

Research Paper

Institutional distance and multinational enterprises' FDI decisions in Portugal

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Abstract

Purpose: The purpose of this paper is to examine institutional distance effects on foreign multinational enterprises' strategic FDI decisions in Portugal. Following a disaggregated distance construct, this paper also investigates the differentiated effects of each dimension of distance.

Design/methodology/approach: To test the proposed hypothesis a panel data analysis is used with random effects and regressions are estimated through Generalized Least Squares (GLS).

Findings: The results confirm the existence of a significant relationship between institutional distance and FDI decisions into Portugal, whereas the differentiated effects of each dimension were also confirmed, with seven out of nine dimensions of institutional distance being found to significantly influence those strategic decisions. Among them, administrative distance has been found to consistently deter foreign investment decisions in Portugal, likely due to legal issues.

Originality: Previous research in international business pointed to detrimental effects of distance on FDI decisions. By examining those decisions with a disaggregated construct, this study demonstrates that different dimensions of distance can affect FDI decisions differently. As the vast majority of international business studies focus on US firms, this paper contributes with a different point of view, expanding the empirical research of Portuguese studies and, consequently, that of international business outside the USA.

Keywords: Institutional distance; FDI decisions; Portugal; multinational enterprises; panel data

1. Introduction

International business (IB) literature has been dealing with differences between countries (see Ambos & Håkanson, 2014; Bae & Salomon, 2010; Conti et al., 2016; Hutzschenreuter et al., 2016). Such differences have been studied under the concept of distance, which is one of the most important concepts in IB theory (Hutzschenreuter et al., 2016; Zaheer et al., 2012). In fact, "international management is the management of

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distance” (Zaheer et al., 2012: 19), not only in its geographical sense, but also in terms of culture, economic development, legal systems, and other factors (Conti et al., 2016).

Distance issues become relevant when a multinational enterprise (MNE) finds it harder to compete with domestic rivals on the countries in which it operates, giving rise to a ‘Liability of Foreignness’ (Zaheer, 1995), which increases the costs of doing business abroad (Eden & Miller, 2004; Gallego & Casillas, 2014; Gooris & Peeters, 2014). This costs were described by Hymer (1960), who argued that the advantages of national enterprises over their foreign counterparts arise from three types of barriers to international operations: information, since national companies have a better knowledge of its economy, language, law, and politics; discrimination, because in some countries foreigners and nationals may receive different treatment, be it from the government, suppliers, or even costumers; and exchange rate risk, due to the fact that a change in the exchange rate affect national companies and MNEs very differently.

Notwithstanding this liability of foreignness, MNEs still operate abroad and compete with national firms throughout the world. In fact, according to the latest World Investment Report (UNCTAD, 2017b), the flux of foreign direct investment grew notably in the course of the last 50 years, from about 15 billion USD in 1970 to nearly 2 trillion USD in 2016.

In this study we analyze the impact of institutional distance on the investment decisions of foreign MNEs in Portugal. With this paper, we aim to contribute to the IB literature in three different manners: First, we expand the Portuguese literature regarding institutional distance and strategic FDI decisions, and, consequently, the body of research of “foreign domestic studies” (as pointed by Werner, 2002: 278); Second, we make use of one of the most holistic frameworks (Berry et al., 2010) to study foreign MNEs’ FDI decisions in Portugal which, as far as we know, no one has used before; Third, rather than relying on a simple cross section analysis, which may give an accurate picture of the reality at a specific moment in time, we utilize a panel data (or longitudinal) analysis in order to capture the complex behavior of the investment decisions of foreign MNEs facing institutional changes over time.

Following this introduction, we make a theoretical review of the distance concept throughout time, emphasizing the discussion around institutional distance and its disparate constructs. Next, based on previous findings of the determinants of FDI decisions, we develop our hypotheses and present a model to study them. After the analysis and discussion of the results, we conclude with relevant findings and contributions to the literature, as well as the limitations of our research and future directions for investigation.

2. Theoretical background

2.1. From psychic to institutional distance

What started with Uppsala’s definition of a psychological distance between the decision maker’s country and the destination country (Hörnell et al., 1973; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975; Vahlne & Wiedersheim-Paul, 1973), has evolved throughout the years, developing a notion that countries have other distances between them than a mere geographical separation. Psychic distance was, then, described as “the sum of factors preventing the flow of information from and to the market [due to] differences in language, education, business practices, culture and industrial

development” (Johanson & Vahlne 1977: 24). Although 40 years have passed, there is still little consensus on how to build psychic distance constructs (Hutzschenreuter et al., 2016). One of the main difficulties is to capture the individual perceptions of people in companies, which can easily vary throughout time and between individuals, not to say between firms and countries (Shenkar, 2001; Stöttinger & Schlegelmilch, 1998). Accordingly, the ideal would be to measure decision makers’ perceptions immediately before a decision is made, which can be rather difficult if not impossible (Hutzschenreuter et al., 2016). Nevertheless, researchers measure perceptions *ex post*, which introduces the problem of whether the perception measured is the same that influenced the decision, or if that perception was altered by the “post-decision experience” (Dow & Karunaratna, 2006).

In 1980, Hofstede developed a measure of national culture based on four psychological variables that, together, define a nation’s culture: power distance; uncertainty avoidance; masculinity; and individualism. In line with Uppsala’s psychic distance, this cultural variables influence the perceptions of MNEs’ decision makers (Kogut & Singh, 1988). Although alternative conceptualizations of culture exist (e.g. House et al, 2004), Hofstede’s approach remains the most used in the IB literature (Hutzschenreuter et al., 2016), and most researchers use the index developed by Kogut & Singh (KS, 1988) to determine the distance between two countries (Berry et al., 2010; Zaheer et al., 2012). Regardless of the strong critique of Shenkar (2001), the number of citations of Kogut & Singh’s 1988 article has grown, according to Google Scholar, from 109 in 2001 to 482 in 2016. This overutilization of such a criticized model led Zaheer et al. (2012: 19) to speculate that

this evidence may simply indicate that the warning has gone unheeded, we believe that many researchers are cognizant of the limitations of distance constructs, yet are unwilling to let them go because their usefulness is so great.

Another important thrust in the IB literature regarding the distance subject is the CAGE model developed by Ghemawat (2001), which takes into account other variables besides culture that can have impact on internationalization decisions of MNEs. The construct developed by Ghemawat (2001) includes a cultural distance (created by differences in language, ethnics, religions, and social norms), an administrative distance (caused by the absence of colonial ties, shared political and monetary association, political hostility, institutional weakness, and different government policies), a geographic distance (which encompasses physical remoteness, lack of a common border and sea or river access, country size, weak transportation or communication links, and even differences in climate), and an economic distance (measured as differences in consumers income, and in the costs and quality of several resources). This CAGE model is one of the very first constructs in the IB literature that departs from the exclusive point of view of cultural differences as the only differences between countries to assume a multidimensional view of distance that, in a sense, is a more holistic point of view (Ghemawat, 2001; Hutzschenreuter et al., 2016).

A more recent line of investigation draw from institutional theory (North, 1994; Scott, 2013) to develop constructs of distance between countries (Arslan & Larimo, 2011; Bailey & Li, 2015; Berry et al., 2010; Choi et al., 2016; Estrin et al., 2009; Gooris & Peeters, 2014; Perkins, 2014; Shirodkar & Konara, 2017; Xu & Shenkar, 2002), arguing that cultural distance alone doesn’t capture the complexity associated with cross-border activities (Hutzschenreuter et al., 2016). Douglass North (1994) defined institutions as

“humanly devised constraints that structure human interaction”(p.360), or more simply as “the rules of the game”(p.361), which can be formal (e.g. rules, laws) or informal (e.g. norms of behavior, conventions). Some authors within institutional distance literature have based their constructs in such definitions (e.g. Arslan & Larimo 2011; Estrin et al. 2009; Gooris & Peeters 2014; Liou et al. 2016; Shirodkar & Konara 2017). According to Estrin et al. (2009: 1175), establishing contracts or employment relationships follow the rules of formal institutions, and informal institutions “even without codification, may impose powerful restrictions on individual actors”. Other authors (e.g. Xu & Shenkar 2002; Eden & Miller 2004; Kostova 1999; Perkins 2014) draw from Scott's (2013: 56) perspective of institutions, which “comprise regulative, normative, and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life”, to develop their constructs of institutional distance, based on the three pillars: regulative, normative, and cultural-cognitive. The regulative pillar is associated with the restrictions and regulations of behavior imposed by institutions, whose processes “involve the capacity to establish rules, inspect others’ conformity to them, and, as necessary, manipulate sanctions (...) in an attempt to influence future behavior” (Scott 2013: 59). In sum, regulatory institutions dictates what organizations and individuals may or may not do (Eden & Miller, 2004), as exemplified by laws, government regulations and policies that promotes one particular kind of behavior rather than another (Pogrebnyakov & Maitland, 2011). The normative pillar is considered as a system of rules imbued into social life that includes norms and values (Scott, 2013). According to Xu & Shenkar (2002: 610), it “prescribes desirable goals and the appropriate means of attaining them”, specifying how thing should or should not be done (Eden & Miller, 2004). The cultural-cognitive pillar refers to the shared conceptions of the social reality (Scott, 2013), or, as (Kostova, 1999: 314) puts it, “schemas, frames, inferential sets, and representations [that] affect the way people notice, categorize, and interpret stimuli from the environment”. Thus, this pillar determines what is or is not true, and what organizations and individual can or cannot do (Eden & Miller, 2004). Even though institutional and cultural distance comprise conceptualizations of the social context, both approaches are different from one another, and yet there are areas where the two overlap (Estrin et al., 2009; Kostova, 1999). For instance, Kostova (1999) argues that the normative and cultural-cognitive pillars are conceptually close to culture, and Estrin et al. (2009) fits culture within the informal dimension of institutions.

Notwithstanding the great acceptance of those frameworks to measure institutional distance, be it from North’s theory or Scott’s perspective, the operationalizations used throughout the literature differ greatly (Hutzschenreuter et al., 2016). For instance, some researchers developed their constructs using the ‘Global Competitiveness Report’ (Chao & Kumar, 2010; Magnusson et al., 2008; Xu et al., 2004), others the ‘World Competitiveness Yearbook’ (Arslan & Larimo, 2011; Magnusson et al., 2008), the World Bank’s governance indicators (Contractor et al., 2014; Gallego & Casillas, 2014; Gooris & Peeters, 2014; Lavie & Miller, 2008; Pogrebnyakov & Maitland, 2011), the ‘Economic Freedom Index’ (De Beule et al., 2014; Estrin et al., 2009), and others still develop their own items (Chiao et al., 2010; Madsen, 2009; Perkins, 2014; Vachani, 2005). This disparity of institutional distance constructs reveals a severe lack of consensus among scholars regarding its correct operationalization (Hutzschenreuter et al., 2016), and, from our perspective, makes it difficult to consolidate the concept as well as hinders the accumulation of knowledge.

It is in this context that we find rather preferable a framework which reconciles the diverse perspectives regarding institutional distances between countries, namely the framework

proposed by Berry et al. (2010). The authors, based on the works of Jackson & Deeg (2008) and Pajunen (2008), draw from three conceptualizations of transnational institutions, which are capable of affecting international decisions of MNEs: national business systems (Whitley, 1992), national governance systems (Kester, 1996), and national innovation systems (Freeman, 1987, 1995; Lundvall, 1992; Nelson & Rosenberg, 1993). The first refers to “distinctive configurations of hierarchy-market relations which became institutionalized as relatively successful ways of organizing economic activities in different institutional environments” (Whitley, 1992: 13), and, in this respect, countries differ from one another regarding the characteristics of their demographic, geographic, cultural, and political institutions. The second is defined as “the entire set of incentives, safeguards, and dispute-resolution processes used to order the activities of various corporate stakeholders” (Kester, 1996: 109) (e.g. shareholders, management, workers, creditors, suppliers, and customers), and are originated in administrative and political institutions which makes certain stakeholders more powerful than others in certain countries (Henisz, 2000; La Porta et al., 1998). The latter relates to institutional configurations that hosts innovation and technological development (Nelson & Rosenberg, 1993), which implies that countries differ in their ability to produce knowledge, and how they can leverage that knowledge by being connected to other countries (Furman et al., 2002; Porter, 1990). Based on these theories, Berry et al. (2010) disaggregated the traditional constructs of institutional distance proposing a set of nine dimensions: economic (differences in economic development and macroeconomic characteristics), financial (differences in financial sector development), political (differences in political stability, democracy, and trade bloc membership), administrative (differences in colonial ties, religion, and legal system), cultural (differences in attitudes toward authority, trust, individuality, and importance of work and family), demographic (differences in demographic characteristics), knowledge (differences in patents and scientific production), connectedness (differences in tourism and Internet use), and geographic (great circle distance between geographic center of countries). This construct has gained traction among researchers, being used to study divestment and subsidiary exits (Kang et al., 2017; Pattnaik & Lee, 2014), firm performance (Hasan et al., 2016), and FDI (Bailey & Li, 2015).

Another key characteristic of this framework is the method used to calculate the distance between countries – the Mahalanobis distance –, which, according to Berry et al. (2010), is preferable to the traditional Euclidean distance for three reasons: first, variables used to characterize countries tend to be highly correlated with one another (e.g. GDP per capita and inflation), and Euclidean distance doesn’t take into account that correlation; second, the variance of the variables differs greatly, both between individuals and over time, and again the Euclidean distance doesn’t account for that variance; lastly, countries’ characteristics are measured on multiple scales, which Euclidean distance does not allow. In addition of being scale invariant and take into account the variance-covariance matrix, the Mahalanobis distance exhibit the five desirable proprieties of a proper distance measure – symmetry, non-negativity, identification, definiteness, and triangle inequality (Mimmack et al., 2001).

2.2. *Institutional distance and FDI decision in Portugal*

Theoretically, the recognition of a relationship between international MNE activity and countries’ differences come from the OLI paradigm proposed by Dunning (1977), namely the location (L) sub paradigm, which accounts for the attractiveness of certain locations

(Dunning, 1993). Years later, Dunning & Lundan (2008) incorporated institutions into the OLI paradigm, recognizing that national institutions affect a country's inward and outward FDI. Recent work by Mike Peng and his colleagues (Peng, 2002, 2006, 2017; Peng et al., 2008) confirmed the importance of institutional differences between countries on MNEs' strategic decisions such as FDI.

Taking into consideration that institutions are "the rules of the game" and that organizations are the "players" (North, 1994), when a MNE decides to open a subsidiary abroad, it has to account for the *distance* between home and host countries in terms of institutions. In that sense, a number of researchers consider that the greater the distance, the less investment a MNE makes abroad (e.g. Bailey & Li, 2015; Kogut & Singh, 1988). Nevertheless, empirical studies of MNEs' investment decisions, which account for institutional variables, reveal differentiated effects (e.g. Aleksynska & Havrylchyk, 2013; Arslan & Larimo, 2010; Berry et al., 2010; Choi et al., 2016; Contractor et al., 2014; Zhang, 2015). As an example, Choi et al. (2016) found that, on the one hand, an increase of institutional factors promoting societal interests at large in one country is related to an increase in FDI flows from the USA to that country and, on the other hand, an increase of institutional factors that promotes the interests of specific investors, decreases those flows. Another study by Aleksynska & Havrylchyk (2013) shows that certain dimensions of institutional distance stimulate FDI. The authors acknowledge the differences of institutional quality across countries, and their results indicates that MNEs from low institutional quality countries tend to invest in high institutional quality countries, thus opting for more *distant* countries (Aleksynska & Havrylchyk, 2013). Berry et al. (2010) also found differentiated effects of the various dimensions of distance in US MNEs' FDI decisions. The authors concluded that cultural, administrative and demographic distances influence positive and significantly the entry decision in low-income countries, whereas those same distances exert a negative impact when the decision is to enter in high-income countries.

Among the diverse institutional variables used to explain FDI, cultural distance is the most popular (Shenkar, 2001). Nevertheless, its usage also presents contradictions, as well as non-significant results (see Berry et al., 2010; Shenkar, 2001; Xu et al., 2004). Such contradictions can be understood when adopting a transaction costs rationale (Shenkar, 2001; Xu et al., 2004). On the one hand, a MNE may opt for a low level of commitment (i.e. low FDI) due to high uncertainty in the host country (e.g. Bailey & Li, 2015; Kogut & Singh, 1988). On the other, it may internalize the market in an attempt to eliminate the uncertainty about a given culture (e.g. Gooris & Peeters, 2014; Padmanabhan & Cho, 1996).

Those differentiated effects of institutional variables in FDI reflect the theoretical recognition that institutional distance is a multidimensional construct (Berry et al., 2010), and, as there are different motivations to incur in FDI (see Dunning, 2000), each of the dimensions of distance may have different impacts, depending on the motivation.

The empirical investigation with a focus on Portugal is not very large, consisting in some scientific journal publications or congress proceedings (e.g. Barbosa et al., 2004; Barros et al., 2014; Faria et al., 2018; Guimarães et al., 2000; Leitão, 2011; Leitão & Faustino, 2010; Reis et al., 2013), and unpublished academic thesis (e.g. Faria, 2017; Ferraz, 2014; Reis, 2017; Simões, 2016).

In line with classical FDI location theories, Leitão (2011) and Leitão & Faustino (2008, 2010) found that labor cost is an important factor to the entry of FDI flows in Portugal. Both studies also found a positive correlation between GDP, trade openness and inflation

rate and FDI entry in Portugal. Those results add up to the arguments made by Barbosa et al. (2004: 465) that foreign MNEs “exploit Portugal’s chief location advantage in Western Europe: low wages”, and that they use the country as an export platform to the rest of the European Union.

Regarding institutional factors, Leitão (2011) found that corruption is negatively related to FDI entry in Portugal. In a thorough analysis, Ferraz (2014) concluded that Portuguese inward FDI is positively related to the home country’s corruption levels. However, both Faria (2017) and Ferraz (2014) didn’t find any significance in the reverse movement, in other words, host country’s corruption levels doesn’t seem to influence Portuguese MNEs’ FDI decisions. In a particular case of FDI from Angola, Barros et al. (2014) found that an increase in Angolan corruption levels increased the FDI into in Portugal, and suggested that the passiveness of the Portuguese government, regarding the possibly illegal origin of the funds, was due to the pressing sovereign debt crisis.

At the culture level, Faria (2017) found a positive relationship between cultural distance and the ownership levels of Portuguese MNEs in foreign subsidiaries. In another study, Simões (2016) found no relationship between cultural distance and Portuguese outward FDI. Ferraz (2014), which used five of Hofstede’s cultural dimensions (power distance, individualism, masculinity, uncertainty avoidance, and long-term orientation), concluded that all except long-term orientation have a significant influence in Portuguese FDI, both inward and outward.

Since we intend to analyze the impact of institutional distance on foreign MNEs’ FDI decisions in Portugal, we hope, by using a multidimensional distance construct, to shed light on the differentiated effects of the various dimensions of distance.

2.3. Hypotheses

Administrative distance, as defined in this paper, has not been widely used in the IB literature (Zhang, 2015), and it refers to differences in religion, colonial ties, and legal systems (Berry et al., 2010). Ghemawat (2001) argues that a colonial link, by itself, increases trade between two countries by 900%. Regarding FDI, Blonigen & Piger (2014) pointed to colonial relationship as a determinant of FDI. Some empirical studies have also found evidence of this relationship, for instance, Zhang (2015) discovered a negative relationship between administrative distance and the ownership levels of Japanese MNEs in foreign subsidiaries. Also, Bailey & Li (2015) found that increases of administrative distance inhibits US FDI outflows. In line with those findings, we expect that administrative distance has a negative relationship with FDI entry in Portugal.

H1: Administrative distance has a negative relationship with FDI entry in Portugal.

Hofstede (1980) and other researchers have long demonstrated that cultural differences between countries have a significant impact on corporate internationalization decisions (Werner, 2002). Given that Hofstede’s cultural scores are based on the answers of IBM’s worldwide employees to a questionnaire, a strong critique rises, for that employees of one company may not be representative of the entire population on a given country (Berry et al., 2010). Another strong critique targets Hofstede’s assumption that culture doesn’t change much over time (Berry et al., 2010; Shenkar, 2001). In fact, recent sociological research has demonstrated that it can change significantly over time (Inglehart & Baker,

2000). To overcome these shortcomings, Berry et al. (2010) use the World Values Survey (WVS, Inglehart et al., 2014) answers to represent Hofstede's (1980) four cultural dimensions (power distance, individualism, masculinity, and uncertainty avoidance).

Empirically, the use of cultural distance presents some contradictions due to the great diversity of constructs (Hutzschenreuter et al., 2016). For instance, Gooris & Peeters (2014) found a positive relationship between cultural distance and the preference of US firms in international vertical integration, as opposed to outsourcing contracts. With similar conclusions, Ferreira et al. (2017: 65) found that an increase in cultural distance leads to a higher resource commitment of foreign MNEs when acquiring Brazilian firms, suggesting that when facing higher levels of uncertainty, MNEs protect their proprietary resources “using models of full control of the operations in emerging economies” In contrast, Zhang (2015) found a negative relationship between cultural distance and the ownership levels of Japanese MNEs on foreign subsidiaries. In the Portuguese case, Ferraz (2014) found that power distance, individualism and uncertainty avoidance are positively related to Portuguese inward FDI and that masculinity has a negative relationship. By adopting a transaction costs rationale, we assume that a higher cultural distance increases uncertainty, encouraging MNEs to exert superior control of their foreign operations, thus incurring in higher levels of FDI.

H2: Cultural distance has a positive relationship with FDI entry in Portugal.

Differences in countries demographics have a direct implication in market attractiveness and growth potential (Berry et al., 2010). Characteristics such as the age structure of the population, life expectancy rates, and birth rates may affect consumer preferences, as well as MNEs' decisions (Berry et al., 2010). Of the few existing studies that relate demographic distance to FDI decisions, Berry et al. (2010) discovered that this dimension of distance is significant for US MNEs entering external markets for the first time, or if the decision is to invest in low-income countries. Since the determination of the specific motivations of each MNE goes beyond the scope of this study and being our objective to ascertain the impact of each dimension of distance on the decisions made by foreign MNEs, aggregated at national level, we proceed with the following hypothesis.

H3: Demographic distance influences FDI entry in Portugal.

According to Berry et al. (2010), IB literature emphasizes three indicators of economic differences across countries: income levels, inflation rates, and intensity of trade with the rest of the world. These indicators are usually used as control variables in recent empirical research (e.g. Bailey & Li, 2015; Buckley et al., 2007; Podda, 2016), and its relationship with FDI has shown significance (Bailey & Li, 2015; Podda, 2016). As for the Portuguese case, Leitão (2011) and Leitão & Faustino (2008, 2010) found that these factors are positive and significantly related with Portuguese FDI inflows, leading us to present the following hypothesis.

H4: Economic distance has a positive relationship with FDI entry in Portugal.

The economic evolution within countries has originated different financial systems, which have implications in the ways companies fund their operations (Berry et al., 2010; La Porta et al., 1998; Whitley, 1992). Rueda-Sabater (2000) argue that, due to weak development of capital markets in low-income countries, portfolio investment flows to those countries are nearly inexistent, being FDI their only source of private capital. Empirically, Capron & Guillén (2009) haven't found a significant relationship between total market capitalization and M&A activity in a given country. Ferreira et al. (2017) found a positive relation between finance distance and the degree of ownership in Brazilian firms by foreign MNEs, arguing that the lack of development of the Brazilian financial markets makes it more difficult to obtain local financing. Although Portugal doesn't have the best developed financial market in Europe, there are several factors of the financial environment that makes it quite distinct from Brazil, namely the low degree of uncertainty regarding monetary policies and exchange rates (Capron & Guillén, 2009; Ferreira et al., 2017). Therefore, we consider that a higher finance distance between the home country of a MNE and Portugal, decrease its propensity to incur in FDI.

H5: Finance distance has a negative relationship with FDI entry in Portugal.

Intuitively, it is easy to understand that geographic distance increases transportation and communication costs (Berry et al., 2010). According to the gravitational model (Anderson, 1979; Bénassy-Quéré et al., 2007), trade between two countries is positively related to the dimension (i.e. GDP), and negatively related with distance. In fact, empirical research reveals the significance of that relationship, be it in Portugal (e.g. Faria et al., 2018; Leitão & Faustino, 2008) or elsewhere (e.g. Bailey & Li, 2015; Bénassy-Quéré et al., 2007). Given that one of the main reasons to engage in FDI is to set-up a foreign manufacture subsidiary to, from there, export to other countries (Dunning, 1993, 2000), and being that a probable motivation for foreign MNEs to invest in Portugal (Barbosa et al., 2004), one could expect that geographic distance has a negative influence in MNEs' FDI decisions.

H6: Geographic distance has a negative relationship with FDI entry in Portugal.

The connectedness dimension reflects the ability of individuals and companies in one country to interact with other parts of the world, by obtaining information and divulging their activities (Oxley & Yeung, 2001). Zhang (2015) has discovered that connectedness distance positively influences the ownership levels of Japanese MNEs in their foreign subsidiaries. Likewise, Kang et al. (2017) found that higher connectedness distance decreases divestment of MNEs in their foreign subsidiaries, which lead us to formulate the following hypothesis.

H7: Connectedness distance has a positive relationship with FDI entry in Portugal.

It has been argued that proximity to knowledge is a factor that influences the MNEs choice of a possible location (Anand & Kogut, 1997; Berry, 2006). Since knowledge is unevenly distributed across countries (Berry et al., 2010), this dimension of distance may

influence FDI decisions. Empirically, Kang et al. (2017) found a negative relationship between this distance and the divestment of MNEs in their foreign subsidiaries. In another study, Zhang (2015) also found that knowledge distance and the ownership levels of Japanese MNEs abroad are positively related. Thus, we formulate the following hypothesis.

H8: Knowledge distance has a positive relationship with FDI entry in Portugal.

Political distance arise from the recognition that countries differ in terms of the nature of their political systems (Henisz, 2000; Whitley, 1992). Here, political distance refers to differences in political stability, democracy and trade bloc membership (Berry et al., 2010). There is some agreement on the influence of political factors in the choice of markets to enter, the entry mode, and FDI fluxes (e.g. Delios & Henisz, 2000; García-Canal & Guillén, 2008; Gastanaga et al., 1998; Henisz & Delios, 2001; Kang et al., 2017). Blonigen & Piger (2014) agree that a regional trade agreement is a determinant of FDI. Empirically, Kang et al. (2017) found a positive relationship between political distance and MNEs divestment in their foreign subsidiaries. In a similar sense, Berry et al. (2010) found a negative relationship between this distance and the propensity of US firms to enter a given country. Also, Bailey & Li (2015) found that US FDI outflows are inhibited by a large political distance in the presence of a high demand in the host country. This lead us to believe that the greater the political distance, the less foreign MNEs will invest in Portugal.

H9: Political distance has a negative relationship with FDI entry in Portugal.

3. Research methodology

3.1. Data and sample

To test the formulated hypothesis, we utilized a panel data set composed by the FDI made in Portuguese companies, aggregated by national origin, during the period 2003-2010. FDI data was collected from UNCTAD's bilateral FDI statistics, Organizations for Economic Co-operation and Development (OECD), and Bank of Portugal. Distance data was obtained from Berry et al. (2010)^[1] and from Hofstede's website^[2]. The resulting panel was an unbalanced one, composed by 34 national origins of FDI, which are shown in **Erro! A origem da referência não foi encontrada..** The sample obtained represents about 88% of the total FDI positions held in Portuguese companies by foreign MNEs during the period of the study.

Table 1. FDI origins

Angola	Lithuania
Australia	Luxembourg
Austria	Malta
Belgium	Mexico
Brazil	Morocco
Canada	Mozambique
Cyprus	Netherlands
Czech Republic	New Zealand
Denmark	Norway
Finland	Saudi Arabia
France	South Africa
Germany	Spain
Iceland	Sweden
Ireland	Switzerland
Italy	United Kingdom
Japan	United States of America
Korea, Republic of	Venezuela

Source: Author.

To further test our results, we relaxed some assumptions and built a second panel, described below, with the same 34 FDI origins, but with an increased time span (2003-2015).

3.2. Variables

3.2.1. Dependent variable

The dependent variable in this study is the stock of FDI held in Portuguese companies by foreign MNEs, measured in US dollars and deflated by the Portuguese deflator (base year 2010), which was obtained from International Monetary Fund's (IMF) International Financial Statistics (IFS). FDI stock data for the first panel was collected from UNCTAD. The reasons why FDI stocks are used, rather than FDI flows, came from of Bénassy-Quéré et al. (2007), who argue that "foreign investors decide on the worldwide allocation of output, hence on capital stocks" (p. 769). The same authors also pointed to the volatility of flows over stocks, given that the former can be hugely influenced by one or two takeovers. Given that FDI stocks correspond to the percentage of capital held by foreign MNEs in Portuguese companies (including retained earnings), plus the subsidiaries' net indebtedness to the foreign headquarters (UNCTAD, 2017a), it is possible to have negative FDI stocks.

In the second panel we have included other sources of FDI stock data, namely OECD statistics and Bank of Portugal because UNCATD's data goes only as far as 2012. Although we use different sources of FDI data, all of them base their FDI compilation on the Benchmark Definition of FDI: Fourth Edition (BMD4, OECD, 2008).

3.2.2. Independent variable

As said before, the explanatory variables used in this study are the nine dimensions of distance proposed by Berry et al. (2010) (administrative, cultural, demographic, economic, financial, geographic, connectedness, knowledge and political). All distances

between two countries were calculated using the Mahalanobis distance, except the geographical distance, which can be written mathematically:

$$d(a,b)^2 = (a - b) C^{-1} (a - b)^T$$

Where a and b are two vectors of different characteristics, of two countries, in a given year, and C is the covariance matrix of a $(n \times p)$ matrix, with p columns representing the characteristics and n rows representing each country in each year.

One consideration regarding MNEs' FDI decisions is that, usually, they are taken in advance relatively to the investment itself, thus creating a lag between the moment of information gathering and the moment of investing. By including a one year time lag becomes possible to capture causal relationships between the dependent and independent variables (Guler & Guillén, 2010; Jiménez & de la Fuente, 2016; Lavie & Miller, 2008), with the exception being made in time-invariant variables.

For the second panel we have used Hofstede's cultural data due to missing WVS data in the later years of the analysis. According to Berry et al. (2010), we have calculated the Mahalanobis distance of Hofstede's cultural scores. By using this variable, we expect to incur in some risks due to the limitations described above, particularly its time-invariant nature.

Administrative distance

According to Berry et al. (2010), this distance is time-invariable and refers to the presence of a colonial tie, the percentage of the population who share the same religion, and if the dyad share the same legal system. The first two items were obtained through CIA's World Factbook and the last one through La Porta et al. (1998).

Cultural distance

To build this distance, Berry et al. (2010) used WVS answers on questions regarding obedience and respect for authority (power distance), trust in others (uncertainty avoidance), independence and government support (individualism/collectivism), and importance of family and work (masculinity/femininity). The cultural distance in the second panel utilizes Hofstede distance, calculated as the Mahalanobis distance of the four original dimensions (power distance, uncertainty avoidance, individualism/collectivism, and masculinity/femininity) (Hofstede, 1980).

Demographic distance

This distance is based on four indicators, namely: life expectancy (in years), birth rate (per 1,000 population), population under 14 (% of total), and population above 65 (% of total). All these items were obtained by Berry et al. (2010) through World Bank's World Development Indicators (WDI).

Economic distance

The authors used four indicators from WDI to construct this distance, income (GDP *per capita*), Inflation (GDP deflator, in % of GDP), exports of goods and services (% of GDP), and imports of goods and services (% of GDP).

Financial distance

To construct this distance, Berry et al. (2010) used the domestic credit to private sector (% of GDP), the market capitalization of listed companies (% of GDP), and the number of listed companies (per one million population). All these indicators came from WDI.

Geographic distance

Geographic distance between countries is time-invariant and was obtained through the great circle method, based on data from CIA's World Factbook.

Connectedness distance

This variable contains three indicators obtained from the WDI: international tourism expenditures (% of GDP), international tourism receipts (% of GDP), and internet users (per 1,000 population)-

Knowledge distance

Berry et al. (2010) used the number of patents (per one million population) and the number of scientific articles (per one million population) to create this variable. Data came from US Patent and Trademark Office (USPTO) and from Thompson Reuters InCites.

Political distance

This distance was built based on four items: policy making uncertainty (POLCONV), size of the state (government consumption expenditure, % of GDP), World Trade Organization (WTO) member, and a dyadic membership in the same trade bloc. The first item was obtained from Henisz (2000), the size of the state from the WDI, and the last two items were gathered at WTO.

3.2.3. Control variables

To attempt to isolate the effects other variable could have on FDI decisions, two controls were added to the models. Given that the last update of the distance variable excludes the common language item from administrative distance, we include it as dummy variable which takes the value of 1 if the country has Portuguese as official language and 0 otherwise. Differences in language between countries is one of the factors Johanson & Vahlne (2009) refers that affects the flow of information from, and to the market, thus being able to influence MNEs' FDI decisions. According to Buckley et al. (2007), an underrated exchange rate encourages exports but deters FDI. In this sense, we include an exchange rate variable, obtained from the IFS (Lane & Milesi-Ferretti, 2018). Since Portugal has joined the Eurozone, other countries of this group will present a constant (1) in this variable.

3.2.4. Descriptive analysis

Table shows the variables descriptive statistics and the variance inflation factors (VIF) test. Since the highest VIF value is 3.512, well below the rule of thumb of 10.00 (O'Brien, 2007), multicollinearity doesn't seem to be a problem. By examining the correlations matrix (*Erro! A origem da referência não foi encontrada.*), we can observe that the highest correlation is 0.676 between political and geographic distances, although it is a moderately high correlation we still believe that no multicollinearity issues should rise due to the VIF test. The second panel's descriptive statistics and correlations are not shown for brevity but are available upon request.

Table 2. Descriptive statistics and VIF test

		N	Mean	S.D.	Min.	Max.	VIF
1	FDI stock	268	2,598.078	5,003.854	-196.867	24,964.211	
2	Administrative	272	43.526	35.755	0.061	142.053	3.512
3	Cultural	233	20.214	9.607	3.024	58.169	2.102
4	Demographic	272	5.900	7.013	0.180	29.353	1.905
5	Economic	272	5.098	7.766	0.399	49.140	1.756
6	Financial	199	3.755	3.418	0.072	15.778	1.363
7	Geographic	272	4,826.982	4,402.368	346.843	19,801.033	2.434
8	Connectedness	260	2.474	2.591	0.030	17.752	2.697
9	Knowledge	256	4.439	6.461	0.002	44.994	2.422
10	Political	272	156.034	61.024	57.211	235.104	2.777
11	PT	272	0.088	0.284	0	1	1.242
12	Exchange rate	272	58.245	248.335	0.428	1,752.846	2.314

VIF values above 10.00 may indicate multicollinearity problem.

Source: Author.

Table 3. Correlations matrix

	1	2	3	4	5	6	7	8	9	10	11	12
1 FDI stock	1											
2 Administrative	-0.453	1										
3 Cultural	-0.003	0.331	1									
4 Demographic	-0.305	0.150	-0.139	1								
5 Economic	-0.021	-0.061	-0.232	-0.217	1							
6 Financial	-0.009	-0.182	-0.178	0.257	0.173	1						
7 Geographic	-0.376	0.383	0.248	0.448	-0.219	0.136	1					
8 Connectedness	-0.051	0.534	0.345	-0.107	0.263	-0.043	0.115	1				
9 Knowledge	-0.194	0.321	0.512	-0.104	0.037	-0.220	0.329	0.050	1			
10 Political	-0.282	0.394	0.285	0.395	0.003	0.122	0.676	0.203	0.488	1		
11 PT	-0.092	0.013	-0.029	0.342	-0.103	0.117	0.158	-0.119	-0.081	0.039	1	
12 Exchange rate	-0.160	0.616	0.142	0.211	-0.130	-0.199	0.354	0.082	0.127	0.178	-0.051	1

Correlations above 0.147, in absolute terms, are significant at 5% level (two-tailed).

Source: Author.

3.3. Model specification

To ascertain the hypothesis formulated above we developed two models for both panels, one without lagging the dependent variables (models 1a and 2a) and another with a one-year time lag on the time-varying variables (models 1b and 2b).

Since we are using a panel data set it is important to understand which model to use to estimate the regression. According to Baltagi (2015), the most common models to estimate a linear regression are Ordinary Least Squares (OLS), fixed effects (FE), and random effects (RE). To use the OLS model the assumption of homogeneity must hold (Balestra, 1996). Due to the panel nature of our data it is very probable that this assumption might be violated, hence we do not use OLS. Regarding the discussion between FE and RE, Hsiao (2004) points out some considerations to choose one or another. For instance, if N is large and T is small, then the number of parameters to estimate in a FE model is high, making the parameters' estimations unreliable. Since our panel has $N=34$ and $T=8$, we opt for a RE model. Another reason to choose a RE model is the presence of time-invariant variables, which, in a FE model, would be dropped.

Aside from the theoretical method of model selection, Baltagi (2015) recommends a Hausman test, which compares FE and RE models. Accordingly, if the Hausman test statistic is significantly different from zero, then we hold to the FE model, if not, RE is preferable. The Hausman test for all models (model 1a: $H=10.69$, $p=0.2197$; model 1b: $H=5.01$, $p=0.7569$; model 2a: $H=9.58$, $p=0.2139$; model 2b $H=8.87$, $p=0.2618$) indicates that the RE model is the model to use.

The RE model can be generically written as:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \dots + \beta_k X_{kit} + \varepsilon_{it}, i = 1, 2, \dots, n; t = 1, 2, \dots, n$$

Where Y_{it} is the dependent variable for each individual (i) in each period (t), X_{it} are the independent variables and ε_{it} is the random disturbance term, which can be decomposed in $\varepsilon_{it} = \mu_i + v_{it}$, where the first term represents the individual random effects that don't vary over time and the second term represents the unobserved variables. The regressions were estimated through generalized least squares (GLS).

4. Results

Table displays the results of the regressions used to test our hypothesis. In model 1a we used all nine institutional variables and the two controls. Model 1b uses the same variables and include a one-year time lag for Cultural, Demographic, Economic, Financial, Connectedness, Knowledge, Political distances, and for Exchange rate as well. Model 2a uses the same variables except for Cultural distance, which was replaced by Hofstede's distance. Model 2b includes a one-year time lag for all variables, except Administrative, Hofstede, Geographic, and PT.

Table 4. GLS regressions with random effects

	1a	1b	2a	2b
Constant	1,917.32 (1.413)	2,477.20 (1867)*	6,367.22 (1.815)*	6,687.11 (1.811)*
Administrative	-113.73 (-3.214)***	-127.90 (-2.714)***	-103.65 (-2.862)***	-113.68 (-2.991)***
Cultural	100.22 (3.156)***	139.89 (4.228)***	-	-
Hofstede	-	-	-62.33 (-0.056)	-44.80 (-0.040)
Demographic	-17.29 (-0.123)	3.98 (0.030)	17.86 (0.132)	58.91 (0.345)
Economic	-0.82 (-0.014)	21.03 (0.317)	205.39 (2.124)**	199.78 (1.918)*
Financial	-31.98 (-0.353)	-86.59 (-1.116)	-512.02 (-2.178)**	-560.96 (-2.050)**
Geographic	-0.62 (-1.721)*	-0.70 (-1.979)**	-0.37 (-1.418)	-0.41 (-1.485)
Connectedness	1,021.33 (2.547)**	1,150.39 (1.217)	171.35 (0.273)	344.54 (0.8729)
Knowledge	-42.62 (-0.841)	-123.22 (-1.345)	-21.15 (-1.056)	-25.26 (-1.125)
Political	31.45 (1.323)	32.24 (1.545)	20.48 (1.850)*	20.51 (2.098)**
PT	921.96 (0.543)	862.23 (0.485)	594.40 (0.309)	469.25 (0.223)
Exchange rate	5.03 (2.139)**	5.83 (2.098)**	3.61 (2.099)**	4.02 (2.320)**
N	179	157	296	274
Period	2003-2010	2003-2010	2003-2015	2003-2015
Correlation ($y, \hat{y}$) ²	0.3653	0.3867	0.1999	0.2174

* $p \leq 0,1$; ** $p \leq 0,05$; *** $p \leq 0,01$.

z-score in parenthesis, calculated with robust standard errors.

Dependent Variable: FDI stock

Source: Author

The results obtained from the regressions do not confirm hypothesis H3 and H8, meaning that demographic and knowledge distances probably have no effect on foreign MNEs' FDI decisions in Portugal. Administrative distance relates negative and significantly to MNEs' investment decision in Portugal in all models below the 1% level, lending support to hypothesis H1. Cultural distance shows different results depending on the variable used. On the one hand, the WVS Cultural distance has a positive and statistically significant effect on the dependent variable, and, on the other, Hofstede's distance shows no relationship at all. This could be related with the time-invariant nature of Hofstede's cultural scores and gives partial support to hypothesis H2. Although with different signs, we found only statistical significance for Economic (+) and Financial (-) distances in models 2a and 2b, lending partial support to hypothesis H4 and H5. In contrast, Geographic distance shows a statistically significant negative relationship with the dependent variable only in the first two models, although it nearly misses significance in the latter two ($p=0.1561$ and $p=0.1376$, respectively), partially supporting hypothesis H6. As for connectedness distance, it only shows statistical significance in model 1a. Nonetheless, it shows a positive relationship with the dependent variable, lending a partial

support to hypothesis H7. Political distance shows a positive and statistically significant effect in models 2a and 2b, partially supporting hypothesis H9.

As for the control variables, exchange rate behaved as expected (Buckley et al., 2007) and the dummy variable Portuguese language didn't show any statistical significance.

The models' adjustment reveals that, despite models 2 have larger N, their correlation($y, \hat{y}$)² (or R^2) indicate a weaker adjustment, with models 1 presenting higher explanatory powers (36.5% and 38.7%) comparing to models 2 (20.0% and 21.7%)

5. Discussion and conclusions

The purpose of this paper was to examine the effects of institutional distance on foreign MNEs' FDI decisions in Portugal. For that, we have used Berry et al. (2010) institutional distance construct which, in our view, is most appropriate to capture the diversity of factors that differs across countries.

It is a rather common assumption in IB literature, to argue that an increase of distance implies a decrease of FDI between two countries (Bailey & Li, 2015; Kogut & Singh, 1988; Pattnaik & Lee, 2014). Nevertheless, the assumption underlining the institutional distance construct is that each dimension might have a differentiated effect on the investment decisions of MNEs (Berry et al., 2010; Ghemawat, 2001). Accordingly, we developed two sets of data, containing MNEs' FDI in Portugal, aggregated at national level, from 34 origins across 8 and 13 years, to understand the extent to which the different dimensions of distance influence foreign MNEs' FDI decision in Portugal.

With this study we come to two general conclusions. First, we found that administrative distance is the most significant distance dimension that has an impact on the investment made in Portugal, while several other dimensions have only moderate impact. Second, results show that those effects differ according to the dimension examined. **Erro! A origem da referência não foi encontrada.**, presents the summarized confrontations between results and hypothesis.

Table 5. Hypothesis vs. results

	Hypothesis	Expected results		Obtained results
H1	Administrative distance has a negative relationship with FDI entry in Portugal	-	-	Supported
H2	Cultural distance has a positive relationship with FDI entry in Portugal	+	+	Partially supported
H3	Demographic distance influences FDI entry in Portugal	Significant	Non-significant	Rejected
H4	Economic distance has a positive relationship with FDI entry in Portugal	+	+	Partially supported
H5	Financial distance has a negative relationship with FDI entry in Portugal	-	-	Partially supported
H6	Geographic distance has a negative relationship with FDI entry in Portugal	-	-	Partially supported
H7	Connectedness distance has a positive relationship with FDI entry in Portugal	+	+	Partially supported
H8	Knowledge distance has a positive relationship with FDI entry in Portugal	+	Non-significant	Rejected
H9	Political distance has a negative relationship with FDI entry in Portugal	-	+	Rejected

Source: Author

The most conclusive result of this study was that administrative distance has a significant detrimental effect on MNEs' decision to invest in Portugal. The result is supported by previous research (Pattnaik & Lee, 2014; Zhang, 2015). Given that administrative distance is composed by religion sharing, colonial ties, and differences in legal systems, it is probable that, in this study, legal issues had the larger influence for two reasons. First, two of the three countries that have colonial ties with Portugal were dropped from the analysis, due to complete missing values in some distance variables (Angola and Mozambique), thus being less likely that this item would influence the results. Second, considering that the great majority of countries in our sample have a Christian based religion, all that is left to explain administrative distances is likely to be legal issues. We consider to be probable that Portuguese legal system has a detrimental effect on MNEs' decisions to invest in the country. This argument is supported by Tavares (2004) who, by comparing Portuguese institutional quality with that of other countries, concluded that one of the most promising areas of institutional reform in Portugal was the legal system. Also, La Porta et al. (1998) argue that countries with legal system based in French civil-law, such as Portugal, tend to offer less legal protection to investors that those based on commons-law. This argument is also confirmed by more recent reports on FDI attractiveness of Portugal (EY, 2017; Simões & Cartaxo, 2013). Particularly, EY (2017) survey on decisionmakers' opinions revealed that investors perceive regulation and taxes as complex.

As proposed by hypothesis H2, cultural distance revealed a positive relationship with the decision of foreign MNEs to invest in Portugal. Regarding internalization theory (Buckley & Casson, 1976; Dunning, 1993), this results suggest that the larger the cultural distance between a home country and Portugal, the larger the foreign MNEs' uncertainty about the behavior of their agent in the host country, resulting in higher transaction costs, and thus encouraging the engagement in FDI. Previous research has come to the same

conclusion (e.g. Ferreira et al., 2017; Gooris & Peeters, 2014; Lee et al., 2014). The transaction costs perspective could also be why hypothesis H9 was rejected. We predicted that political distance would be negatively related to MNEs' FDI decisions in Portugal, but if distance increases the political uncertainty of a given country, a MNE would likely prefer to engage in FDI to eliminate the transaction costs arising from such uncertainty.

We didn't find a relationship regarding demographic and knowledge distances with FDI entry in Portugal. It is likely that those variables have an interest to specific industries, for instance Berry et al. (2010) found that demographic distance was significant to choose entering a given country for high R&D intensity US firms, where the same didn't apply to low R&D intensity US firms. Since we have foreign MNEs' FDI aggregated at national level it is likely that different industries in the sample cancel each other's effects.

There is some consensus in the literature regarding the existence of a relationship between economic distance and MNEs' FDI decisions (Bailey & Li, 2015; Buckley et al., 2007; Leitão & Faustino, 2008, 2010; Podda, 2016). Some authors argue that MNEs tend to invest in larger countries (GDP), with higher income (GDP per capita), and more open to trade (imports plus exports) (e.g. Bénassy-Quéré et al., 2007; Berry et al., 2010; Leitão, 2011), which explains only part of the results, since our sample encompasses countries which are economically more and less developed than Portugal. Thus, it is quite likely that an increase in economic distance results in an increase of FDI by MNEs in countries less developed than Portugal, and the same tendency may not apply to economically stronger countries, which could explain the lack of significance in the first models.

Financial distance represents the ease, or difficulty, for MNEs to find in the host country, funding for their operations. We have found a negative relationship between this distance and the decision of foreign MNEs to invest in Portugal, which is opposite from previous research (Ferreira et al., 2017). Connectedness distance only shows a significant effect in model 1a, yet we found it to be positively related to FDI entry in Portugal, in line with the results of Zhang (2015). We consider MNEs' easiness to obtain the relevant information to this distance to be the reason why we didn't find significance in the lagged variable. As for geographic distance, our results are supported by previous research (Bailey & Li, 2015; Bénassy-Quéré et al., 2007; Ferreira et al., 2017; Leitão & Faustino, 2008).

This paper presents its contribution to IB literature in the extent it explores the relationship between one of the paramount MNEs' strategic decisions, FDI, and institutional distance, revealing empirically the existence of such relationship. The choice of the host country contributes in two different ways. First, it expands the Portuguese literature on institutional distance and foreign MNEs' decision to invest in the country. Second, it adds to the empirical research not based in US firms (Werner, 2002).

A further contribution can be made to Portuguese policymakers. Given that legal issues are likely inhibiting foreign MNEs to invest in Portugal, policymakers could, for instance, simplify the reporting process, thus reducing the administrative burden of companies. One step further would be the definition of a stable corporate taxation regime with an extended timeline. This way foreign investors could assess their investments with a lesser degree of uncertainty, thus reducing the perceived administrative distance.

5.1. Limitations and future research

As with any research, this study also presents its limitations. We consider the sample size relatively small. Given the quantity of explanatory variables, the number of parameters to estimate is relatively high, which decreases the degrees of freedom on the analysis. Future research could include expand the data set or exclude some of the variables used that turn out to be not significant. Another possibility is turn to longitudinal FDI data from Portuguese companies, which could lead to a more significant analysis as well as it could enable the possibility of determining the motivations for FDI for different industries.

The better fit of models 1 compared to models 2, is likely to be because of different cultural variables used. The inexistence of such data is, itself, a limitation. In a near future, when updated WVS data became available, it could be fruitful to explore the same construct and verify if the results hold.

Given that institutional distance is measured in absolute terms, we lack the direction of each distance and fail to verify its asymmetries. Some division could be made, classifying distances as negative or positive, hence indirectly obtaining asymmetries.

Future research could also focus in sub-samples, by comparing MNEs' FDI decisions in certain economic regions with those of others.

Notes

¹ Distance data is kindly provided by Berry et al. (2010) at the University of Pennsylvania's website <https://lauder.wharton.upenn.edu/resources-publications/> and was updated in December 2017.

² <https://geerthofstede.com/research-and-vsm/dimension-data-matrix/>

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