formats include integrated information published by the *International Integrated Reporting Council* (IIRC).

The UN's *Global Compact* and the standards put out by the *Global Reporting Initiative* (GRI) are among the most widely accepted guidelines for the publication of non-financial information. In 2013, 64.3% of the companies used these guidelines (which are not mutually exclusive). By 2017, however, this percentage had declined, undoubtedly due to the increased percentage of SMEs in the sample. Only 30% used *Global Compact*, the majority (60%) following other recommendations, principles or reference standards for the publication of non-financial information (Figure 16). As in the case of any other principle or reference standard, we could consider those specific to each sector of company activity or ISO standards, for example.

2.4. Indicators on the investment environment abroad

In this section we analyse indicators that characterise the investment environment abroad. The influence of the political and social environment of the host country of FDI activities is specifically included. We likewise look at how FDI is affected by the business, labour, tax and financial environment of host countries.

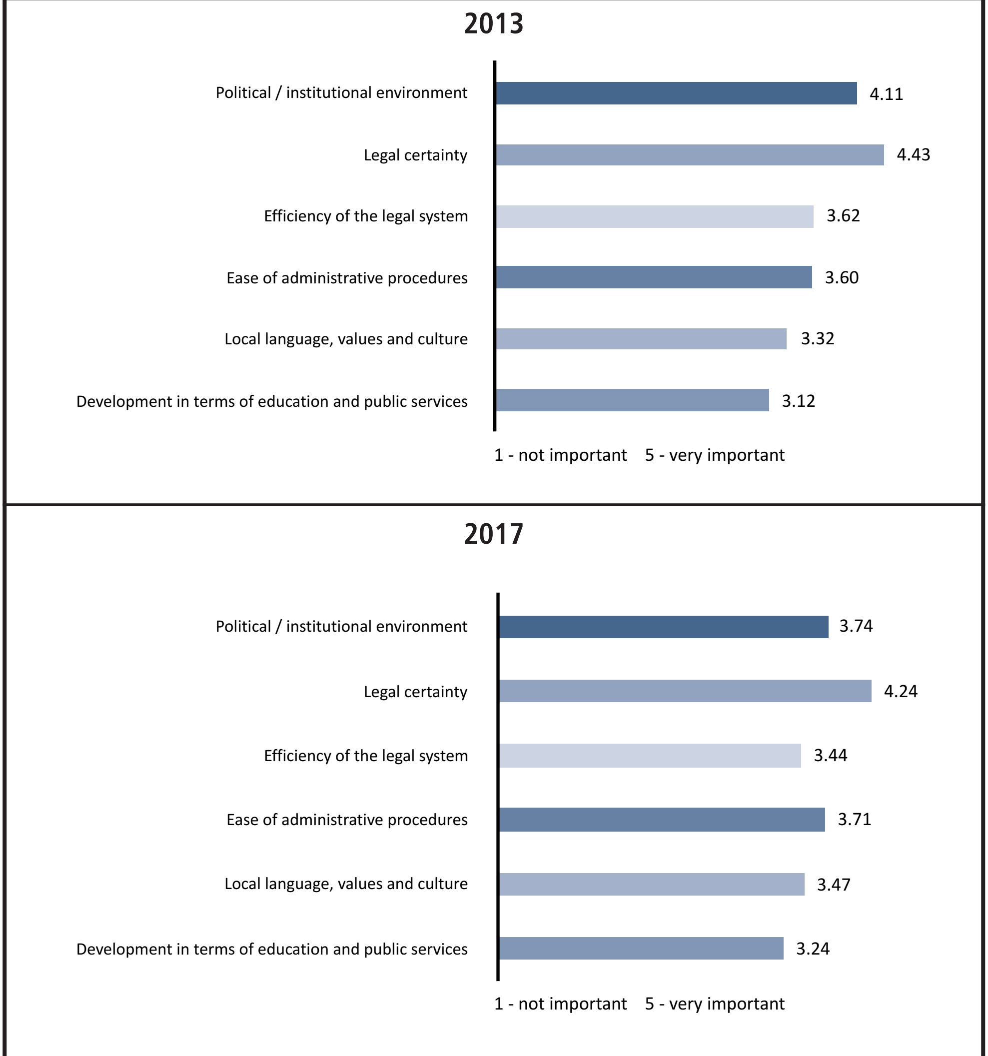
2.4.1. Political and social environment

As shown in Figure 17, companies surveyed in 2017 were asked to rate (on a scale of 1, not important at all, to 5, very important) the relevance of the political and social environment of the destination country of FDI. The most important factor for investing companies is the legal certainty emanating from the host country's legal framework (4.24); ranking second was the political and institutional environment (3.74); while the third most important factor was ease of administrative procedures (3.71). We would note that the first two factors were also the ones that received the highest score in 2013. It is therefore safe to say that these are the most relevant aspects to take into account when it comes to internationalisation through FDI.

However, factors such as educational development and public services (3.24); effectiveness of the judicial system (3.44) and the importance of language, values and local culture (3.47) were not considered that important when deciding whether or not to engage in FDI. The main difference with respect to the 2013 survey is the higher score given to the importance of language, values and local culture (Figure 17).

Figure 17. Political and social environment of the FDI host country

Importance that the following political and social factors have for your company when engaging in FDI

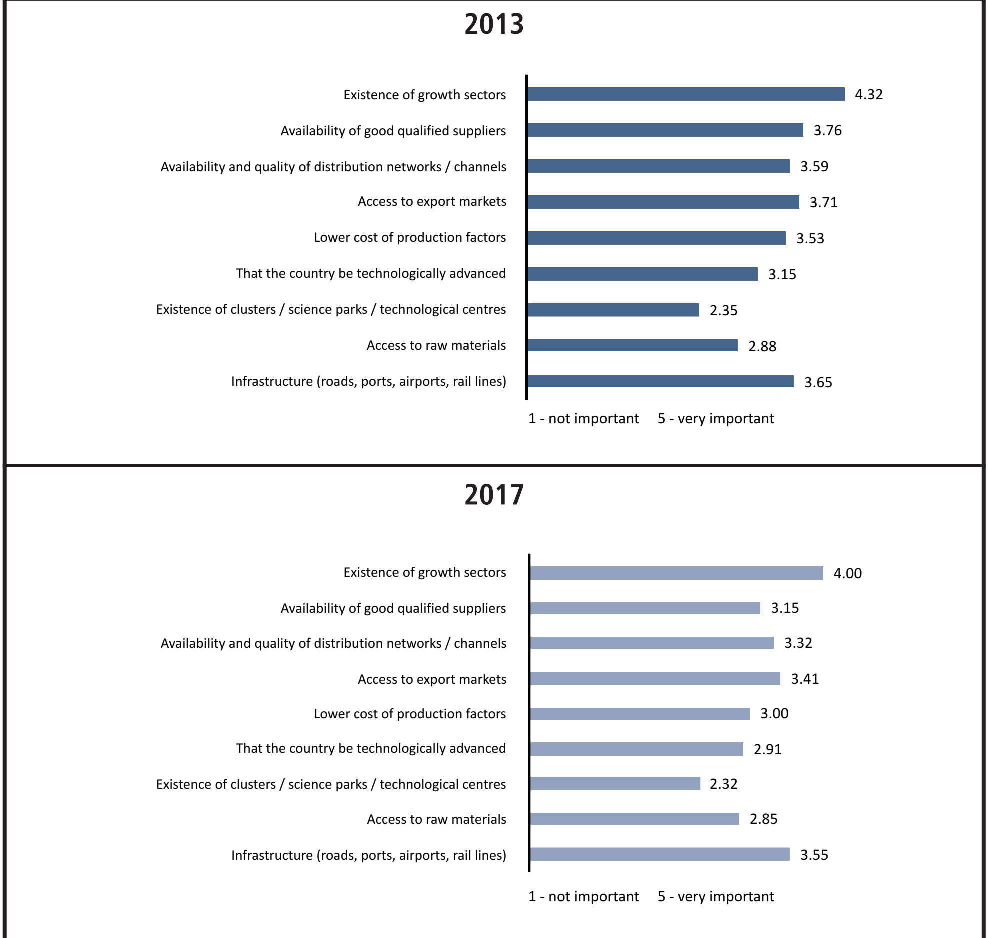


2.4.2. Business environment

Figure 18 illustrates the impact that the business environment had on FDI decisions in 2017. Spanish companies investing abroad report that the most relevant factors for engagement in FDI are, in this order: the existence of niche or growth sectors (4.00) and the infrastructure of the host country in terms of roads, ports, airports and rail network (3.55). Compared to 2013, in 2017 less importance was placed on the availability of qualified suppliers (3.15 in 2017 versus 3.76 in 2013) and access to export markets (3.41 in 2017 versus 3.71 in 2013), coinciding in both years with a higher score given to growth sectors and the importance of infrastructures (Figure 18).

Figure 18. Business environment of the FDI host country

Importance that the following business factors have for your company when engaging in FDI



In both 2013 and 2017, the business factors having the smallest impact on the decision to engage in FDI were the existence of clusters, science parks and technology centres in the host country (2.32); access to raw materials (2.85) and whether or not the country was technologically advanced (2.91), although the score is very close to 3 in these latter two cases.

2.4.3. Labour, tax and financial environment

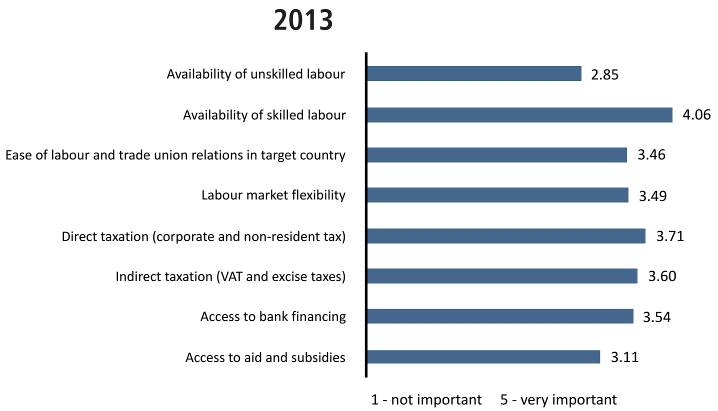
Figure 19 shows the effects that labour, tax and financial factors had on FDI decisions in 2017. Companies put the highest value on the availability of skilled labour (3.83), followed by direct taxation (3.46), labour market flexibility (3.43) and access to bank financing (3.40).

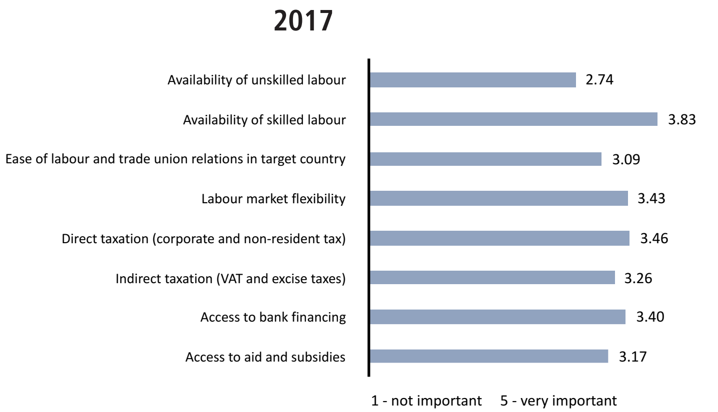
In contrast to 2013, in 2017 direct taxation issues (corporate tax and non-resident taxation) in the FDI host country were considered less of a priority (3.46 versus 3.71 in 2013) as was indirect taxation (VAT and excise duties), 3.26 versus 3.60 in 2013.

On the other hand, the labour, tax and financial environment issues given the least consideration by Spanish companies when deciding to engage in FDI were the availability of unskilled labour (2.74), ease of trade union and labour relations in the host country (3.09) and access to grants and subsidies (3.17).

Figure 19. Labour, tax and financial environment of the FDI host country

Assess the importance that the following labour, tax and financial factors have for your company when engaging in FDI





3. REVENUE AND EMPLOYMENT EXPECTATIONS

3.1. Revenue expectations

Revenue expectations for 2017 and 2018 were very favourable for FDI companies in Spain (Figure 20). In 2017, 75.8% of companies expected to increase sales, 18.2% indicated that they would remain flat and only 6.1% believed that they would decline. Companies had more favourable expectations for 2018. 86.2% believed that revenues would rise. If we compare these with data from 2013 and 2014, we observe an important change in the revenue trends of FDI companies due to the change of the economic cycle experienced by the Spanish economy. Although in 2013 the increase-decrease differential was positive for FDI companies (+19.3 points) and the expectation for 2014 was 33.3 points, the values from the 2017 survey were clearly higher.

Revenue trends expected by companies in the countries where they invest (Figure 21) were even more optimistic. In 2017, 93.8% of companies expected to increase their turnover in the countries where they invest, with slightly lower expectations for 86.7% for 2018. These percentages are similar to those from the 2013 survey (93.1% of companies expected to increase their sales in the countries where they made investments) and expectations for 2014 (92.9%). It should be noted that no companies expected lower revenues in any of the periods analysed in the countries where they invested.

Figure 20. Operating income trends in Spain

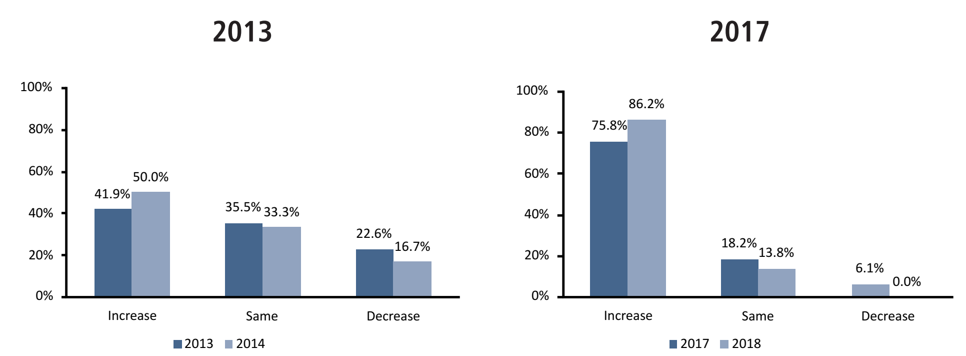
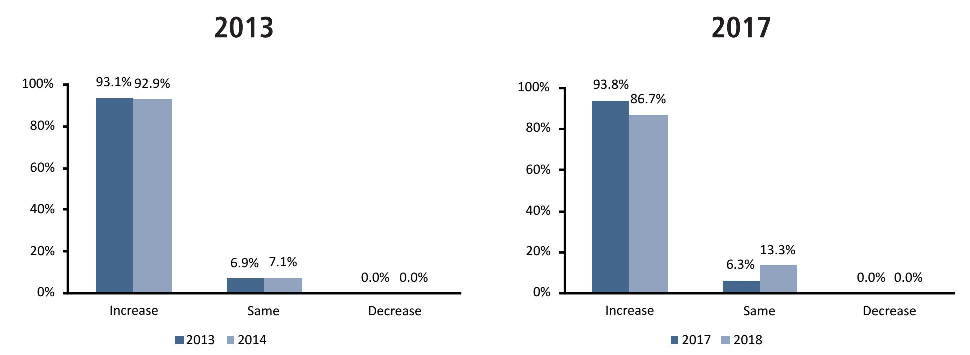


Figure 21. Operating income trends in FDI countries



3.2. Employment expectations

Employment expectations for 2017 and 2018 were very positive for Spanish companies that engaged in FDI. In 2017, 58.1% of the companies indicated that they would be hiring, 29% said that their staff would remain the same and only 12.9% believed that they would employ fewer workers. The increase-decrease differential for 2017 was positive, +45.2 points. Companies had more favourable employment expectations for 2018: 67.9% indicated that employment would rise in Spain while 32.1% said that it would remain unchanged. The increase-decrease differential for 2018 was positive (+67.9 points), significantly higher than the employment expectations for 2017. Compared to the 2013 and 2014 figures, there was an important change in employment expectations for FDI companies. In 2013 the increase-decrease differential was positive for FDI companies (24.1 points) and the expectation for 2014 was 32.1 points while the 2017 and 2018 figures were 45.2 and 67.9 points respectively. This fact, together with the significant increase in revenue expectations, bears witness to the vigour of FDI companies in Spain.

There were also optimistic expectations of job creation in the host countries. In 2017, 84.4% of companies expected to increase employment in the countries where they invest with slightly lower expectations of 83.3% for 2018. These percentages were also very similar to the ones corresponding to 2013 (82.1% of the companies indicated that they would increase employment in host countries) and for 2014 (89.3%), highlighting the important role played by FDI in the development of the countries where Spanish companies invest. It should be noted that no companies expected employment to decline in any of the periods analysed.

Figure 22. Trend in the number of workers based in Spain

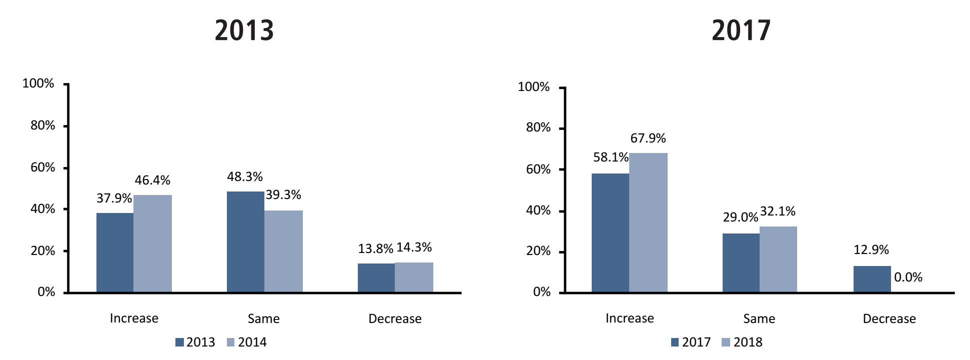
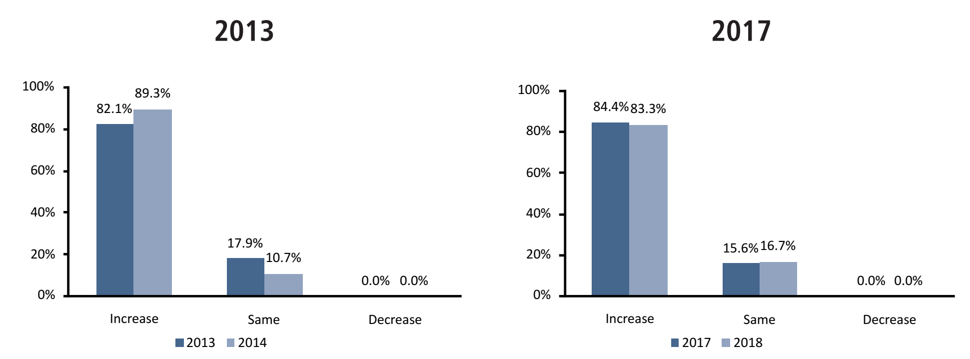


Figure 23. Trend in the number of workers based in FDI host countries



4. GROWTH, DEBT AND RETURN

The aim of this section is to analyse the growth, liquidity position, level of debt and return of the companies in Spain that have engaged in FDI at two different moments in time: 2008-2011 and 2012-2015, with a view to assessing their management results and identifying their strengths and weaknesses. In short, we aim to answer the following question: Does internationalisation via FDI help companies to grow and improve their financial and competitive position? To do this, an empirical study was developed based on the accounting information from 64 companies that have engaged in FDI in 2008-2011 and 119 companies in 2012-2015. For both periods, the same number of companies with similar characteristics which had never engaged in FDI were randomly selected. To ensure an effective programme to promote foreign investment, public agents and managers need to know the effects that FDI have on the economic growth of a country and on the development and strength of its companies.

4.1. Methodology

The population chosen to conduct this empirical study for the period 2012-2015 was comprised of companies which, in 2017, had valid FDI projects with the *Compañía Española de Financiación del Desarrollo, COFIDES, S.A., S.M.E.* The population was composed of 154 companies that had at least one ongoing project with COFIDES. A total of 101 companies were included in the 2008-2011 period.

In each period analysed, we randomly paired all of the COFIDES FDI companies with companies of similar characteristics that had not engaged in FDI. The main objective of this pairing was to be able to evaluate the results obtained by the companies that engaged in FDI and thus be able to draw inferences with regard to how these companies would have performed had they not invested abroad. This type of pairing is widely used to verify the position of a certain group we are trying to control. The following criteria were initially used to assess similarity: sector of activity (taken to the third digit of CNAE 93 - national classification of economic activities), ± 5% operating income, ± 5% total assets. However, in certain cases it was necessary to relax the above variation percentages as it was impossible to find companies that met these criteria. In any case, the maximum variation did not exceed 20% for any of the pairings. The accounting information was obtained from the SABI accounting database of Informa S.A. The legally established deadlines for the formulation, approval and deposit of annual accounts in the Register of Companies made it impossible to include 2016 figures in the study.

The sample finally obtained for 2012-2015 for which we had complete data is composed of 119 companies that engaged in FDI and 119 companies that had never engaged in such activities. Once the random pairing was completed, a telephone call was made to make sure the other company in each pair had never engaged in FDI. The sample of FDI companies accounted for 74.37% of the total number of companies that had at least one ongoing project with COFIDES in 2017. The sampling error was 4.6 points giving a 95% confidence interval.

For 2008-2011 the sample consisted of 64 companies, likewise paired with 64 companies that had never engaged in FDI, accounting for 63.36% of the total number of companies that had at least one ongoing project with COFIDES in 2013. The sampling error was 7.5 points giving a 95% confidence interval.

The accounting information from the selected sample was thoroughly studied in order to detect and correct, where appropriate, possible anomalies or significant accounting issues that could distort the final analysis. After verifying the companies included in the sample, the accounting information was standardised in a framework that allowed for an operational reclassification of the financial statements while defining verification variables to eliminate possible errors in the handling of the data. The diagnostic model thus built was limited by the amount of accounting information available as some companies presented abbreviated annual accounts.

Variables

In line with the literature, companies' economic and financial position was analysed considering growth, liquidity, financial balance, level of indebtedness and return (Table 1). It is important to note that this study does not intend to assess the positive or negative position of each of the variables analysed which follow the guidelines of general financial theory, but rather to present the economic and financial performance guidelines that can help to understand the impact that FDI has on companies.

Table 1
Variables used

Growth	Sales variation rate Value added variation rate Asset variation rate Employment variation rate
Liquidity position	***Short-term liquidity*** measures the ratio between available liquid assets not tied up in operations and those that only require collection to be transformed into treasury, debt capital with a one-year maturity period. ***Long-term guarantee*** measures the ratio of total net assets over total debt, as a guarantee of long-term liquidity offered by the company to third parties.
Financial balance	***% Working capital over total assets*** is measured by calculating working capital (difference between current assets and current liabilities). To facilitate comparability, the percentage of working capital over total assets is determined.
Level of indebtedness and financial cost	***Financial autonomy*** studies the percentage of own resources out of the total financial structure. It defines the company's degree of capitalisation. ***Short-term indebtedness***, studies the percentage of short-term creditors out of the total financial structure. ***Long-term indebtedness***, studies the percentage of long-term creditors out of the total financial structure. ***Financial burden*** is the percentage of financial expenses over total operating income. High financial cost has a direct impact on the company's return. Therefore, the ratio of the company's bank debt / self-financing should be carefully analysed to prevent over-borrowing even when bank loan access is easy. ***Average cost of debt capital*** is calculated based on the quotient of financial expenses and short and long-term creditors. It is an estimate of the cost of the total debt, including debt with and without cost. ***Ability to repay debt*** is expressed as the ratio between resources generated during the year and the total of short and long-term debt; it is an excellent indicator of a company's risk profile. It measures a company's ability to tackle its total debt with the resources (profits + amortisations) that it is capable of generating.
Return	***Economic return:*** measures the ratio between earnings before interest and tax (EBIT) and total assets and represents return as a percentage obtained from investments without considering the financial structure of the company. To better explain how it is calculated, we will break down the two factors on which it depends: **operating margin over sales and sales turnover over assets**. Margin shows the level of efficiency of the company's productive system while turnover explains the capacity of the investments to generate income from operations. This is a good indicator of the efficiency of the company's assets. ***Financial return***: the percentage of return obtained from own resources.

4.2. Analysis of results

For the sake of data compression, the methodology focuses on determining whether the differences observed between the two groups (hereinafter FDI and non-FDI companies) are sufficient to assert that the factors analysed have significant effects on the performance of these groups. The median is used as a measure of central tendency in conducting the univariate analysis. This choice is based on the fact that extreme ratio values normally emerge and can distort the interpretation of the average as an index of the typical performance of the group of companies on which it is calculated. This statistic has the advantage of being robust in the face of extreme values and can be interpreted directly on the distribution of companies in the range of movement of the ratio. Based on this parameter we analysed the following for each period and determined the mean for that period: 1) growth, 2) liquidity and financial balance, 3) level of indebtedness and financial cost and 4) return. To analyse differences in means, the non-parametric statistical Mann-Whitney U test was used since most of the ratios did not follow a normal distribution.

4.2.1. Growth

Period 2008-2011

In general, the growth results analysed point to the favourable position of companies engaging in FDI (Table 2). First of all, in the 2008-2011 series the sales of companies that engaged in FDI exhibited better growth rates. In 2008, FDI companies increased turnover by 13.7% compared to 9.3% of their non-FDI counterparts. In 2009 when GDP fell significantly, turnover shrunk by 6% in the FDI companies compared to a 15% drop in non-FDI companies. And in 2010 and 2011, FDI companies again outperformed their non-FDI counterparts. But the differences were not significant. However, considering the average of the period, a significant difference can be observed (90%): FDI companies grew at an average rate of 8.3% compared to 1.8% for non-FDI companies.

This growth in sales figures is also reflected in investment figures which favour FDI companies. The average assets of FDI companies grew by 7.4% compared to 4.0% in non-FDI companies, although this difference was not statistically significant. These data show important investment activity on the part of entrepreneurs engaging in FDI, especially during the last year analysed (2011), where a significant difference (99%) was observed. FDI companies increased their assets by 10.6% compared to negative asset growth of 0.9% by non-FDI companies.

Having regard to value added, i.e. the increase in wealth generated by a company's activity during the period under analysis (measured as the difference between the value of the production of goods and services and the purchase value of external acquisitions, subsequently distributed to employees, lenders, shareholders, the State and to self-finance the entity), growth is again more robust in the case of FDI companies. Bearing witness to this is the fact that growth in the 2008-2011 period, both in terms of turnover and investment, contributed significantly to the increase in Spanish economic wealth. Indeed, turnover resulting from investment generated more resources implying gains in competitiveness, mainly in 2010 and 2011. Average valued added in 2008-2011 generated by FDI companies was 11.6% versus 4.4% for non FDI companies. Once again, however, this figure is not significant. Regarding employment, the results indicate a more favourable trend for FDI companies. In 2008-2011, employment in FDI companies rose by 4.0% compared to a 1.0% increase in their non-FDI counterparts. These results were not statistically significant, however.

Period 2012-2015

More significant differences between FDI and non-FDI companies were detected in this period. Growth in sales, investment (assets), value added and employment were all greater in FDI companies in the period 2012-2015 (Table 2). In 2012, FDI companies increased turnover by 0.4% compared to negative growth (-3.83%) in the case of non-FDI companies. In 2015 there was an important spike in sales, 10.7%, in FDI companies. The increase in sales that same year for non-FDI companies was 4.7%. This favourable trend continued throughout the period. On average in 2012-2015 turnover grew in FDI companies by 5.7% versus 2.9% for non-FDI companies resulting in a significant difference.

The asset investment rate was higher in FDI companies throughout the period 2012-2015. The asset variation rate in 2012 was 0.5% compared to -1.4% for non-FDI companies. This difference increased favourably in the case of FDI companies. In 2015, FDI company investment totalled 6.4% compared to 2.8% for non-FDI companies. This difference was very significant. The average rate for the 2012-2015 period for FDI companies was 5.5% compared to 1.2% for non-FDI companies. These differences are evidence of significant investment by FDI companies in Spain.

Value added was positive in the 2012-2015 period for FDI companies. Value added grew by 7.4% on average during this period compared to 4.8% in the case of non-FDI companies. Value added declined by 2.5% in FDI and by 2.2 in non-FDI companies in 2012 and rose to 7.1% in 2015 (10.5% in non-FDI companies).

Employment created by FDI companies was significantly greater than that created by non-FDI companies in the 2012-2015 period. The difference was especially noticeable in 2014 and 2015. In 2012 and 2013 employment remained stable in FDI and non-FDI companies. However, in 2014 employment grew by 1.5% in FDI companies (0% in non-FDI companies) and in 2015 growth reached 3.8% and 0.9% respectively. The average employment variation rate for 2012-2015 shows that employment grew by 3.1% in FDI companies compared to 0.1% in their non-FDI counterparts.

Table 2
Growth rates (%)

	2008			2009			2010			2011			Average 2008/2011		
	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.
Sales	9.3	13.7	n.s.	-15.0	-6.0	n.s.	9.0	9.7	n.s.	6.2	7.5	n.s.	**1.8**	**8.3**	*
Assets	3.1	8.3	n.s.	0.8	5.5	n.s.	14.9	10.9	n.s.	**-0.9**	**10.6**	***	4.0	7.4	n.s.
Value added	7.5	-2.9	n.s.	-5.5	3.0	n.s.	26.0	27.6	n.s.	**-3.4**	**16.2**	**	4.4	11.6	n.s.
Employment	-	-	-	-1.3	4.2	n.s.	3.0	1.4	n.s.	0.8	6.3	n.s.	1.0	4.0	n.s.
	2012			**2013**			**2014**			**2015**			**Average 2012/2015**		
	Non FDI	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**
Sales	-3.8	0.4	n.s.	**1.5**	**4.8**	*	7.9	4.5	n.s.	**4.7**	**10.7**	***	**2.9**	**5.7**	**
Assets	-1.4	0.5	n.s.	**-1.1**	**5.5**	***	**3.7**	**7.1**	*	**2.8**	**6.4**	***	**1.2**	**5.5**	***
Value added	-2.2	-2.5	n.s.	-0.5	5.0	n.s.	8.2	8.2	n.s.	**10.5**	**7.1**	**	**4.8**	**7.4**	*
Employment	0.0	0.0	n.s.	0.0	0.0	n.s.	**0.0**	**1.5**	***	**0.9**	**3.8**	***	**0.1**	**3.1**	***

Mann-Whitney U test: (*): $p < 0.1$; (**): $p < 0.05$; (***): $p < 0.01$; n.s.: not significant

Comparison between the periods analysed

Data in the two periods analysed show higher growth in the case of FDI companies in Spain. FDI companies invested more, invoiced more and generated more employment than non-FDI companies. Moreover, their value added variation rate was higher. The main difference between the two periods is that there was greater growth in the

2008/2011 period, although with greater variability, while the growth in 2012/2015 was more stable.

4.2.2. Position of liquidity and financial balance

Position of liquidity

To avoid financial tension in the monetary flows (collections-payments) of their transactions, companies must maintain healthy short and long-term liquidity to prevent distortions when making payments on obligations. Low liquidity is more likely to lead to financial risk, particularly in times of economic recession. Indicators of short-term liquidity and long-term guarantees are analysed to determine a company's liquidity.

Period 2008-2011

The two indicators show a more favourable position for non-FDI companies (Table 3), especially in the short-term liquidity indicator where data indicate statistically significant differences. In the 2008-2011 period, the short-term liquidity indicator showed that current assets excluding inventories (items available in the short term) were able to cover 159.3% of short-term liabilities in the case of non-FDI companies and 119.0% in the case of FDI companies, the difference being significant (95%). Significant differences were also detected in 2008 and 2011. The long-term guarantee indicator suggests a more favourable position for non-FDI companies. This indicator measures the ratio of a company's real assets over its total liabilities as a long-term guarantee offered to third parties, although differences are not statistically significant except for 2008. The average of the 2008-2011 period shows how non-FDI companies were able to cover 221.1% of their total debt with their total assets while non-FDI companies could cover 199.6%. We would point out, however, that FDI companies maintained a low risk position in terms of short-term liquidity and long-term guarantee indicators.

Period 2012-2015

Non-FDI companies had a more favourable liquidity position (short and long term) than FDI companies (Table 3), although differences are not statistically conclusive. In 2012, the short-term liquidity indicator showed that current assets excluding inventories (assets available over the short term) were able to cover 106.3% of short-term liabilities in the case of non-FDI companies and 94.5% in the case of FDI companies. However the trend was more positive for FDI companies. Short-term liquidity in non-FDI companies fell to 101.0% but rose to 101.3% in FDI companies.

The situation is similar for long-term guarantees. On average in 2012-2015, non-FDI companies were able to cover 175.3% of their total liabilities with their assets while for FDI companies that percentage was 160.2% (although these differences are not statistically significant). And in the case of short-term liquidity, the trend was more positive for FDI companies. Long-term guarantees in non-FDI companies fell to 176.7% in 2015 but rose to 166.6% in FDI companies.

Comparison between the periods analysed

In the two periods analysed, non-FDI companies had higher short and long-term liquidity than their FDI counterparts. Results also show that the liquidity achieved by FDI companies in 2012/2015 was lower than in 2008/2011.

Table 3
Position of liquidity and financial balance (%)

	2008			2009			2010			2011			Average 2008/2011		
	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.
Short-term liquidity	**152.7**	**105.3**	**	180.5	128.8	n.s.	163.2	128.7	n.s.	**177.3**	**113.1**	**	**159.3**	**119.0**	**
Long-term guarantee	**201.4**	**172.1**	*	246.8	194.2	n.s.	231.3	209.3	n.s.	239.2	222.6	n.s.	221.1	199.6	n.s.
Working capital over assets	**22.0**	**8.8**	***	**21.5**	**10.9**	**	**22.1**	**11.7**	**	**22.9**	**12.2**	***	**21.5**	**10.9**	**
	2012			**2013**			**2014**			**2015**			**Average 2012/2015**		
	Non FDI	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**
Short-term liquidity	106.3	94.5	n.s.	96.8	90.3	n.s.	**104.2**	**91.7**	**	101.0	101.3	n.s.	102.9	96.1	n.s.
Long-term guarantee	**179.7**	**160.1**	**	176.8	157.0	n.s.	**174.6**	**162.9**	**	176.7	166.6	n.s.	175.3	160.2	n.s.
Working capital over assets	16.1	8.4	n.s.	14.1	7.2	n.s.	16.9	8.6	n.s.	20.5	9.8	n.s.	16.8	8.2	n.s.

Mann-Whitney U test: (*): p < 0.1; (**): p <0.05; (***): p < 0.01; n.s.: not significant

Financial balance

Financial balance is measured by calculating working capital (difference between current assets and current liabilities). To facilitate comparability, the percentage of working capital over total assets is determined. When working capital is positive, it means that a portion of current assets are being financed with permanent resources, either own resources or long-term debt. On the other hand, negative working capital implies that a portion of non-current assets is being financed through short-term debt. Working capital measures whether or not a company is properly financing its investments.

Period 2008-2011

In this connection, non-FDI companies are more balanced than FDI companies in terms of how they finance their investments (Table 3). Indeed, this indicator shows significant differences in favour of non-FDI companies in the whole series analysed. In the case of non-FDI companies, average working capital for 2008-2011 accounted for 21.5% of its total assets compared to 10.9% for FDI companies. This difference is statistically significant (95%). These data confirm that although FDI companies have acceptable figures in terms of their liquidity and financial balance, non-FDI companies are in a better position. This difference may be attributable to the fact that FDI companies need more resources for investments abroad.

Period 2012-2015

Non-FDI companies have a more balanced financial situation although differences are not significant (Table 3). On average for 2012-2015, working capital of non-FDI companies accounted for 16.8% of their total assets compared to 8.2% in the case of FDI companies. Working capital was positive in both cases for the whole period which shows that companies were properly financing their assets and remained within acceptable ranges. As was the case in the earlier period, this difference is attributable to the fact that FDI companies need more resources for investment abroad.

Comparison between the periods analysed

Non-FDI companies had a more balanced financial situation than FDI companies in both periods analysed. In both cases, the average rate for the 2012/2015 period was slightly lower in comparison to 2008/2011.

4.2.3. Level of debt and financial cost

Level of debt

The financial structure of companies provides information about the origin and composition of financial resources, either equity or debt, employed for the set of elements that make up the economic structure of the company. The following aspects must be successfully combined to achieve a properly balanced company: obtain resources or find appropriate financial sources to invest and have them available at the right time and at the lowest possible cost. Financial analysis hinges on the study of the composition of financial sources. In this section we analyse the composition of the financial structure (financial autonomy, short and long-term debt and permanent resources), the capacity to repay debt and its cost.

Period 2008-2011

The average capitalisation of FDI companies is lower than that of their non-FDI counterparts which is why they are more indebted (Table 4). Therefore, own resources in non-FDI companies accounted for 41.0% of the financial structure in 2008-2011 compared to 36.9% in FDI companies. However, the differences were not statistically significant in any of the years studied.

Regarding the makeup of the debt, there are significant differences in long term debt which implies differences in the structure of permanent resources (own funds and long-term debt). Permanent resources are similar in FDI and non-FDI companies, i.e. no significant differences). However, FDI companies are more likely than non-FDI ones to finance their assets with long-term debt thus compensating their permanent resource structure. This is clearly a financial planning strategy whereby they seek a better balance in their financial structure which, to a certain extent, offsets the distortion in the degree of capitalisation. If we analyse the 2008-2011 average composition we will notice how non-FDI companies are more capitalised. Long-term debt in FDI companies accounts for 20.5% of the total financial structure compared to 14.7% in non-FDI companies (the difference being 95% significant), which ultimately means that permanent resources balance out between FDI and non-FDI companies (Table 4).

Period 2012-2015

The debt structure is similar to the previous period (Table 4). Although the number of significant differences is greater. Non-FDI companies are more capitalised (financially independent). In 2012, own resources accounted for 44.3% of their total financial structure compared to 37.5% of that of FDI companies. This capitalisation structure remained stable with little fluctuation throughout the period.

However there are very significant differences in relation to long-term debt. While non-FDI companies reduced it considerably compared to the previous period, FDI companies kept it at the same level (around 20%) throughout the 2012-2015 period. This has led to a more solid financial structure for FDI companies. Thus, in 2012, permanent resources (own funds and long term debt) accounted for 63% of the total financial structure whereas in non-FDI companies this percentage was 57.9%. In the case of FDI companies, the percentage of permanent resources increased to 66% in 2015. It should be noted that all these differences were statistically very significant. This shows the willingness of FDI companies to consolidate their long-term debt to finance investments made thus providing FDI companies with a better long-term balance. This, in turn, means less dependence on short-term debt. While medium and short-term debt for non-FDI companies in 2012-2015 stood at 42.7%, in the case of FDI companies it fell to 33.4%.

Comparison between the periods analysed

In general terms, capitalisation of non-FDI companies was higher than that of their FDI counterparts and, in both cases, it increased in the 2012/2015 period in comparison to 2008/2011. However, FDI companies have more long-term debt. This was directly responsible for the fact that both FDI and non-FDI companies had similar permanent financial resources throughout the 2008/2011 period. The most relevant divergence occurred in the 2012/2015 period when non-FDI companies reduced long-term debt while FDI companies kept theirs stable. This had a favourable effect on FDI companies insofar as they reduced short-term debt by a greater amount.

Financial cost

Period 2008-2011

Another aspect to consider in relation to debt is the financial expense that companies face and its cost. Here we find significant differences in favour of non-FDI companies. Companies that do not engage in FDI face lower financial costs and less financial expense. On average throughout the 2008-2011 period, non-FDI companies had lower average debt costs (with and without cost) of 1.8% compared to 2.5% for FDI companies, implying that their financial expenses are higher. These expenses accounted for 1.7% and 3.2% of the turnover of non-FDI and FDI companies respectively. Differences are statistically significant in all of the years analysed (Table 4).

A company's ability to repay debt is an indicator of financial risk. In general, results show that non-FDI companies are in a slightly better situation in this regard. Hence, in 2008-2011 non-FDI companies were able to return an average of 18.8% of their total short and long-term debt with the resources they generated (profits + amortisations) without having to take on new debt (Table 4), compared to 14.8% of FDI companies. These results were not statistically significant, however.

Period 2012-2015

Just as in 2008-2011, bank debt in FDI companies was greater than in non-FDI companies which means that the average cost of financial resources is higher for FDI companies. On average throughout the 2012-2015 period, non-FDI companies had lower average debt costs (with and without cost) of 1.6% compared to 2.7% for FDI companies, implying that their financial expenses were higher. These expenses accounted for 1.6% and 2.7% of the turnover of non-FDI and FDI companies respectively. We should note that this figure remained constant for non-FDI companies but fell considerably in the case of FDI companies.

Regarding companies' ability to repay debt, the gap between FDI and non-FDI companies shrunk to the point that the difference was not statistically significant. Hence, in 2012-2015 non-FDI companies were able to return an average of 11.5% of their total short and long-term debt with the resources they generated (profits + amortisations) without having to take on new debt (Table 4), compared to 10.1% of FDI companies. It should be noted that for both FDI and non-FDI companies, the ability to repay debt dropped significantly.

Comparison between the periods analysed

FDI companies reduced their financial burden in the 2012/2015 period compared to 2008/2011.

Non-FDI companies had slightly higher debt repayment capacity (+ 1.4%) compared to FDI companies in both of the periods analysed. There was a significant decrease in this capacity for both FDI and non-FDI companies in the 2012/2015 period.

Table 4
Level of debt and financial cost (%)

	2008			2009			2010			2011			Average 2008/2011		
	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.
Financial autonomy	40.0	34.3	n.s.	41.9	36.4	n.s.	41.7	37.8	n.s.	42.4	39.1	n.s.	41.0	36.9	n.s.
Long-term debt	14.1	17.7	n.s.	14.2	**21.4**	**	**14.2**	**21.5**	**	**15.7**	**21.6**	*	**14.7**	**20.5**	**
Short-term debt	45.8	47.9	n.s.	43.8	42.1	n.s.	44.0	40.7	n.s.	41.8	39.2	n.s.	44.1	42.5	n.s.
Permanent resources	54.1	52.0	n.s.	56.2	57.8	n.s.	55.9	59.3	n.s.	58.1	60.7	n.s.	55.8	57.4	n.s.
Average cost of debt	**2.2**	**2.7**	*	**1.7**	**2.5**	***	**1.4**	**2.3**	***	**1.8**	**2.7**	***	**1.8**	**2.5**	***
Financial burden	**1.7**	**3.2**	*	**1.8**	**4.0**	**	**1.4**	**2.8**	**	**1.8**	**2.9**	**	**1.7**	**3.2**	**
Debt repayment capacity	18.5	13.8	n.s.	14.8	13.5	n.s.	17.1	16.1	n.s.	9.6	15.8	n.s.	18.8	14.8	n.s.
	2012			**2013**			**2014**			**2015**			**Average 2012/2015**		
	Non FDI	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**
Financial autonomy	44.3	37.5	n.s.	43.4	36.3	n.s.	42.7	38.6	n.s.	43.4	40.0	n.s.	42.7	37.6	n.s.
Long-term debt	**4.5**	**20.3**	***	**3.8**	**19.4**	***	**5.0**	**18.0**	***	**7.3**	**18.9**	***	**5.9**	**19.3**	***
Short-term debt	**42.1**	**37.0**	***	**40.5**	**31.1**	***	**43.1**	**34.5**	***	**41.1**	**34.0**	**	**42.7**	**33.4**	***
Permanent resources	**57.9**	**63.0**	***	**59.5**	**68.9**	***	**56.9**	**65.5**	***	**58.9**	**66.0**	**	**57.3**	**66.6**	***
Average cost of debt	1.4	3.0	n.s.	**1.5**	**3.0**	***	**1.4**	**2.7**	***	**1.0**	**2.2**	***	**1.6**	**2.7**	***
Financial burden	**0.8**	**2.3**	***	**0.6**	**2.1**	***	**0.5**	**2.2**	**	0.4	2.2	n.s.	0.7	2.3	n.s.
Debt repayment capacity	9.0	8.6	n.s.	9.2	9.2	n.s.	13.5	10.5	n.s.	11.5	10.8	n.s.	11.5	10.1	n.s.

Mann-Whitney U test: (*): $p < 0.1$; (**): $p < 0.05$; (***): $p < 0.01$; n.s.: not significant

4.2.4. Profitability analysis

To guarantee operations, companies must strike a balance between a stable financial situation and a suitable level of return. Economic return is an excellent indicator of a company's efficiency.

Period 2008-2011

A very favourable trend can be observed in the case of FDI companies (Table 5). In 2008 the return on assets of FDI companies stood at 4.9% and rose to 9.1% in 2011. The trend for non-FDI companies was the opposite. This difference is particularly clear in 2008-2011. The average rate for FDI companies was 8.2% compared to 6.2% for non-FDI companies (difference not statistically significant). However, in 2011 the gap was the largest in favour of FDI companies when their rate of return reached 9.1% compared to 5.7% in the case of non-FDI companies. This is a significant difference (90%).

In order to shed further light on the reasons underlying this trend in economic return, we have broken it down into the two factors on which it depends: margin and turnover. The greater economic return of FDI companies is the result of an increase in operating margin in 2010 and 2011. The biggest difference occurred in 2011 when FDI company margin was 8.3% compared to 4.7% for non-FDI companies, a significant difference (90%). These data bear witness to greater operating cycle efficiency in FDI companies. However, non-FDI companies made better use of their assets. Hence, the results show how non-FDI companies in 2008-2011 managed to invoice 1.6 euros for each euro invested while FDI companies invoiced 1.4 euros. This difference was not statistically significant. The biggest difference occurred in 2009 with a sales turnover over assets figure in non-FDI companies of 2.3 versus 1.2 in FDI companies (the difference being 95% significant). This difference may be attributable to the greater increase in investment made by FDI companies which they were not yet able to optimise.

There is a great deal of disparity between the results as concerns financial return. The average rate for 2008-2011 is very similar for non-FDI (10.4%) and FDI companies (10.1%), the difference not being significant. However, a look at individual years tells a different story, especially 2008 when non-FDI companies achieved a return on equity of 16.7% compared to 10.8% for FDI companies, the difference being significant (90%). In 2011, FDI companies achieved a higher financial rate of return (11.5%) compared to 7.7% for non-FDI companies, although in this case the difference was not significant.

Period 2012-2015

There was a favourable trend in the economic return indicator for FDI companies. In 2012, economic return for FDI companies was 5.5% (4.1% in the case of non-FDI companies) and rose to 7% in 2015 (5.6% in non-FDI companies). In 2015, this gap in favour of FDI companies was significant.

An analysis of the two factors on which economic return depends (margin and turnover) shows that the difference in favour of FDI companies is thanks to the evolution of operating margin which, to a certain extent, measures the efficiency of production processes. In 2012, for each 100 euros of sales, FDI companies obtained an operating margin of 4.5% (3.0% in non-FDI companies). This figure increased to 5.8% in 2015 (compared to 3.5% in non-FDI companies). Conversely, due to the significant increase in investment, FDI companies did not achieve as good a return on their assets. The average results for 2012-2015 show how the non-FDI companies were able to invoice 1.6 euros for each euro invested while FDI companies invoiced 1.3 euros. This difference was not statistically significant.

The biggest difference occurred in 2015 with a sales turnover over assets figure in non-FDI companies of 1.6 versus 1.2 in FDI companies (the difference being 95% significant).

As concerns financial return, differences are not statistically significant. The average rate for 2012-2015 was slightly higher for non-FDI companies. Average return on equity for non-FDI companies was 7.5% compared to 6.2% for their FDI counterparts. Although it should be noted that in 2012-2015 financial return declined significantly, approximately 3 points, compared with 2008-2011 figures.

Comparison between the periods analysed

In both periods, FDI companies had more favourable return indicators than non-FDI companies, especially economic return and operating margins. Sales turnover over assets was very similar for the two periods analysed while there was a decline in financial return.

Table 5
Analysis of return (%)

	2008			2009			2010			2011			Average 2008/2011		
	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.	Non FDI	FDI	Sig.
% Economic return	8.9	4.9	n.s.	9.2	4.6	n.s.	6.0	7.6	n.s.	**5.7**	**9.1**	*	6.2	8.2	n.s.
% Operating Margin	6.9	6.3	n.s.	4.7	4.5	n.s.	5.5	8.7	n.s.	**4.7**	**8.3**	*	5.4	6.4	n.s.
Sales turnover over assets	1.7	1.4	n.s.	**2.3**	**1.2**	**	1.8	1.4	n.s.	1.7	1.4	n.s.	1.6	1.4	n.s.
% Financial return	**16.7**	**10.8**	*	4.9	-2.3	n.s.	12.5	12.9	n.s.	7.7	11.5	n.s.	10.4	10.1	n.s.
	2012			**2013**			**2014**			**2015**			**Average 2012/2015**		
	Non FDI	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**	**Non FDI**	**FDI**	**Sig.**
% Economic return	4.1	5.5	n.s.	5.1	5.8	n.s.	5.5	6.4	n.s.	**5.6**	**7.0**	*	5.5	6.1	n.s.
% Operating Margin	3.0	4.5	n.s.	3.3	4.5	n.s.	4.0	4.8	n.s.	3.5	5.8	n.s.	3.2	4.3	n.s.
Sales turnover over assets	1.5	1.3	n.s.	1.4	1.3	n.s.	1.6	1.3	n.s.	**1.6**	**1.2**	**	1.6	1.3	n.s.
% Financial return	4.5	5.0	n.s.	6.8	5.7	n.s.	5.7	6.5	n.s.	7.6	7.2	n.s.	7.5	6.2	n.s.

Mann-Whitney U test: (*): p < 0.1; (**): p <0.05; (***): p < 0.01; n.s.: not significant

5. CONCLUSIONS

The main purpose of this paper was to update the report made in 2013 for COFIDES on FDI in Spain in order to gain a deeper understanding of the experience of Spanish companies with foreign direct investment and help to guide the promotion of internationalisation.

The results of this study are relevant for two reasons. First because they help foster the internationalisation of Spanish companies which could result in the growth of productivity as a result of: (i) better use of productive capacity, (ii) greater specialisation in the company and (iii) the acquisition of new technologies and spill-over effects. Internationalisation sparks companies to better train their employees, have greater access to technologies, learn new forms of management and increase the number of highly qualified job posts leading to growth in productivity thanks to more efficient use of technology. Secondly, economic growth in the context of globalisation gives rise to very attractive markets for both large companies and SMEs making this a strategic area to explore business opportunities.

The results of this report also have important implications insofar as they can give SMEs the guidance they need to promote and develop a culture that stimulates their internationalisation and competitiveness. Additionally, these results may be of interest to public entities and financial institutions that promote the internationalisation of SMEs by offering them new perspectives regarding the importance of strengthening their action programmes and increasing the impact these have on the internationalisation of companies and the development of the host countries of the investment.

The following main results are presented as conclusions:

Elements characterising companies that engage in FDI

According to study results, the main characteristics of Spanish companies financed by COFIDES that engage in foreign direct investment (FDI) are as follows:

- 93.3% have been around for more than 10 years.
- 62.9% are family businesses.
- The main financial objective of COFIDES is to provide direct financing in host countries (capital, loans to project companies located abroad).
- America (61%) and Asia (19.5%) are the main destination markets.
- 62.9% invoice more than 50% of their total on international markets.
- 55.2% make more than 50% of their sales directly in local markets through FDI.

- Over the last five years the major type of FDI has been through a productive subsidiary resulting from new investment (74.3%).
- 34.3% have invested in the expansion of an existing subsidiary.
- 28.6% have invested in a commercial subsidiary.
- In 82.9% of the cases, the same shareholder make-up was maintained during FDI.
- 94.1% of the CEOs are men.

The main source of financing used by the companies to engage in FDI is from institutions such as COFIDES, followed by financing from financial institutions.

Motivation and factors influencing FDI and barriers

Following are the main **objectives** of FDI in host countries:

- Maintain or improve company profits
- Take advantage of experience and know-how acquired in international markets
- Ensure the distribution and sale of products and services
- Create new distribution networks

The main **internal factors** with a bearing on FDI are:

- The competitive advantages of the company itself
- Experience in its business / activity
- The international vision of the management team
- The qualification of its human resources
- The company's reputation and image

The most important **barriers to FDI** are:

- Inadequate and insufficient information on the target market
- Difficulty adapting to technical standards in new markets

Effects on and implications for companies that engage in FDI

Indicators of the results / effects of FDI companies:

1. **with regard to competitors**:

- Improved image
- They grow more than their competitors
- They have more qualified employees
- They have more satisfied customers

2. **with regard to competitive capacity:**

- Improved the international experience of the CEO
- Profits are obtained from the development of management control systems
- Increase in the capacity of human capital

Indicators on the relevance of the investor environment

Most relevant factors to take into account in the FDI host country:

1. **In the political and social context**

- The legal certainty provided by the legal framework of the FDI host country
- Having a reliable political and institutional environment
- Ease of administrative procedures

2. **In the business environment**

- Existence of growing sectors and niches
- Host country infrastructure in terms of roads, ports, airports and rail network
- Access to export markets
- Availability of qualified suppliers and access to export markets

3. **Labour, tax and financial context**

- Availability of skilled labour
- Direct taxation
- Labour market flexibility
- Access to bank financing
- Indirect taxation (VAT and excise duties)

Link between FDI and Corporate Social Responsibility

Most of the companies surveyed continue to place a high value on CSR and believe that its development is good for FDI. Although this positive perception grew between 2013 to 2017, the percentage of companies that do not include such information in their publication of non-financial information also grew. This was mainly due to the cost that this entails and the fact that the publication of CSR information is voluntary. Concerning companies that do publish this type of information, in recent years they have changed both the format and the guidelines or reference standards adopted for its preparation and publication. As a result, where non-financial information is included in the annual accounts, it is published in a different way. As concerns principles and standards for the disclosure of non-financial information, although they continue to adhere to *Global Compact* principles, use of the latter has decreased, perhaps partly the result of the increasing number of SMEs and the adoption of other types of reference standards.

Revenue and employment expectations

- Revenue growth and employment expectations, both in the national market and countries of investment, bear witness to the extraordinary vigour of FDI companies in Spain. Revenue growth expectations for 2017 and 2018 were very favourable in Spain for FDI companies. In 2017, 75.8% of companies expected to increase their sales and in 2018 that figure was 86.2%. Revenue trends expected by companies in the countries where they invest are also optimistic. In 2017, 93.8% of companies expected to increase their turnover in the countries where they invest, with slightly lower expectations (86.7%) for 2018.
- Employment expectations in Spain for 2017 and 2018 were very positive for companies that have engaged in FDI, although slightly below revenue expectations. In 2017, 58.1% of companies indicated that they would be hiring and that figure rose to 67.9% in 2018. This fact, together with the significant increase in revenue expectations, bears witness to the vigour of FDI companies in Spain.
- Job creation is expected in the host countries where investments are made and the trend, just as with revenues, is even more optimistic than employment expectations in the national market. In 2017, 84.4% of companies expected to increase employment in the countries where they invest while 83.3% had such expectations for 2018.

Growth, debt and return

The economic and financial diagnosis of the companies looks at management results and sheds light on their strengths and weaknesses. In this connection, we tried to determine whether internationalisation via FDI helps companies to grow and improve their financial and competitive position. To answer this question, a comparative analysis was conducted between companies that engaged in FDI and others that did not during two specific time periods: 2008-2011 and 2012-2015. The following conclusions were reached as a result of this study:

- Results show healthier growth in the case of FDI companies in Spain. FDI companies invested more, invoiced more and generated more employment than non-FDI companies. Moreover, their value added variation rate was higher.
- Companies investing abroad had less short and long-term liquidity than their non-FDI counterparts. This difference may be attributable to the greater need that FDI companies have to earmark resources for investment abroad.

- Non-FDI companies had a more balanced financial situation. On average for 2012-2015, working capital of non-FDI companies accounted for 16.8% of their total assets compared to 8.2% in the case of FDI companies. However, working capital was positive in both cases for the whole period which shows that companies were properly financing their assets while remaining within acceptable ranges.
- Capitalisation of non-FDI companies was higher than that of their FDI counterparts and, in both cases, it increased in the 2012/2015 period in comparison to 2008/2011. However, FDI companies had higher long-term debt. This was directly responsible for the fact that both FDI and non-FDI companies had similar permanent financial resources throughout the 2008/2011 period. The most relevant divergence occurred in the 2012/2015 period when non-FDI companies reduced long-term debt in comparison to the 2008-2011 period, while FDI companies kept theirs stable. This had a favourable impact on FDI companies insofar as they reduced short-term debt by a greater amount and achieved greater permanent resource stability.
- Although FDI companies reduced their financial burden in the 2012/2015 period compared to 2008/2011, non-FDI companies had a more favourable debt situation in both periods. On average throughout the 2012-2015 period the figures suggest that non-FDI companies had lower average debt costs (with and without cost) of 1.6% compared to 2.7% for FDI companies.
- FDI companies had better profitability indicators than non-FDI companies, especially economic return and operating margins. In 2012, economic return for FDI companies was 5.5% (4.1% in the case of non-FDI companies) and rose to 7% in 2015 (5.6% in non-FDI companies). Regarding operating margin the figures show that in 2012, for each 100 euros of sales, FDI companies obtained an operating margin of 4.5% (3.0% in non-FDI companies). This figure increased to 5.8% in 2015 (compared to 3.5% in non-FDI companies).