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The choice among joint ventures and strategic alliances: evidence from Italian firms.

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The choice among joint venture and strategic alliance: evidence from Italian firms.

The paper investigates the factors affecting the entry mode decisions when firms evaluate the possibility to enter in a new market either through an alliance or through a joint venture. Using data from a database compiled by the authors with 880 observations in the period 2000-2005 we test the possible effects of firm size, host country institutional characteristics, industry effects, functional activity involved and cultural distance on the entry-mode choice. Findings support the view that cultural distance matters and that the institutional and political features of the receiving countries are important. The results concerning the role of functional activities involved and the industrial sector are mixed.

1. Introduction

The choice of entry mode is an important element of a firm's foreign investment strategy. The attention in market entry mode choice originates from the theory of international investment. Root (1994) claimed that the choice of market entry modes is one of the most critical strategic decisions for Multinational Enterprises, but many different authors (Kumar and Subramaniam, 1997; Chung and Enderwick, 2001; Nakos and Brouthers, 2002) emphasized that the choice of market entry mode is an important strategic decision for firms intending to conduct business in a foreign country.

Entry modes can be broadly classified as follows: export entry modes, contractual entry modes, and investment entry modes. Export has been traditionally regarded as the first step to incoming international markets, serving as a platform for future international growth (Kogut and Chang, 1996; Johanson and Vahlne, 1977). This strategy is particularly applicable to the internationalisation of SMEs because SMEs frequently lack the resources, financial or otherwise, for FDI (Dalli, 1995; Zahra, Neubaum & Huse,2000). Export provides SMEs with fast access to foreign markets, with little capital investment required, but the opportunity to gain valuable international experience. (Zahra et al., 2000; Sullivan & Bauerschmidt, 1990).

Contractual entry modes are defined as long term non-equity associations between an international company and an entity in a foreign target country that involve the transfer of intangible resources such as technology or human skills from the former to the latter. Typically, there is an increasing degree of resource commitment compare to the export entry. Joint venture can be considered as a relational contracting with modest to high degree of investment. Finally, the wholly owned subsidiaries are internalised entry modes. For Pan and Tse (2000) entry modes can be viewed as two major categories of equity based modes (wholly owned operations and equity joint ventures) and non-equity based modes (contractual agreements and export). Equity entry modes can be classified into JVs and WOFVs, whereas non-equity entry modes can be classified into contractual agreements and exporting.

But what determines the choice between different entry modes? Various studies, with different approaches have been passed out to discover factors that have an impact on the choice of market entry mode and to assess matching effects. Hill et al. (1990) integrated environmental and strategic factors into the Transaction Cost Analysis framework. Klein et al. (1990) extended Transaction Cost Analysis by integrating production costs and separating outside insecurity. Coviello and Munro (1997) argue that the network relationship developed affects firm's internationalisation and the choice of entry mode. Tse et al. (1997) have analysed the influence of country specific, industry specific, and operation related factors on entry mode choice. Reuber and Fisher (2003) pointed out that the international experience of a management team is positively related with the development of strategic partnership and foreign sales. The impact the mode of entry on firm performance in foreign markets is examined by Pan et al. (1999).

Nevertheless, until now a shared vision of the factors that effect international construction cooperation has not been reached (Xu, Bower & Smith, 2004). The main problems of entry mode decisions are their complexity and dynamics (Kumar and Subramaniam, 1997; Young

et al., 1989). In fact, this decision is a function of various factors and their relations. Root (1994) identified altogether 22 factors influencing entry mode decisions, but one has to suppose that there are still more. In addition, some theories are inconsistent with each other and not all of them are supported by empirical studies. Moreover, some empirical studies are divergent with respect to what kind of influence individual factors might exert on entry mode decision making. For example, existing studies that suggest that international experience is positively related to entry mode choice, i.e., the more international experience a company has, the higher its propensity to adopt a high equity entry mode (Davidson, 1980, 1982; Anderson and Gatignon, 1986). Other authors assume a unconstructive relation, i.e., the more international experience a company has, the lower its propensity to adopt an entry mode with a high level of equity (Weichmann and Pringle, 1979). Nevertheless, empirical studies supporting both points of view can be found. This observed inconsistency also applies to other factors, such as cultural distance and firm size. The existing inconsistencies, both in theory and empirical studies, indicate how difficult is to generalise the different existing approaches. Additionally, the scholars that study the problem with different expectations may arrive at different conclusions. Different samples and geographical areas selected, different time periods analysed, different methodologies used may lead to conflicting results, especially in empirical studies. In recent years, a lot of efforts have been spent on examining the impact of specific factors on the entry mode decisions. Among these factors institutions attracted most attention. Some papers extended the Transaction Cost theory by adding institutional factors into the given framework (Brouthers 2002; Lu 2002). Others argued that institution affects the entry mode decision modifying the uncertainty that surround transactions (Said & McDonald 2002; Meyer 1998). More generally, among the most important factors that have been examined there are:

- the technology content of the transfer (Mattoo, 2001),

- market size (Nakos & Brothers, 2002; Eicher & Kang, 2002; Chung & Enderwick, 2001),
- firm size (Leung et al., 2003; Nakos & Brouthers, 2002; Evans, 2002),
- managers characteristics (Herrman,& Datta , 2002),
- cultural distance (Leung et al., 2003; Chen & Hu 2002; Gillespie, 2002; Evans, 2002; Duarte & Canal 2002),
- industry barriers and firm advantages (Chen & Hennart, 2002; Siripaisalpipat & Hosbino, 2000),
- firms' international experience (Reuber & Fisher, 2003; Evans, 2002; King & Tucci, 2002),
- country risk and environmental uncertainty (Duarte & Canal, 2002),
- foreign exchange rate and host country currency (Baek & Kwok , 2002).

All these factors can be classified into country specific factors (cultural distance, institution, exchange rate, etc.), industry specific factors (market size, market structure, industry type, etc.), firm specific factors (firm capacity, firm size, etc.) and product specific factors (product type, maturity, sales service, etc.).

The contribution of this paper is that it takes into account two alternatives of a firm to set up operations in a new country: a joint venture (JV) with a local firm and a strategic alliance. This alternative has been scarcely explored if we compare it to the other alternative such as the choice between JV and FDI. The existing literature has generally focused on either the choice between greenfield investments entry and JV (e.g., Beamish and Banks, 1987;; Hennart, & Reddy 1997) or between acquisition and Greenfield entry (e.g. Harzing, 2002; Hennart & Park, 1993). In our model we tested the effects of five main broad variables: the firm resources as proxied by the firms' size, some country's institutional characteristics, the

industrial sector of the agreement, the firm international strategies and the value chain activities involved in the agreement. Figure 1 present the conceptual framework that support the present paper.

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Insert Figure 1 about here
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2. Theory and hypotheses development

The literature on motivation for alliance and JV formation is extremely rich and the factors affecting the choices have been interpreted with many different theoretical lens. One main theoretical explanation for why firms collaborate is offered by the transaction cost perspective. According to Williamson, intermediate asset specificity and low uncertainty are conditions that may lead to a preference for hybrid forms of governance structure over both arm's length transactions and internalization (Williamson, 1991). Using a transaction cost approach Brouthers (2002) underlines how the firms operating in high-technology sectors tend to have an higher assets specificity of their investments that lead to higher risk of opportunistic behaviours by partners. Therefore, he suggests that Transaction costs theory support the view that more integrated modes of entry provide more efficient organisational structures when there is thereat from opportunism. Within the scope of our analysis this means that when firms exchange knowledge, an highly specific asset with an high degree of uncertainty, more integrated forms are preferred. Of course this tendency should be much more strong in those sectors where research input are an essential part of the production chain and a crucial factor in shaping competitive strategy as in the science-based sectors. Therefore we posit the 2 following hypothesis:

Hip 1: Firms that complete agreements involving R&D functions tend to use JV entry mode rather then alliances.

Hip 2 In science based sectors the entry mode through JV is more likely then through alliances

Recent IB literature relying on the works by North (1990) underlines the role that institutional features have on MNCs strategies. Bevan, Estrin & Meyer (2004) for example show how institutional features impact on the firms location choices. Delios & Beamish (1999) demonstrate how institutional features impact on the overall economic performance of international firms and Makino, Isobe & Chan. (2004) prove how country characteristics impact on the performance of the international subsidiaries. With reference to entry mode strategy Brouthers, Brouthers & Werner (2000), Meyer (1998) and Brouthers (2002) demonstrate how the institutional characteristics of the receiving country have an impact on the entry mode choice. More specifically, Brothers (2002) shows that the legal framework is an important feature in influencing the firms entry mode choice. Countries where the legal structure is less developed and where the legal protection for foreign entities is low are perceived more risky by multinational firms. When firms evaluate entry mode considering the alternative between a fully-owned subsidiaries and a JV as entry mode alternatives the legal restrictions and the political hazard are considered as costs that increase with the level of integration of the entry modes. However, when firms evaluate the possibility to enter in the market either with an alliance or with a JV the level of legal protection and political hazard are considered by the opposite point of view. The JV alternative is seen as a stake in a local concern and the presence of a joint investment with a local partner is seen as a insurance against possible retaliation by local governments.

We thus suggest two hypotheses on the effects of the legal and political environment on entry mode choice:

Hip 3a The lower the legal protection in a country, as measured by the efficiency of contract enforcement, the more likely will be the probability the firms rely on JV rather then on alliances.

Hip3b The higher the political hazard in a country the more likely will be the probability the firms rely on JV rather then on alliances.

The choice of entry modes has also been explained by cultural factors. Kogut and Singh (1988) hypothesized that differences in culture between home and host countries increased the level of risk in post-acquisition integration, and would lead firms to choose less risk entry mode (Chang and Rosenzweig, 2001). A lot of prior studies suggest that high psychic distance induces firms to choose for the lightest possible entry mode. The idea behind this hypothesis is quite straightforward. The more distant is the culture of the host country from the home base the more difficult and expensive is for firm the process of adaptation to the new environment. The lack of knowledge increases the costs of the entry so most of the scholars assume that the larger the cultural distance the lower the preference for internal mode of entry. Moreover, this assumption is coherent also with the stage approach to internationalisation that assumes that firms increase their commitment to international market the more they increase the market knowledge. Therefore, we assume that firms prefer to enter in distant market with an alliance in order to gain the knowledge and we posit that:

Hip 4 The higher the cultural distance between the home and the host country and the more likely firms will rely on non-equity form such as alliances.

Even if most of the studies, so far, have used a transaction costs approach, recently different scholars applied a resources-based view to interpret entry mode choice (Ekeledo & Sivakumar, 2003). Gomes-Casseres, (1989) for example underlines the role of experience in

the influencing the firms choice while Ekeledo & Sivakumar, (2003) underline the role played by proprietary assets in affecting the firms entry mode strategy. In empirical works a general indicator of firms capabilities that have been commonly used is firm size. As Grant (1991) clearly states firms size define what a firm can and cannot do. Large firms, not only have larger resources in term of managerial, organizational and financial capabilities but also they can bear risks that for smaller firms are unbearable. When international expansion is involved risk is generally higher and equity investments leverage the total risk. Consequently we posit that:

Hip 5 When small firms are involved it is more likely that they use, as an entry mode, an alliance form rather then a JV

3. Methodology and variables definition

3.1 The sample

The empirical investigation is based on a sample of 880 interfirm linkages concluded by Italian firms with partners from all over the world. The observation period extends from 2000 to 2005. The information is drawn from a database compiled by the authors. Data on announced agreements have been collected through a detailed examination of the Italian journal "Il Sole 24 Ore" the main Italian newspaper of economic information and then confirmed by web sources and press releases of the firm involved in the agreements. The use of news information has been frequently utilised to scan and identify alliances, joint ventures and direct investments (Mayhofer, 2004). In our database the percentage of joint venture in the database is 52.3%. The localisation of agreements of Italian firms is mainly with European

partners (43%), followed by American (US) and Canadian (20.3%) and finally by Chinese partners (11.6%). The industry distribution of the sample is fairly representative of the Italian industrial and service structure. Firms operating in the traditional sectors cover 10.47% of the sample, scale-intensive firms are 33.74 %, the energy and utility sectors covers 9.15%, the trade sector 7.17% and the residual sector (mainly financial and telecommunication industries) represents 27.89% of the total sample.

3.2 The variables

The variables that have been extracted and used in the model are reported in table 1.

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Our dependent variable is the contractual form of the agreement which has been coded 1 if the agreement takes the form of a joint ventures and 0 if the agreement is an alliance.

The variables used in model regard these broad catagories: the size of the Italian firms promoting the alliances, the geographical destination of the agreement, the country characteristics' of the firms cooperating with the Italian firm and two other firm' characteristics of the promoting firm namely: the firm international strategy and the main functional activity involved in the agreement.

The resources of the firm promoting the agreements have been proxied using the firms' size at the time of the agreement. Using the numbers of employees three classes have been defined: *small*, *medium* and *large* firms. The smaller group comprise firms with less then 50 employees, the medium firms have a number of employees between 50 and 499 and large

firms are those with more then 500 employees. The variable sector (*Sector*) defines the main activity realised by the Italian enterprises promoting the agreement and use the NACE nomenclature of economic activities by the European Community. Using the well-known Pavitt taxonomy the NACE codes have been recoded. We ends-up with a total of 8 industrial sectors: the *primary* sector, the four Pavitt sectors (*traditional*, *scale-intensive*, *specialised suppliers* and *science-based sectors*), the *utilities* sector (energy gas and water), the *trade* sectors and a *residual* sector. A similar approach has been used for the area destination with 10 areas of destination defined and reported in the table 1.

The functional content of an alliance corresponds to the elements of the value chain covered by agreement. The activities that have been coded are: Logistics (*Logistic*), Operations (*Prod.*), Sales and marketing (*Mkting*) with regards to the primary activities. The support activity are: Procurement (*Proc*) Human Resource management (*HR*) research and Development (*R&D*) and the Infrastructure (*Infras*) i.e. the functions or departments such as accounting, legal, finance, planning, public affairs, government relations, quality assurance and general management.

The kind of international strategies and the motives of partner firms have been taken by the well known and widely used Contractor and Lorange (1988) taxonomy which is detailed in the following table.

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In their landmark work on alliances they underline the strategic reasons behind the choice to develop alliances. The first three reasons are both generic and historically the most relevant motives for strategic alliance and JV formation. The competitive and the international

expansion reasons have become more popular with the increase in international trade. A classic illustration of this is the joint venture between a developed country partner and a local partner in a developing nation. The local partner provides location-specific knowledge, manpower and influence, whereas the developing country partner will usually provide capital and technology resources. The final two motives has grown most rapidly within the last decade, driven by the convergence of technologies (Bitran, Conn, Nagel, Nicholls, 2002).

For all 5 groups of variables: size, industrial sector, area destination, value chain activities and firms international strategy have been defined using dummy variables.

The final set of variables included in the model concern the target country characteristics.

In her work on the choice between merger & acquisitions and alliances Mayhofer (2004), following previous studies, uses the cultural distance indexes developed by Hofstede (1980) to test for the effects of national culture on the entry mode choice. Her results show the cultural distance does have an impact on entry mode. Therefore we test for the effects of culture on the choice between alliances and JV. However, because most of the studies (Barkema, Bell & Pennings, 1996) use a composite index we follow this approach. More specifically, our variable that measure cultural distance (*Cult_dist*) follows the Kogut and Singh (1988) index, a composite index of cultural distance that is based on the deviation along the first four dimensions of Hofstede's framework and that has been extensively used in study of foreign entry (Morosini *et al*., 1998).

The institutional factors are introduced using five indexes. The political constraints index (*Costri*) has been developed by Heinsz (2000) and measures the political hazard faced by investors in a determined country. The index underlines the differences between policy systems of different countries measuring the extent to which a given political actor is constrained in his or her choice of future policies. We scale the PCI index on a 100 basis so that a index equal to 100 corresponds to low political hazard while a PCI equal to zero

correspond to a risky political situation. The index has been calculated as the average of the values of the index in the last five years.

As a measurement of the legal environment and of the investor protection level we use two indexes produced by the World Bank: the Enforcing contracts index (*Enfcon*) and the Investor protection index (*Invpro*). The first index measures the efficiency of contract enforcement. The higher is the index the lower is the legal protection and the efficiency in contract enforcement. The second index measures the strength of minority shareholder protections against misuse of corporate assets by directors for their personal gain.

Finally, two indexes have been inserted as control variables: one that measures the economic development of the country and one that measures the level of solvency of public finances. The first index the *Global Competitiveness* index (*Compet*) produced by the World Economic Forum considers a collection of factors, policies and institutions which determine the level of productivity of a country and that, therefore, determine the level of prosperity that can be attained by an economy. This indicator takes also into account the growth rates of the economy, associating high levels of competitiveness to faster growing economies. The higher is the index the higher is the competitiveness of the country. The second index has been taken by the OECD list of ratings and is a financial indicator to potential investors of debt securities issued by the State. In the context of our analysis is another measurement for the overall financial and economic risk affecting the target country. The higher is the rate the better are the state of public finances.

3.3 The Model

We test our hypothesis using logistic regression techniques using the standard logit procedures of the Intercooled Stata 9 package. Logistic regression is used in order to estimate

the incidence of the independent variables on the probability that firms will choose either an alliance or a joint venture as an entry mode. Since the variable “agreement” takes the value 0, if partners decide to collaborate and 1, if the operations takes the form of joint venture, a positive sign of the coefficients indicates that an increase in the value of the independent variable will increase the probability that the firm will choose the joint ventures as the mean to enter in the foreign market. As usual for group variables a variable has been dropped in order to avoid the dummy variable trap (perfect multicollinearity). The sign of the coefficients for these variables should be interpreted with regards to this variable that has been dropped and that is a reference variable (Greene , 2003). The descriptive statistics and the correlation coefficients of the variables (dummy variables excluded) are reported in table 3. Data show that, given the low value of the correlation coefficients, multicollinearity is not a concern for our analysis.

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The main results are reported in table 4 and 5.

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The results reported in table 4 are those of the general model while the results reported in table 5 are those of the restricted model where, due to the low significance of the coefficients, countries’ ratings and the dummies on the geographical areas have been dropped. A likelihood ratio test comparing these two models confirms that the reduced model is as good as the full model. The ratio of the goodness-of-fit analysis is encouraging with significant value of the Chi-square and of the percentage of correctly predicted observations. The low

value of the pseudo R-square is not fully satisfactory but it must be noted that the pseudo-R^2 is not analogous to the R^2 in linear regression though there is an empirical relationship between the two, and a pseudo-R^2 of 0.2 represents an R^2 of approximately 0.4 (Hensher, Rose & Greene, 2005).

4. Results and Discussion

Since the results are quite robust across the models we refer our analysis only to the more restricted model. The results of our logistic analysis provide support for some of our hypothesis but not for all of them. Hypothesis 1 for example is not supported by data. The coefficient of the dummy variable for R&D is significant but has a positive sign an not, as expected, a negative sign. When the R&D function is involved firms prefer to use alliances rather then JV. We develop hypothesis 1 on the basis of Transaction costs theory considerations. The result of our analysis seems to challenge this view. Probably, uncertainty and the risk of opportunistic behaviours can be dealt with by firm even with less integrated forms, forms that, at the same time, guarantee speed of execution and low costs of bargaining. Anyhow, the subject deserves further and deeper investigation. Fortunately, Hypothesis 2 that states that in science sectors there is a tendency for firm to prefer joint ventures is confirmed. The same apply to the hypothesis that concerns the level of legal protection and of political hazard in the target country. Hypothesis 3 and 4 state that, when the legal protection in a country is low and political hazard is high, firms prefer to set up a JV with a local partner in order to have some kind of hedging against political risk. This result is quite strong and tends to confirm previous results (Delios & Henisz, 2003) on the role that the legal and political environment plays in affecting the firms' entry mode choice. It must be noted that, even if at

different level, all the indexes that define the target country characteristics are significant. This result reinforces the view that economic and political features of the target country are important and that affects firms' entry mode decisions. Once again the item needs further investigation and research.

Also the hypothesis regarding the effects of cultural distance on entry mode is confirmed (Hypothesis 4) even if only at the 10% level of significance. This result confirms previous research findings in general but is also innovative in the sense that seems to affect also the choice between alliances and JV.

Finally, the last hypothesis regarding the role of size is significant and with the expected sign. Resources seem to be an important determinant of the entry modes. Prior research tends to concentrate only on large firms which have been the main players in the international arena. The exploration of small and medium size firms however seems a promising line of research and we think that our results offer some useful insights in this field. Moreover, the resource-based view that is at the base of our hypothesis and that is increasingly been used in IB research get a validation by our result. A more integrated approach that merges TC economic with a RBV approach could be a useful staring point for effective research in international entry mode analysis.

5. Conclusions

This study is an attempt to empirically test the role of four broad factors on entry-mode decisions by firms: size, industrial sector, host country institutional characteristics and cultural distance. We concentrate our attention on the relatively unexplored alternative alliances JV and our findings confirm that the factor we have explored do have an effect on

this alternative. So the subject is worth to be investigated. Secondly, our results call for a more integrated approach to the problem. We use both transaction cost theory and a resource based view to develop our hypothesis and both approaches seem to highlight different useful aspects. We therefore call for an integrated approach that combines the strengths of both theoretical lens. More specifically, our results confirm and underline that not only the home country characteristics (Mayhofer, 2004) but also that host country characteristics and the institutional features matter. Notwithstanding these encouraging results we are well aware of the limitations of the study that should be born in mind. The first limitation is given by single institutional setting that we use. All the firms in our sample are Italian so we could not differentiate firms according to the difference in the country of origin. Secondly, we could not control for other factors that are surely important such as the level of international experience or the degree of internationalisation and the degree of the firm knowledge of the host market. However, we are confident that our research has raised some points that are worth to be further investigating.

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Figure 1: The model: broad factors affecting firms choice

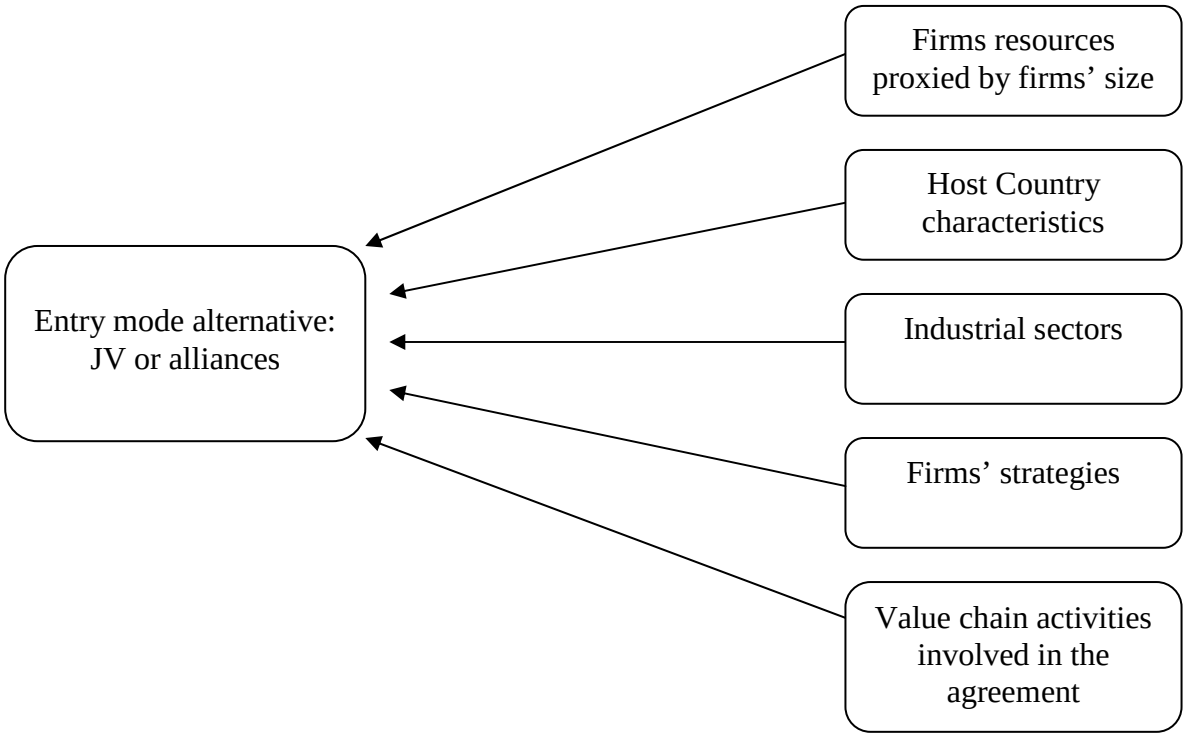

Table 1: variable definition

Construct	Variable definition and scale	Hipothesis	Name
Contractual form	JV =1 - Alliance = 0		
Size of enterprise	>49 employees		*Small*
	49-499 empl.		*Medium*
	<500 empl.		*Large*
Nace Sector of the Italian firms (Pavitt clsssification)	1. Primary activity 2. Traditional sector 3. Scale-intensive sector 4. Specialized suppliers 5. Science-based sectors 6. Energy sector , gas and water 7. Wholesale trade and detail trade 8. Financial activity communication and other services	- (H1)	*S_primary 1* *S_trad 2* *S_scale 3* *S_spec 4* *S_science 5* *S-enregy 6* *S-trade 7* *S_othersr 8*
Area destination	1. Western Europe (EU-15 + Switzerland) 2. East Europe (rest of Europe) 3. Russia 4. United States and Canada 5. Latin America 6. Japan 7. Cina 8. India 9. Rest of Asia 10. Other countries		*Area 1* *Area 2* *Area 3* *Area 4* *Area 5* *Area 6* *Area 7* *Area 8* *Area 9* *Area 10*
Cultural distance	Kogut & Singh index	- (H4)	*Cult_dist*
Political constraints	0 -100 (100 = low political hazard)	- (H3b)	*Costri*
Global Competititveness index	1-100 (100 = high level of competitiveness)		*Compet*
Credit rating	1-100 (100= high rating grade)		*Rating*
Enforcing contracts	0 - ∞ (0 = high level of legal protection)	+ (H3a)	*Enfcon*
Firms' strategies	Risk reduction Economies of scale and or rationalization Complementary technologies and patent Co-opting or blocking competition Overcoming government-mandated investment or trade barrier Initial international expansion Quasi-vertical integration		*Risk* *Scale* *Compl-tech* *Comp* *Barriers* *Int exp* *QV-intergr*
Value chain activities involved in the agreement/JV	Infrastructure R&D Procurement Logistic Human resources Management Production Marketing and Sales	- (H2)	*Infras* *R&D* *Proc* *Logistic* *HR* *Prod* *Mkting*

Table 2: The definition of the international strategy options

International strategy Variable definition	Descriptions
Risk reduction (*Risk*)	• Product portfolio diversification • Dispersion and/or reduction of fixed cost • Lower total capital investment • Faster entry and payback
Economies of scale and or rationalization (*Scale*)	• Lower average cost from larger volume • Lower cost by using comparative advantage of each partner
Overcoming government-mandated investment or trade barriers (*barriers*)	• The goal is to operate as a "local" entity because of local partner
Co-opting or blocking competition (*Comp*)	• Defensive joint ventures to reduce competition • Offensive joint ventures to increase costs and/or lower market share for a third company
Initial international expansion (*Int exp*)	• Benefit from local partner's know-how
Complementary technologies and patent (*Compl-tech*)	• Technological synergy • Exchange of patents and territories
Vertical quasi-integration (*QV integration*)	• Access to materials • Access to technology • Access to labour • Access to capital • Regulatory permits • Access to distribution channels • Benefits from brand recognition • Establishing link with major buyers • Drawing on existing fixed marketing establishment

Table 3. Descriptive statistics and correlation tables
(dummies variables excluded)

	Mean	*Std. D.*	*(1)*	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
cult_dist (1)	1.28	.989	1					
Costri (2)	39.37	14.61	-0.651 *	1				
Compet (3)	50.77	6.67	-0.624 *	0.544 *	1			
Rating (4)	94.30	11.81	-0.339 *	0.314 *	0.644 *	1		
Invpro (5)	6.018	1.61	-0.242 *	0.047	0.396 *	0.238 *	1	
Enfcon (6)	368.66	220.80	0.001	0.128 *	-0.310 *	-0.487 *	-0.181 *	1

* = significant at the 0.01;

Table 4 : Logistic regression results: the general model

```
Logistic regression                 Number of obs   =        879
                                    LR chi2(36)     =     132.72
                                    Prob > chi2     =     0.0000
Log likelihood = -540.04403         Pseudo R2       =     0.1094
Correctly classified = 65.64%       area under ROC curve = 0.7124
```

jv	Coef.	Std. Err.	z	P>|z|
Size				
Small	-.6417667	.4703694	-1.36	0.172
Medium	-.5298303	.2011622	-2.63	0.008
Ind. sector				
S_primary	1.263902	.6268188	2.02	0.044
S_trad 2	.2725246	.296661	0.92	0.358
S_scale 3	.0324946	.236489	0.14	0.891
S_spec 4	.2817037	.3272364	0.86	0.389
S_science 5	1.234849	.5559365	2.22	0.026
S-enregy 6	.3828042	.3010001	1.27	0.203
S-trade 7	-.2009435	.3057302	-0.66	0.511
Area				
area1	-.1968097	.4841107	-0.41	0.684
area2	-.235506	.6258119	-0.38	0.707
area3	-.4755055	.6786287	-0.70	0.483
area4	-.0213166	.5721615	-0.04	0.970
area5	.6305024	.8246117	0.76	0.445
area6	-.1924716	.6721074	-0.29	0.775
area7	.2495663	.6623877	0.38	0.706
area8	-.5173243	1.134205	-0.46	0.648
area9	-.3364656	.6306718	-0.53	0.594
Country carachteristics				
Cult_dist	-.1900729	.1330182	-1.43	0.153
Costri	-.0130106	.0131922	-0.99	0.324
Compet	-.0528875	.0252659	-2.09	0.036
Rating	.0083999	.0143108	0.59	0.557
Invpro	-.1109966	.0820531	-1.35	0.176
Enfcon	+.000423	.0006949	+0.61	0.543
Strategy				
Risk	-.1305305	.2027248	-0.64	0.520
Scale	-.1587613	.2103135	-0.75	0.450
Compl-tech	-.1531995	.1899548	-0.81	0.420
Comp	-.1310077	.1749792	-0.75	0.454
barriers	-.3118526	.2989236	-1.04	0.297
Int exp	.3769547	.1690743	2.23	0.026
Value chain activity				
Infras	.1472052	.1775715	0.83	0.407
R&D	-.4986448	.2175007	-2.29	0.022
Proc	-.0690513	.2962462	-0.23	0.816
logistic	-.2270812	.2597877	-0.87	0.382
prod	.9215116	.2046933	4.50	0.000
Mkting	-.3878955	.1747967	-2.22	0.026
_cons	3.572432	1.654666	2.16	0.031

Table 5 : Logistic regression results: the restricted model

```
Logistic regression                     Number of obs   =        879
                                        LR chi2(26)     =     125.80
                                        Prob > chi2     =     0.0000
Log likelihood = -543.50815             Pseudo R2       =     0.1037
Correctly classified = 64.62%           area under ROC curve = 0.7061

Likelihood-ratio test
LR chi2(10) = 9.53 Prob > chi2 = 0.4824

------------------------------------------------------------
         jv |      Coef.   Std. Err.      z    P>|z|
------------+-----------------------------------------------

Size
    Small   |  -.6100048    .464243    -1.31   0.189
    Medium  |  -.5156324   .1990218    -2.59   0.010

Ind. sector
  S_primary |   1.307337   .6184438     2.11   0.035
   S_trad 2 |   .2547051   .2942421     0.87   0.387
  S_scale 3 |   .0550379   .2307453     0.24   0.811
   S_spec 4 |   .3039754   .3201472     0.95   0.342
S_science 5 |   1.265114   .5519016     2.29   0.022
 S-enregy 6 |   .3701953   .2953498     1.25   0.210
  S-trade 7 |  -.1821663   .3025529    -0.60   0.547

Country carachteristics
  Cult_dist |  -.2038282    .113229    -1.80   0.072
     Costri |  -.0139081   .0076635    -1.81   0.070
     Compet |  -.0545527   .0185879    -2.93   0.003
     Invpro |  -.0948873   .0512593    -1.85   0.064
     Enfcon |  +.0007997   .0003837    +2.08   0.037

Strategy
     Risk   |  -.1490834   .2006092    -0.74   0.457
     Scale  |  -.1813008   .2065034    -0.88   0.380
 Compl-tech |  -.1539311   .1877006    -0.82   0.412
       Comp |  -.1205858   .1723102    -0.70   0.484
   Barriers |  -.2107138   .2746783    -0.77   0.443
   espani_1 |   .3915529   .1657913     2.36   0.018

Value chain activity
     Infras |   .1648507   .1755722     0.94   0.348
        R&D |  -.5039186   .2162606    -2.33   0.020
       Proc |  -.1021112   .2913213    -0.35   0.726
   Logistic |  -.2386041   .2559253    -0.93   0.351
      Prod  |    .948665   .2021601     4.69   0.000
     Mkting |  -.3554153   .1722121    -2.06   0.039

      _cons |   4.387758   1.032799     4.25   0.000
------------------------------------------------------------
```