

# **THE ROLE OF THE LOCAL PARTNER IN THE CHOICE BETWEEN INTERNATIONAL ALLIANCES AND JOINT VENTURES**

## **Abstract**

This paper proposes a decision framework based on the risk management conceptualization of Figueira de Lemos, Johanson and Vahlne (2011), in which International Alliances (IA) and International Joint Ventures (IJV) play as two possible choices of cooperation in foreign countries. This framework was tested on a probabilistic model with a dataset of 9262 alliances and joint ventures established in 66 different countries. With cultural distance and country economy size as dependent variables, the results show that firms prefer to establish joint ventures in more culturally distant countries, whereas the likelihood of engage in alliances is higher as larger the host country's economy. The findings also demonstrate that local partners play major roles in IAs and IJVs, not only as sources of local market knowledge but also complementing the effort on resource commitment. Important to notice at theoretical level is this study's pioneer explanation of International Cooperation Strategies within the Uppsala Model's assumptions.

Key words: Uppsala model, Risk management, Entry mode, Strategic Cooperation Strategies, Alliances, Joint Ventures.

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## **1. INTRODUCTION**

Once relegated to secondary modes of internationalization, cooperative strategies are becoming a first choice in the multinational's portfolio to establish foreign operations. Such legal barriers as the imposition of a local partner have coined international alliances and joint ventures as subordinated modes of internationalization (Contractor and Lorange, 1988a, 2002). Globalization drifts, however, are shifting this contingent notion of international cooperation into a more strategic scope. For instance, the development of communication technologies has driven the interactivity between people to unprecedented levels. Exponentially facilitated by digital platforms, the fast exchange of information forces the world to change in such a rate that valuable resources quickly turn obsolete. In consequence, establishing foreign operations under sceneries of resource and knowledge obsolescence becomes an extreme effort and, many times, out of the scope of a single firm. Thus, International Alliances (IA) and International Joint Ventures (IJV), while flexible means to rapidly reallocate resources and regain competitive positioning, are progressively gaining recognition as major internationalization modes (Doz and Hamel, 1998; Garcia-Canal et al, 2002).

Researchers do not seem to be unaware of this phenomenon. In fact, International Business (IB) literature is abundant on international cooperative arrangements (ICA), especially on comparative studies amongst internationalization modes such as contractual or ownership (Kogut and Singh, 1988; Buckley and Casson, 1998). However, only few undertake the comparison exercise between different cooperation arrangements (Clarke-Hill, Robinson, and Bailey (1998), and, even so, without offering any decision tool to assist the managers' choice whether to engage in IA or IJV.

Considering the above shortfalls, this paper proposes an analytical framework to optimize the choice of ICAs under the assumptions of the Uppsala Model (U-m), namely by lits

risk formula (Johanson and Vahlne, 1977, p.30). Following the U-m based decision model of Figueira de Lemos, Johanson and Vahlne (2011), the conceptual framework distinguishes the cooperative effect on foreign commitment, and assumes the variables uncertainty/knowledge and resources as the ICAs' choice main determinants. The optimal decision on whether to engage in IA or IJV considers both the size and cultural distance between one partner's home country and the country of establishment of the cooperative arrangement. In order to validate the conceptual framework, a statistical test is done with empirical material on 9262 ICAs in 66 different countries. The quantitative data is a subset of Thomson Reuters' SDC Platinum Database. The extraction criteria filtered international alliances and joint ventures established between 1990 and 2011, being one of the partners from the United States.

The results show the higher probability of choosing IAs with the host country's economy size, whereas IJVs are the preferred arrangement when aiming countries culturally more distant from the home country. The findings also demonstrate that local partners play major roles in IAs and IJVs, not only as sources of local market knowledge but also complementing the effort on resource commitment. The contribution to the IB field is delivered twofold. Whereas at the theoretical level it extends the conceptual limits of the Uppsala-model towards the explanation of ICAs, at the practical level it provides a tool for managers to decide on partner selection within different internationalization scenarios of lack of knowledge or lack of resources.

The next section of this paper structures the theoretical ground of the conceptual model and unfolds the hypothesis formulation. The empirical setting and statistical modeling are developed in the third section. Sections fourth and fifth present the results and the conclusions respectively.

## **2. INTERNATIONALIZATION AND INTERNATIONAL COOPERATION STRATEGIES**

From the extant literature in IB, knowledge and resources are commonly associated as fundamental determinants in the choice between modes of foreign operations, whether at the

entry or expansion stages of internationalization. The motivations which lead firms to engage in cooperative arrangements range from the aim of control (Erramilli, 1991; Erramilli and Rao, 1993), through risk sharing (Contractor and Lorange, 2002) to fast internationalization demands (Oviatt and McDougall, 1994). Indeed, cooperation arrangements enable firms to bridge internationally dispersed assets and gather different kinds of knowledge pockets (Llaneza and García-Canal, 1998; García-Canal et al., 2002; Hennart et al., 2002; Koleva et al., 2002; Gomes-Casseres, 2003; Todeva, 2005). For instance, at the entry stage, cooperation is prescribed to overcome underperformance, typically due to the fact that when firms start their operations in a foreign country do not have the knowledge nor the adequate resources their local competitors have (Anderson and Gatignon, 1986; Oviatt and McDougall, 1994; Llaneza and García-Canal, 1998; Shrader et al., 2000; Knight and Cavusgil, 2004). The managerial challenge then is the alignment between knowledge and resources considering the range of entry modes available (Erramilli, 1991; Erramilli and Rao, 1993; Kogut and Singh, 1988). At the expansion phase, AI and IJV's are usually viewed as a transitional step in the evolution of foreign operations, from sales subsidiaries to direct investment (Johanson and Vahlne, 1977, Leonidou and Katsikeas, 1996; Petersen and Pedersen, 1999). In this sense not always cooperative arrangements are meant to endure with their original purpose. Empirical studies show that many times IAs and IJVs end up merged between partners or acquired by one of the partners (Reuer, 1997) or just terminate after achieving learning objectives (Doz, Olk and Ring, 2000).

Whilst international cooperation may bring about benefits and drawbacks, some analytical tools have been proposed to support managerial decisions. In a conceptual stream, a seminal study by Contractor and Lorange (1988) proposes a mathematical formula to measure the cooperation benefit by comparing revenues and costs between isolated and partnered internationalization. In the opposite direction, Buckley and Casson (1998) advocate that "greenfield" foreign direct investment is the first choice whenever the cost of trust building is high or the market learning is not enabled by the local partner. In a more empirical facet, recent studies give evidence the effectiveness of cooperation through both the stock market evaluation

(Vidal-Suarez and García-Canal, 2003) and the correlation between the levels of commitment and growth in face of JVs or fully owned subsidiaries (Shrader et al., 2000). This tension between knowledge and commitment is particularly captured in the U-m's risk formula. Interestingly, although several studies validate U-m's basic assumptions (Rhee and Cheng, 2002), none deals with its application to the Alliances and Joint Ventures scope. Hence, important to be noticed is the pioneer conceptualization of ICAs upon the U-m's assumptions.

### **Conceptualizing International Cooperation with the Uppsala Model**

In the U-m's core, the internationalization mechanism proposes a virtuous interplay between knowledge and commitment. While firms gain experience with their involvement in international operations, the perceived uncertainty (U) is reduced by the accumulation of market knowledge. This market knowledge increase creates the conditions for firms to proportionately increase their commitment (C) in each market. An incremental cycle between knowledge and commitment is then established and revealed through a plain mathematical expression stated in Johanson and Vahlne's (1977) (p.30) model:

$$R_i = C_i * U_i$$

Although the U-m's wide acknowledgment in IB literature, only two studies have used this formula. The first, authored by Trappey, Shih and Trappey (2007), explains international financial investments, while more recently, Figueira de Lemos et al. (2011) conceptualize risk management in the internationalization process of the firm. Focusing the latter, the risk (R) variable is represented by a product function of two variables, uncertainty and commitment plotting a hyperbolic convex curve to its origin. The two extremes are easily extrapolated themselves by the substitutability relationship established between commitment and uncertainty: when the firm commitment tends to zero, the uncertainty will tend to the infinite and vice versa. Figure 1 shows this relationship, being evident an imperfect substitution process between the C and U variables.

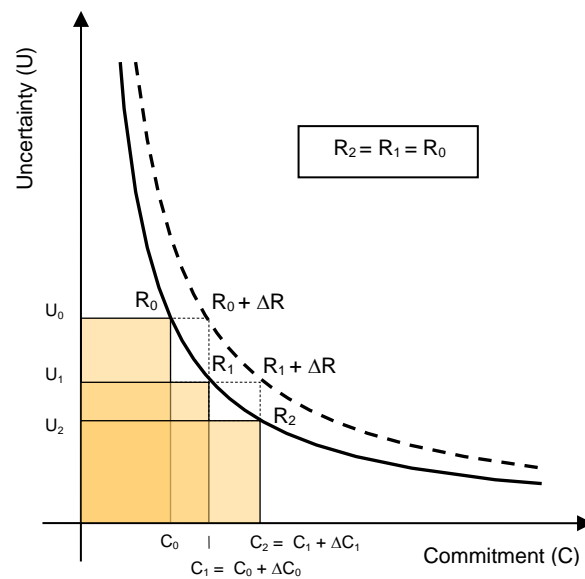


Figure 1: Risk Formula (Uppsala-Model)

The interaction between commitment and knowledge/uncertainty reflects what Johanson and Vahlne (1977) (p.28) define as a direct relationship. The international involvement is translated through the resources commitment and the knowledge accumulation by the uncertainty reduction (Johanson and Vahlne, 1977; Petersen et al., 2003). At the time firm enters the foreign market, the accepted risk will have an initial value of  $R_0$ . This variable, in turn, is a function of both the initial amount of resources  $C_0$  that the firm settles to enter in the destination market considering the level of that market's uncertainty  $U_0$ . The risk function represented by the  $R_0$  curve is quantified through the shadowed rectangle area. Since  $R_0$  is an iso-risk curve, the phenomenon that induces an increase or a decrease on risk will result in a shift to its right or left respectively.

For example, the increase of the operations scale has an immediate consequence in risk level, increasing it as well. The increase on risk  $\Delta R$  represented by the shadowed area, establishes a direct correlation with the commitment increase. The spontaneous knowledge accumulation is not possible, so this risk increase can be easily understood once uncertainty will remain unchanged at the zero instant. Nevertheless, the uncertainty turns to be a variable whose

adjustment is more complex and not so immediate. Its variability is circumscribed to the lack of knowledge and, thus, symmetrically correlated with the acquired knowledge (Forsgren, 2002) or dubbed as contingent uncertainty (Figueira de Lemos et al., 2011). As for the commitment side, resources committed to a certain market will provide the acquisition of knowledge which will reduce the uncertainty until the risk returns to the initial level.

The risk reduction to the initial value, provided by the uncertainty decrease, places the firm in a suitable position to set a new increment on resources which corresponds to a new investment phase in the foreign market with a more demanding mode of internationalization. The firm will only take another step when the risk becomes lower than the tolerated market risk (Johanson and Vahlne, 1977; Hadjikhani, 1997). This investment raise will then increase the firm's market knowledge that will resound in uncertainty reduction and, consequently, in the risk reduction to the initial stage. This cycle, as presented Figure 1, shows a market involvement strategy of risk maintenance. The discontinuous line  $R + \Delta R$  shaped by the variables products  $C + \Delta C$  and  $U$  outlines an iso-risk curve that shows the risk level the firm tolerates in that specific market. This sequence has a parallel to the model's internationalization mechanism, i.e., the market knowledge increase leads to the reduction of uncertainty and to a higher commitment.

Hence, the U-m's conceptualization of risk can be an adequate instrument to design a decision model among international cooperation strategies, once including some fundamental determinants to the formation of IAs and IJVs, such as risk sharing (Mascarenhas, 1982; Anderson and Gatingon, 1986; Contractor and Lorange, 1988, 2002; Todeva, 2005), and completion of resources and knowledge (Contractor and Lorange, 1988; Llana and García-Canal, 1998; Doz and Burgelman, 2001; García-Canal et al., 2002).

## **Hypothesis Development**

The independent variables of the risk formula, commitment and uncertainty, can have analogous interpretations to ICAs' determinants, whether by reducing the market perceived uncertainty or strengthening local competitiveness through resource and knowledge combination (Oviatt and

McDougall, 1994; Shrader et al., 2000). Pushing the envelope further, host country attributes, such as cultural distance and economy size, can also be surrogates for uncertainty/knowledge and commitment variables respectively. For instance, in a similar way as done by Barkema and Drogendijk (2007) to relate cultural distance with knowledge overlaps. They show that the performance improves when firms internationalize to culturally closer countries, supporting that home country knowledge can overlap host country knowledge. As for the commitment variable, Dow and Karunaratna (2006) give evidence about the predictive power of economy size on market commitments, namely showing that exports, and by correlation foreign direct investments, are larger in larger host economies.

The next graphical analyses support the formulation of two fundamental hypotheses to understand the decision principles between the two cooperation strategies proposed, IAs and IJVs. Two additional hypotheses are put forward to seek for the effect of the local partner in both forms of ICAs regarding the host country's economy size and the cultural distance to other partner's home country.

### ***The International Alliances effect***

In the same line of Glaister and Buckley (1999) IAs are considered in this paper as non-equity joint-ventures. In opposition to equity vehicles of cooperation, resources are not the determinant issue. Instead, the aim of IAs is to share market knowledge (Coviello and Munro, 1995; Llaneza and García-Canal, 1998) in order to minimize the lack of knowledge in relation to their competitors (Anderson and Gatingon, 1986; Oviatt and McDougall, 1994; Llaneza and García-Canal, 1998; Shrader et al., 2000; Knight and Cavusgil, 2004; Arenius and Autio, 2002; Hennart et al., 2002). The preference to this kind of partnership lays in more soft control factors such as the foreign firm initial credibility or the decrease of entry costs, time and risk (Coviello and Munro, 1995) rather than to achieve strong competitive positions by resource enforcement. In this line of thought, the strive for knowledge held on IAs, as non-equity agreements, come perceptible in the graphic-analytical modeling of the internationalization mechanism (Figure 2).



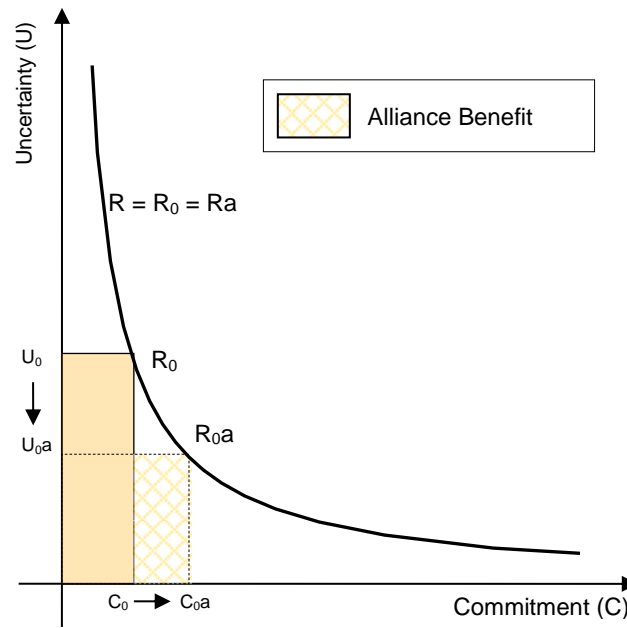


Figure 2: International Alliance Benefit

The alliance's effect is immediate and is featured with the uncertainty reduction (Mascarenhas, 1982; Anderson and Gatignon, 1986). This phenomenon is similar to what succeeds in networks, where firms gather information on potential markets in order to reduce their perceived risk about those markets (Johanson and Mattsson, 1988; Coviello and Munro, 1995, 1997; Ellis, 2000; Harris and Wheeler, 2005). The consequent risk decrease allows the firm to get into a higher commitment in the foreign market until it reaches the level of risk the firm has proposed to accept. Considering Barkema and Drogendijk (2007) relation between knowledge overlapping and cultural distance, in the case of local alliances, the immediate acquisition of market knowledge as the main goal, therefore:

*Hypothesis 1: The probability of establishing International Alliances is higher in host countries which are more culturally distant from the home country.*

***The International Joint-Ventures effect***

In the same rationale as previously done for IAs, IJVs are distinguished by its resource emphasis. While IAs can be only contractual, wherein resources and management are shared from the partners, IJVs, in contrast, are held in a third entity with resources and management independent from its parent firms (Todeva, 2005). Being resources the aimed determinant, the higher scale of commitment will lead to stronger competitive position in the host market. The joint effort, therefore, catalyzes the knowledge acquisition in a higher amount than the firms would be able to reach on their own. As it is possible to infer from Figure 3, if a perfect knowledge transfer between firms is considered, the individual perception of the market uncertainty's level will be the same for both and will directly reflect the jointly accumulated knowledge.

Considering this, given that their position lies in half of the level when compared to the risk level which the firms had proposed to accept jointly, each firm, individually, has a potential knowledge that enables to double their market commitment.

$$R2 = R1c \equiv C2 * U2 \equiv C1c * U1c$$

where,

$$C2 = C1c = 2 * C1$$

The individual commitment (read investment) so achieved with cooperation becomes the double of what the firms would separately do, thus demonstrating cooperation's leverage benefit as presented in the next figure.

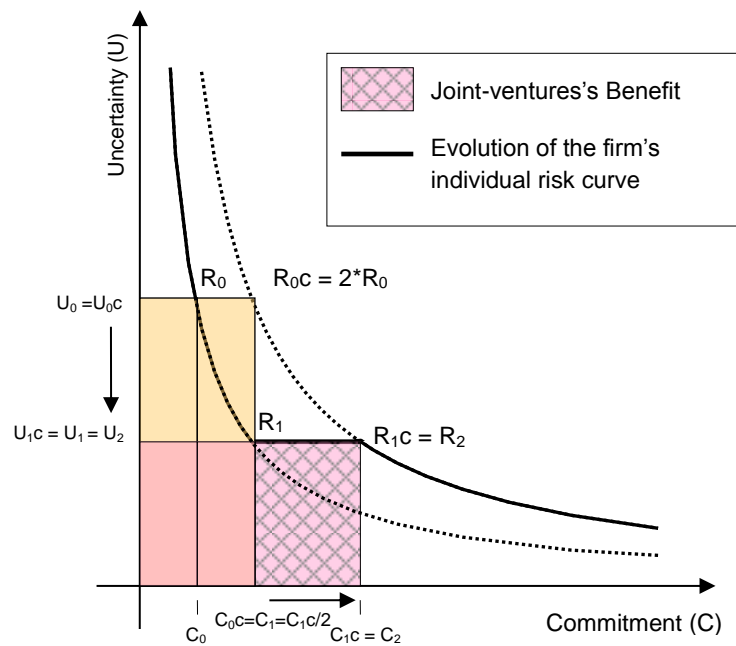


Figure 3: International Joint-Venture Benefit

The figure analytically shows that internationalization becomes a strong choice for firms with limited resources that are willing to accept the risks concerned with larger set of resources (Woodcock et al., 1994) in order to achieve a stronger competitive position in large host economies (Dow and Karunaratna, 2006). Therefore, the second hypothesis formulation is the following:

*Hypothesis 2: The probability of establishing International Joint-Ventures is higher in host countries with larger economies.*

#### ***The role of the local partner in IA and IJVs***

An additional hypothesis emerges from the previous and concerns the importance of local partners. Indeed, the establishment of ICAs with a local partner is the most frequent agreement (Garcia-Canal et al, 2002a). International alliances arrangements with local firms are meant to facilitate the entrance in a destination market, either because of the market knowledge possessed

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by the local partners (Arenius and Autio, 2002; Hennart, Roel and Hagen, 2002) or the transposition of law and institutional regulations (Contractor and Lorange, 1988a). Their sustainability, however, is questioned by some scholars who claim that successful partnerships must entail some pre-emptive conditions.

For instance, Larson (1992) supports that partnerships, alliances and other cooperative arrangements should emerge amongst closely related firms. The higher costs that the search for international partners entails when compared to the same search within domestic networks (Ellis, 2000) leads to the idea that alliances and other sort of cooperative arrangements can be a subset of business networks (Todeva, 2005; Todeva and Knoke, 2004). Harris and Wheeler (2005) reinforce this view by arguing that firms prefer the development of international strategies with partners whose strong relationships are based in knowledge and trust, thus making the partnership easier with firms from their industrial and business network. Moreover, the long process needed to develop commitment and the acquisition of mutual trust (Johanson and Mattsson, 1988; Larson, 1992; García-Canal et al, 2002a, 2002b) gives pertinence to the idea of starting partnership processes among existing relationships, instead of searching for alliances with unknown partners.

Therefore, whilst the decision to establishing foreign operations with a local partner may not be obvious, its motivations may hold differently whether the mode of cooperative arrangement, IA or IJV. More culturally distant countries demand a fine compromise between larger learning efforts and more intangible forms of commitment (Figueira de Lemos, et al, 2011). Thus, given that IJV represents a larger step in tangible commitments, IAs with local partners should become the first choice to establish ICAs, and, thus, the hypothesis formulation:

*Hypothesis 3a: The probability of selecting a local partner in more culturally distant host countries is higher in International Alliances than in International Joint-Ventures.*

In an opposite direction, larger economies demand for larger tangible commitments (Dow and Ferencikova, 2010). Considering the previous graphic-analytical demonstration of the trade-off between resources and knowledge, in countries with large economies it seems expectable the reversed situation from that of the above hypothesis, therefore the formulation as follows:

*Hypothesis 3b: The probability of selecting a local partner in countries with large economies is lower in International Alliances than in International Joint-Ventures.*

### **3. EMPIRICAL SETTING AND STATISTICAL MODELING**

A binary logit model (BLM) is used to predict the probability of establishment an IA or IJV with the relative weight of host country's size to the home country size jointly with the cultural distance between the country where the cooperative arrangement is established and the United States. Logit models are generalized linear models (GLM) with a logit link (Aldrich and Nelson, 1984; Greene, 2008; Liao, 1994; Wooldridge, 2006): Thus, considering the rationale developed in section two and the data distribution, we can apply the BLM with a logit link function:

$$\eta = \log\left[\frac{\mu}{1 - \mu}\right]$$

As the simplest probability model, BLM have only two categories in the dependent variable, which fits with our research question that aims to verify the "choice" of the mode of entry (IAs or IJVs). The inverse of the normal cumulative distribution function is in effect a standardized variable, or a Z score. We may express the model in probability terms through the following equation:

$$Prob(y = 0) = L\left(-\sum_{k=1}^k \beta_k x_k\right) = \frac{e^{-\sum_{k=1}^k \beta_k x_k}}{1 + e^{-\sum_{k=1}^k \beta_k x_k}} = \frac{1}{1 + e^{\sum_{k=1}^k \beta_k x_k}}$$

This represents the probability of an IA to occur. For an IJV, the probability is just one minus the event probability or:

$$Prob(y = 1) = 1 - L(-\sum_{k=1}^k \beta_k x_k) = L(\sum_{k=1}^k \beta_k x_k) = \frac{e^{\sum_{k=1}^k \beta_k x_k}}{1 + e^{\sum_{k=1}^k \beta_k x_k}}$$

### **The Dependent Variable**

As considered before, the dependent variable is binary and represents IA and IJV as two possible modes of international cooperation. The empirical data contains a total of 9262 ICAs in 65 different countries, being 53% IAs and 47% IJVs. It was collected from Thomson Reuters' SDC Platinum Database, with the extraction criteria of ICAs formed between 1990 and 2011 and at least one of the partners being from the United States. Following Todeva's (2005) definitions, IJVs are distinguished from IAs through the quality of dedicated resource. Alliances are only shaped by contracts, sharing resources and management owned by the allied partners. IJVs, in contrast, pre-suppose the creation of a third entity with own resources and management distinct from its parent firms.

### **The Independent Variables**

In order to measure the cultural distance, we adopted Kogut and Singh's (1988) composite index based on Hofstede's (1980) four cultural dimensions (i.e., power distance, uncertainty avoidance, masculinity/femininity, and individualism). The distances elaborated therefrom have the United States as common origin. Given the partner's criteria, the coefficients translate the distance between each ICA's host country and the United States. These were corrected for differences in the variances of each dimension and then arithmetically averaged.

As for the relative size of host countries' economies towards the US economy, we have used the annual Gross Domestic Product (GDP) numbers in dollars, at current prices and current exchange rates, from the UNCTAD's Statistical Database. The filter criteria considered roughly

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the same period as of Thomson Reuters Database's time series. Hence, a simple mean of each country GDP was made taking in account the annual data from 1990 to 2011. Our variable, the Relative Size of Host Country to the Home Country (RSHC) results from the homogenization of each country's averaged GDP with the United States averaged GDP.

- Cultural Distance Index (CDI) as measured according to Kogut and Singh's (1988) index, where  $I_{ij}$  stands for the index for the  $i$ th cultural dimension and  $j$ th country,  $V_i$  is the variance of the index of the  $i$ th dimension,  $u$  indicates the US, and  $CD_j$  is cultural difference of the  $j$ th country from the US.

$$CDI = \frac{\sum_{i=1}^4 \left\{ \frac{I_{ij} - I_{iu}}{V_i} \right\}^2}{4}$$

- Relative Size of Host Country to the Home Country (RSHC) is measured by the weight ratio of the average Gross Domestic Product (GDP) of the country where the IA or the JV was established to the GDP of the home country (US);

$$RSHC = \frac{GDP(Host)}{GDP(Home)}$$

The summary statistics of the two variables (Table 1) shows means of 2 within a scale of 4 for CDI, while of 16% for RSCH. This first readout of the RSCH mean reveals that US firms targeted countries with small economies *viz-a-viz* their home country economy.

Variable	Obs	Mean	Std. Dev.	Min	Max
CD_KS1988	9262	1.986987	1.285283	.0203404	6.34166
RSCH	9262	.15994	.1464978	.0001378	.4362208

Table 1: Summary statistics

## 4. ANALYSIS AND RESULTS

Overall the cultural distance and the relative size of the host country seem to be determinant in the partner selection when establishing an ICS, though in different aspects. Table 2 presents the

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results computed through a binary logit model. Preliminary results show a negative relationship between the cultural distance composite index and the establishment of IJVs. The computation of the marginal effects (Table 3) reveals that an increase 1% in relative size of the host country implies a decrease of 80.5% on the probability of IJVs establishment, while an increase of one unit in the cultural distance index implies an increase of almost 5% on the same probability.

Logistic regression	Number of obs	=	9262
	LR chi2(2)	=	569.09
	Prob > chi2	=	0.0000
Log likelihood = -6114.3495	Pseudo R2	=	0.0445

A0_JV1	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
CD_KS1988	.1990133	.0167492	11.88	0.000	.1661854	.2318412
RSCH	-3.236243	.1541952	-20.99	0.000	-3.53846	-2.934026
_cons	-.0230272	.0438502	-0.53	0.599	-.108972	.0629175

Table 2: Estimation results

These results depict opposite directions from the first two hypotheses formulation. Although it would be expectable that the size of the host country should impose the joint effort of resources, the creation of a third entity with resources and management independent from parent firm (IJV) is not the best choice in large economies. Surprisingly, though, it points to the establishment of IJVs in more culturally distant countries. This effect can be explained by the limitations of learning processes with needs of knowledge overlapping (Barkema and Drogendijk, 2007).

	Delta-method			z	P> z	[95% Conf. Interval]	
	dy/dx	Std. Err.					
CD_KS1988	.046549	.0037982	12.26	0.000	.0391046	.0539933	
RSCH	-.7569534	.0326504	-23.18	0.000	-.8209469	-.6929598	

Table 3: Marginal Effects

In addition we also looked for the marginal effects of the independent variables on the choice to select a local partner whether considering IA or IJVs. The results (see tables in Appendix A) corroborate the analysis above, while confirming the direction of hypotheses 3a and 3b. The



marginal effects on IA and IJVs were plotted together in order to understand the role of the local partner whether in culturally distant countries or in larger economies.

The effects of Cultural Distance on local partner's choice depicted in Figure 4 indicate that the probability of including a local partner in an IA is generally higher than in IJVs. Although both lines have a similar direction, the effect on IAs is more accentuated than in IJVs. As previously advanced, the formation of IAs is driven primarily by learning motivations. Moreover, the wide difference in countries with less cultural distance substantiates the idea of knowledge overlaps (Barkema and Drogendijk, 2007) and knowledge gaps (Petersen, Pedersen, and Lyles, 2008) related with the efficiency of cooperation in foreign countries.

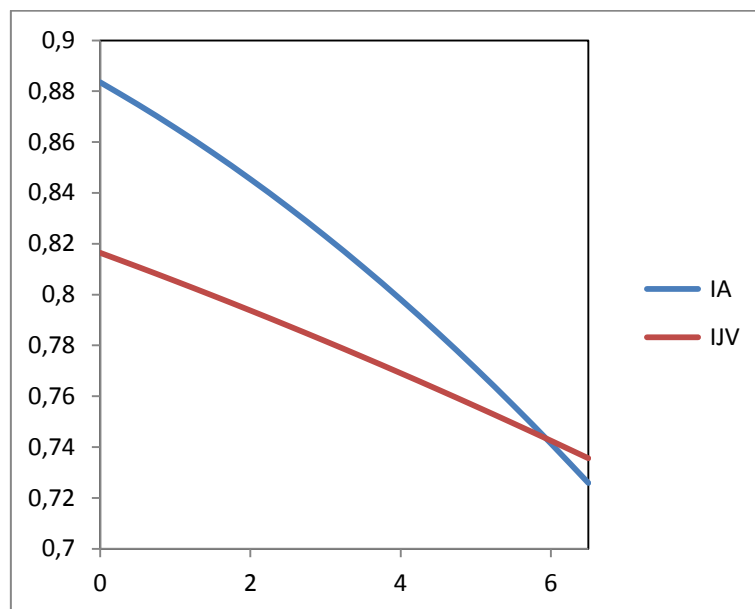


Figure 4 - Marginal effects of Cultural Distance on Local Partner's Selection

Relative to the effect of the host country's economy size on the selection of a local partner, Figure 5 depicts that the probability of including a local partner in an IJV is lower than in IA in small economies, though the trend inverts regarding larger economies. This effect may have explanation with the partner's selection amongst the existent set of the firm's relationships when competitive positioning does not demand for large commitments in the host country (Ellis, 2000). Particularly with IJVs, the higher probability to establish cooperation with a local partner

may be due to the materialization of agreements between foreign manufactures and local market distributors, as large economies usually translate large markets (Buckley and Casson, 1988).

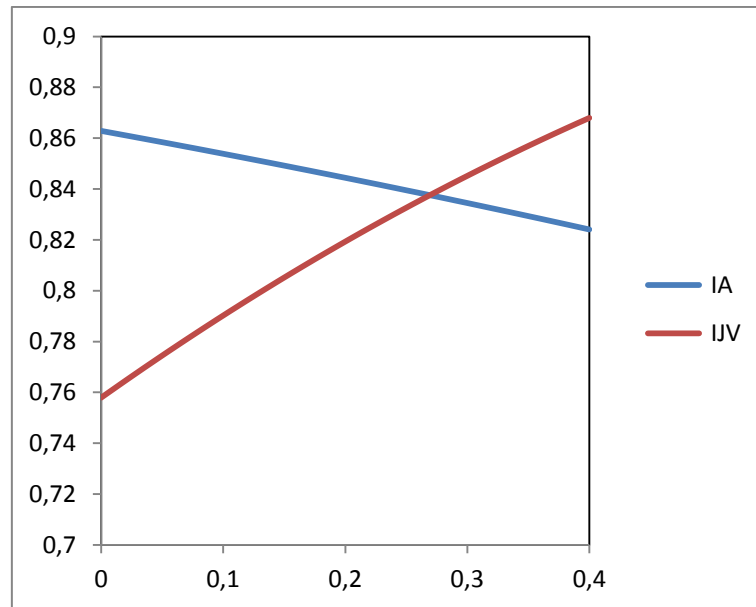


Figure 5 - Marginal effects of Economy Size on Local Partner's Selection

Some interesting prescriptions can be made with the joint analysis of Figure 4 and 5. While in IAs local partners may be adequate when establishing operations in small economies and culturally similar countries, in IJVs local partners are fundamental when internationalizing to large economies. Overall these results answer to some fundamental issues on the internationalization, namely the liability of foreignness (Hymer, 1960/76). Especially in early stages, foreign operations are usually pictured as weak and unstable; an underperformance allegedly due to the fact that foreign firms do not have the knowledge nor the adequate resources of their local competitors (Johanson and Vahlne, 1977; Anderson and Gatingon, 1986; Oviatt and McDougall, 1994; Llanaez and García-Canal, 1998; Shrader et al., 2000; Knight and Cavusgil, 2004). We have found a similar strain between knowledge and resources concerning the selection of local partners whether in alliances or joint ventures, and, consequently our contribution's *raison d'être*.

## **5. CONCLUSIONS**

Theoretically built upon the Uppsala Model (Johanson and Vahlne, 1977) and the decision model Figueira de Lemos et al (2011), this paper presents a framework to assist the choice between two different modes of ICAs. It proposes the establishment of IAs when firms essentially seek for knowledge, while IJVs are mainly used to gather an adequate set of resources to cope with the host economy's size. From these conceptual assumptions three hypotheses were formulated and empirically tested. Although the statistical results do not confirm the directions initially formulated in the general hypotheses, the empirical test on the narrowed hypotheses with local partner revealed its fundamental role in ICAs. These findings come in line with the literature on international joint ventures and alliances, whether supporting the use of alliances when aiming for knowledge (Coviello and Munro, 1995, 1997; Llanaez and García-Canal, 1998; Shrader et al., 2000; Arenius and Autio, 2002; Hennart et al., 2002) or the joint ventures formation when it comes to gather resources and gain competitive market positions (Dow and Karunaratna, 2006; Woodcock et al., 1994).

The present study not only optimizes the main determinants of ICAs establishment, knowledge and resources, but also deepens the decision level to the partner selection. Nonetheless, although the strong conclusions within the scope of this particular choice, the empirical results give three important insights that can be tested in broader management contexts. First, cooperative arrangements are effective strategies for internationalizing firms to complement their set of knowledge or resources whether to deal with dissimilar settings or to reach bigger operations scale. Second that internationalization in cooperation becomes a strong choice for firms with limited resources but that are willing to accept the risks concerned with larger set of resources. Third, firms perceive the importance of local partners to establish foreign operation whether in large economies or culturally distant countries.

A final remark to the theoretical contribution of this study is important to be made. Although the Uppsala Model's wide acceptance in IB field, the fact is that it has never been used to explain international cooperation. Therefore, we emphasize the pioneer nature of this

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study, demonstrating that the Uppsala Model may well be a theoretical tool to explain the Joint-Ventures and Alliances phenomena within the internationalization process of the firms.

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## APPENDIX A

### Marginal effects of Cultural Distance for Local Partners on International Alliances

	Delta-method					[95% Conf. Interval]
	Margin	Std. Err.	z	P> z		
_at						
1	.8835189	.0088376	99.97	0.000	.8661975	.9008403
2	.8748044	.0073901	118.38	0.000	.8603201	.8892886
3	.8655559	.0060066	144.10	0.000	.8537831	.8773287
4	.855758	.0050855	168.28	0.000	.8457906	.8657253
5	.8453967	.0052929	159.72	0.000	.8350229	.8557705
6	.8344606	.0068776	121.33	0.000	.8209807	.8479404
7	.8229407	.0094434	87.14	0.000	.804432	.8414495
8	.8108313	.0126386	64.16	0.000	.7860601	.8356025
9	.7981296	.0162969	48.97	0.000	.7661882	.8300709
10	.7848364	.0203408	38.58	0.000	.7449692	.8247036
11	.7709566	.0247264	31.18	0.000	.7224937	.8194196
12	.756499	.0294222	25.71	0.000	.6988326	.8141653
13	.7414764	.0343995	21.55	0.000	.6740547	.8088981
14	.7259064	.0396293	18.32	0.000	.6482343	.8035785

### Marginal effects of Cultural Distance for Local Partners on International Joint-Ventures

	Delta-method					[95% Conf. Interval]
	Margin	Std. Err.	z	P> z		
_at						
1	.8164371	.0123176	66.28	0.000	.792295	.8405792
2	.8109464	.0102453	79.15	0.000	.7908659	.8310269
3	.8053342	.0083074	96.94	0.000	.789052	.8216164
4	.7996003	.0067594	118.30	0.000	.7863522	.8128484
5	.7937446	.0060761	130.63	0.000	.7818357	.8056535
6	.787767	.0066869	117.81	0.000	.774661	.8008731
7	.781668	.008436	92.66	0.000	.7651337	.7982023
8	.7754478	.0108829	71.25	0.000	.7541177	.7967778
9	.769107	.0137384	55.98	0.000	.7421802	.7960338
10	.7626463	.0168627	45.23	0.000	.729596	.7956967
11	.7560667	.0201879	37.45	0.000	.7164992	.7956343
12	.7493693	.0236781	31.65	0.000	.7029611	.7957774
13	.7425553	.0273121	27.19	0.000	.6890246	.7960859
14	.7356261	.0310761	23.67	0.000	.6747181	.7965341

## Marginal effects of Country Size for Local Partners on International Alliances

	Delta-method					[95% Conf. Interval]
	Margin	Std. Err.	z	P> z		
_at						
1	.8628447	.0101032	85.40	0.000	.8430428	.8826467
2	.8619657	.009588	89.90	0.000	.8431736	.8807579
3	.8610822	.0090772	94.86	0.000	.8432912	.8788733
4	.8601942	.0085731	100.34	0.000	.8433913	.8769971
5	.8593016	.0080782	106.37	0.000	.8434686	.8751346
6	.8584044	.007596	113.01	0.000	.8435165	.8732924
7	.8575027	.0071308	120.25	0.000	.8435265	.8714789
8	.8565964	.006688	128.08	0.000	.8434883	.8697045
9	.8556855	.0062741	136.38	0.000	.8433884	.8679826
10	.8547701	.0058977	144.93	0.000	.8432109	.8663293
11	.85385	.0055684	153.34	0.000	.8429362	.8647638
12	.8529253	.0052976	161.00	0.000	.8425422	.8633084
13	.851996	.0050972	167.15	0.000	.8420057	.8619864
14	.8510621	.0049785	170.95	0.000	.8413045	.8608197
15	.8501235	.0049499	171.74	0.000	.8404218	.8598253
16	.8491804	.005016	169.30	0.000	.8393493	.8590114
17	.8482325	.0051756	163.89	0.000	.8380886	.8583764
18	.84728	.0054231	156.23	0.000	.8366509	.8579091
19	.8463228	.0057497	147.19	0.000	.8350535	.8575921
20	.845361	.0061452	137.56	0.000	.8333166	.8574054
21	.8443944	.0065994	127.95	0.000	.8314599	.857329
22	.8434232	.007103	118.74	0.000	.8295015	.8573449
23	.8424473	.0076484	110.15	0.000	.8274566	.857438
24	.8414667	.0082291	102.25	0.000	.8253379	.8575954
25	.8404814	.0088398	95.08	0.000	.8231556	.8578071
26	.8394913	.0094764	88.59	0.000	.8209178	.8580648
27	.8384966	.0101356	82.73	0.000	.8186311	.858362
28	.8374971	.0108147	77.44	0.000	.8163007	.8586935
29	.8364928	.0115116	72.67	0.000	.8139306	.8590551
30	.8354839	.0122245	68.35	0.000	.8115243	.8594434
31	.8344702	.0129521	64.43	0.000	.8090845	.8598558
32	.8334517	.0136933	60.87	0.000	.8066134	.86029
33	.8324285	.014447	57.62	0.000	.8041128	.8607442
34	.8314005	.0152127	54.65	0.000	.8015842	.8612168
35	.8303678	.0159896	51.93	0.000	.7990288	.8617067
36	.8293303	.0167771	49.43	0.000	.7964477	.8622128
37	.828288	.0175749	47.13	0.000	.7938417	.8627342
38	.8272409	.0183826	45.00	0.000	.7912117	.8632701
39	.8261891	.0191998	43.03	0.000	.7885582	.86382
40	.8251324	.0200263	41.20	0.000	.7858817	.8643832
41	.824071	.0208617	39.50	0.000	.7831827	.8649593

## Marginal effects of Economy Size for Local Partners on International Joint-Ventures

	Delta-method					[95% Conf. Interval]
	Margin	Std. Err.	z	P> z		
_at						
1	.7579185	.0122704	61.77	0.000	.733869	.7819681
2	.7612949	.0113987	66.79	0.000	.7389538	.783636
3	.7646392	.0105682	72.35	0.000	.7439259	.7853525
4	.7679515	.009784	78.49	0.000	.7487752	.7871278
5	.7712316	.0090525	85.20	0.000	.753489	.7889742
6	.7744794	.0083815	92.40	0.000	.7580521	.7909068
7	.7776949	.0077801	99.96	0.000	.7624463	.7929435
8	.780878	.0072587	107.58	0.000	.7666511	.7951049
9	.7840286	.0068287	114.81	0.000	.7706446	.7974126
10	.7871467	.0065006	121.09	0.000	.7744058	.7998877
11	.7902324	.0062829	125.78	0.000	.7779181	.8025466
12	.7932854	.0061797	128.37	0.000	.7811735	.8053974
13	.796306	.0061893	128.66	0.000	.7841752	.8084368
14	.799294	.0063042	126.79	0.000	.786938	.81165
15	.8022495	.0065121	123.19	0.000	.7894861	.815013
16	.8051726	.0067982	118.44	0.000	.7918484	.8184968
17	.8080631	.0071473	113.06	0.000	.7940546	.8220716
18	.8109213	.0075454	107.47	0.000	.7961326	.8257101
19	.8137472	.0079802	101.97	0.000	.7981062	.8293882
20	.8165408	.0084416	96.73	0.000	.7999955	.833086
21	.8193022	.0089213	91.84	0.000	.8018167	.8367877
22	.8220315	.0094128	87.33	0.000	.8035827	.8404802
23	.8247287	.0099108	83.21	0.000	.8053038	.8441536
24	.8273941	.0104113	79.47	0.000	.8069883	.8477999
25	.8300276	.010911	76.07	0.000	.8086425	.8514128
26	.8326295	.0114073	72.99	0.000	.8102716	.8549875
27	.8351999	.0118982	70.20	0.000	.8118797	.85852
28	.8377388	.0123822	67.66	0.000	.8134702	.8620073
29	.8402464	.0128578	65.35	0.000	.8150456	.8654472
30	.8427229	.0133241	63.25	0.000	.8166082	.8688376
31	.8451684	.0137803	61.33	0.000	.8181596	.8721772
32	.8475831	.0142257	59.58	0.000	.8197013	.8754649
33	.8499672	.0146598	57.98	0.000	.8212345	.8786999
34	.8523208	.0150823	56.51	0.000	.8227601	.8818815
35	.8546441	.0154928	55.16	0.000	.8242788	.8850094
36	.8569373	.0158911	53.93	0.000	.8257914	.8880832
37	.8592006	.016277	52.79	0.000	.8272982	.891103
38	.8614342	.0166505	51.74	0.000	.8287997	.8940686
39	.8636382	.0170115	50.77	0.000	.8302963	.8969801
40	.865813	.0173599	49.87	0.000	.8317881	.8998378
41	.8679586	.0176958	49.05	0.000	.8332755	.9026418