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**The impact of CAGE institutional distances and Market-seeking, Resource-seeking
and Strategic asset-seeking motives on the Brazilian foreign direct investment
outflows**

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O impacto das distâncias institucionais CAGE e motivações de mercado, recursos e ativos estratégicos sobre o fluxo de investimento direto estrangeiro brasileiro para o exterior.

A Dissertation submitted in partial fulfillment of the requirements for the Degree of Master of Science in Administration in the Department of Post Graduate Studies in Administration of Nove de Julho University.

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**This dissertation is dedicated to my mother
Maria, my father Ovídio, my children Vivian,
Marcelinho and Isabela, my wife Mari and my
brothers Mariana and Daniel.**

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“Success is the ability to go from one failure to another with no loss of enthusiasm.”

Sir Winston Churchill

ABSTRACT

The analysis of institutional environments and how they impact an array of firms' decisions is a major stream of research in international business and strategy. In this study we focus on the impact of the institutional distance on the Brazilian outward FDI (OFDI) based on Ghemawat's (2001) CAGE taxonomy which classifies distances in four dimensions: cultural, administrative, geographic and economic. Institutional distance is the extent of similarity or dissimilarity between the institutional environments of two countries. Moreover, we posit that not only will institutional distance negative impact the Brazilian FDI but also that we must attend to the strategic motives underlying those foreign investments, that we classify in market-seeking, resource-seeking, and strategic-asset seeking (Dunning, 1993). Methodologically, we propose a set of seven hypotheses to test the direct and moderating effects using secondary data collected from multiple sources. Results show that cultural and geographic distances have negative and significant impact on FDI from Brazil. The association between the administrative and economic distances and FDI were not significant. In relation to the strategic-seeking motives, Market-seeking and Strategic Asset-seeking motives showed a positive and significative influence on Brazilian OFDI. In regard to the interactions between distances and motives only the Strategic Asset-seeking motive exerts a positive influence on the relationship between Administrative distance and FDI, such that FDI flows will be less sensitive to the Administrative distance when a strategy based on seeking new strategic assets is present. This study contributes to better understand the institutional and strategic foundations presiding to the investments from emerging economies firms and opens up the discussion on other motivations that could be drive emerging countries overseas investment decisions.

Keywords: Institutional distance, Foreign direct investment, CAGE Framework, Brazil.

O impacto das distâncias institucionais CAGE e motivações de mercado, recursos e ativos estratégicos sobre o fluxo de investimento direto estrangeiro brasileiro para o exterior.

RESUMO

A análise dos ambientes institucionais e como impactam uma gama de decisões empresariais é uma importante linha de pesquisa em negócios internacionais e estratégia. Neste estudo, enfocamos o impacto da distância institucional sobre o investimento direto estrangeiro (IDE) brasileiro com base na taxonomia CAGE de Ghemawat (2001) que classifica as distâncias em quatro dimensões: cultural, administrativa, geográfica e econômica. Distância institucional é o grau de similaridade ou dissimilaridade entre os ambientes institucionais de dois países. Além disso, podemos postular que não somente a distância institucional impacta negativamente o IDE brasileiro, mas que devemos também levar em consideração as motivações subjacentes a esses investimentos estrangeiros. Como parte deste estudo consideramos estas motivações como direcionadores para a internacionalização que motivam as empresas a se estabelecer internacionalmente e que podemos classificar como busca por novos mercados, recursos e ativos estratégicos conforme proposto por Dunning (1993). Metodologicamente, propomos um conjunto de sete hipóteses para testar os efeitos diretos e moderadores utilizando dados secundários coletados de diversas fontes. Os resultados demonstram que as distâncias cultural e geográfica estão negativamente e significativamente correlacionadas com o fluxo de IDE a partir do Brasil, enquanto que o impacto das distâncias administrativa e econômica não se mostrou significativo. Com relação às motivações estratégicas a busca por novos mercados e por ativos estratégicos influenciam positivamente e significativamente o IDE brasileiro. Com respeito às interações entre as distâncias e motivos somente a busca por ativos estratégicos exerce uma influência positiva sobre a relação entre a distância administrativa e IDE, demonstrando que os fluxos de IDE são menos sensíveis ao impacto da distância administrativa quando existe uma estratégia de busca por ativos estratégicos atrelada a decisão de investimento. Este estudo contribui para um melhor entendimento dos fundamentos institucionais e estratégicos envolvidos nas decisões de investimento a

partir de economias emergentes e abre caminho para discussões sobre outros motivos que também podem influenciar os investimentos externos a partir dessas economias.

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Palavras chave: Distância Institucional, Investimento estrangeiro direto, CAGE, Brasil.

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1 INTRODUCTION

According to the existing institutional theory, organizations must adapt to the local environment's rules and beliefs systems in order to survive (MEYER; ROWAN, 1977; DIMAGGIO; POWELL, 1983). These environments have institutional systems which were built based on country specific regulatory, cognitive and normative aspects. The regulatory component covers rules and laws to ensure stability and order (KOSTOVA, 1999; KOSTOVA; ZAHEER, 1999). The cognitive component consists of shared cognitive sets such as schemas and frames that impact how people interpret the environment, and the normative component encompasses society's values and norms (KOSTOVA, 1999; KOSTOVA; ZAHEER, 1999). The difference between two institutional environments is called institutional distance. As Xu and Shenkar (2002) explained, 'institutional distance is the extent of similarity or dissimilarity between the regulatory, cognitive, and normative institutions of two countries'.

Based on that, when operate abroad, organizations face institutional differences (KOSTOVA; ROTH, 2002), that could jeopardize their strategies. As part of these strategies, investment decisions, such as foreign direct investment (FDI), play an important role (UNCTAD, 2014). According to UNCTAD (2014), foreign direct investment (FDI) is a category of international investment that reflects the long-term interest of an organization resident in a country in relation to an organization established in another. This type of investment covers resources that when entering the country, stay for long time and help to increase the production capacity instead of speculative investment, which comes, passing through the financial market and could leave at any time (UNCTAD, 2014).

Thus, as part of the aspects that could impact FDI decisions, institutions have an essential role to ensure the effective operation of market mechanisms, so that

corporations and individuals can engage in market transactions without incurring costs and risks (NORTH, 1990). To dictate the rules of the game (NORTH, 1990), institutions affect the behavior of individuals and firms influencing the transaction costs and the uncertainty of the economy. Therefore, according to North's perception, institutions raised as pathways to ensure the proper functioning of the economy allowing the economic development of countries. As a result, the institutions of one country affect how business is developed there, and then must be taken into consideration when defining business strategies, among which, investment decisions (NORTH, 1990).

In that regard Institutional distance could impact FDI. Consequently, the quality of institutions is an important determinant of FDI activity, particularly for less-developed countries for a variety of reasons (BLONINGEN, 2005). First, poor legal protection of assets increases the chance of expropriation of a firm's assets making investment less likely. Poor quality of institutions necessary for well-functioning markets (and/or corruption) increases the cost of doing business and, thus, should also diminish FDI activity. And finally, to the extent that poor institutions lead to poor infrastructure, expected profitability falls as does FDI into a market (BLONINGEN, 2005).

Although developed countries remain the leading source of outward foreign direct investment (OFDI), emerging and transition countries, such as Brazil, have raised as an important source of outward FDI since the 1990s. Many MNEs from emerging and transition economies are increasingly undertaking cross-border investment activities through FDI. Between 1980 and 2011, their portion of world outward FDI increased 20.7% and peaked in 2010 at 31.8% (IMF, 2013).

FDI outflows from the BRIC countries (Brazil, Russia, India and China) have increased throughout the last decade. Firms from these countries are investing not only in neighboring but also in developed economies (UNCTAD, 2013). In addition, despite

the large population, firms in the BRIC countries face a local market that is limited in terms of purchase power and opportunities to expand, leading them to seek opportunities abroad (UNCTAD, 2013). In this context, although firms from the BRIC are also active in other regional countries, they prefer investments in developed countries due to these countries' attractiveness in market potential (market-seeking motives), access to strategic assets (strategic asset-seeking) and management know-how (knowledge-seeking). Moreover, the intense competition they face in developed markets might generate learning opportunities from more sophisticated competitors, thus improving firms' strengths and overcoming possible local disadvantages (UNCTAD, 2013). As a result, the more distant a host country is from the home country, the more it has to bridge differences in culture, in laws and regulations, and in organizational practices and routines and in consequence impact FDI decisions including location choice (greenfield investments or acquisitions) and ownership mode choice (MEYER; ESTRIN, 2004).

Conversely, not only local x global tensions mindset could be adopted by Firms during their strategic decision making process, but also the opportunities raised by the differences as defined as arbitrage by Ghemawat (2003). These differences can also be exploited by Firms through the adoption of strategies that encompasses these differences to develop bridges to acquire growth, resources, assets and knowledge as described by Dunning (1993) as strategic seeking motives (in this study, Market-, Resource- and Strategic Asset-seeking).

In this context there are several empirical research showing the direct influence of the host country's institutional variables and motivations which can impact the investment decision from emerging economies, however the results are diverse. The majority of the research has been focused on the Transaction costs theory (HENNART,

1982), that emphasizes primarily the companies' internal factors and their industries a part of the environmental factors impact. So, frequently the institutional aspects are treated as control variables or moderating variables in the relationship between variables related to the home country investors, their industry or investment decision (DIKOVA; VAN WITTELOOSTUIJN, 2007).

Therefore, the central argument of this study is to check if the institutional distances as proposed by Ghemawat (2001) and the strategic-seeking motives presented by Dunning (1993) could impact the Brazilian OFDI outflows to other countries playing an important role on the Brazilian investment decisions.

1.1 Problem formulation

The institutional differences between the home and host countries' environments are likely to affect firms' investment decisions (MEYER; ESTRIN, 2004). In essence, we suggest that the institutional differences across countries are likely to have a negative influence on the FDI outflows but that we ought to consider the moderating role of firms' strategic motives for the investments. It is possible that the strategic motives underlying FDI specifically could reduce the sensitivity to institutional differences and perceived hazards. The strategic motives may be assessed, following Dunning (1993) classification in: market seeking, resource seeking and strategic asset seeking. While the first pertains to accessing market and consumers in different locations, strategic asset seeking motives are concerned with accessing an array of knowledge-based resources, technologies, management know-how, marketing expertise, and so forth.

Hence, our theoretical arguments suggest that the impact of distance differs according to various aspects related to institutional distance as well as strategic-seeking motives; these impacts ultimately affect OFDI.

Thus, it is relevant to briefly review the current evidence concerning the location distribution of Brazilian FDI outflows. The analysis of the destination of foreign direct investment shows a regional concentration (UNCTAD, 2013). Most of the outward FDI is concentrated in the Americas, which represents 70% of all foreign investment from Brazil in 2008, followed by Europe, which represents 29%; Asia, Africa, and Oceania account for the remaining 1%. While in the Americas this concentration has diminished over time, from 86% in 2001 to 70% in 2008, in Europe OFDI concentration has gained importance, moving from 12% in 2001 to 29% in 2008. Other continents have never represented more than 1% in the period. Based on that, the overall purpose of this study is to analyze the determining institutional factors guiding foreign investments from Brazil (UNCTAD, 2013).

1.2 General and specific objectives

General Objective

The purpose of this study is to present and explore the impact of the institutional environment, and specifically, as measured by the CAGE framework proposed by Ghemawat (2001), on the Brazilian FDI, and the possible moderating effect of the strategic motives (DUNNING, 1993) for undertaking FDI. Following Dunning (1993) these motives may be distinguished in Market-, Resource- and Efficiency-Strategic asset-seeking motives on the Brazilian foreign direct investment location.

Therefore, the first objective of this study is to assess the impact of multidimensional institutional distance measured through the four CAGE's dimensions: Culture, Administrative, Geographic and Economic on Brazilian FDI outflows.

The second objective is to assess the moderating impact of the Market-, Resource- and Strategic asset-seeking motives on the relationship between the institutional environment and the Brazilian FDI outflows.

Specific Objectives

Additionally, in order to provide data to support our analysis this study will also covers the following specific objectives:

Build scores for the individual CAGE dimensions (Cultural, Administrative, Geographic and Economic);

Identify if the strategic-seeking motives influence the relationship between CAGE distances and FDI, such that FDI flows will be less sensitive to the CAGE distances;

Examine the impact of the strategic-seeking motives (Market, Resource and Strategic asset-seeking) on the FDI outflows from Brazil.

1.3 Justification

The growth in FDI has resulted in a vast literature examining the strategic decisions by firms through FDI (MEYER; NGUYEN, 2003). Earlier studies have investigated FDI flows from developed economies in developing countries. More recently there has been a growing recognition of the importance of international investment by firms from emerging markets, (HAMILTON, 1996; IMF, 2002). Several

studies have emphasized that the FDI strategies of emerging/ transitional firms are different from the FDI strategies of firms from emerging/transition economies (MAKINO et al., 2002). Although this phenomenon has important economic implications, knowledge of the forces driving FDI from emerging/transitional economies, such as Brazil, remains under investigation (CHILD, RODRIGUES, 2005; RAMAMURTI, 2012). In addition to that, most research on the subject have taken into consideration the cultural distance, based on the studies of Kogut and Singh (1988), although in the recent years, an increase in the number of studies using the institutional distance concept as proposed by authors such as Xu and Shenkar (2002) and Beamish (2004) has been observed.

Cyrino and Penido (2007) have identified three benefits of internationalization which have guided Brazilian business experiences: (i) market expansion, through international diversification, (ii) efficiency improvements, by increasing productivity or reducing costs, and (iii) learning through knowledge acquisition and skills development.

This study addresses this lack of understanding, and extends previous research regarding the impact of the institutional distance and strategic-seeking motives on emerging/transitional countries FDI investment decisions.

1.4 Research design

To study the impact of the CAGE institutional distances and Market-, Resource- and Strategic asset-seeking motives on the Brazilian FDI outflows we have chosen an empirical setting of countries which have been received outward foreign direct investment from Brazil. The main idea is to analyze the flow of FDI from Brazil to these countries focusing on a specific temporal series. Afterwards we have crossed this

data with the differences between the institutional environment of Brazil and the host country based on the CAGE Framework concept (GHEMAWAT, 2001) and strategic-seeking motives (DUNNING, 1993) in order to evaluate the impact of CAGE institutional distances and the influence of the strategic-seeking motives on the Brazilian FDI outflows.

The CAGE distance framework emphasizes that distance is the critical element influencing a particular country's economy and business competitiveness. According to Ghemawat (2001), the CAGE Framework employs an integrated analysis of institutional distances dimensions in an attempt to explain the company's success in its process of internationalization.

In addition, we will assess the influence of the strategic-seeking motives according to Dunning (1993) taxonomy on the relationship between institutional distance and FDI. This approach is widely used by scholars to study FDI motives. In regards to our investigation we will consider market-seeking FDI, resource-seeking FDI and strategic asset-seeking FDI.

Dissertation structure

This study is organized as follows. First, we review the relevant literature and present the theoretical constructs pertaining to institutional distances, strategic-seeking motives and FDI. The third chapter comprises the conceptual development and hypotheses. We develop hypotheses concerning the impact of CAGE institutional distances and Market, Resource- and Strategic asset-seeking motives on the Brazilian FDI outflows, before developing our new measures of institutional distances between countries.

Subsequently the method applied to this study analyzes data quantitatively at the Country level, collecting the data using existing databases as sources of information. The FDI receiving countries, or host countries, consist of 55 countries listed by the International Monetary Fund (IMF, 2013). A list of the countries and FDI flows is described in the Appendix A. The data was analyzed using logistic regression analysis with SPSS, which is the most common method in FDI research (CANABAL; WHITE, 2008). All data for this study is collected through secondary sources. Data was collected from multiple sources, including statistics from the World Bank's World Development Indicators (WDI) database, the Federal Deposit Insurance Corporation (FDIC)/USA, United Nations Conference on Trade and Development (UNCTAD), the Organization for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF) on outward foreign direct investments, up to 2012 and the Ghemawat's website for institutional distances data.

Finally, we present our results, discussion and conclusions covering: interpretation of the empirical results, limitations, future research avenues and contributions for international business research.

2 LITERATURE REVIEW

2.1. Institutional environment

The institutional environment consists of structures responsible for limit behaviors of a specific society. Furthermore, these structures involve formal and informal institutions (ARREGLE et al., 2013). The formal part of the institutional structures shape people's behavior and actions, systems, and organizations through establish laws, regulations and other established standards along with their enforcement measure. Likewise, these aspects could work as constraints (ARREGLE et al., 2013). In fact, economic, industry and social constraints can impact on strategic decisions jeopardizing the ability of the firms to interpret and select environments and fix the institutional gaps in order to grow their operations (GOODSTEIN, 1994). Informal institutions are socially shared meanings of knowing that are not codified, but embedded in the social structure of society. This dimension involves the informal interactions rules between individuals, firms, and institutions (GHEMAWAT, 2001).

According to the traditional institutional theory the environment is the central determinant of the structure and behavior of the firm, based not only on efficiency factors, but in political conflicts where the company is inserted. The institutionalism is related to the reproduction of structures (isomorphism), activities and organizational routines in response to pressures from Government, employee's expectations and collective norms of an institutional environment (OLIVER, 1988). In that regard the isomorphism with environmental institutions has some crucial consequences for organizations, such as incorporating elements which are legitimated externally, rather than in terms of efficiency and creating dependence on externally fixed institutions reducing turbulence and maintains stability (MEYER, ROWAN, 1977). As a result,

institutional isomorphism promotes the success and sustainability of organizations. Incorporating externally legitimated formal structures increases the commitment of internal participants and external constituents (MEYER, ROWAN, 1977).

Therefore, in order to develop and expand, organizations must adapt to the current prevailing institutional structures in the environment (MEYER, ROWAN, 1977; DIMAGGIO, POWELL, 1983), The specific nature of a giving organization with it is specific identity and activity patterns exist as a product of institutional forces (SCOTT, MAYER, 1994). These structures are likely to impact investment decisions because firms faced institutional pressures posed by the host country that should be mitigated by them in order to gain, maintain and acquire legitimacy (ANG; MICHAILOVA, 2008).

In this context, firms have a dual role in the institutional environment: they are institutional agents while depend on support institutions to implement their strategies. In the case of MNEs, their organization in various social spaces, notably, in the country of origin environment, the host country and regional and multilateral regimes, poses opportunities and challenges. Opportunities arise from the possibility of reducing transaction costs associated with different regulations and practices and gains of scale and scope. The challenges are related to adaption constraints to different types of institutions and interactions with multiple actors with distinct coordination practices and interests (ANG; MICHAILOVA, 2008). So, response to institutional and competitive forces balances strategic similarity and differentiation (GOODSTEIN, 1994). Besides, organizations could follow similar and successful counterparts into new markets (ZAHEER, 1995).

Witt and Lewin (2007) also investigate cases where unfavorable conditions of the institutional environment of the host country, might stimulate OFDI to other countries. The authors have explained that institutional changes become slower in environments

where political and economic decisions depend on conciliation between influential actors, far from a market economy. Thus, the higher this conciliation pattern, more rigid and inflexible would be the institutional environment, what lead firms seeking for new opportunities in other markets (WITT; LEWIN, 2007).

Additionally, in relation to the research scope, most institutional theory studies have been conducted at the industry (BAUM; OLIVER, 1992), profession/ task (GUPTA, DIRSMITH; FOGARTY, 1994) and line of business (TSAI; CHILD, 2005) levels. However, in one stream of research, scholars have led their studies at the national (e.g., ROWAN, 1982; DACIN, 1997) and inter-organizational (OLIVER, 1988; GALASKIEWIEZ, WASSERMAN, 1989) levels of analysis. Their work recognizes that a firm may be located in multiple institutional arenas (HOFFMAN, 1999) and operate under multiple institutional pressures (D'AUNNO et al., 1991; OLIVER, 1991). Some of these pressures are originally local; others are national leading to "combined action" (MEYER; ROWAN, 1977) typical of all organizations in a nation. This is critical to the applicability of institutional theory to the MNE, which operates in more than one institutional environment and under different institutional pressures (e.g., that of the host and that of the home countries). In turn, it implies that institutional theory may explain one of the fundamental issues for the MNE: the orientation (WESTNEY, 1993).

Finally, organizations can adapt to environmental conditions or actively respond strategically to them. Over time, both perspectives are critical to understanding organizational adaptation and strategic decisions in the international business arena (GOODSTEIN, 1994).

Table 1: Examples of studies using institutional environment

Reference	Research question	Hypotheses	Variables	Sample	Country	Main results / Conclusions
ARREGLE, MIKKER, HITT; BEAMISH (2013)	What are the effects of institutional diversity on MNEs' internationalization decision?	<p>H1: There is a relationship between the propensity of MNEs to internationalize into a country and a region's formal institutional diversity.</p> <p>H2: There is a relationship between the propensity of MNEs to internationalize into a country and a region's cultural diversity</p>	<p>VDep: Degree of internationalization</p> <p>VInd 34 comprehensive measures of formal institutions in 50 countries</p> <p>VControl Firm's prior internationalization and country experience Countries per capita income Countries economic growth Countries population Cultural distance</p>	Data from Kaigai Shinshutsu Kiyou Souran (Japanese Overseas Investments)	Japan	The results validate that region's diversity plays an important role in Internationalization.
ANG, S.,MICHAILOVA,S. (2008)	What is the effect of institutional factors on the adoption of equity alliance mode?	<p>H1: The less restrictive the regulatory institutions at the alliance location the less like emerging economies firms will adopt the equity alliance mode.</p> <p>H2: The adoption of the equity alliance mode by emerging economies firms is stronger in developed host countries than in emerging host countries.</p>	<p>VDep Adoption of equity alliance mode</p> <p>VInd Regulatory pillar of institutions Normative pillar of institutions Cognitive pillar of institutions</p> <p>VControl Alliance variables Firm's origin GDP growth Partner compatibility Sector and industry</p>	Information on cross-border alliances established by BRIC firms in 25 manufacturing and services industries from SDC Platinum (developed by Thompson Financial).	US Europe Japan Americas (less US) Asia (less Japan) BRICs	Support for institutional explanations of the adoption of equity alliance mode and that institutional effects are contingent on the alliance location.
DACIN, M, T. (1997).	Power and prescription of institutional norms on organizations' tendencies for isomorphism.	H1: The founding rate of Finnish-language newspapers will be higher than the founding rate of Swedish-language newspapers during the period of Finnish	<p>VDep Foundings by language of publication</p> <p>VInd Nationalism Institutional and market</p>	1,011 newspapers published in Finland from 1771 to 1963.		Organizations did adopt institutionally prescribed characteristics and institutional pressures were more important in determining isomorphism than market forces during the period

		nationalism. H2: Even in predominantly Swedish-speaking locales, the founding rate of Finnish-language newspapers will be higher than the founding rate of Swedish language Newspapers during the period of Finnish nationalism.	forces. VControl Density dependence Market forces Environmental shocks		Finland	of nationalism. In addition, consistent with historical accounts of the period examined, institutional norms did vary in intensity over time.
D'AUNNO; SUTTON; PRICE (1991).	How do organizational units respond to new external demands that conflict with their traditional practices?	H1: Hybrids will emphasize hiring professionals more than drug abuse treatment units will. H2: Hybrids will emphasize hiring ex-addicts more than mental health treatment units will. H3: The greater the isomorphism of hybrid units with the mental health sector, the more resource support they will receive from their parent organizations.	VDep External support for hybrids VInd Funds / supplies received from parent firm Organizational support from parent firm VControl Director's experience Number of clients served Total number of full-time employee equivalents	Data from a national study of drug abuse treatment units (D'AUNNO; PRICE, 1985).	USA	The results provide little support for the view that organizational ability to change core features is limited and that organizational adaptation is contingent on task environments.
GOODSTEIN, J. D. 1994.	Organizational responsiveness to institutional pressures as a strategic choice.	H1: The greater the size of an organization, the greater its level of responsiveness to institutional pressures or employer involvement in work-family issues. H2: Public sector organizations will be more responsive than private sector organizations to institutional pressures for employer involvement in work-family issues.	VDep Level of organization responsiveness Acquiescence Compromise Avoidance Defiance VInd Cause Constituents Content Control Context VControl Employer knowledge Female unemployment	Random sample of 3,225 private and public sector establishments with ten or more employees from a survey performed by the Washington State Employment Security Department, an agency of the U.S. Department of Labor, administered in the summer of 1989.	USA	The relationship between organizational size and responsiveness to institutional pressures supports the observations of researchers who have argued that large firms, are likely to be under greater pressure to maintain their social legitimacy by responding to institutional demands

2.2. Institutional distance

The study of the institutional distances between countries has as origin the concepts of psychic distance (JOHANSON, VAHLNE, 1977), whose which was based on the studies developed by the school of Uppsala, also known as behavioral school. The project starts from an approach focused on explain the internationalization of the Swedish enterprises in 1970. From that, the main finding was the recognition that information access difficulties, uncertainties and lack of knowledge of a firm out of its home market, could lead MNEs to adopt a gradualist approach on internationalization (JOHANSON, VAHLNE, 1977). Then, the accumulation of knowledge at each stage of expansion of a firm was identified as essential for the continuity of their international operation (JOHANSON; VAHLNE, 1977). Based on that, the authors developed the psychic distance concept, defined as the sum of the factors which influence the flow of information between the MNEs and their foreign markets, such as, the development level and language / cultural differences. From this work, a series of directed research to explain the behavior of firms related to their internationalization strategies, in terms of experience and learning has started, in opposite to the prevalent economic approaches (JOHANSON; VAHLNE, 1977).

In addition, Kostova (1996) developed an institutional distance approach referring to the extent of dissimilarity between host and home country institutions. Based on her following research the higher the institutional distance, the more difficult it is for the MNE to establish legitimacy in the host country and to transfer strategic routines to foreign operations (KOSTOVA, 1999). In other words, a large institutional distance triggers the conflicting demands for external legitimacy in the host country and local

consistency within the MNE system. Balancing these conflicting demands has been a key challenge for the MNE (WESTNEY, 1993).

Having said that, the more institutionally distant a host country is from the home country, the more it has to bridge differences in culture, laws and regulations, and in organizational practices and routines (MEYER; ESTRIN, 2004). The distance may affect investment decisions of the MNEs, which behaves with the objective of increasing its competitive advantages, is by a small institutional distance or the ability to mitigate a possible negative impact on distance. The greater the institutional distance between the country of origin and the host country, the greater the pressure of local responsiveness on and more difficult is to build external legitimacy (KOSTOVA; ZAHEER, 1999).

Furthermore, it is accepted that the international expansion of firms is negatively impacted by differences between countries in terms of their economic, political, social, cultural and language aspects in general (GHEMAWAT, 2001). Different research streams have been created in order to capture these country differences, such as measures of cultural (KOGUT; SINGH 1988) and psychic distance (JOHANSON; VAHLNE, 2009; DOW 2011). Cultural distance measures are generally based on cultural dimension studies like Hofstede's 1980 and have recently received much criticism (XU, SHENKAR. 2002).

Meyer and Estrin (2004) also found clear variations in the way that different aspects of distance impact on strategic decisions. Kostova (1999) argues that a high institutional distance between the host and home country inhibits the transfer of strategic organizational practices from a parent company to a recipient.

However, although widespread in the field of international business, the concept of distance is also subject to various criticisms. By definition, the distance between two

countries implies the existence of symmetry, which suggests a similar role as culture of the home and the host country. Moreover, the distance assigned to two countries does not consider the differences within the same country. Finally, the approach assigns a static character to the institutions. The existence of differences by itself does not mean obstacles to the MNEs operations, since there may be synergies between institutional elements, impacting positively on the performance of the firm (DUNNING, 2006).

The CAGE distance framework

As previously described the study of the distances between countries has as origin the concepts of psychic distance (JOHANSON, VAHLNE, 1977), cultural (HOFSTEDE, 1980, KOGUT, SINGH, 1988) and institutional (KOSTOVA, 1999; KOSTOVA, ZAHEER, 1999). Such concepts seek to understand how economic development, educational, language and cultural aspects may influence the strategy of internationalization. Ghemawat (2001) contributes to such questioning, developing an integrated approach called CAGE Framework which is shaped by the analysis of four key dimensions that influence the performance of firms abroad, they are: cultural Distance – differences of languages, religions, races, social norms and values; geographic distance – physical distance, size of the host country; administrative distance- colonial heritage, political systems, institutions; and economic distance- natural, human and financial resources availability, purchasing power, infrastructure, access to raw materials and knowledge.

Cultural distance – indicates the distance in terms of religion, language, customs, social norms and beliefs (GHEMAWAT, 2001). The cultural distance is understood as the cultural differences between home and host country. Cultural distance has association with uncertainty, which has the ability to restrict the flow of information and knowledge between countries, increasing the cost of doing business abroad (HOFSTEDE, 1980). Kogut and Singh (1988) define the cultural distance as the degree to which an organization sees uncertainty in the international market. In order to measure the cultural distance between countries, Kogut and Singh (1988) proposed a methodology that would later become the most usual in the area. This measure sought to integrate four dimensions proposed by Hofstede (1980).

Administrative distance – The administrative distance can be understood as the difference between formal and informal institutions across countries. Campbell et al. (2012), based on the CAGE Framework (GHEMAWAT, 2001), conceptualizes the administrative distance for political, regulatory, and institutional differences, as political hostility between the home and host countries, lack of political and monetary agreements, colonial ties and differences in the regulatory environment. The smaller the administrative distance, the greater the probability of the subsidiary to meet the demands and institutional norms of the host country (CAMPBELL et al., 2012).

Geographic distance – Beyond the physical distance, involves the countries size, their common borders, time zones, weather, access to the sea, infrastructure (transportation and communication), topography and distance across internal borders (GHEMAWAT, 2001). As an example, higher geographic distance impacts on higher transportation and communication costs.

Economic distance – The economic distance is related to the country’s macroeconomic stability, investment focus, openness level (entry of foreign capital), credit availability and qualified workforce. The economic distance emphasizes the difference between the economic development levels of countries. That distance seems to be negatively associated with uncertainty in the process of internationalization. This is because the greater the distance between countries, the greater the cost and the uncertainty involved in the internationalization process (XU, SHENKAR, 2002). The measures used to estimate economic distance are income, inflation and trade flows between countries (BERRY et al. 2010).

Table 2 below presents the distance attributes and their impact on different products and industries.

Table 2: The CAGE Framework Attributes creating distance

Cultural distance	Administrative distance	Geographic distance	Economic distance
<ul style="list-style-type: none"> • Different languages; • Different ethnicities, lack of connective ethnic or social networks; • Different religions; • Different social norms; 	<ul style="list-style-type: none"> • Absence of colonial ties; • Absence of shared monetary or political association; • Political hostility; • Government policies; • Institutional weakness 	<ul style="list-style-type: none"> • Physical remoteness; • Lack of a common border; • Lack of sea or river access; • Size of country; • Weak transportation or communication links; • Differences in climates; 	<ul style="list-style-type: none"> • Differences in consumer incomes; • Differences in costs and quality of: <ul style="list-style-type: none"> ▪ natural resources ▪ financial resources ▪ human resources ▪ infrastructure ▪ intermediate inputs ▪ information or knowledge

Source: Ghemawat (2001).

Table 3: Examples of studies using institutional distance

Reference	Research question	Hypotheses	Variables	Sample	Country	Main results / Conclusions
KOSTOVA, T. ROTH, K. A. 2002	Complexity of the institutional environment of MNCs and their responses to it.	<p>H1: The implementation of an organizational practice at a host unit will be positively related to the favorability of that country's institutional profile.</p> <p>H2: The internalization of an organizational practice by host unit employees will be positively related to the favorability of that country's cognitive and normative institutional profiles and negatively related to its regulatory institutional profile.</p>	<p>VDep Adoption of the Headquarters Organizational practice</p> <p>VInd Regulatory Cognitive Normative Dependence Trust Identity</p> <p>VControl Host and home countries Company expansion model Managers level</p>	Data from managers and non-managerial employees in subsidiary locations from 10 countries.	Canada United States Argentina United Kingdom The Netherlands France Spain Australia Portugal Malaysia	Both dimensions of practice adoption, implementation and internalization, vary across foreign subsidiaries as a result of the institutional environment in the host country and the relational context within the MNC.
ESTRIN, S. Et al. 2009.	Impact of Distance between organizational contexts by exploring the complementary roles of institutional and human resource distances on foreign investors' entry strategies.	<p>H1: First-time investors are more likely to choose greenfield investment rather than a cooperative mode, the larger the distance in formal institutions.</p>	<p>VDep Mode of entry</p> <p>VInd Formal Institutional Distance Informal Institutional Distance Human Resources Distance</p> <p>VControl Affiliate Level Controls Parent Controls Host and home countries Economic Freedom</p>	Questionnaire surveys of foreign investors, created by merging two recent FDI surveys (Estrin and Meyer, 2004).	Egypt Hungary India Poland South Africa Vietnam	Institutional differences influence the strategies of foreign investors.
MEYER KE, ESTRIN S, BHAUMIK, SK, PENG MW. 2009	How do foreign firms adapt entry strategies when entering emerging economies?	<p>H1: The stronger the market supporting institutions in an emerging economy, the less likely foreign entrants are to enter by joint venture (as opposed to greenfield or acquisition).</p>	<p>VDep Entry strategy (greenfield or acquisition or JV).</p> <p>VInd Institutions Resource needs</p>	The base population for our survey was defined as all FDI projects newly registered in the four countries between 1990 and 2000 and constructed from locally available databases.	India Vietnam Egypt South Africa	The level of development of an emerging economy's market supporting institutions directly influences MNEs' entry strategies .

		H2: The stronger the need to rely on local resources to enhance competitiveness, the less likely foreign entrants are to enter an emerging economy by greenfield.	VControl MNEs country of origin Host economy. Time trend			
BEAMISH,B,W. PAN, Y. XU,D. 2004	This study propose two new measures of country differences, regulative and normative distances and examine their effect on MNE ownership and expatriate strategies.	H1: The MNE will hold lower equity ownership in the foreign subsidiary where regulative and normative distances are larger. H2: The MNE will keep fewer expatriates in the foreign subsidiary where regulative and normative distances are larger.	VDep Equity ownership VInd Regulative distance Normative distance VControl Cultural distance Industry R&D intensity Firm advertising Intensity	The Global Competitiveness Report	France Spain Denmark UK Switzerland Austria Portugal Germany USA Netherlands Italy +34	This study shows that measures of regulative and normative distances influence ownership and expatriate strategies in companies` sub-units abroad.
BROUTHERS, K. and BROUTHERS, L. E. (2001).	How can emerging market firms prosper in the developed markets.	H1: As the cultural distance between home and host countries increases, managers tend to select joint venture modes of entry.	VDep Entry mode VInd Cultural attributes VControl Firm size Multinational experience	Data from a survey covering the countries involved.	Netherlands, Germany, Britain and the U.S Hungary, Poland, The Czech Republic, Russia, Rumania	Cultural distance was related to both cooperative ventures and wholly owned modes of entry, depending on the level of investment risk in the host country.

2.3. Outward FDI from emerging economies

Although there is a wide literature on FDI from developed countries (RUGMAN, 1981; BROUTHERS, 2007) the current theoretical perspectives appear unable to propose an approach that satisfactorily explain what drives the FDI investment decisions from emerging economies (CHILD; RODRIGUES, 2005; LUO, 2007). Nowadays, the theoretical foundations for the determinants of FDI are put forth in market power explanations (HYMER, 1976), internationalization models (BUCKLEY; CASSON, 1976), the Dunning's eclectic paradigm (DUNNING, 1988, 2006), institutional theory (NORTH, 1990), transaction costs (HENNART, 1982), among others. None of these foundations is specific in explaining investment decisions by MNEs from emerging/transition economies (BUCKLEY et al. 2007; YIN et al. 2007). In fact, Mathews (2006) and Bonaglia et al. (2007) noted that emerging/transition economies investments decisions are more complex to explain and need a combination of insights from different research approaches.

In that regard, over the recent years, research involving investment decisions patterns from emerging market multinationals (EMNEs) has increased and new approaches have been proposed based on other perspectives such as further aspects of the traditional institutional theory and the institutional distance concept. These research streams reinforce that the distance between countries, in its various dimensions (not only the geographic distance), are relevant in establishing investment flows abroad. So that, the differences between countries should be considered by companies which decide to invest in other countries. (GHEMAWAT, 2001; DOW; KARUNARATNA, 2006).

Kedia et al. (2012) propose that for the EMNEs, which decide to expand abroad, the main motivation to engage in FDI could be associated with firm-specific advantages by gaining access to knowledge, resources, and markets in the host country. Dunning (2008) further noted that for firms from developed countries, the majority of their exports (e.g.; materials, products and investments) follow the logic of searching for raw materials or new markets, taking place in a more traditional way already widely studied.

Additionally, compared with EMNEs were late to embrace globalization creating a set of common challenges such as competition with other multinationals in the domestic market, seeking for strategic resources and expanding abroad. Companies that have overcome these challenges use their new acquired competencies as an advantage, not only in other emerging economies, but sometimes even investing in developed countries (RAMAMURTI, 2008). Thus, small home markets, global competitive pressures, and/or government policies also incentive decisions to internationalize from firms who, naturally, wish to protect or increase their profitability and/or capital value. These firms then choose to engage in FDI (as opposed to exporting or licensing) based on the belief that they can exploit existing firm-specific competitive advantages abroad (KEDIA et al., 2012). Therefore, foreign direct investment decisions may be driven by push factors – constructed on country of origin specific aspects that stimulate companies to invest abroad - and pull factors - based on opportunities and challenges that exist in the target countries (UNCTAD, 2012).

So that, as a summary of motivations that could drive FDI decisions, Stal and Cazorra (2011, p. 214) has proposed the following set of factors: (a) market size; (b) GDP and GDP growth-rate; (c) conditions for repatriation of profits; (d) protection of intellectual property rights; (e) a stable economic, political, and regulatory environment,

with transparency in rules and public processes; (f) freedom to operate and employ people without restrictions of labor laws; (g) efficient infrastructure; (h) affordable, skilled labor force; (i) human capital capable of absorbing any required new technologies; (j) availability of local suppliers; and (k) a good business climate, with transparent bureaucratic procedures. Also important are the existence of active governmental policies to (a) eliminate or reduce corruption and illegal practices; (b) ensure bids through open and transparent processes; and (c) limit monopolies. Conversely several of these requirements are not found in developing countries. Hence, besides losing opportunities to attract more inward FDI, such an environment also stimulates local firms to internationalize. Although it may not be the main objective for international expansion, outward investment may lead to these preferential treatments. Many governments, such as China, India, Mexico, Thailand, Russia, and Poland, offer financial incentives to encourage firms to go global, and companies can combine government financing and round-tripped FDI (STAL; CAZURRA, 2011).

In this context, the ingress of Brazil in the international scenario is the result of the exploitation of new business opportunities offered by the globalization. Since the economic opening started in 1990, Brazilian companies are expanding their businesses overseas (CYRINO, 2010) as growth and diversification strategy, changing the way of acting to adapt to the new dynamics of global competition. Even though recent event, Cyrino and Barcellos (2010) state that the movement of internationalization for Brazilian companies has been developed and become mature. The authors point out several factors that indicate this trend, such as the growth of the number of operations and in the use of strategies which is based on expanding international markets through acquisitions, greater focus in the drivers linked to customers and competition, the perceived reduction of entry barriers (Exchange, tax etc.), change of emphasis of the

priority actions to improve their international positioning and greater attention to other dimensions in addition to the traditional ones (economic, financial stability and scale gains).

Furthermore, also as a driver of the OFDI from emerging/transition economies, such as Brazil, is possible to point out the domestic environment set up. So, when there is a greater diversity of FDI country of origins in an industry, domestic firms are exposed to a greater variety of technologies and management practices brought by foreign firms helping them to develop their skills to seek other opportunities abroad (GHEMAWAT, 2003).

Table 4: Examples of studies using FDI

Reference	Research question	Hipotheses	Variables	Objeto de estudio / Sample	Country(ies)	Main results / Conclusions
TAN, D.; MEYER, K.E. 2011.	Country-of-origin agglomeration provides an effective channel for the sharing of sensitive and tacit knowledge about local business environments?	<p>H1: The higher the number of FDI firms within an industry and firms with the same country of origin in a location of an emerging economy, the greater the likelihood that foreign investors will enter.</p> <p>H2: The greater the institutional voids perceived by foreign entrants, the more likely they will be to co-locate with other FDI firms of the same country origin rather than with other FDI firms in the same industry.</p> <p>H3: The higher the degree of outsider ship experienced by foreign entrants, the more likely they will be to co-locate with other FDI firms of the same country of origin than with other FDI firms in the same industry.</p>	<p>VDep Province/city location choice</p> <p>VInd Same country FDI activity Same industry FDI activity Other FDI activity Local firm activity Institution Prior local experience Wholly owned investment</p> <p>VControl Other location attributes that may affect location choice</p>	Survey	Vietnam	Foreign investors tend to co-locate with other FDI firms of the same country of origin, and with those in the same industry.
LU, J. W.; MA, X. 2008.	What is the value of local partners' business group affiliations in international joint ventures (IJVs)?	<p>H1. Compared to IJVs established with local independent firms, IJVs established with business group affiliates have higher survival likelihoods and growth rates.</p> <p>H2. In FDI restricted areas and industries, compared to IJVs established with local independent firms, IJVs established with business group affiliates have higher survival likelihoods and growth rates.</p> <p>H3. Compared to IJVs established with local independent firms, IJVs with regional and national business group affiliates have higher survival</p>	<p>VDep Survival likelihood and sales growth of IJVs</p> <p>VInd Group affiliation Locational restriction Industrial restriction</p> <p>VControl Transition phase Global industries IJV size Japanese parent's equity, technological capability,</p>	Data collected from Sino-Japanese IJVs in China and on their Japanese and Chinese parent companies by referring to a directory of Japanese firms' foreign expansions, Kaigai Shinshutsu Kigyō Souran (Japanese Overseas Investments), published by Toyo Keizai.	Japan China	The findings point to the contingent value of business group affiliation in emerging economies.

		<p>likelihoods and growth rates.</p> <p>H4: In FDI-restricted areas, IJVs established with regional business group affiliates have higher survival likelihoods and growth rates than IJVs with national business group affiliates.</p>	<p>experience and kereitsu affiliation</p> <p>Local partner's SOE status</p> <p>FDI-restricted location</p> <p>FDI-restricted industry</p>			
ZHANG, Y; Li, H.; Li, Y.; ZHOU, Li-2010.	Examining the effect of the diversity of FDI country origins on the productivity of domestic firms.	<p>H1: All else being equal, the diversity of FDI country origins in an industry is positively related to the productivity of domestic firms in the industry.</p> <p>H2: The positive relationship between the diversity of FDI country origins and the productivity of domestic firms is stronger for large domestic firms than for small ones.</p> <p>H3: The positive relationship between the diversity of FDI country origins and the productivity of domestic firms is the strongest when the technology gap between FDI and the domestic firms is intermediate.</p>	<p>VDep</p> <p>Diversity of FDI country origins</p> <p>VInd</p> <p>Number of foreign firms in the industry</p> <p>Share of foreign firms in the industry</p> <p>Diversity of FDI country origins</p> <p>Technology gap</p> <p>VControl</p> <p>The number and share of foreign firms in an industry</p> <p>Squared term of the share of foreign firms</p> <p>Region dummies and industry dummies</p>	Annual Industrial Survey Database (1998–2003) of the Chinese National Bureau of Statistics (CNBS).	China	The diversity of FDI country origins is positively related to the productivity of domestic firms.
GUBBI, S,R. AULAKH, P,S. RAY,S. SARKAR, M,B. CHITTOOR, R. 2010.	Whether and why overseas acquisitions by emerging-economy firms creates value to acquirer firms.	<p>H1: International acquisitions by firms from emerging economies generate positive abnormal returns/value for acquiring firms' shareholders.</p> <p>H2: Among international acquisitions that are made by emerging-economy firms, those that involve target firms in more advanced economies (characterized by higher-quality complementary resources and developed institutional environment) will generate greater abnormal</p>	<p>VDep</p> <p>Market response</p> <p>VInd</p> <p>Quality of resources available in the host economy</p> <p>Level of institutional development</p> <p>VControl</p>	Consider all "completed" cross-border acquisitions made by publicly traded Indian firms, as reported in the Thomson Financial database, over the period starting January 2000 and ending on December 2007.	USA UK Germany Australia Singapore France Canada Arab Emirates Thailand China	

		returns/value.	Past firm performance Firm size Firm age		Indonesia Egypt South Africa Romania Malaysia Sri Lanka Spain Netherlands Belgium	
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2.4. Institutional distance and FDI

Traditional literature on FDI has paid a particular attention to the importance of institutions in attracting cross border investments, suggesting several reasons why their quality may matter. In line with the growth literature, good economic institutions, such as property rights and rule of law, increase incentives to invest and improve allocation of resources (KAUFMANN, KRAAY, 2002; RODRIK et al., 2004). Therefore, differences in the quality of institutions across countries are one of the main determinants of differences in economic development (ACEMOGLU, ROBINSON, 2010), then, it is expected that the institutional distance may be an important determinant of FDI, helping to explain recent FDI patterns. Furthermore, host country governments can influence FDI patterns through regulations together with the ability to engage in preferential treatment (DEMIRBAG et al., 2010). In addition, some local specific attributes, such as local market environment and business, cultural and ethnic networks (FILATOTCHEV; STRANGE1; PIESSE; LIEN; 2007). Higher GDP, education and globalization levels also were found to have influence on FDI decision choice because a country increases their investment outflow position as it's develop (AMAL; RABOCH;TOMIO, 2009).

Xu and Shenkar (2002) argued that different dimensions of institutional distance have different impacts on multinational enterprises' investment decisions and entry mode choices. These examples suggest that institutional distance can result in additional costs and risks beyond the influence of cultural distance. In other words, each dimension of institutional distance may affect foreign subsidiaries' investment decisions (XU; SHENKAR, 2002).

Meyer (2003) considers that the MNEs need to adapt their strategies to the institutions of the countries in which they operate, seeking to minimize market imperfections. The author proposes that countries with low institutional development could hinder MNEs investments. Thus, decisions on FDI can be related to numerous and complex variables involving the internal and external firm's scope (MEYER, 2009). Under the external factors there are home and host country specific institutional aspects (AMAL, 2009). Internally, the determinants of FDI may be related to company's products and internal allocated resources (AMAL, 2009).

In that regard, focusing on the perception of the firms' executives, Dow and Karunaratna (2006) and Ghemawat (2001) reinforce that the distance between countries, in its various dimensions, are relevant in establishing international businesses. The differences between countries should be considered by executives to decide to internationalize a company (DOW; KARUNARATNA, 2006). Regarding uncertainty, the institutional environment of the host country could impact the investments decisions of MNEs in two ways (GAUR; KUMAR, SARATHY, 2011). In absolute terms, the level of institutional quality would reflect the efficacy, transparency and stability of country's local institutions resulting in less uncertainty and, in relative terms, the differences between the institutional quality levels of the home and host countries also would impact on investment decisions (MAKINO, 2004).

As a result, the prevailing hypothesis in the literature is that countries with fragile institutions face difficulties to receive or apply FDI as highlighted by Tan and Meyer (2011) that have found that both, the deficiencies and the uncertainties associated with the functioning of the institutions, could affect the delineation of strategies by firms, but in opposite ways. Under conditions of high uncertainty, investors would prefer, at first, investments which involve less commitment and greater flexibility, allowing them to

increase their investments later. On the other hand, institutional deficiencies, leading investors to adjust their costs since the beginning of the operations, and should not be reducing investments at a later time (TAN; MEYER, 2011).

In regard to the development level of a host country, it could also be a determinant of FDI. A low level of economic development could inhibit FDI (HARZING, 2002), although countries with lower development level usually have lower production costs which could attract FDI (KLIMEK, 2011). However, less developed countries could use FDI as part of their investment strategy in order to be able to assess goods and services with higher technological content and degree of specialization (workforce) (CULLEN; PARBOTEEAH, 2011). Thus, the less developed countries could choose FDI in order to seek knowledge and strategic assets in operations located in more developed countries (CULLEN; PARBOTEEAH, 2011). Amal, Raboch and Tomio (2009) further noted that as a country develops, the conditions faced by national and foreign enterprises also tend to change in ways that directly influence FDI flows.

In that regard, government efforts to fine-tune institutional frameworks and firm up macro-economic foundations have contributed greatly to boosting the foreign investment inventories held by their MNEs (AMAL; RABOCH; TOMIO, 2009), thereby, the role of Governments as “constructors and maintainers” of institutions is essential to ensure an innovative and learning environment, thus influencing investment decisions by foreign firms (DUNNING, 1993). As a result, for emerging/transition economies, which adopted in the past only strategies to develop their overseas operations basically based on exports, new committed forms of investments were implemented as well as the reconfiguration of their value chains to meet the growing domestic and global competition. Hence, the output of foreign direct investment (FDI) reached a higher level and introduced new challenges for companies that traditionally

have developed their practices and business models in a protected environment heavily regulated, such as Brazil (CYIRINO; BARCELOS; TANURE, 2010).

Table 5: Examples of studies using the relationship between institutional distance and FDI

Reference	Research question	Hypotheses	Variables	Objeto de estudio / Sample	Country(ies)	Main results / Conclusions
FILATOTCHEV,I., STRANGEI,R.,PIESS E,J.,LIEN.Y.C. 2007.	Entry mode and location choices of firms from Asia in an emerging market.	H1: The parent company's share ownership in its overseas affiliate is negatively associated with family share ownership in the parent company. H2: The parent company's share ownership in its overseas affiliate is negatively associated with non-family insider share ownership in the parent company. H3: The parent company's share ownership in its overseas affiliate is negatively or positively associated with the shareholding of domestic financial institutions in the parent company.	VDep The dependent variable in the entry mode model is the percentage equity stake (STAKE) VInd Firm-specific variables Corporate governance variables Location dummy variables Location-specific attributes VControl Firm specific characteristics	Firm-level data were obtained from the Securities and Futures Commission in Taiwan.	Taiwan China	The ownership structure of the parent company matters with regard to its FDI decisions, and various investor constituencies may have different impacts on the firm's choice of entry mode.
DEMIRBAG,M., MCGUINNESS,M., ALTAY,H. (2010).	Perceptions of environmental uncertainty in entry mode decisions,	H1: In markets where "ethical uncertainties and arbitrariness" are high, firms will select joint ventures over wholly owned subsidiaries. H2: When the political and economic climate in the host country is perceived negatively, foreign investors will select a joint venture over a wholly owned subsidiary. H3: When investors perceive more positive attitudes towards FDI in the host country, they will select a wholly owned subsidiary over a joint venture. H4: When a high risk of intervention is perceived in the host country, foreign investors will select a joint venture over a	VDep Market entry strategies. VInd Political risk Corruption Resources Entry mode Route Size VControl Sector	This study is based on the collection of primary data at firm level selected from Turkish companies operating in Central Asian Republics.	Turkey Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan and Kyrgyzstan	Greater ethical-societal uncertainties result in a preference for joint venture over wholly owned subsidiary.

		wholly owned subsidiary.				
AMAL, M., RABOCH, H., TOMIO, B. (2009).	Importance of economic and institutional factors for outward Foreign Direct Investment (FDI) from Multinational Enterprises originating in the developing countries.	<p>H1: Macro-economic stability is necessary in the home country in order to encourage investment projects on the home and host markets.</p> <p>H2: A stable and transparent institutional context in the country of origin of the MNE underpins the development of effective conditions for corporate internationalization.</p> <p>H3: Corporate internationalization strategies depend on national development levels.</p>	<p>VDep Outward FDI Stock</p> <p>VInd Inward FDI Stock GDP Interest Rate Inflation Foreign Exchange Rate Trade Globalization Economic Freedom Corruption Education</p> <p>VControl Firm heterogeneity</p>	Panel Data method: .UNCTAD, World Bank, IMF, KOF, Heritage Foundation, Transparency International, UNDR. The period under analysis is 1995-2007 using annual data.	Brazil Chile Mexico	Government efforts to fine-tune institutional frameworks and firm up macro-economic foundations have contributed greatly to boosting the foreign investment inventories held by their MNEs.

3 CONCEPTUAL DEVELOPMENT AND HYPOTHESES

Figure 2 shows the conceptual model of institutional distance (independent variable), strategic motives (moderating variables) and Brazilian OFDI (dependent variable). Trade and inflation were defined as control variables.

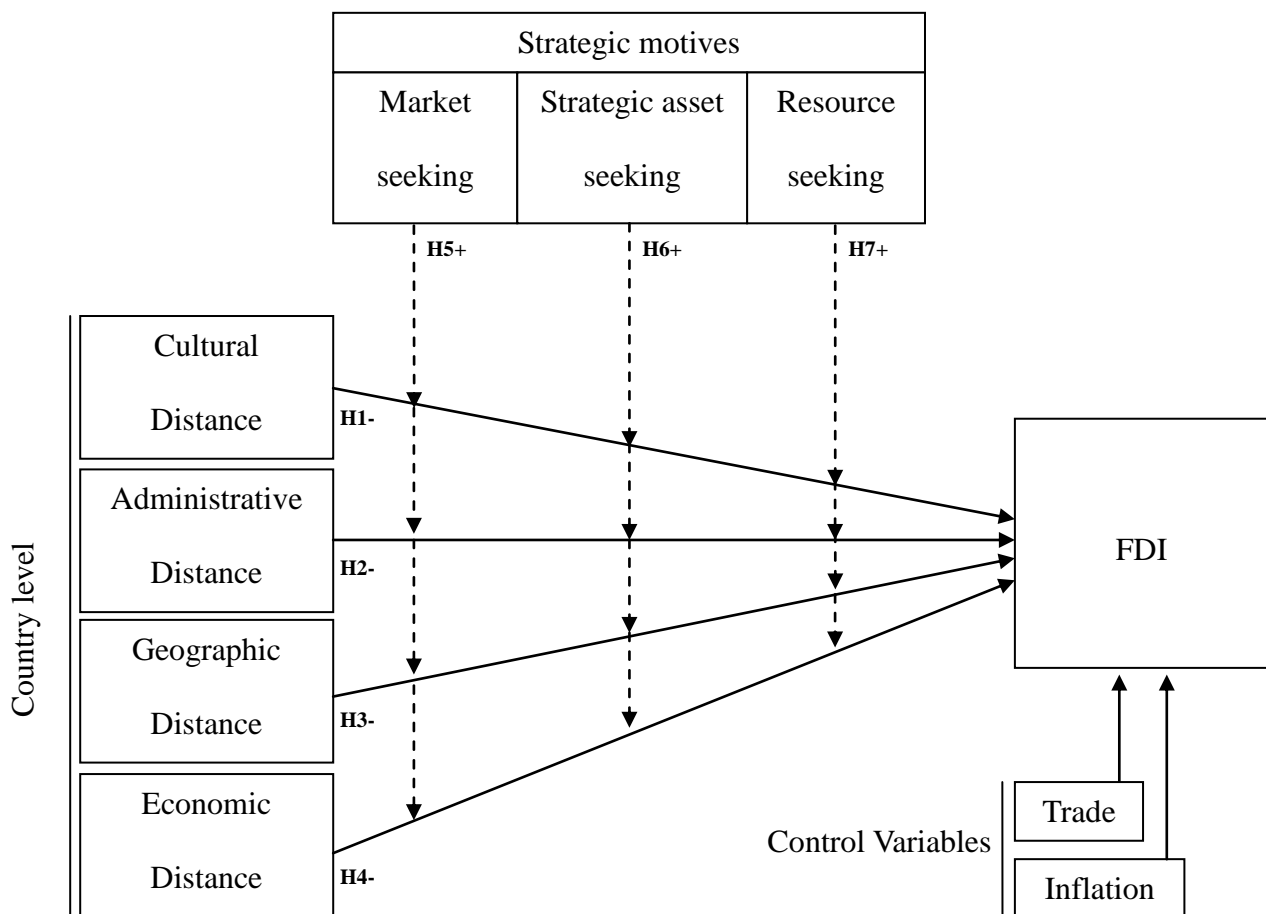


Figure 1 – Conceptual model

3.1. The impact of the Institutional distance

Institutional distance

The more different the home country is from the context that where it invests, the greater will become obstacles to reaching local legitimacy and to practice transfer. Kostova (1999) argues that the institutional distance between the home and host country hinders the transfer of strategic practices from a parent company to a recipient.

Because institutional distance raises additional risks for foreign firm operation (KOSTOVA; ZAHEER, 1999), scholars argue that it negatively impacts firms' investments decisions. In other words, as the distance between home and host countries increases, firms are likely to invest in a foreign market later (JOHANSON; VAHLNE, 1977). Therefore, institutional distance may affect both the costs and benefits of investing in a market. Firms make the decision to invest in a particular country by evaluating the profitability of the market. A firm will decide to invest only if it expects a positive return. As discussed above, institutional distance between the home and the potential country's target market influences costs and revenues (KOSTOVA; ZAHEER, 1999).

Following this logic, it can be proposed that CAGE distances framework (GHEMAWAT, 2001) could explain country choice of FDI in four broad ways: (a) by understanding the cultural distance based in the area; (b) by scaling administrative aspects between governments, which underpin political constraints; (c) by measuring the geographic distance, which created physical limitations for the cluster; and (d) by examining the economic difference.

Consequently, to understand how distance impacts overseas investments decisions from Brazil, we tested the following arguments.

Cultural distance

The cultural distance is understood as the cultural differences between home and host countries and has association with uncertainty that restricts the flow of information and knowledge between countries, increasing the cost of doing business abroad (HOFSTEDE, 1980). Since Hofstede (1983) developed the cultural distance construct and its scale, many scholars have used cultural distance as a proxy of institutional distance. Culture provides a characteristic profile to a society taking into account: norms, values and institutions that enable the understanding of how societies manage exchanges. Religions, color tastes, and sizes are all examples. Constructs, such as cultural distance, are rooted in the construct of Hofstede (1980).

Furthermore, Kogut and Singh (1988) define cultural distance as the degree to which an organization perceives uncertainty in the international market. In order to measure the cultural distance between countries, Kogut and Singh (1988) propose a methodology that would later become the most usual in the field. This measure sought to integrate the four dimensions proposed by Hofstede (1980).

As explained by Ghemawat (2001), a country's cultural attributes could determine how companies will interact with each other. Differences in religion, race, social norms and language are all capable of creating distance between two countries. These differences could impact on trade: all other things being equal, the trade between countries that share a language (such as Brazil and Portugal), will be greater than between countries without a common language (GHEMAWAT, 2001).

Therefore, based on the arguments supporting the construction of cultural distance based on language, social norms and religions, this study hypothesizes that:

Hypothesis 1: The larger the cultural distance between Brazil and a potential foreign target country, the lower the Brazilian foreign investment in that country.

Administrative distance

The administrative distance could be interpreted as differences in formal and informal institutions between two countries (GHEMAWAT, 2001). Countries which share a trade block and similar political systems will provide firms with fewer difficulties in doing business, leading to lower costs. In order to overcome uncertainty and risk in highly distant countries firms can choose to cooperate with a local partner to reduce uncertainty and risk, and thus costs. Countries can also create administrative distance through unilateral measures designed to protect domestic industries or natural resources or to ensure national security (GHEMAWAT, 2001).

The smaller the administrative distance, the greater the likelihood of the subsidiary meets the demands and institutional norms of the host country. This is due to the administrative similarities between host and home countries (CAMPBELL et al., 2012).

Thus hypothesis H2 is presented below:

Hypothesis 2: The larger the administrative distance between Brazil and a potential foreign target country, the lower the Brazilian foreign investment in that country.

Geographic distance

Geographical distance comprehends the differences in physical separation between two countries. This distance is associated with the lack of common borders, access by

sea or land and climatic differences between the host and home countries impacting the investments destination (GHEMAWAT, 2001). It has an effect on trade flows between countries, on FDI and other types of economic activities, such as transportation and communication (CAMPBELL et al., 2012). Firms wish to enter countries that are geographically less distant because of lower costs (DOW, 2000). The increased costs negatively affect performance and thus the following hypothesis was created:

Hypothesis 3: The larger the geographic distance between Brazil and a potential foreign target country, the lower the Brazilian foreign investment in that country.

Economic distance

The economic distance is related to the country macroeconomic stability, investment policies, openness level to the foreign capital, credit availability and qualified workforce. The economic distance emphasizes the difference between the levels of economic development between countries. That distance seems to be negatively associated with uncertainty in the internationalization process. This is because the greater the distance between two countries, the greater the cost and the uncertainty involved in the internationalization process (XU; SHENKAR, 2012).

Based on that, Economic distance is an important variable in understanding the realization of foreign direct investment (FDI) in a country. Economic distance is described as the level of economic development in the host country compared with the level of economic development in the home country (Ghemawat, 2001). Differences between countries' economic development are evidences of differences in factor costs

and technological capability, which in turn affect performance of foreign direct investment (FDI).

Whether they expand abroad for purposes of replication or arbitrage, we expect that, the possibility of FDI should reduce with increasing economic differences between two countries. Thus, to cover the points discussed above, the following hypothesis was developed:

Hypothesis 4: The larger the economic distance between Brazil and a potential foreign target country, the lower the Brazilian foreign investment in that country.

3.2. Motivations for conducting FDI

In addition to the evaluation of the institutional distance dimensions impact on the Brazil's FDI outflows, we assessed the influence of other motives based on Dunning (1993) on distances between the host and home countries. The literature on the locational choices of foreign direct investors has long acknowledged that these will not depend on the types of activities in which they are engaged, but on the motives for the investment and whether it is a new or a sequential one (DUNNING, 1998). Dunning (1993) suggested four main types of FDI classified according to their prime investing motivation - market-seeking FDI , resource-seeking FDI , efficiency-seeking FDI and strategic asset-seeking FDI .

Market-seeking motive

Market seeking strategies seek to expand the spaces of capital accumulation by firms that have external competitiveness, but employed only through exports. In this case, the exploration of overseas markets can't give only through exports, but also through production structures located directly in these markets. Several are the motivations of this type of FDI, which replaces or complements pre-existing export flows, highlighting the need for greater consumer proximity and improvement of the commercial assets abroad as marketing channels and brands (DUNNING, 1993).

From a BRIC countries perspective when the local market is limited in terms of purchase power and growth opportunities companies seek new opportunities abroad their home markets. Complementary, local institutions could affect firm's ability to interact and, therefore, impact costs and production coordination creating additional obstacles to the home market.

Based on that, we propose the following:

Hypothesis 5: Market-seeking strategies exert a positive influence on the relationship between cultural distance (H1), Administrative distance (H2), Geographic distance (H3) and Economic distance (H4) and FDI, such that FDI flows will be less sensitive to the CAGE distances.

Resource-seeking motive

Companies which choose resource-seeking strategies seek to exploit the benefits derived from lower natural resources costs in host countries (DUNNING, 1993). Perhaps the needed resource can be acquired at a lower comparative cost, or simply does not exist at all in the home country. Hence, the FDI performed based on this objective aims at the acquisition of specific resources. This type of investment strategy tends to generate low ties with receiving economies, being its main contribution to increase the export flows.

On the other hand, the availability of resources and institutional aspects such as Government actions could influence resources accessibility impacting on the implementation of this kind of strategy by companies.

Based on that, we propose the following:

Hypothesis 6: Resource-seeking strategies exert a positive influence on the relationship between cultural distance (H1), Administrative distance (H2), Geographic distance (H3) and Economic distance (H4) and FDI, such that FDI flows will be less sensitive to the CAGE distances.

Strategic asset-seeking motivation

The MNCS like Strategic Asset seeking to acquire a structured set of competencies and strategic competitive mix that gives them greater competitive advantages, usually acquiring strategic assets aimed at product innovation and distribution channels (Dunning, 1998). In that regard assets such as knowledge, technology and foreign

brands as some of the motives which drive firms investment decisions. Additionally, Investments that seek to acquire these types of active generally go to developed countries.

Facing different contexts, firms can exploit traditional country arbitrage in capital and costs as well as arbitrage in more industry specific inputs (GHEMAWAT, 2003). Accordingly, emerging/transition economies firms sometimes behave as latecomers performing strategic asset-seeking FDI, trying to close the gap between them and leading companies in their respective markets. By acquiring developed country firms, emerging/transition economies firms get access to potential capabilities and new knowledge (GUGLER, BRUNNER, 2007). On the other hand, firms from emerging/transition countries shape their experiences learning from underdeveloped institutional environments of least developed countries (CUERVO-CAZURRA, GENE, 2008).

Based on that, we propose:

Hypothesis 7: Strategic asset-seeking strategies exert a positive influence on the relationship between cultural distance (H1), Administrative distance (H2), Geographic distance (H3) and Economic distance (H4) and FDI , such that FDI flows will be less sensitive to the CAGE distances.

4 METHOD

In order to best test the value of institutional distance as explanatory factor for Brazilian OFDI, we designed our study partly as a replication of previous studies, in particular the work developed by Ghemawat (2001, 2003). We analyzed outward FDI from Brazil into 55 host countries between 2010 and 2012. We calculated the mean OFDI from 2010–2012 from Brazil to each country to avoid outliers influence.

Similarly, we rely on secondary data from The World Bank on outward foreign direct investments up to 2012 (WORLD BANK, 2013).

4.1 Sample

Our hypotheses require a dataset on the OFDI from Brazil. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors. Data are in current U.S. dollars (WORLD BANK, 2013).

The FDI host countries sample consists of 55 countries which received FDI from Brazil from 2010 to 2012, including: Paraguay, Argentina, Uruguay, Bolivia, Peru, Colombia, Venezuela, Portugal, Chile, Ecuador, Angola, Dominican Republic, Mozambique, El Salvador, Guinea, Mali, Nicaragua, Haiti, Cuba, Namibia, Mexico, Libya, Spain, Italy, Croatia, United States, Romania, Malta, Slovakia, Egypt, Czech Republic, Turkey, Hungary, France, Poland, Canada, Israel, United Kingdom, Belgium, Ireland, Russia, Germany, Oman, Switzerland, Austria, Netherlands, India, United Arab Emir., Denmark, Malaysia, Finland, China, New Zealand, Australia and Japan. In addition all the ‘tax heaven’ countries were excluded from the original sample.

A list of the countries and respective FDI flows is presented in Appendix A.

4.2 Variables

Our dependent variable is the mean flows of Brazilian OFDI over the years 2010–2012. We used official data from the 2013 Coordinated Direct Investment Survey (CDIS) of the International Monetary Fund (IMF), which is in line with how previous research has measured OFDI (BUCKLEY et al. 2007). Following previous studies we have used the natural logarithm of the mean Brazilian OFDI and we have further averaged the OFDI of the 3-years period 2010–2012 to avoid uncharacteristic values that may arise from specific large operations (see also BUCKLEY et al. 2007).

Independent variables.

The main independent variable of interest to test hypothesis is institutional distance. For the purpose of this study, Institutional distance is the extent of difference between two countries in terms of institutional context, expressed in cultural, administrative, geographic and economic dimensions. The CAGE distance framework emphasizes that distance is the critical element influencing a particular country's economy and business competitiveness. According to Ghemawat (2001), the framework can also be used to understand trade patterns, capital, information, and the movement of people. Below we share the four dimensions of distance proposed by Ghemawat (2001). We have used the natural logarithm of the CAGE values to avoid uncharacteristic values that may arise from specific large operations (see also BUCKLEY et al. 2007).

Cultural distance

Indicates the distance in terms of religion, language, customs, social norms and beliefs (GHEMAWAT, 2001). The cultural distance is understood as the cultural differences between home and host country. Cultural distance has association with uncertainty, which has the ability to restrict the flow of information and knowledge between countries, increasing the cost of doing business abroad (HOFSTEDE, 1980). Kogut and Singh (1988) define the cultural distance as the degree to which an organization sees uncertainty in the international market. In order to measure the cultural distance between countries, Kogut and Singh (1988) proposed a methodology that would later become the most usual in the area. This measure sought to integrate four dimensions proposed by Hofstede (1980).

Administrative distance

The administrative distance can be understood as the difference between formal and informal institutions across countries. Campbell et al. (2012), based on the CAGE Framework (GHEMAWAT, 2001), conceptualizes the administrative distance for political, regulatory, and institutional differences, as political hostility between the home and host countries, lack of political and monetary agreements, colonial ties and differences in the regulatory environment. The smaller the administrative distance, the greater the probability of the subsidiary to meet the demands and institutional norms of the host country (CAMPBELL et al., 2012).

Geographic distance

Beyond the physical distance, involves the countries size, their common borders, time zones, weather, access to the sea, infrastructure (transportation and communication), topography and distance across internal borders (GHEMAWAT, 2001). As an example, higher geographic distance impacts on higher transportation and communication costs.

Economic distance

The economic distance is related to the country's macroeconomic stability, investment focus, openness level (entry of foreign capital), credit availability and qualified workforce. The economic distance emphasizes the difference between the economic development levels of countries. That distance seems to be negatively associated with uncertainty in the process of internationalization. This is because the greater the distance between countries, the greater the cost and the uncertainty involved in the internationalization process (XU, SHENKAR, 2002). The measures used to estimate economic distance are income, inflation and trade flows between countries (BERRY et al. 2010).

We used the matching formula of Kogut and Singh (1988) to calculate the Euclidean distances between the home and the host countries for each CAGE dimension.

$$ID_j = \sum_{i=1}^4 \left\{ (I_{ij} - I_{iu})^2 / V_i \right\} / 4$$

In this equation, I_{ij} is the score for a host country and I_{iu} is the score for the home country. Each index was squared in order to ensure that there are no negative numbers in the equation. Afterwards, it was divided by the variance (V_i) to compare the differences to the spread of all the differences on a particular score. Finally, the whole value was divided by four because of the four dimensions of distance proposed by Ghemawat (2001). This means that each dimension is equally important and not correlated. Up to date, this method is still widely adopted in the managerial culture. In fact, it is one of the most widely adopted indexes of cultural distance when assessing foreign market entry decisions (DROGENDIJK, SLANGEN, 2006).

Moderating Variables

Dunning (1993) classified the motives for FDI that must be present in order for FDI to occur. For the purpose of this study we used market seeking, resource seeking and strategic resource seeking motives to examine the influence of them on the relationship between the institutional distance variables and FDI. The moderating variables market-seeking, resource-seeking, and strategic asset-seeking may affect the relationship between the institutional distance variables and FDI, so that, we used these motives to examine their influence on the relationship between institutional distance and FDI outflows. Following previous studies we have used the natural logarithm of the mean and further averaged the data of the 3-years period 2010–2012 to avoid uncharacteristic values that may arise from specific large operations (BUCKLEY et al. 2007).

Market-seeking motive

As noted by UNCTAD (2006), market-seeking FDI is by far the most common type of strategy for emerging country firms in their process of internationalization (UNCTAD WIR, 2006, p. 158). Several recent studies point to the rise of market-seeking motives driving emerging/transitional country MNEs particularly towards large markets (TAYLOR, 2002; ZHANG, 2003). To measure this variable we have adopted the size of the market (GDP per capita) as it is a fundamental factor that attracts MNEs' attention, and most FDI inflows seem to go to large markets (BUCKLEY, et al., 2007). Data was collected from WDI database (WORLD BANK WDI, 2013).

Resource-seeking motive

The abundance of natural resources has been one of the most important determinants of FDI. Shiells (2003) showed that FDI were related to the extraction of natural resources, to the construction of pipelines transporting these energy resources, large privatizations, and to debt/equity swaps to pay for energy supplies. FDI in natural resources can be undertaken by firms which are themselves based in the primary sector, or those from other sectors, mainly natural-resource-related such as metal manufacturing (UNCTAD WIR, 2006, p. 161). Based on that, this variable was measured considering the total natural resources rents (% of GDP) from WDI database (WORLD BANK WDI, 2013).

Strategic asset-seeking motive

Generally, strategic asset-seeking is often aiming at the acquisition of information and knowledge on how to operate abroad. However, with growing experience of developing and transitional economies firms in this, their goal has rather

turned to real intangible assets, such as advanced proprietary technology. The acquisition of foreign technologies and brands is often regarded as a short-cut to establish a company as an internationally known, quality producer with a portfolio of latest technologies. Acquisition will function as a fast route to such benefits, and in addition, will also deny them to competitors (CHILD; RODRIGUEZ, 2005). We have used total annual patent registrations in host country (residents and nonresidents) as a proxy for strategic asset-seeking motivation as adopted by Buckley, et al. (2007) collected from World Intellectual Property Organization's statistics database (WIPO, 2013).

Control Variables

This study also included two control variables (Trade and Inflation) that might affect the hypothesized relationships according with the previous literature (BUCKLEY et al. 2007; VOSS, 2011). Data for inflation and trade were collected from the World Bank's World Development Indicators database (WORLD BANK WDI, 2013). Following previous studies we also have used the natural logarithm of the mean and further averaged the data of the 3-years period 2010–2012 to avoid uncharacteristic values that may arise from specific large operations (BUCKLEY et al., 2007).

Table 6: Variables employed

	Variables	Description	Source
Dependent variable	FDI	Investment involving a long term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise).	IMF, 2013
Independent variables	Cultural distance	Differences in religious beliefs, races, social norms, and languages.	Ghemawat website, 2007.
	Administrative distance	Differences in a set of factors, including absence of colonial ties, absence of shared monetary or political association, political hostility, government policies, and institutional weakness.	Ghemawat website, 2007.
	Geographic distance	Differences in a set of factors, including physical distance, lack of common borders, lack of sea or river access, weakness of transportation, and communication links and climate.	Ghemawat website, 2007.
	Economic distance	Differences in consumer incomes and the cost and quality of infrastructures and natural, financial, and human resources	Ghemawat website, 2007.
	Market seeking –	Mostly large and growing domestic markets, and adjacent regional markets (e.g.. NAFTA, EU etc.).	Dunning, 1993
	Resource seeking –	Availability of natural resources.	Dunning, 1993
	Strategic asset – seeking	Availability of knowledge-related assets (patents)	Dunning, 1993
Control variables	Trade	The sum of exports and imports of goods and services measured as a share of gross domestic product.	The World Bank, WDI, 2013
	Inflation	Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly.	The World Bank, WDI, 2013

4.3 Analysis

The analysis begins by calculating descriptive statistics for the summed scales. Pearson correlations between each summed scale also were calculated and are listed in Table 7.

We test our hypotheses with ordinary least squares regression analyses, in accordance with previous studies (e.g., BUCKLEY et al. 2007; VOSS 2011).

5 Results

This study has analyzed the cross-national distance effects of institutional, cultural, administrative, geographic and economic distances on Brazilian FDI location choice.

The Pearson correlations between the dependent and independent variables is shown in the Correlation matrix (Table 7), showing moderate correlations among some of the CAGE distances and strategic motives measures. The highest was a value of 0.6780 between market-seeking and strategic asset-seeking motives and of 0.5950 between market-seeking and FDI. FDI showed significant correlations with all independent variables with the exception of administrative and economic distances and resource-seeking motive. In addition, regarding strategic seeking motives, strategic asset-seeking presented significant correlations with administrative and geographic distances.

Cultural and geographic distances are correlated negatively and significantly ($p < 0.05$ and $p < 0.01$) with FDI, implying that the larger the distance is, the less likely firms are to invest through FDI abroad. Conversely, market- and strategic asset-seeking motives have a positive and significant correlation with FDI. For inflation we have found negative and significant correlations with administrative and geographic distances and strategic asset-seeking motivation.

Despite the presence of moderate correlations, according to the exclusion criteria defined by Hair, Black, Babin, Anderson and Tatham (2009) it was understood that the variables do not present degree of correlation that characterizes multicollinearity. In addition, the variance inflation factors are well below the acceptable level of 10 (NETER, WASSERMAN, KUTNER, 1985), also indicating no serious problems of multicollinearity, so that, adopt an exclusion criteria for the logistic regression was not necessary.

Table 7: Correlation matrix of variables

	<i>Obs</i>	<i>Mean</i>	<i>std dev</i>	1	2	3	4	5	6	7	8	9	10
FDI	55	4,22	3,25	1									
Cultural distance	55	4,44	2,08	-0,5520**	1								
Administrative distance	55	13,48	1,98	-0,0940	0,1560	1							
Geographic distance	55	5,16	2,95	-0,2970*	0,3560**	0,3800**	1						
Economic distance	55	2,85	2,70	0,0480	-0,0540	0,2700*	0,1720	1					
Mkt-seeking	55	5,51	1,78	0,5950**	-0,3740**	-0,0710	0,0180	-0,2160	1				
Resource-seeking	55	0,77	1,96	-0,2640	0,4260**	-0,1370	-0,0780	0,0070	-0,1490	1			
Strategic asset-seeking	55	6,13	3,89	0,3060*	-0,1970	0,3590**	0,4660**	-0,1020	0,6780**	-0,4310**	1		
Trade	55	4,33	0,46	-0,0790	0,1230	0,1270	0,0630	0,0470	-0,4470**	-0,1710	-0,1990	1	
Inflation	55	1,16	0,96	-0,0600	0,1870	-0,3210*	-0,5380**	-0,1140	-0,1250	0,4550**	-0,4220**	-0,0070	1

N=55 * p < 0.05 ** p < 0,01

Table 8 presents the regression results. Model 1 is the baseline model, which includes only the control variables. Model 2 includes all the four distance measures in order to test the influence of each variable. In this model only cultural distance shows a negative and significant impact on FDI. Models 3 to 6 include the other distance measures separately. As can be seen, cultural and geographic distances variables negatively and significantly influence FDI.

As cultural and geographic distances are found to be negatively and significantly related to FDI, hypotheses 1 and 3 were accepted. However, no significant impact was found between administrative and economic distances and FDI, therefore, hypothesis 2 and 4 were rejected. In Model 7 we have tested the strategic seeking motives at once and no significant impact was found.

For Models 8 to 10 we have tested each strategic motivation separately. These findings indicate that Brazilian OFDI seeks to large and growing domestic markets and strategic assets from 2010 to 2012. As can be seen, these effects are significant and have a positive influence on the relationship between distance and FDI, so that; the determinant of market- and strategic asset-seeking motives are supported by the results. Conversely, host countries' natural resources rents (resource-seeking) have a negative and significant influence on Brazilian OFDI. In Models 11 to 22 of Table 8 we have tested the interactions between cross national distance dimensions and strategic motives. Based on the regression results we can point out that only the strategic asset -seeking motive significantly and positively influences the relationship between administrative distance and FDI. Therefore, hypothesis 7 was partially accepted and hypotheses 5 and 6 were rejected.

No significant relationships among CAGE distances and strategic motives are found in the full model (Model 23).

Table 8: Regression analysis: determinants of Brazilian OFDI (2010-2012)

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>	<i>Model 6</i>	<i>Model 7</i>	<i>Model 8</i>	<i>Model 9</i>	<i>Model 10</i>	<i>Model 11</i>
<i>Independent variables</i>											
Cultural distance		-0,8160**	-0,8840**								-0,8970
Administrative distance		0,2110		-0,1890							
Geographic distance		0,0830			-0,5020**						
Economic distance		0,0720				0,0570					
<i>Moderating variables</i>											
Mkt-seeking							1,6590	1,2840**			0,8070
Resource-seeking							-0,4240		-0,5410*		
Strategic asset-seeking							-0,3350			0,2830*	
<i>Interaction terms</i>											
Cultural distance*MKT-seeking motive											0,0470
Administrative distance*MKT-seeking motive											
Geographic distance*MKT-seeking motive											
Economic distance*MKT-seeking motive											
Cultural distance*Resource-seeking motive											
Administrative distance*Resource-seeking motive											
Geographic distance*Resource-seeking motive											
Economic distance*Resource-seeking motive											
Cultural distance*Strategic asset-seeking motive											
Administrative distance*Strategic asset-seeking motive											
Geographic distance*Strategic asset-seeking motive											
Economic distance*Strategic asset-seeking motive											
<i>Control variables</i>											
Trade	-0,5660	0,2140	-0,0720	-0,4620	-0,3720	-0,5810	0,0160	1,7370	-0,9540	-0,0780	1,5120
Inflation	-0,2040	-0,0760	0,1530	-0,3310	-1,0400	-0,1860	-0,0080	0,0300	0,2990	0,2830	0,2940
N	55	55	55	55	55	55	55	55	55	55	55
R ²	0,0100	0,3440	0,3070	0,0220	0,1590	0,0120	0,4780	0,4000	0,0920	0,1000	0,5260

*p < 0.05; **p < 0.01

Table 8: Regression analysis: determinants of Brazilian OFDI (2010-2012)

<i>(continued)</i>	<i>Model 12</i>	<i>Model 13</i>	<i>Model 14</i>	<i>Model 15</i>	<i>Model 16</i>	<i>Model 17</i>	<i>Model 18</i>	<i>Model 19</i>	<i>Model 20</i>	<i>Model 21</i>	<i>Model 22</i>	<i>Model 23</i>
<i>Independent variables</i>												
Cultural distance				-0,8140**				-0,9990**				-0,5920
Administrative distance	0,8590				-0,1990				-1,8680*			1,7480
Geographic distance		-0,8090				-0,4600*				-0,9980**		0,0010
Economic distance			0,2580				0,4470				-0,0730	0,0780
<i>Moderating variables</i>												
Mkt-seeking	3,2560	1,0380*	1,3850**									2,2180
Resource-seeking				-0,0210	0,3690	-0,4490	-0,0860					-2,2480
Strategic asset-seeking								0,1220	-2,8820	0,2910	0,0010	2,1340
<i>Interaction terms</i>												
Cultural distance*MKT-seeking motive												0,0230
Administrative distance*MKT-seeking motive	-0,1480											-0,0750
Geographic distance*MKT-seeking motive		0,0520										-0,0630
Economic distance*MKT-seeking motive			0,0010									0,0730
Cultural distance*Resource-seeking motive				-0,0260								0,0400
Administrative distance*Resource-seeking motive					-0,0670							0,1800
Geographic distance*Resource-seeking motive						-0,0120						-0,0520
Economic distance*Resource-seeking motive							-0,1700					-0,0520
Cultural distance*Strategic asset-seeking motive								-0,0240				-0,0480
Administrative distance*Strategic asset-seeking motive									0,2410*			-0,1890
Geographic distance*Strategic asset-seeking motive										-0,0380		-0,0090
Economic distance*Strategic asset-seeking motive											-0,0780	0,0690
<i>Control variables</i>												
Trade	1,6210	1,9400	1,7790	-0,2030	-0,7940	-0,7250	-0,8470	0,2730	0,5880	0,8450	-0,2550	1,2550
Inflation	0,0150	-0,6630	-0,2080	0,2490	0,1500	-0,6160	0,6240	0,5150	0,5150	-0,5010	0,5170	-0,5520
N	55	55	55	55	55	55	55	55	55	55	55	55
R ²	0,4110	0,5380	0,4390	0,3120	0,1050	0,1990	0,1290	0,3700	0,2100	0,3840	0,1620	0,6940

*p < 0.05; **p < 0.01

6 Discussion

This study has analyzed the cross-national distance effects of cultural, administrative, geographic and economic distances on Brazilian FDI outflows and the influence of strategic seeking motives on the relationship between distances and FDI. The available literature (BUCKLEY et al. 2008), has suggested FDI outflows to be affected by many variables. In that regard, as the main finding, this study showed significant results for cultural and geographic distances and for market- and strategic asset- seeking motives variables to influence Brazilian FDI outflows. The findings of this investigation have broadened and deepened our understanding of how perceived distance affects FDI outflows and strategic seeking motivations moderate the relationships between distances and FDI. This investigation introduced a detailed model of CAGE distances that differs from previous research in several ways.

First, the database employed consists of a sample of 55 countries which received investments (FDI) from Brazil during the period between 2010 and 2012. As part of it there are countries from developed and emerging/transition economies. Countries from developed economies represents 33%, neighborhood countries such as Argentina and Chile, 16% and emerging/transition economies overseas 51%. Therefore, we can assume that 84% of the total Brazilian FDI outflows go overseas, thus, in that regard, geographic distance appears to have low influence on Brazilian investment decisions, which confronts the well based assumption that geographic distance has a critical influence on the firm's global strategies (BERRY et al., 2010).

Second, if we analyze the top five destinations it is possible to identify Austria (US\$ 47,033.48), The Netherlands (US\$19,929.98), USA (US\$ 13,958.59), Spain (US\$ 11,852.47) and Denmark (US\$ 6,634.41) as main Brazilian FDI destinations. In the 6th position we have Argentina (also the first emerging economy) with US\$ 5,266.98. These

data corroborates with our economic distance results that shows that it is positively correlated with the FDI demonstrating that the greater the economic distance, the higher Brazil will conduct their international expansion to countries which are economically situated farther away. This result is just the opposite of our original expectations and may be caused by other factors which affect decision-making in multinationals' international strategies such as opportunities to obtain proprietary resources, firm-specific advantages over borders (HYMER, 1976) and to seek strategic assets (DUNNING, 1993).

Third, on the other hand, the observations of this study found evidence that cultural distance affects negatively and significantly the Brazilian OFDI outflows as accepted by many scholars (HOFSTEDE, 1980; KOGUT, SINGH, 1988; CHILD, RODRIGUES, 2005). In that regard, there are mixed results of research related to the influence of cultural distance. Some studies have found a negative relationship between cultural distance and performance (LUO, 1999). However, according to the sample used it is possible to observe that culturally more distant countries are part of the top five Brazilian FDI outflows destinations. These results are consistent with the study of Dikova and Van Witteloostuijn (2007), which focuses on companies from emerging economies. It is worth mentioning that such result contrast to the findings from other studies which focus on understanding the investment decisions of companies from developed economies (HARZING, 2002; KOGUT, SINGH, 1988). These authors adopt a transaction costs theory perspective in their studies, which argues that a greater distance between countries could cause greater uncertainty on their strategic decisions.

Forth, regarding the administrative distance, our results showed a negative impact on FDI but it is not significant. Evaluating the country and FDI outflows data we can observe that the Brazilian FDI goes to countries administratively more distant,

following the same pattern as economic and geographic distance results. These results are also consistent with other studies based on transaction costs theory (HARZING, 2002; KOGUT, SINGH, 1988). These authors argue that a greater distance between countries could cause greater uncertainty in the management process and transfer of managerial practices, reflecting in more costs and less operations efficiency.

Fifth, in regard to strategic-seeking motives, our results indicate that Brazilian OFDI seeks to large and growing domestic markets and strategic assets. According to Dunning (1993), companies decide to internationalize motivated by some factors: natural resources (resource seeking), market (market seeking) and strategic assets (strategic asset seeking). Companies that use this kind of seeking strategies seek to exploit the benefits derived from low natural resources cost in the target countries, bigger markets and a set of competences such as product innovation and new distribution channels in order to achieve greater competitiveness in these markets, and to reduce the gap between them and the host country, leading companies in their respective industries to become globally competitive. Market-seeking motive could be interpreted as entering new markets and with a limited market in the home country. This motive is perceived by the companies as one of the important drivers when internationalizing. Instead of adapting products or gain a first mover's advantage, new markets are the focus for companies which are looking for a fast growth. For younger and smaller companies, access to new markets and generation of revenues may be crucial when funds are scarce and the home market brings small chances for success. In regard to strategic asset-seeking, Laplane et al. (2000) argued that the internal market expansion in the host country affects investment decisions of firms. Therefore, to reach the host market, the MNEs earned, through FDI, specific assets (strategic asset-seeking

strategy). Thus, seize the market position of the acquired company for gaining access to intangible assets.

Finally, our result and the main contributions of this study are that the institutional distance measured as cultural and geographic distances could impact the flow of FDI from Brazil as well as the Market seeking and Strategic asset seeking motives could positively influence the Brazilian FDI outflows.

6.1 Limitations

The difficulty of FDI research is that there are numerous factors influencing why firms choose a certain country to invest. Besides the cross-national distances and the strategic seeking motives researched in this study there might be other country specific or firm specific logic behind the FDI location choice which overrules the theories proposed earlier.

Secondly, one of the strengths of this research is also one of its weaknesses: the fact that there is no availability of firm level data gives a very broad overview of the effects of distances on FDI specifically administrative and economic distances, taking a wide range of factors into consideration. By selecting a set of firms in a specific sector a deeper understanding of the relevant factors affecting FDI flows in the respective sector can be provided. This is in line with Ghemawat's (2001) original CAGE distance framework which mentioned the industries or products that are specifically affected by larger distances of a certain type. Further research that focuses on a specific sector can provide more valuable results when putting specific weights on each individual distance measure.

Additionally, the cross-national distance four-dimensional approach: proposed by Ghemawat (2001) does not go far enough in recognizing the complexities of distance, given that it does not take into consideration finance, politics, demography and knowledge, and does not provide guidance on how to measure each dimension (BERRY; GUILLEN; ZHOU, 2010).

In regard to strategic-seeking motives we have decided to use natural resources for resource-seeking, market growth for market-seeking and patents for strategic asset-seeking but other factors related to these motives also could be equally important and provide better evidences for further analysis.

Finally, due to varying statistical methodologies and data collection problems, statistics on Brazil's inward and outward FDI do not have the same quality as international standards (UNCTAD, 2012), something that imposes limitations when trying to explain Brazilian OFDI.

6.2 Future research avenues

The approach and data offered in this study are also appropriate for conducting research on issues that transcend the topic of the FDI flows. Cross-national distance and other strategic motivations also affect decisions by governments to establish different types of economic, financial or political relationships with other countries. It is also possible to think about the development of the emerging countries through the identification of opportunities they could gain from exploiting differences in terms of cross-national distance and its evolution over time as defined by Ghemawat (2003) as arbitrage as well as specific strategic motivations as defined by Dunning (1993).

Furthermore, Dunning (2008) considers that an institutional approach that attempts to connect macro and micro levels of analysis, and to understand the formal and informal institutions, offer a promising way to advance the understanding of the EMNEs overseas expansion strategies.

In sum, an institutional approach to cross-national distance and seeking-motivations offers multiple avenues for future research, across the various management subfields.

7 Conclusions

This dissertation was developed with the objective to contribute to the existing knowledge inventory, involving the impact of the institutional distance and other strategic motives on the OFDI decision from emerging or transition economies, such as Brazil. In this way the purpose was to bring basically the following contributions:

- Theoretically, examine the influence that factors relating to the institutional environment of the home and host countries and other strategic motives may have on investment decisions.
- Empirically, offer results from statistical analysis based on secondary data that reflect the Brazilian flows of OFDI to other countries.

There has been a growing interest to investigate the role of the institutions and other strategic motives on developing international business, given the weight of the not strictly economic factors, have particularly in emerging/transition economies (DUNNING, 2006). Such interest has been raised by the increasing importance of these countries worldwide.

Additionally, we have proposed a new approach to conceptualizing, measuring, and examining the influence of cross-national distance and strategic motivations on Brazilian OFDI. Instead of relying on the widely used Hofstede's approach and measures of cultural distance, we have used institutional and strategic motivation theories to ground our conceptual definitions, analysis, and choice of empirical dimensions and indicators.

Our findings suggest that institutional distance and strategic motivations cannot be ignored as explanatory factors of Brazilian outward FDI. Indeed, institutional distance

has long been acknowledged as a key explanatory factor for the internationalization path of firms from developed countries in terms of FDI as well as trade flows, market selection and strategic asset seeking it has been neglected as an explanatory variable for determining the internationalization path of MNCs from emerging countries. Supporting this need, there has been important research that explored the influence of institutional distance on firm's decisions and performance (LUO, 1999).

In the case of Brazil, local multinationals do not count nor with the well-established rules as the developed countries, even with Government support such as South-East Asian countries, when they decide to invest abroad. In these circumstances and taking into account that the internationalization strategy through FDI of Brazilian companies have followed various patterns, this research has been corroborated to the current prevailing academic stream, to emphasize a different situation, where the focus is on an emerging country (Brazil) in relation to the institutional environment of the receiving countries, including markets with distinct development levels.

Furthermore, in the current scenario of globalization, organizations tend to internationalize their operations. This phenomenon impacts the Brazilian OFDI outflow. Due to this trend, it is important to study how the differences between the institutional environments, in addition to other motivations, impact Brazilian OFDI. Thus, adopting the CAGE perspective proposed by Ghemawat (2001) and strategic motivations proposed by Dunning (2003), this study seeks to examine if the institutional distances and strategic-seeking motives impact on Brazilian OFDI.

Finally, this study contributes by highlighting the significant impact of institutional distance and strategic motivations on Brazilian OFDI, and thereby the importance of including established theories and concepts in the analysis and explanation of OFDI

from emerging markets. Besides, this study opens up the discussion of whether institutional distance is a universal concept or not:

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Appendix A: Brazilian FDI outflows (2010-2012)

Position	Country	FDI (MMUS\$)	Position	Country	FDI (MMUS\$)
1	Austria	47,033.48	41	Czech Rep.	4,70
2	Netherlands	19,929.98	42	Libya	3,00
3	United States	13,958.59	43	Russia	3,00
4	Spain	11,852.47	44	Cuba	2,00
5	Denmark	6,634.41	45	Malaysia	2,00
6	Argentina	5,266.98	46	Mali	2,00
7	Portugal	2,801.33	47	Romania	2,00
8	Hungary	2,736.65	48	Turkey	2,00
9	Uruguay	2,610.49	49	Malta	1,92
10	Peru	2,380.81	50	Croatia	1,00
11	Canada	1,336.63	51	Nicaragua	1,00
12	United Kingdom	1,184.00	52	Oman	1,00
13	France	1,061.80	53	Guinea	0,46
14	Colombia	920,50	54	Finland	0,32
15	Venezuela	841,44	55	Poland	0,17
16	Chile	762,96			
17	Mexico	756,22			
18	Paraguay	396,81			
19	Ireland	387,53			
20	Angola	382,09			
21	Belgium	381,69			
22	Italy	283,88			
23	Switzerland	219,00			
24	Namibia	215,65			
25	Germany	188,41			
26	Slovakia	124,32			
27	China	111,00			
28	Dominican Rep.	103,14			
29	Bolivia	92,56			
30	Japan	87,87			
31	New Zealand	72,38			
32	India	64,65			
33	Ecuador	46,00			
34	Mozambique	43,44			
35	El Salvador	11,00			
36	Australia	8,00			
37	Israel	6,00			
38	United Arab Emir.	6,00			
38	Egypt	5,00			
40	Haiti	5,00			