THE FORMATION OF BOARDS OF DIRECTORS AS A CONTINGENT RESPONSE TO ENVIRONMENTAL UNCERTAINTY – EVIDENCE FROM EMERGING ECONOMIES

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Abstract

This paper provides some strong support for existing literature in an under-researched context (the emerging economies of the former Soviet Union and Central and Eastern Europe). We develop and apply a model linking Board formation and environmental uncertainty, finding some partial support for our anticipated relationships in the area of Board establishment and perceived financial sector uncertainly, although no support for our anticipated relationship between governmental sector uncertainty and Board formation. research is supportive of the broad assertion that strategy in emerging economies is different and a 'one size fits all' (generally American) approach to the questions we ask regarding strategy in emerging regions will rarely provide accurate insights for management academics and practitioners with an interest in understanding and improving management decisions in the context of emerging economies.

Keywords: board of directors, emerging economies, uncertainty

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Introduction

Firms are both supported and constrained by their external environments. The environment encapsulates those agents that transact directly and indirectly with firms (in terms of factors of production and the provision of financing (Katila, Rosenberger & Eisenhardt, 2008), and also those agents that regulate firms and compete with firms for resources and customers (Kaplan & Harrison, 1993).

In this paper, we review the literature on the environmental engagement of firms generally, and the use of Boards of Directors as environmental engagement collective agents in particular, to assess the contingent development of Boards of Directors in response to perceived external environmental concerns. The environmental exigencies that we have chosen to include in our analysis relate to perceived corruption, access to financing, regulatory and tax constraints and policy uncertainty, which have been shown to impact on business performance within the survey countries included in our analysis (Batra, Kaufmann & Stone, 2003; Broadman & Recanatini, 2002.).

We chose, in this study, to focus on the emerging economies of the former Eastern Bloc (the former Soviet Union and central and eastern Europe). These nations have experienced substantial change over the period since the late 1980s, flowing from the collapse of Soviet communism and its economic system in the late 1980s and early 1990s. This rapid and uncertain transformation has created something of a regulatory and policy vacuum in the years since (Hoff & Stiglitz, 2004), and this paper seeks to explore the use of Board governance structures to assess the impact of these perceived uncertainties and regulatory variations on organisational governance arrangements, with a specific focus on the establishment of supervisory Boards of Directors (Hillman & Keim, 1995).

Environmental Engagement Literature

Organisations face dynamic and uncertain operational and strategic environments. There have been numerous studies that have dealt with the role of the firm's environment on its behaviour and performance (Child, 1972, 1997; Lawrence and Lorsch, 1989; Hrebiniak and Joyce, 1985). Among these and other studies, the analytical focus and findings have differed. There have been those who contend that the firm's environment a key driver of appropriate strategy by calling for rational scanning and fit (Miles and Snow, 1978; Porter 1980), those who see strategy as emergent from the environment with little room for managerial autonomy (Hannan and

Freeman, 1989; El Louadi, 1998) and those who argue that managerial autonomy is paramount and a key driver of differentiation and competitive advantage (Child 1972, 1997). Alternatively, other scholars have asserted the value of high velocity, non-mediated management structures in dealing with the vagaries of Eastern Block economies (Estrin and Wright, 1999; Lipton, Sachs and Summers, 1990)

Authors like Selznick (1957, 1996), Gopalakrishnan and Dugal (1998) and Rodrigues, Child and Shatin (2008) have argued against these models that presupposed that organisations were either perfectly rational agents operating according to shared, normative industrial agendas or were perfectly adaptable institutions instantly responding to changing environmental stimuli (or a combination of both). They argued for more complex and iterative relationships between organisations and their environments by suggesting that organisations developed over time, were proactive (the successful ones at least) with regards to trends evident in the environment, and changed strategies based upon learning and planning rather than reaction.

Other researchers have taken a broader environmental view of firm change and adaptation with an expanded consideration of the institutional, social and interpersonal domains of a business (Aoki, 2001). While it is important to ensure that firms adapt to the myriad of changes in their environment (Fligstein and Freeland, 1995), it is equally important to understand that corporate governance (even at the board level) is enacted in different social and interpersonal contexts. Importantly, governance and more direct economic management decisions might be considered to possess social and noneconomic dimensions for the firm and associated workforce (Streeck, 2002).

Child (1997, 46-47) noted that decisions within organisations exhibited 'initiative within the network of internal and external organisational relationships - through pro-action as well as re-action'. These decisions were strongly dynamic and inter-related among the internal and external environmental influences that came into play in agent decision making. Firms thus seek a position of dynamic organisational-environmental 'fit'. The concept of 'fit' had a number of implications for the management and resourcing of corporate governance arrangements within firms. Primarily, it was interpreted as creating an impetus for the development of formal processes in the strategic management process.

Freedman (1996, 238) notes that 'uncertainty measures an industry-wide perception of a given economic climate, namely what the firm thinks it needs to know (information pertinent to a firm's decisions), as compared to how much of that information it actually thinks it knows'. Informational uncertainty, in terms of the variety of environmental pressures facing a firm, can thus act as an important stimulus for environmental engagement and change. This work builds on previous work by Miller and Friesen (1982) and Jervis (1975) who argued for a model of relationship between the firm and the environment that was based on constant reassessment and environmental scanning.

Boards of Directors as Agents of Environmental Engagement

Firms develop their corporate governance mechanisms as a means of mitigating political risks within their environment (Markus, 2008). Boards of directors, for example, aim to both control firm decisions and act as a resource for firms seeking external ties to their environments (Dalton & Dalton, 2005; Hambrick, Geletkanycz & Fredrickson, 1993). Some of the mooted benefits of these facilitated environmental ties include (a) the mitigation of environmental uncertainty through the use of social networks (Dess and Rasheed, 1990; Carpenter and Westphal, 2001; Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978); (b) the sourcing of competitive information regarding environmental and competitor change and acting in 'boundary spanning' roles (Burt, 1995; Geletkanycz & Hambrick, 1997); (c) by negotiating opportunities among external stakeholders (Eisenhardt and Schoonhoven, 1996; Hillman, 2005) and (d) by conferring reputational and social legitimacy on the firm (Di Maggio & Powell, 1983; Finkelstein & D'Aveni, 1994; Stevenson & Radin, 2009).

Environmental turbulence thus provides both opportunities and threats for the corporate governance arrangements generally, and Board of Director arrangements specifically, of firms. In terms of information and knowledge transmission (inward and outward), legitimacy building and influence negotiating points of view, Boards of Directors can act as a vital means by which organisations can mitigate external threats while improving their position within potentially uncertain contexts.

Methods

The Research Setting

The effective dissolution of the Soviet Union in December, 1991, created the impetus for massive social and economic reform in Central and Eastern Europe (CEE) and the Former Soviet Union (FSU). Nations within the Soviet Union and within its economic sphere of influence (for COMECON members) experienced a rapid re-alignment in terms of economic ownership, trade openness and foreign investment. In historical terms, the economic integration of former Eastern Bloc nations began to fray after the introduction of *Perestoika* by Mikhail Gorbachev in 1987, although whether this was a cause or effect of the collapse of the Soviet economy and its wider economic influence is a moot discussion, beyond the realm of this paper (Brown, 2007).

Within the nations established from within the Soviet Union itself (former Soviet republics) and also the nations of CEE that emerged from the Soviet sphere of control, one of the most noticeable medium term impacts was the establishment of private enterprise, both through the privatisation of former State-owned organisations (Meyer & Lieb-Dóczy, 2003; Barrell & Holland, 2000; Judge, Naoumova and Koutzevol, 2003), and the establishment of entrepreneurial start-ups to serve emergent market needs (Murrell & Olson, 1991). These firms proceeded into something of a cultural and regulatory vacuum in many respects, as corporate laws and laws protecting private ownership often lagged first-mover initiatives (Claessens & Laeven, 2003; Kozul-Wright & Rayment, 1997; Nee, 1992; Rapaczynski, 1996; Schönfelder, 2005).

The sudden removal of central planning arrangements created sudden resource shortages and market opportunities in the short-term. The rapid privatisation of State-owned enterprises created windfall profits for some well-connected entrepreneurs, and created (to a greater or lesser degree) a new class of what were later to be termed 'oligarchs' in Russia, Central Asia, the Caucusus and eastern and central Europe (Åslund, 2007).

Private enterprise, both in the form of nascent entrepreneurship and privatised former State-owned enterprises, soon emerged as a major driver of economic growth and change. Unfortunately, problems also soon emerged with corporate self-dealing, petty and institutional corruption, the emergence of organized crime and criminal enterprise, and weak and ineffectual bureaucracies (Batra, Kaufmann & Stone, 2003; Black, Kraakman and Tarassova, 2000; Damania, Fredriksson & Mani, 2004; Rodriguez, Siegel, Hillman and Eden, 2006). Donor nations of the west had a strong agenda to both assist with and contribute to economic growth, while also facilitating institutional emergence and reform necessary to build robust and democratic open economies.

The Dataset

We use data from the World Business Environment Survey, a cross sectional dataset undertaken for the European Bank of Reconstruction and development and the World Bank by an international market research company (AC Nielsen) in 1999 and 2000. This study investigates the processes of reforms through the responses of key managers of 3,954 private sector firms from 25 nations of the former Soviet Union and Central and Eastern Europe. The stated purpose of the survey was to create a better understanding of the manner in which financial institutions and state agencies were encouraging and facilitating economic and business growth (World Bank, 2000).

The data was released in microdata form to interested researchers in 2008. Previously, research was through an online portal with limited statistical functionality. The current study employs the full dataset for FSU and CEE nations, comprising a total of 4104 firms. Turkey was included in the released dataset for FSU and CEE nations, although we chose to remove it from our analysis due to its very different history from the other former Eastern Bloc nations, leaving us with an effective sample of 3,954 firms.

The survey questionnaire gathered information on key firm demographic issues (age, size, industry of operation, level of foreign ownership, and degree of international trade) and then matched this data with attitudinal and experiential data and information regarding the quality of government institutions and policy, bureaucratic support and hindrance, and experiences of corruption. Data was also gathered regarding the competitiveness experienced by firms in their marketplaces, and sources of financing for new investment.

The survey instrument was developed in English, and translated into the national vernacular prior to retranslation back into English, to ensure consistency. While not absolutely representative in a statistical sense, the data gathering strategy was undertaken within certain representative parameters, as follows (from Hellman, Jones, Kaufmann & Schankerman, 2000):

- A minimum of 15% of responder firms in the services sector and 15% in the manufacturing sector within each nation;
- A minimum of 15% of responder firms employing less than 50 persons and 15% employing more than 50 persons within each nation;
- A minimum of 15% of responder firms based in towns with less than 50,000 inhabitants;
- At least 15% of the responder firms to have majority foreign ownership (or as close to majority foreign ownership as local regulations permitted);
- At least 15% of the responder firms exporting a minimum of 20% of their output;
- Approximately 20% of the firms were state-owned.

The following table provides some essential summary characteristics from the various countries where data was gathered. As can be seen, virtually all FSU and CEE jurisdictions were included in the data gathering activity, with the largest subsample from Russia (552 firms) and the smallest from the Republic of Serbia (65 firms), and with most nations providing a usable sample of 125 responder firms.

We screened the sample to include only those firms in the private sector and only those firms that were not governed by a Board of Directors in 1996-97 (as the discrete choice to establish a Board of Directors is the dependent variable, and the prior existence of such a Board would generally mean that a new Board would not be formed). After this screen, we were left with 2657 usable responses which did not differ in composition in any statistically significant manner from the broader sample presented in Table 1.

Insert Table 1 about here

Dependent Variable

This paper explores the interplay between firms and their environment during the phase of post-Soviet emergence. We chose to explore this through the presence or absence of Boards of Directors and/or Supervisory Boards (henceforth 'Board of Directors') in privately owned boards in CEE and FSU nations.

The dependent variable in our model is the formation of a Board of Directors in the three years preceding the survey. This has been examined from data within the survey regarding current and historical governance systems in place at the time of the survey and three years earlier. The variable has been coded such that firms that have introduced such an arrangement are coded 1 (one), with others coded 0 (zero).

The establishment of a board of directors is an important milestone in the lifecycle of a firm. Firms are generally seen to progress beyond a threshold whereby previous governance arrangements are no longer adequate. Proceeding beyond this threshold often requires the creation of systems and structures to manage resource and strategy function planning, combined with effective monitoring and control functions on behalf of capital owners (Filatotchev, Toms and Wright, 2006).

To take account for firms who had continuing use of Boards of Directors, we screened the sample to ensure only firms without this governance arrangement in the prior period (three years prior to the survey) were included in our sample.

Control Variables

The emergence of the legal and institutional environment of business draws from historical paths and existing processes that are unique to each country (Beck & Laeven, 2005; Peng, Wang & Jiang, 2008; Stark, 1992; Wright, Filatotchev, Hoskisson & Peng, 2005). Thus, we introduced dummy variables for each nation included in the analysis, to account for variation determined primarily by national regulatory histories and context. Each nation was allocated a dummy variable of 0 or 1, and these country dummies were included in the control group in the hierarchical regression models to account for country level regulatory and developmental issues that may impact the firms' decisions to implement a new board structure.

Nix and Gabel (1996) noted that 'differences in the behaviour of firms facing similar environments is strong evidence that institutional details are needed to account for why precisely defined factors located in the external environment do not uniquely determine the sensitivity of a firm to market stimuli'. Size and initial ownership structure appear to have been relevant path histories for firms in developing economies in previous literature (Arnot, 2005). To account for these firm-level path dependencies, we control for firm size (proxied by equivalent full time staff, as a natural logarithm) and whether the firm was first established as a State-owned or privately-owned operation (Makhija, 2000).

Firm age has been shown to be important, as one key feature of firm-level attributes that may predispose organisations to pursue structural improvements as they grow (Filatotchev, Toms and Wright, 2006). We thus include the natural logarithm of firm age at the time of the survey in our control variables.

Finally, the engagement with international markets has been shown to be important in the development of formalised planning and governance routines, and other managerial behaviours, within firms in transition economies (Barrell & Holland, 2000; Filatotchev, Dyomina, Wright & Buck, 2001; Jensen, 2006; Stoner-Weiss, 2000; Wright, Filatotchev, Buck & Bishop, 2002). We thus utilise dummy variables to account for the use of importing and exporting (0 if absent, 1 if present) and foreign ownership (0 if absent, 1 if present).

Independent Variables

Our model thus incorporates the impact of national regulatory and legal arrangements, firm age and scale as controls. Further, we explore sources of managerial uncertainty relating to (a) perceived regulatory and political uncertainty, and (b) perceived difficulties relating to the securing of external financing and other economic factors to explore the discrete decision to establish a Board of Directors in the three years preceding the survey (1996-1999).

Our measures of regulatory and environmental uncertainty are taken from a question in the survey asking responders to rate 'how problematic are these different factors for the operation and growth of your business'. The items were rated on a four point semantic differential scale, with 1 (no obstacle), 2 (minor obstacle), 3 (moderate obstacle) and 4 (major obstacle). The following table presents these independent variables, and their hypothesised directionality and significance for the determination of the Board formation choice.

We chose to hypotheses directionality and significance of these perceived environmental threats along two axes – namely the potential impact of the threat to the focal firm, and the potential for the established Board to exercise such local influence in terms of uncertainty and risk mitigation. The hypothesised relationships (and the findings from our logistic regression) are summarised in the following table.

Insert Table 2 about here

Discussion of Results

Overall, each of our models provide reasonably strong fit for the data (*Nagelkerke R^2 for Step 1 = 0.163; Step 2 = 0.272; Step 3 = 0.295)* especially given the narrowly defined dependent variable (namely the discrete decision to establish a Board of Directors over the preceding three years of operation).

Insert Table 3 about here

We introduce the Country Dummy variables first, and of these Estonia (positive) and Lithuania and Slovakia (negative) are found to be significant. These outcomes may be reflective of various policy and regulatory initiatives and path dependencies present in these nations, perhaps related to EU membership, that are beyond the scope of this paper (Kaminski, 2000).

The directionality and significance of all of our control variables (introduced in the second model step) are as predicted in the literature. The natural logarithm of business age is very significant and negative. This may be indicative of the fact that well established firms have strong governance routines that rarely change. More recently established firms may be experiencing a period of growth that requires greater formalisation and oversight, hence lending weight to the establishment of a Board of Directors. Size (as proxied by the natural logarithm of full time equivalent staff) is positive and significant, lending weight to our previous interpretation that larger firms generally develop more formal oversight arrangements. If a firm was formerly State owned, it too is more likely to develop Board arrangements. Companies involved in international trade are found to be more likely to pursue Board formation, and the presence of international investment is found to be positive in the second stage model, and positive and significant in the full model.

In the full model, our strongest anticipated finding relates to our prediction that difficulties in acquiring external finance would predispose a firm to Board creation. Another positive and significant covariance occurs between Board formation and inflationary concerns. These three items may be inter-related (indeed our Spearman bivariate correlation table indicates that concerns regarding inflation and financing are positively and significantly correlated). This outcome was also consistent with the corporate governance model of Aguilera and Jackson (2003) that proposed that "the financial conceptions of managerial control refer to a distinct separation of strategic and operational management (ie, formation of a corporate board) and the execution of firm control via financial mechanisms".

Insert Table 4 about here

Our anticipated co-variances between 'governmental' uncertainties and Board formation appear to be insignificant, or indeed the opposite to what we anticipated. We choose to interpret this as meaning our findings provide no statistical support for the contention that firms establish Boards of Directors to exert political or governmental pressure locally or nationally. Indeed, some research suggests that firms may choose to live with these uncertainties (eg, political corruption) and address these matters using different corporate vehicles (eg, joint ventures) (Smarzynska and Wei, 2000). Additionally, this outcome might be partially explained by the Labour based dimension of corporate governance (Brown, Nakata, Reich and Ulman, 1997). This theory suggests that labour participation in corporate governance is politically important and may provide a source of firm competitive advantage. In essence, a firm's decisions might be made in a more democratic manner with actions codetermined by management and the workforce (Nagels and Sorge, 1977; Streeck, 2001). Hence, firms may depend on their organized workforce to exert substantial political pressure rather than placing that duty solely on the corporate board. Nevertheless, this was not a finding we anticipated, although it appears to be strongly supported by the evidence.

Conclusions and Limitations

This paper provides some strong support for existing literature in an under-researched context (the emerging economies of the former Soviet Union and Central and Eastern Europe). We develop and apply a model linking Board formation and environmental uncertainty, finding some partial support for our anticipated relationships in the area of Board establishment and perceived financial sector uncertainly, although no support for our anticipated relationship between governmental sector uncertainty and Board formation.

These findings would suggest that firms do indeed increase the formalisation of their organisational governance structures as their business affairs become more complex and challenging. This is indicated by the positive and significant covariance between our dependent variable and firm size, firm international trade and firm (inward) foreign investment.

Boards of Directors, however, seem to be of little perceived value in mitigating environmental uncertainty emerging from political and governmental exigencies and threats. Specifically, firms do not seem to form Boards of Directors to assist in the lobbying process related to infrastructure investment that is a perceived constraint on growth. This finding is somewhat at odds with the empirical evidence from the United States (Hillman and Hitt, 1999, Hillman, 2005) and seems to indicate a strong contextual contingency effect related to the developing nature of the emerging economies and political systems. Further, even where the interests of government and industry clearly intersect – in the provision of infrastructure – firms feel that governance reforms and extensions are of little value in garnering political influence in the political contexts included in this survey.

Like all work based on secondary data, some caveats are worth mentioning. The data was gathered in 1999 and 2000. During this period, the emerging economies and CEE and the FSU faced some particular challenges, although this observation could be made of any two years during the last two decades for this region.

The research may lend weight to further, perhaps qualitative, research (such as Brada and Singh, 1998) to explicate the manner in which firms in emerging economies seek to mitigate risks emerging from perceived public sector capriciousness and uncertainty. Some have suggested (Lawrence, Hardy & Phillips, 2002) that firms can form 'proto-institutions' through collaboration when formal institutions are lacking and the evidence of such collaborative strategies to mitigate external uncertainties regarding public policy would be worthy of investigation. Also, research to explore how firms manage the ethical obligations that accompany foreign investment and the local imperatives of dealing with highly fluid ethical standards, may be worth undertaking.

Finally, our research is supportive of the broad assertion that strategy in emerging economies is different (Hoskisson, Eden, Lau & Wright, 2000) and a 'one size fits all' (generally American) approach to the questions we ask regarding strategy in emerging regions will rarely provide accurate insights for management academics and practitioners with an interest in understanding and improving management decisions in the context of emerging economies.

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Table 1. Composition of the Survey Sample Firms

Country	Frequency	FTE Staff (Mean)	FTE Staff (SD)	Firm Age (Mean)	Firm Age (SD)
Albania	163	5.23	2.23	10.59	13.28
Armenia	125	4.13	1.63	11.12	11.96
Azerbaijan	137	4.24	1.57	9.95	12.42
Belarus	132	5.45	1.59	24.69	24.24
Bosnia	127	4.02	1.61	14.63	19.70
Bulgaria	130	4.49	1.94	15.93	16.92
Croatia	127	5.92	2.01	41.23	33.27
Czech Republic	149	4.66	2.23	16.20	28.08
Estonia	132	5.16	1.93	13.76	23.30
Georgia	129	4.54	1.81	11.60	16.80
Hungary	147	4.12	1.88	10.64	11.29
Kazakhstan	147	4.69	1.72	9.51	13.67
Kyrgyzstan	132	4.97	1.52	10.78	12.85
Latvia	166	5.98	2.38	12.27	18.90
Lithuania	112	3.54	1.77	8.16	6.23
Macedonia	136	4.17	1.77	11.60	18.47

Moldova	139	5.26	1.72	10.44	17.93
Poland	246	4.79	1.84	17.89	19.52
Rep Serpska	65	4.17	1.62	22.52	24.43
Romania	125	4.30	2.07	10.65	12.21
Russia	552	5.00	1.59	9.23	10.88
Slovakia	138	4.53	2.00	12.37	19.92
Slovenia	125	5.30	1.97	21.38	24.17
Ukraine	247	4.61	1.74	10.00	13.71
Uzbekistan	126	5.26	1.90	13.27	17.09
Total/*Mean*	3954	*4.74*	*1.84*	*14.42*	*17.65*

Table 2. Anticipated Impact of External Threats on the Decision to Establish a Board of Directors

	Potential Focal Firm Impact	Potential for Board Influence	Predicted Directionality and Significance	Outcomes of Logistic Regression
Financing	High	High	+ and Significant	+ and Significant
Infrastructure	High	Medium	+ and Significant	- and Significant
Taxation	High	Low	Not Significant	Not Significant
Policy Uncertainty	Medium	Low	Not Significant	Not Significant
Inflation	High	Low	Not Significant	+ and Significant
Exchange Rate	High	Low	Not Significant	Not Significant
Judicial Functioning	Medium	Low	Not Significant	Not Significant
Corruption	Medium	Medium	+ and Significant	Not Significant
Street Crime	Low	Low	Not Significant	Not Significant
Organized Crime	Medium	Medium	+ and Significant	- and Significant
Anti-Competitive Govt Practices	High	Medium	+ and Significant	Not Significant

Table 3. Logistic Regression on 'Board Formation' Decision

	Dependent Variable - Creation of a Board of Directors between 1996 and 1999											
	Exp (b)	*Sig*	*Wald*	e^b	*Exp (b)*	*Sig*	*Wald*	e^b	*Exp (b)*	*Sig*	*Wald*	e^b
AlbaniaDm	-18.96		0.00	0.00	-18.72		0.00	0.00	-18.14		0.00	0.00
ArmeniaDm	-18.96		0.00	0.00	-18.49		0.00	0.00	-18.47		0.00	0.00
AzerbaijanDm	-18.96		0.00	0.00	-18.62		0.00	0.00	-18.51		0.00	0.00
BelarusDm	-1.73		2.53	0.18	-1.31		1.39	0.27	-1.87		2.57	0.15
BosniaDm	-0.72		1.01	0.49	-0.10		0.02	0.91	0.51		0.38	1.66
BulgariaDm	-0.17		0.08	0.84	0.47		0.49	1.60	0.58		0.64	1.78
CroatiaDm	-1.67		2.36	0.19	-0.66		0.35	0.52	-0.70		0.38	0.50
CzechDm	-18.96		0.00	0.00	-18.19		0.00	0.00	-18.30		0.00	0.00
EstoniaDm	1.46	**	7.37	4.32	1.82	**	9.20	6.15	1.64	**	6.81	5.15
GeorgiaDm	-1.33		2.62	0.27	-1.11		1.71	0.33	-1.05		1.35	0.35
HungaryDm	-18.96		0.00	0.00	-18.35		0.00	0.00	-18.44		0.00	0.00
KazakhstanDm	-0.38		0.33	0.69	-0.16		0.05	0.85	-0.33		0.19	0.72
KyrgystanDm	-1.05		0.93	0.35	-1.21		1.14	0.30	-1.48		1.57	0.23
LatviaDm	-0.60		0.86	0.55	-0.83		1.45	0.44	-0.79		1.27	0.45
LithuaniaDm	-1.83	*	2.86	0.16	-0.86		0.60	0.42	-0.82		0.52	0.44
MacedoniaDm	-1.65		2.30	0.19	-1.20		1.15	0.30	-0.96		0.71	0.38
MoldovaDm	0.60		1.41	1.82	0.24		0.19	1.27	0.34		0.31	1.41
PolandDm	-0.49		0.78	0.61	0.41		0.45	1.50	0.49		0.61	1.63
RepSerpskaDm	-0.80		0.53	0.45	-0.06		0.00	0.94	0.28		0.05	1.32
RomaniaDm	-1.34		2.67	0.26	-0.68		0.63	0.51	-1.09		1.44	0.34
RussiaDm	0.06		0.02	1.06	0.37		0.56	1.45	0.28		0.26	1.33
SlovakiaDm	-2.15	*	3.95	0.12	-1.80	*	2.69	0.16	-2.12	*	3.38	0.12
UkraineDm	0.52		1.15	1.68	0.74		2.02	2.10	0.64		1.20	1.89
UzbekistanDm	-0.50		0.36	0.61	-0.04		0.00	0.96	-0.49		0.29	0.61

LnBusAge					-1.11	***	28.11	0.33	-1.06	***	26.39	0.35
LnFTEStaff					0.99	**	8.77	2.68	0.98	**	8.37	2.67
FormerState					1.02	***	16.60	2.77	1.04	***	16.54	2.83
IntlTrade					0.60	*	5.88	1.82	0.59	*	5.35	1.81
ForeignInv					0.41		2.11	1.51	0.61	*	4.09	1.83
Financing									0.26	*	4.66	1.30
Infrastructure									-0.19	*	2.75	0.83
Taxation									0.06		0.14	1.06
Policy Uncertainty									-0.06		0.19	0.94
Inflation									0.31	*	3.23	1.36
Exchange Rate									-0.08		0.42	0.92
Judicial Functioning									0.14		0.98	1.15
Corruption									-0.18		1.44	0.84
Street Crime									0.04		0.09	1.04
Organized Crime									-0.29	*	3.58	0.75
Anti-Competitive Govt Practices									0.09		0.53	1.10
Constant	-2.24	***	31.86	0.11	-2.73	***	14.83	0.07	-3.52	***	16.35	0.03
n (valid in analysis)			1820				1820				1820	
2 Log-likelihood			723.65				643.72				626.81	
Nagelkerke R^2			0.163				0.272				0.295	

Values of e^b above 1.0 indicate a positive effect, below 1.0 indicate a negative effect. * p < .05, ** p < .01, *** p < .001

Table 4. Spearman Correlation - Non-Dummy Control and Independent Variables

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. LnBusAge	1.000															
2. LnFTEStaff	0.154	1.000														
3. FormerState	0.082	0.423	1.000													
4. IntlTrade	0.130	0.208	0.069	1.000												
5. ForeignInv	0.009	0.118	0.068	0.260	1.000											
6. Financing	-0.023	0.012	0.061	-0.060	-0.165	1.000										
7. Infrastructure	-0.031	0.033	0.064	-0.050	-0.042	0.250	1.000									
8. Taxation	-0.046	-0.024	0.021	-0.040	-0.089	0.366	0.272	1.000								
9. Policy Uncertainty	-0.063	0.038	0.040	-0.028	-0.054	0.267	0.239	0.374	1.000							
10. Inflation	-0.090	0.072	0.106	-0.160	-0.068	0.273	0.203	0.304	0.425	1.000						
11. Exchange Rate	-0.086	0.114	0.096	-0.008	0.008	0.206	0.171	0.227	0.390	0.648	1.000					
12. Judicial Functioning	0.025	0.057	0.030	0.074	-0.012	0.193	0.272	0.235	0.324	0.214	0.289	1.000				
13. Corruption	-0.077	-0.032	-0.022	0.000	0.001	0.258	0.238	0.310	0.399	0.271	0.297	0.586	1.000			
14. Street Crime	-0.049	-0.014	-0.013	-0.117	-0.067	0.195	0.249	0.220	0.328	0.261	0.260	0.413	0.549	1.000		
15. Organized Crime	-0.088	-0.019	-0.006	-0.057	-0.027	0.205	0.225	0.240	0.359	0.265	0.278	0.453	0.620	0.735	1.000	
16. Anti-Competitive Government Practices	-0.072	0.050	0.017	-0.016	-0.019	0.221	0.203	0.226	0.335	0.290	0.263	0.407	0.497	0.416	0.513	1.000

± 0.055, Correlation is significant at 0.01; ±0.035, Correlation is significant at 0.05.