Cultural Distance and Foreign Direct Investment
Does it Matter for Swedish Firms?

Anna Norell Bergendahl
Abstract

This thesis employs a random effects panel estimator to assess the relationship between Swedish outward foreign direct investment (FDI) stock and cultural distance for a panel of 75 countries covering the period 1998–2012. Cultural distance, operationalized by differences in Schwartz cultural orientations and gender equality, adds to the liability of foreignness and is hypothesized to have a negative impact on outward FDI stock. The theoretical underpinning for the hypothesis is based on a gravity model adapted to FDI, which shows that distance between countries reduces the amount of FDI that takes place between them. The results from the analysis provide partial support for the hypothesis as differences in some of Schwartz cultural orientations (harmony, embeddedness and egalitarianism) have a significant and negative effect on Swedish firms’ outward FDI stock. Moreover, differences in women’s economic rights are positively related to FDI, while no significant effects are found for differences in share of women in parliament.

Keywords: Foreign direct investment, Cultural distance, Schwartz cultural orientations, Liability of foreignness, Gender equality, International trade, Gravity equation
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1. Introduction

Economic globalization, defined as “the increased interdependence of national economies, and the trend towards greater integration of goods and factor markets” (Neary, 2003, p.1), has increased significantly during the last decades. The term *global economy* includes several other aspects of globalization, such as cultural, institutional and political globalization, and yet developments related to economic globalization are among the most prominent. This can mainly be seen by the increase in international trade and capital flows, a trend that has been particularly clear since the Second World War. An important factor behind this development is the rise of multinational enterprises (MNEs), i.e. enterprises that own or control production of goods and services in one or more countries other than the home country. These firms reach their customers either by foreign direct investment (FDI) or through exports (Beugelsdijk et al. 2013). Figure 1 illustrates the development for Swedish FDI outward stock for the time period analyzed in this thesis, 1998–2012. Studying the figure, one can see that the trend towards increasing economic globalization also holds for the Swedish economy.

![Figure 1. Swedish outward FDI stock. US Dollars, billions (OECD, 2015).](image)

There are many factors that affect how multinational firms perform in different markets, including geographical, economic, institutional and cultural differences, which may explain why firms choose to target some markets over others. The objective of this thesis is to investigate the impact of cultural distance on firms’ choice of FDI markets. Most previous research on FDI determinants has focused on other factors than culture, as e.g. economic factors, which makes this thesis an important addition to the knowledge about the factors behind FDI. I will examine the impact of cultural differences on FDI locations by Swedish firms by using indexes of Schwartz cultural orientations and gender equality as explanatory variables. When combining these variables, this thesis will contribute to the understanding of the relationship between cultural distance and FDI. The matter of gender equality is particularly interesting since this aspect has been poorly explored by previous
research (Busse and Nunnenkamp, 2009) and it is also a field where Sweden historically has been in the frontline (Swedish Institute, 2013). This, in combination with the development of Swedish outward FDI stock (illustrated in Figure 1), makes Sweden an interesting market to study on this topic.

To study the relationship between cultural distance and Swedish FDI, I will estimate a gravity model using a panel of Swedish outward FDI stocks between the years 1998–2012. The aim is to show how the cultural distance has affected Swedish firms’ choice of FDI markets within this time period. Hence, the research question for this thesis is: How does cultural distance affect Swedish outward FDI stock between the years 1998–2012?

The research question is not only of general interest but also of practical importance for actors in the business sector as well as policy makers as it demonstrates to what extent cultural differences affect Swedish international trade and investment flows. Whether this has a positive or negative impact will then give an indication if cultural differences can be considered a significant trade barrier that Swedish firms have to overcome. Since FDI is a way for firms to improve their competitiveness and reach larger markets, the results will give an indication of whether cultural differences should be taken into account when creating strategies to improve the growth potential for Swedish firms. Hence, both firms aiming to increase potential profits and policy makers with the goal to increase the Swedish economic growth and welfare should have an interest in this knowledge.

The results from the empirical analysis show that differences in three of Schwartz cultural orientations; harmony, embeddedness and egalitarianism have a statistically significant and negative relationship to Swedish outward FDI stock. This indicates that cultural differences can be considered an obstacle for Swedish firms. Differences in women’s economic rights show a statistically significant and positive relationship, which suggests that markets that differ in gender equality appear to be attractive FDI locations for Swedish firms. However, no relationship can be seen for neither the additional orientations of Schwartz cultural dimensions or differences in the share of women in parliament.

The structure of this thesis is as following: Chapter 2 contains a background about FDI and cultural distance, and describes how they relate to each other. In relation to this, Schwartz cultural orientations and gender equality will be further explained. The section also contains a literature review covering previous research on the topic and ends with my hypotheses. Chapter 3 describes the empirical model and the data used to study the relationship between cultural difference and FDI. The results of the empirical analysis will be presented and discussed in chapter 4, followed by conclusions in chapter 5.
2. Cultural distance and FDI

2.1. FDI and the liability of foreignness
MNEs can choose to serve foreign customers either through exports, i.e. producing at home and then sell to other countries, or by FDI. FDI means that the firm produces in another market and then sell directly to the local customers. Firms usually choose to engage in FDI to capture new business opportunities and sales in new markets, or to maximize their efficiency by locating in markets where they have greater access to resources as e.g. production inputs (Beugelsdijk et al. 2013).

When MNEs carry out multinational activities, it gives rise to additional costs for the firms. These costs are not only associated with the increase in transportation costs due to longer geographical distance, but rather with the liability of foreignness. The liability of foreignness is defined as “The total sum of additional costs, including the hidden costs related to dealing with new rules and regulations or new cultures” (Beugelsdijk et al. 2013, p.177) from doing business abroad as compared to doing business at home. These costs could stem from geographic, cultural, institutional and economic distance, resulting in higher costs and increased difficulties in succeeding abroad. This could be a result of e.g. higher transportation costs caused by a longer geographical distance, problems when dealing with different types of institutions and regulations, or difficulties in the understanding of markets with another level of economic development. Due to these difficulties, different types of distances can affect the direct and indirect costs for firms and may therefore have an impact on where firms choose to devote themselves to FDI (Beugelsdijk et al. 2013). The liability of foreignness is a central concept in this thesis since the aim is to understand what impact differences in culture, economic welfare, institutions etc. have on FDI.

2.2. Cultural distance
Cultural distance, which is the main topic studied in this thesis, is a quite broad concept but there have been a number of attempts to come up with a definition. Normally, it refers to differences in norms and values between the home and the host country. This matters since the set of national values among countries and employees may have an impact on how people act and consequently how easily the cooperation is accomplished. The research on cultural distance is dominated by Geert Hofstede’s framework, which consists of six cultural dimensions that are believed to reflect a country’s culture (Beugelsdijk et al. 2013). However, to build on to the understanding of culture as a FDI determinant, I measure cultural distance by using differences in Schwartz cultural orientations and gender equality.

Schwartz theory of cultural dimensions was developed later than Hofstede’s cultural dimensions, and is believed to have several advantages over the latter. For example, it is built on previous theories on the topic (as e.g. Hofstede) and it gives a more
complex analysis on cross-country comparisons (Siegel, Licht and Schwartz, 2013). Schwartz theory includes seven cultural value orientations, which form three cultural value dimensions and all countries have a score between 1–5 for each orientation. The orientations included in each dimension are summarized in Figure 2.

![Figure 2. Schwartz cultural dimensions.](image)

The first value dimension relates to how people in a society distinguish the individual from the group. The two polar orientations in this dimension are autonomy and embeddedness. Autonomy refers to societies that value the uniqueness of all individuals, and everyone’s right to express their own ideas and feelings. This orientation is divided into intellectual autonomy, which relates to autonomy when it comes to an individual’s ideas and intellectual independence, and affective autonomy. Affective autonomy denotes the importance of each individual’s aim towards a better life. The contrast to autonomy is embeddedness, which characterize societies with a more collective culture. This means that social relationships are considered highly important, as well as identifying with the group and striving towards common goals. These societies value social order, tradition and wisdom. The second value dimension specifies in what way power is applied in a society. That is, to what extent people engage in the productive work for the society as a whole and how they handle the fact that everybody is interdependent of each other’s actions. The two polar orientations here are egalitarianism and hierarchy. Egalitarianism refers to societies where people are encouraged to see themselves as moral equals that share the same human interests. These societies encourage cooperation to increase everyone’s welfare, and values as equality, social justice and honesty are important. Hierarchical societies, on the other hand, depend on systems of hierarchical order and ascribed roles to make sure that people act in the interest of the society. Here, unequal distribution of power is accepted and values like authority, humility and wealth are important. Finally, the third value dimension relates to how people handle their relationship to the natural and social world. The two cultural orientations connected to this are harmony and mastery. Harmony means that people understand and accept the world as it is, and values the world at peace and protection of the environment. Societies with a high level of mastery, in contrast, seek to master, direct
and change the environment to attain collective or individual goals. Hence, important values are ambition, success and competence (Schwartz, 2006). Figure 3 displays a summary of the seven orientations.

Figure 3. Schwartz cultural value orientations (Schwartz, 2006).

Figure 4 below shows how Sweden`s score in each of the seven orientations differ from the average score among the countries included in Schwartz value survey. This shows that Sweden has an above average score in harmony, affective autonomy, intellectual autonomy and egalitarianism. In contrast, Sweden has a below average score in embeddedness, hierarchy and mastery. This can be interpreted by referring to the three value dimensions illustrated in Figure 2. The first value dimension relates to the boundaries between the person and the group. Sweden`s relatively high value in autonomy indicates that the Swedish society is more individualistic than the average, meaning that the individual appear as more important than the collective. The second value dimension denotes how the distribution of power is applied in a society. Here, Sweden has a high value in egalitarianism rather than hierarchy, which implies that people are encouraged to see themselves as equals instead of relying on ascribed roles and hierarchal orders. Finally, the last value dimension refers to the relationship to the natural and the social world. Sweden shows a high score in harmony rather than mastery, meaning that people understand and accept the world as it is instead of seeking to master and change the environment.
Since these dimensions are polarized in pairs, a high value in one of the orientations usually corresponds to a lower value in the other (Schwartz, 2006). One fallacy with the Schwartz cultural orientations is the assumption that they are static, i.e. they do not vary over time. This is quite unlikely to be true, since cultural values develop through dynamic processes. However, these processes move very slowly and therefore the orientations can still be considered a good approximation (Beugelsdijk et al. 2013).

The second dimension of culture that is studied in this paper is gender equality. The topic gender equality has received an increasingly amount of attention the last decades, not least due to the United Nations’ (UN) millennium goal of a promotion of gender equality and empowerment of women (United Nations, 2015a). The level of gender equality varies a lot between different countries, and Sweden has been one of the most equal countries in the world for a long time (Bekhouche et al., 2013). Gender equality is considered to be a cornerstone of the modern Swedish society and there is a clear goal to increase the level of gender equality in school, the workplace and in politics (Swedish Institute, 2013).

The striving towards a more equal society is not solely a humanitarian value, but also of importance for a country’s economic development. This is partly due to the fact that women make up an important part of the workforce in many growth sectors. It has been shown that there is a positive relationship between women’s rights and the level of human capital as well as other economic conditions as income and economic growth. Gender equality is believed to have a positive impact on a country’s competitiveness, and can therefore create a more beneficial business environment for investing firms (Blanton and Blanton, 2011). Despite the possible advantages with a more equal business environment, this aspect has been largely neglected in the
literature regarding FDI determinants. Previous literature has been called “gender blind” (Busse and Nunnenkamp, 2009, p.61), which makes this an interesting aspect to study. The fact that Sweden takes an active role in the striving for gender equality reinforces the argument further.

2.3. Literature review
There has been a considerable amount of research done on what factors determine the choice of FDI markets (e.g. Cheng and Kwan, 2000; Ramasamy, Yeung and Laforet, 2012; Blonigen and Piger, 2014). However, less research has studied the impact of cultural distance in particular, but there are some exceptions. The most common way of measuring cultural distance is the Hofstede index, which has been used in previous studies. Loree and Guisinger (1995) examine the effects of policy and non-policy variables on the choice of location for American FDI. Policy variables relates to legislation as e.g. tariffs and taxes, whereas non-policy variables are considered to be less subject to government manipulation. In their study, they use the Hofstede index, but also additional non-policy variables as political stability and infrastructure as explanatory variables. When comparing the results from OLS regressions for the years 1977 and 1982, they find that cultural distance has a negative effect on FDI location for U.S. firms. Tang (2012) uses the Hofstede index in combination with a gravity model to see how the different dimensions affect FDI. She uses panel data with bilateral FDI between 21 OECD countries and 14 non-OECD countries for the years 1980–2000 and finds that differences in individualism encourage FDI whereas differences in power distance have a negative impact on FDI. Aggarval, Kearney and Lucey (2012) use a gravity model and the Hofstede index to estimate the relationship between foreign portfolio investment and culture. By using panel data for 175 originating and 50 destination countries for the years 2001–2007, they find that some aspects of low cultural distance could offset a large geographical distance.

A number of studies have also included alternative measurements of cultural distance. Drogendijk and Slangen (2006) compare the Hofstede and Schwartz measurements of cultural distance by using data of Dutch MNEs foreign expansions between the years 1995–2003. The results of a logistic regression show that Schwartz cultural dimensions and the Hofstede index both have equal predictive power on the entry mode choice by multinational enterprises. Dow and Karunaratna (2006) develop a new instrument to measure psychic distance stimuli in relation to international trade flows and use e.g. general level of education, language, industrial development, political systems and religion to measure cultural distance. By using a multiple regression model on a set of 627 country pairs, they find that only using the Hofstede index is not enough to explain international trade flows, since there are other cultural variables that are also of high relevance. Siegel, Licht and Schwartz (2013) use Schwartz cultural index to examine what impact egalitarianism has on
where MNEs choose to engage in FDI. In addition to Schwartz cultural values, they include variables such as legal distance and corporate taxation distance. They use a gravity model with panel data for the time period 1970–2004 and find that cross-country differences in cultural egalitarianism have a significant impact on choice of location.

The matter of gender equality as a cultural aspect that may affect FDI has not been studied to a large extent. However, Busse and Nunnenkamp (2009) investigate the importance of gender inequality in education as a determinant of FDI for 150 middle- and low-income countries. They implement a panel data set for the time period 1978–2004 and estimate a gravity model using the Tobit estimator. The results show that foreign investors from middle-income developed countries are more likely to choose markets where differences between genders are smaller. Blanton and Blanton (2011) study the impact of women’s rights on U.S. FDI in different industrial sectors. They specifically look at how women’s economic, educational and political rights affect FDI. By using panel data for U.S. outbound FDI for the years 1982–2007, they find that aggregate FDI is positively related to educational attainment and political rights for women. Finally, Brzozowski (2013) study the relationship between female representation in parliament and bilateral FDI inflows in 11 Central European countries. He uses a gravity equation with panel data for the years 2000–2009 and finds that female representation had a negative impact on FDI decisions in Central European countries. This is explained by potential parliamentary fights against wage discrimination of women, which could increase wage costs and thus reduce the willingness to invest in countries with a larger female representation in parliament.

By using both Schwartz cultural orientations and measures of gender equality, my thesis combines measurements of the overall national culture with the issue of gender equality. This has to my knowledge not been done in the previous research on FDI determinants. Furthermore, to account for the liability of foreignness, I study the difference rather than the absolute values for the majority of the control variables.

2.4. Hypotheses
Motivated by the literature review I formulate three hypotheses that will be tested in this thesis. As cultural distance adds a cost to the liability of foreignness, a larger difference is expected to cause less Swedish FDI outflows to those markets with cultural values that differ a lot from the Swedish ones. Differences in values and norms may create difficulties in business interactions and consequently reduce the likelihood of business success. Therefore, hypothesis one is:

\[ H1: \text{Swedish outward FDI stock is negatively related to differences in Schwartz cultural orientations.} \]
As mentioned above, gender equality has a large impact on many different parts of a society’s culture and its competitiveness. Previous research (Busse and Nunnenkamp, 2009; Blanton and Blanton, 2011), in combination with Sweden’s clear recognition of the importance of women’s rights, indicates that there is a negative relationship between differences in gender equality and FDI. However, Brzozowskis (2013) study implies that countries that acknowledge women’s rights may be less attractive for FDI flows due to higher wage costs. This suggests two possible outcomes and thus two opposite hypotheses:

\[ H2a: \text{Swedish outward FDI stock is negatively related to differences in gender equality.} \]

\[ H2b: \text{Swedish outward FDI stock is positively related to differences in gender equality.} \]
3. Methodology

3.1. Empirical model

I will estimate a gravity model to study the relationship between cultural distance and Swedish outward FDI stock. The gravity model is one of the most commonly used tools when modeling the relationship between distance and international trade and FDI flows. The model is inspired by the classical gravity model in physics which states that the gravitational forces between two bodies depend on their mass and the distance between them. The analogous economic gravity model assumes that the relative position of a country matters and that this position will affect a country’s market potential. The traditional economic gravity model is used to explain trade flows between countries rather than FDI. The model has, nonetheless, been increasingly used to estimate FDI as well and it is considered to be a proper empirical model to study the causes of market choices (Zwinkels and Beugelsdijk, 2010).

Using Swedish, country \(i\), outward FDI in country \(j\) at time period \(t\) as the dependent variable, the standard gravity model can be formulated as,

\[
\text{FDI}_{i,j,t} = Y_i^\alpha Y_j^\beta D_{i,j,t}^\gamma
\]

where \(Y_{i,t}\) is Swedish GDP in time period \(t\), \(Y_{j,t}\), is GDP in country \(j\) in time period \(t\), and \(D_{i,j,t}\) is the distance between Sweden and country \(j\). The mass of goods, labor or other factors of production supplied at origin \(i\) in time period \(t\), \(Y_{i,t}\), is attracted to a demand for a mass of goods or labor at destination \(j\), \(Y_{j,t}\). Hence, large economies are attracted by other large economies that offer greater market potential and production inputs. The flow is, however, reduced by the distance between the countries due to the increase in costs associated with the liability of foreignness. Consequently, FDI between two countries are expected to be large if the countries are large and if they are close to each other. Thus, the gravity equation gives the predicted movement Swedish outward FDI to country \(j\) (Anderson, 2011).

Taking the natural logarithm of (1) gives,

\[
\ln(\text{FDI}_{i,j,t}) = \alpha \ln Y_{i,t} + \beta \ln Y_{j,t} + \gamma \ln D_{i,j,t}
\]

i.e. a log-linear equation which will be estimated using,

\[
\ln(\text{FDI}_{i,j,t}) = \alpha \ln Y_{i,t} + \beta \ln Y_{j,t} + D_{i,j,t}^\delta + X_{i,j,t} + \varepsilon_{i,j,t}
\]
Vector D includes all kinds of distances, such as cultural, geographical, economical and institutional distance, and vector X includes additional variables that I need to control for. These control variables are based on previous studies (e.g. Aggarval, Kearney and Lucey, 2012; Tang, 2012) and include other factors that may have an impact on a firm’s tendency to invest in a country, such as GDP growth, export, language and trade agreements.

The error term in (3) is supposed to comprise two components,

\[ e_{i,j,t} = \mu_j + u_{i,j,t} \]

where \( \mu_j \) denotes the country-specific effect and \( u_{i,j,t} \) represents the additional disturbance. The country-specific effects are those characteristics that are associated with a particular country and do not vary over time, whereas the additional disturbances contain all factors that vary with both countries and time (Baltagi, 2013).

The fixed effects (FE) model is a common tool when country data is used. This type of model controls for all country-specific factors and general time trends, thus assuming that there are no time varying heterogeneity between countries. However, it would be problematic to use the model in this study. The problem can be explained by referring to the important distinction between within variation and between variation. Within variation is the variation over time for a given country, while between variation refers to the variation across countries. When there is little within variation, the FE model will not be precisely estimated. Since Schwartz cultural index does not vary over time, i.e. there is no within variation for these seven variables, the random effects (RE) model has to be used to estimate the relationship between cultural differences and FDI. The advantage with this model is that it yields estimates for all variables, even those that do not vary over time, so-called time-invariant variables. The RE model thus assumes that the country-specific effect, \( \mu_j \), and the idiosyncratic error, \( u_{i,j,t} \), are independent and identically distributed (Cameron and Trivedi, 2010).

Hence, the final model will be estimated using,

\[ \ln FDI_{i,j,t} = \alpha \ln Y_{i,t} + \beta \ln Y_{j,t} + D_{i,j,t} \gamma + X_{i,j,t} \delta + (\mu_j + u_{i,j,t}) \]

### 3.2. Data

#### 3.2.1. Dependent variables

The dependent variable used in the analysis is the stock of Swedish outward FDI\(^1\) between the years 1998–2012. The data is acquired from OECD (2015) international

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\(^1\) Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy (“direct investor”) in an entity resident in an economy other than that of the investor direct investment enterprise”). The lasting interest implies the existence of a long-term relationship
direct investment database that reports annual FDI data for more than 200 countries. Outward stocks of FDI are used instead of FDI flows since the latter tend to be very volatile over time which might obscure the underlying relationship between culture difference and FDI.

Three things should be noted here. First, only data for those countries included in Schwartz cultural index can be included in the study, restricting the sample to 75 countries in different income groups and geographical locations. Second, due to lack of data for certain years and countries, some values are interpolated as the arithmetic average between the previous and the following year. This method is only used for single intervening years with missing data, while observations where data is lacking for a number of consecutive years will simply be dropped from the sample. Since FDI stocks move slowly over time this way of filling in gaps in data can be considered as rather safe and is not expected to distort the estimations. Third, following Siegel, Licht and Schwartz (2013) a small positive number (0.0000001) is added to the FDI data to be able to include zero values in the analysis.

3.2.2. Cultural distance
The measurements of cultural distance in the study are included in the distance vector, \( D_{i,j,t} \). The first cultural variables are Schwartz cultural orientations, i.e. harmony, embeddedness, hierarchy, mastery, intellectual autonomy, affective autonomy and egalitarianism. This data is received by e-mail from professor Amir N. Licht who works closely with Shalom H. Schwartz, the developer of Schwartz cultural dimensions. Since the Schwartz cultural dimensions are in pairs, one of the models only includes embeddedness, harmony and egalitarianism to represent all the three value dimensions. To measure the actual distance in culture, the difference in country scores has been used.

Second, two variables are included to account for the level of gender equality. The first is the difference in Women’s Economic Rights (WECON), which was used by Blanton and Blanton (2011) in their study of the impact of women’s rights on U.S. FDI. This is a variable gathered from the CIRI Human Rights Dataset (2015), and includes a number of internationally recognized rights as e.g. equal pay, free choice between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise. A direct investment enterprise is defined as an incorporated or unincorporated enterprise in which a foreign investor owns 10 percent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise (OECD, 2015).

Approximately 20 percent of the data have zero values. Adding 0.0000001 enables me to take the natural logarithm of these values.

of profession and equality in hiring. The other variable representing gender equality is the difference in percentage of female representation in parliament. Brzozowski (2013) used this variable when looking at the relationship between gender equality and bilateral FDI inflows. This variable is gathered from the United Nation’s (2015b) Statistical Division for the millennium development goals indicators.

A problem with using culture in a regression analysis is that one might suspect that one part of the variance in the cultural variables is explained by economic factors and the other part by historically determined traditions and values. This gives rise to potential problems with endogeneity, i.e. a correlation between the cultural variables and the error term. However, by explicitly controlling for economic factors such as e.g. GDP per capita and GDP growth the risk of endogeneity is reduced.

3.2.3. Additional variables
The first two additional variables in the gravity model are GDP in Sweden, i, as well as GDP in country j. This data is gathered from the International Monetary Fund (2015). Since the gravity model predicts that two large economies are drawn to each other, these variables are expected to have a positive relationship to Swedish outward FDI stock. There are also a number of economic, geographic and institutional factors that might affect the choice of FDI target markets. These additional variables are included in either the distance vector, \( D_{i,j,t} \), or the control vector, \( X_{i,j,t} \) and are further discussed below.

First, the economic situation in the host country is of interest as it may affect the market opportunities for firms. The included variables cover the differential between the host country’s and Sweden’s GDP per capita and GDP growth. The difference in GDP per capita is included in vector \( D_{i,j,t} \) and GDP growth is included in vector \( X_{i,j,t} \). Since a larger difference in GDP per capita increases the liability of foreignness (Beugelsdijk et al. 2013), this variable is expected to have a negative relationship to the Swedish outward FDI stock. GDP growth, on the other hand, is expected to have a positive impact on Swedish FDI as it implies a growing market potential for the firm abroad. These variables also aim to capture the industrial development, purchasing power and income in the host country. Another economic variable of interest included in vector \( X_{i,j,t} \) is Swedish export to the host market. This data is gathered from Statistics Sweden (2015). Firms choose to serve foreign markets either by export or FDI, or a combination of the two. Due to this, there are two opposite forces that affect the impact of export on FDI flows. Export can be expected to at least partially act as a substitute for FDI (Beugelsdijk et al. 2013) and then one would expect a negative sign for this variable. However, a number of studies (e.g. Pfaffermayr, 1996; Head and Ries, 2001; Nishitateno, 2013) have shown that firms tend to use both FDI and exports, and thus the two strategies could also be considered complements. This would result in a positive sign for the export variable.
Geographical distance is often included in studies regarding international trade (see e.g. Dow and Karunaratna, 2006 and Siegel, Licht and Schwartz, 2013) as this factor increases the transportation costs. Geographical distance is the most straightforward variable included in the study and it is captured by the physical distance between Sweden and the other countries. The distance is expressed as kilometers between the two country centers and is based on data from Google Maps (2015). The variable is included in vector $D_{i,j,t}$ and is expected to be negatively related to Swedish outward FDI stock.

A number of variables are included to control for institutional distance, which refers to differences in formal rules and regulations. Differences in institutions can result in increased costs but may also provide positive effects if a country has beneficial regulations for firms (Beugelsdijk et al., 2013). To control for institutional distance, the World Bank’s (2015) Worldwide Governance Indicators (WGI) have been used. The WGI reports aggregate and individual governance indicators for 215 economies and consist of six dimensions of governance: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption. A higher rank means better institutions and the institutional distance is measured as the difference between the Swedish and the host country rank. Another institution of importance, not least to measure the level of human capital in a country, is education. Therefore, the difference in average years of schooling between Sweden and the host country is included. This data is collected from the UNDPs (2015) Human Development Reports. All the institutional variables are included in vector $D_{i,j,t}$ and are expected to be negatively related to Swedish outward FDI stock since differences in institutions may complicate business interactions.

Finally, there are two dummy variables included in vector $X_{i,j,t}$. First, common language is included since it is believed to facilitate business interactions. The Swedish language has a limited reach, but since the English proficiency in Sweden is very high (EF Education, 2015) a dummy variable for countries with English as official language will capture this benefit. Despite the fact that English is not the official language in any of the Scandinavian countries (Norway, Denmark and Finland), these countries receive a value of 1 due to the high resemblance in languages across the countries. The reason for this is that Finland has Swedish as one of their official languages (Swedish Institute of International Affairs, 2015), and Danish and Norwegian are very similar to Swedish, which can be assumed to give the same kind of advantage. The second dummy variable included in the study is membership of the European Economic Area (EEA). EEA-membership is included as these countries are part of the European Free Trade Association (EFTA), which simplifies the business interactions and trade flows between the countries. Aside from the EU-countries, Norway and Switzerland are also included in EEA (EFTA,
2015). This variable varies for each year since some of the countries entered the EEA during the time period 1998–2012. Since both dummy variables facilitate business interactions, they are expected to be positively related to Swedish outward FDI stock.

### 3.2.4. Variable summary

The variables included in the study are described and summarized in Table 1 and 2, while Table 3 shows the correlation between the variables.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Definition</th>
<th>Source</th>
<th>Vector</th>
<th>Expected sign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent variable</td>
<td>Swedish outward FDI stock in USD millions</td>
<td>OECD</td>
<td>FI1</td>
<td></td>
</tr>
<tr>
<td>Culture</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Harmony</td>
<td>The difference in the score between Sweden and country</td>
<td>A.N. Licht (e-mail)</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Embeddedness</td>
<td>The difference in the score between Sweden and country</td>
<td>A.N. Licht (e-mail)</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Hierarchy</td>
<td>The difference in the score between Sweden and country</td>
<td>A.N. Licht (e-mail)</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Mastery</td>
<td>The difference in the score between Sweden and country</td>
<td>A.N. Licht (e-mail)</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Affective autonomy</td>
<td>The difference in the score between Sweden and country</td>
<td>A.N. Licht (e-mail)</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Intellectual autonomy</td>
<td>The difference in the score between Sweden and country</td>
<td>A.N. Licht (e-mail)</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Egalitarianism</td>
<td>The difference in the score between Sweden and country</td>
<td>A.N. Licht (e-mail)</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Women’s economic rights</td>
<td>The difference in the score between Sweden and country</td>
<td>ERI Human rights data project</td>
<td>D</td>
<td>?</td>
</tr>
<tr>
<td>Women’s parliament representation</td>
<td>The difference between percentage of women in parliament in country</td>
<td>United Nations</td>
<td>D</td>
<td>?</td>
</tr>
<tr>
<td>Economy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difference GDP/capita</td>
<td>The difference in GDP per capita (USD) in Sweden and country</td>
<td>IMF</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>GDP</td>
<td>The total GDP in Sweden as well as in country in USD billions</td>
<td>IMF</td>
<td>Y</td>
<td>+</td>
</tr>
<tr>
<td>GDP Growth</td>
<td>The percentage change in total GDP in country</td>
<td>IMF</td>
<td>X</td>
<td>+</td>
</tr>
<tr>
<td>Swedish export</td>
<td>The value of export from Sweden to country in thousand SEK</td>
<td>Statistics Sweden</td>
<td>X</td>
<td>?</td>
</tr>
<tr>
<td>Geography</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Geographical distance</td>
<td>The geographical distance between the country center in Sweden and country, in kilometers</td>
<td>Google maps</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Institutions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Voice and accountability</td>
<td>The difference in the rank between Sweden and country</td>
<td>World Bank</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Political stability and absence of violence</td>
<td>The difference in the rank between Sweden and country</td>
<td>World Bank</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Government effectiveness</td>
<td>The difference in the rank between Sweden and country</td>
<td>World Bank</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Regulatory quality</td>
<td>The difference in the rank between Sweden and country</td>
<td>World Bank</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Rule of law</td>
<td>The difference in the rank between Sweden and country</td>
<td>World Bank</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Control of corruption</td>
<td>The difference in the rank between Sweden and country</td>
<td>World Bank</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Mean years of education</td>
<td>The difference in average years of schooling between Sweden and country</td>
<td>UNDP</td>
<td>D</td>
<td>-</td>
</tr>
<tr>
<td>Dummy variables</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Language</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1=IF English is official language (plus Denmark, Finland and Norway)</td>
<td>The Swedish institute of international affairs</td>
<td>X</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>EFTA membership</td>
<td>1=IF member of the European Economic Area (EFTA)</td>
<td>EFTA</td>
<td>X</td>
<td>+</td>
</tr>
</tbody>
</table>

*Table 1. Variable description.*
The relatively low correlations in Table 3 indicate that multicollinearity, i.e. linear dependence between the explanatory variables, does not appear to be a problem for the cultural variables. This is also verified by a VIF\(^4\) test, which shows that it is mainly

\(^4\) Variance Inflation Factor test, which estimates how the variance of a coefficient is inflated by linear dependence with other variables.
the institutional variables that are correlated and thus move together in a systematic way. However, the regression results do not vary significantly when removing some of the institutional variables that could cause these issues. I have also tested for heteroskedasticity by using a Breusch-Pagan test, as well as autocorrelation by using a Wooldridge test for autocorrelation. These tests show that neither heteroskedasticity nor autocorrelation appear to be a problem in the dataset.

### 3.3 Model specifications

Seven different model specifications are used in the analysis. All seven models include the entire set of distance and control variables, while the set of cultural variables and the years covered vary between the models. The models and the included variables are summarized in Table 4. The first four models cover the entire time period, but include different sets of variables. Model 1 includes all cultural variables whereas the variables mastery, autonomy and hierarchy are excluded in Model 2. The reason to exclude these variables is that since Schwartz orientations give polar values of the same dimension, it might be hard to get significant results as a result of multicollinearity. Model 3 and 4 separate the effects of differences in Schwartz cultural orientations and differences in gender equality by studying the two types of cultural distance in isolation. This is interesting since these two sets of variables acknowledge different parts of a nation’s culture. By studying them separately, it increases the understanding of the relationship between FDI and both measurements of culture. Model 5–7 looks at the relationship between cultural differences and FDI in three different time periods – 1998–2002, 2003–2007 and 2008–2012 – to see how the relationship between culture and FDI has changed over time. This is interesting as it indicates what kind of impact the increased globalization has on the understanding and acceptance for other cultures.

<table>
<thead>
<tr>
<th>Models</th>
<th>Variables</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 1</td>
<td>All variables</td>
<td>1998–2012</td>
</tr>
<tr>
<td>Model 2</td>
<td>Harmony, Embeddedness and Egalitarianism, and Gender equality</td>
<td>1998–2012</td>
</tr>
<tr>
<td>Model 3</td>
<td>Schwartz cultural orientations</td>
<td>1998–2012</td>
</tr>
<tr>
<td>Model 4</td>
<td>Gender equality</td>
<td>1998–2012</td>
</tr>
<tr>
<td>Model 5</td>
<td>All variables</td>
<td>1998–2002</td>
</tr>
<tr>
<td>Model 6</td>
<td>All variables</td>
<td>2003–2007</td>
</tr>
<tr>
<td>Model 7</td>
<td>All variables</td>
<td>2008–2012</td>
</tr>
</tbody>
</table>

Table 4. Model specifications.
4. Results

Table 5 shows the results for the seven different model specifications. The results for the cultural variables are presented in detail in section 4.1. and the additional variables in section 4.2. The section ends with a discussion on the findings in section 4.3.

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
<th>Model 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harmony difference, logarithm</td>
<td>-0.416**</td>
<td>-0.402**</td>
<td>-0.408**</td>
<td>-0.704*</td>
<td>-0.338</td>
<td>-0.188</td>
<td></td>
</tr>
<tr>
<td>Embeddedness difference, logarithm</td>
<td>-1.807**</td>
<td>-1.438**</td>
<td>-1.563</td>
<td>-2.563</td>
<td>-2.278#</td>
<td>-0.396</td>
<td></td>
</tr>
<tr>
<td>Hierarchy difference, logarithm</td>
<td>0.171</td>
<td>0.181</td>
<td>0.164</td>
<td>0.318</td>
<td>0.273</td>
<td>0.164</td>
<td></td>
</tr>
<tr>
<td>Mastery difference, logarithm</td>
<td>0.0649</td>
<td>0.0451</td>
<td>0.164</td>
<td>0.204</td>
<td>0.179</td>
<td>0.126</td>
<td></td>
</tr>
<tr>
<td>Affective autonomy difference, logarithm</td>
<td>-0.034</td>
<td>-0.033</td>
<td>-0.031</td>
<td>-0.254</td>
<td>-0.004</td>
<td>0.0081</td>
<td></td>
</tr>
<tr>
<td>Intellectual autonomy difference, logarithm</td>
<td>0.097</td>
<td>0.163</td>
<td>0.192</td>
<td>0.410</td>
<td>0.272</td>
<td>0.152</td>
<td></td>
</tr>
<tr>
<td>Egalitarianism difference, logarithm</td>
<td>0.121</td>
<td>0.163</td>
<td>0.231</td>
<td>0.410</td>
<td>0.272</td>
<td>0.152</td>
<td></td>
</tr>
<tr>
<td>Institutional difference, logarithm</td>
<td>0.121</td>
<td>0.163</td>
<td>0.231</td>
<td>0.410</td>
<td>0.272</td>
<td>0.152</td>
<td></td>
</tr>
<tr>
<td>Swedish export, logarithm</td>
<td>0.014**</td>
<td>0.019**</td>
<td>0.019**</td>
<td>0.019**</td>
<td>0.019**</td>
<td>0.019**</td>
<td></td>
</tr>
<tr>
<td>GDP per country, logarithm</td>
<td>0.926**</td>
<td>0.926**</td>
<td>0.926**</td>
<td>0.926**</td>
<td>0.926**</td>
<td>0.926**</td>
<td></td>
</tr>
<tr>
<td>GDP growth</td>
<td>0.014</td>
<td>0.014</td>
<td>0.014</td>
<td>0.014</td>
<td>0.014</td>
<td>0.014</td>
<td></td>
</tr>
<tr>
<td>Swedish export, logarithm</td>
<td>0.176</td>
<td>0.176</td>
<td>0.176</td>
<td>0.176</td>
<td>0.176</td>
<td>0.176</td>
<td></td>
</tr>
<tr>
<td>Robust standard errors in parentheses</td>
<td>*** p&lt;0.01, ** p&lt;0.05, * p&lt;0.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Table 5. Regression results model 1-7. |
| Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1 |
4.1. Cultural distance

Model 1, shows a statistically significant relationship between Swedish outward FDI stock and differences in harmony, embeddedness, egalitarianism and women’s economic rights. More precisely, a one percent increase of the difference in the measures for harmony, embeddedness and egalitarianism would reduce the Swedish outward FDI stock with 0.4 percent, 1.8 percent and 0.2 percent respectively. The negative relationship between these variables and FDI is similar to the results found by Siegel, Licht and Schwartz (2013) and supports Hypothesis 1. A one percent increase of the difference in women’s economic rights would increase Swedish outward FDI stock with 0.1 percent, which contradicts Hypothesis 2a but supports Hypothesis 2b. For the other cultural orientations and women’s parliament representation, however, there is no significant relationship.

The results show the same pattern in Model 2, when measures of hierarchy, mastery and autonomy are removed from the model. That is, differences in harmony, embeddedness and egalitarianism show a statistically significant and negative relationship to Swedish outward FDI stock whereas differences in women’s economic rights remain statistically significant and positive. When removing the variables connected to gender equality in Model 3, the only cultural variable that shows a statistically significant relationship with Swedish outward FDI stock is harmony. In model 4, Schwartz cultural orientations are removed to separate the effect of differences in women’s economic rights and women’s parliament representation on Swedish outward FDI stock. Still, the results show support for Hypothesis 2b rather than 2a since differences in women’s economic rights show a significant positive relationship but no relationship can be found for differences in the women’s representation in parliament.

Model 5, 6 and 7 illustrates the relationships for the three five-year time periods 1998–2002, 2003–2007 and 2008–2012. These models are included to study whether the relationships appear to be different in specific time periods during 1998–2012. As can be seen in Table 5, there are some variations between the three time-periods. Between the years 1998–2002, harmony is the only cultural variable that shows a statistically significant negative relationship with Swedish outward FDI stock. In the time period 2003–2007, this has changed and the only variable showing a significant negative relationship is embeddedness. For the time period 2008–2012, none of the cultural variables show a statistically significant relationship with Swedish outward FDI stock. Together the time pattern that emerges is in line with the view that globalization reduces the importance of cultural differences.

To summarize, the results for the cultural variables show some support for Hypothesis 1, that the cultural differences are negatively related to Swedish outward FDI stock. Hypothesis 2a, on the other hand, cannot be confirmed since differences in gender equality show a positive or no relationship to Swedish outward FDI stock.
This result rather shows support for Hypothesis 2b, which is further commented in section 4.3.

4.2. Additional results
When examining the additional variables included in the study, it can be seen that the economic variables show a quite clear relationship to the choice of Swedish FDI locations. As expected, GDP and GDP growth both have a statistically significant positive relationship to Swedish outward FDI stock. For total GDP, this relationship holds for all seven models, but only for the models that include the entire time period (1998–2012) for GDP growth. Differences in economic development, on the other hand, do not show a significant relationship in any of the models. The last economic variable, Swedish export, shows a positive relationship for all models that include the entire time period. A variable that shows a significant negative relationship to Swedish outward FDI stock in model 3–5 is geographical distance. This result was expected since a longer distance result in additional transportation costs.

Of the variables included in WGI, it is only regulatory quality and control of corruption that shows a statistically significant relationship for the models that include the entire time period 1998–2012. In Model 1–4 it seems that larger differences in regulatory quality have a positive impact on Swedish FDI outward stock, which was not expected as differences in institutions add on to the liability of foreignness. A difference in the control of corruption, on the other hand, has a negative impact on Swedish outward FDI stock. This was expected since a difference in control of corruption indicates an institutional distance that may add on to the liability of foreignness. However, it seems as if the majority of the WGI variables do not have a statistically significant relationship to Swedish outward FDI stock. The last institutional variable, difference in the mean years of education, shows a statistically significant positive relationship to Swedish outward FDI stock for all models except the ones that only covers the time periods 1998–2002 and 2003–2007. This contradicts the hypothesis that differences in education level increase the liability of foreignness and thus have a negative impact on Swedish outward FDI stock.

Finally, the dummy variables show diverse results. The language dummy displays an expected positive and significant result in model 1–4, while membership in EEA, on the other hand, shows a significant negative relationship in model 1, 2, 4 and 6. This negative relationship was not predicted since membership in the EEA was expected to facilitate the economic interaction between the member states.

4.3. Discussion
Studying the regression results, the four variables harmony, embeddedness, egalitarianism and women’s economic rights show a statistically significant relationship to Swedish outward FDI stock in at least in some of the models. Starting
with harmony, a variable in which Sweden has an above average score. This means that Swedes have a greater acceptance for the world as it is and care for the environment more than the other countries studied by Schwartz. Since differences in harmony have a negative relationship with Swedish outward FDI stock, it appears as if countries with a tendency not to value the environment are not attractive FDI markets for Swedish firms. This could potentially be a result of the acknowledgement of the importance of corporate social responsibility (CSR) in Sweden (Government Offices of Sweden, 2015). Due to this, an allocation of business activities to markets with less care of the environment may not be an attractive choice for Swedish firms.

What is interesting with the regression results for harmony is that in Model 5–7, the only time period when there is a significant relationship is 1998–2002. This implies that differences in harmony were of greater importance for Swedish firms in that time period than in more recent years. This somewhat contradicts the hypothesis that increased concern about CSR has had an impact on the importance of differences in harmony.

The second cultural variable that shows a statistically significant negative relationship in several models is embeddedness. Sweden’s score in embeddedness is below average among the countries studied, which means that Sweden has a less collective culture than other countries. Thus, social relationships and group identification are not as important values. Rather, the Swedish society put a high value on the autonomy of the individual and everyone’s right to express their own ideas and feelings. The negative relationship between differences in embeddedness and Swedish outward FDI stock indicates that Swedish firms rather choose markets with a more individualistic culture than collective. In countries with a high value in embeddedness, social order is of great importance and this may be an explaining factor to why Swedish firms do not allocate their business activities to those countries to the same extent. Swedish organizations are considered less hierarchical than in many other countries (Business Sweden, 2015), and therefore FDIs to markets with a more collective culture may be problematic. The same reasoning holds for the third cultural variable, egalitarianism, which also shows a significant and negative relationship with Swedish outward FDI stock in model 1 and 2. Egalitarianism is the contrast to hierarchy, and Sweden has a score above average for this variable. This means that equality and social justice are important values in the Swedish society. Hence, for the same reasons as embeddedness, it may be problematic for Swedish firms to establish their businesses in countries that promote more hierarchal values. What should be noted is that while egalitarianism does not show any significant relationship for Models 5–7, embeddedness shows a significant negative relationship for the time period 2003–2007. A direct interpretation of this would imply that the value of individualism was of particular importance for Swedish firms during that time period.
The rest of Schwartz cultural variables do not display any significant results. Hence, these variables cannot be proven to impact Swedish firms’ choice of FDI markets. However, it should be noted that since Schwartz cultural orientations are in pairs, the additional variables show an indirect relationship to Swedish outward FDI stock. That is, the orientations in each dimension are opposites and therefore differences in e.g. harmony also indicate differences in mastery. Hence, differences in the additional orientations may have an impact as well.

When studying the variables related to gender equality, it appears as if difference in women’s economic rights have a statistically significant and positive relationship to Swedish outward FDI stock whereas differences in the share of women in parliament do not show any relationship. This result contradicts the conclusions drawn from some of the previous research on the relationship between gender equality and FDI (e.g. Busse and Nunnenkamp, 2009; Blanton and Blanton, 2011) which claims that more equal countries are favored in FDI location choices. From these results, it appears as if Swedish firms either do not take the level of gender equality in the host country into consideration when choosing FDI markets, or prefer those markets with a large difference in gender equality. Since Sweden performs well in this topic, this means that Swedish firms actually seem to favor less equal markets. This is somewhat surprising as gender equality is considered such an important topic in Sweden. However, this supports the results found by Brzozowski (2013). Countries with a higher level of women’s economic rights have a tendency to have less wage discrimination for women. This may increase female wages, which would be disadvantageous for firms that seek to lower their production costs. This suggests that the market opportunities in less equal countries could offset the potential issues caused by different views on the importance of gender equality.

The lack of concern about the level of gender equality may be partly explained by the results of the economic factors included in the study. Studying the regression results, it seems like factors related to market size and growth are of great importance for Swedish firms when they choose locations for their FDI activities. Swedish firms seem to be drawn to markets with a large and growing GDP as these variables show a clear positive relationship with Swedish outward FDI stock. In addition, one can see that there is no statistically significant relationship between differences in GDP per capita and FDI, meaning that Swedish firms do not tend to take economic welfare and development into account in their FDI choices. Hence, it appears as if differences in economic welfare are not an obstacle for Swedish firms. The final economic variable, Swedish export, show a significant positive relationship to Swedish outward FDI stock. This result is interesting since it indicates that Swedish firms seem to choose both export and FDI to reach foreign markets. This suggests that export and FDI are considered to be complements rather than substitutes for Swedish firms.
Geographical distance has a significant negative relationship to Swedish outward FDI stock in model 3–5. This suggests that geographical distance and transportation costs are important factors when Swedish firms choose FDI locations, but that it has become a less important factor in recent years (model 6 and 7). This is not surprising since increased globalization gives rise to better communication and less costs for firms with international business activities.

Looking at the regression results for the institutional variables, the two variables that show a statistically significant relationship are regulatory quality and control of corruption. Differences in regulatory quality show a positive relationship with Swedish outward FDI stock, meaning that Swedish firms are drawn to markets that differ in this aspect. Sweden has a fairly high rank in regulatory quality, which means that Swedish firms seek markets with quite low regulatory quality. The reason for this could be that firms prefer to act more freely in FDI markets than in the home market. The other variable that shows a statistically significant relationship is differences in control of corruption, which has a negative impact on Swedish outward FDI stock. This is probably explained by the risk of increased costs that a high level of corruption could result in for the firms. The last institutional variable, differences in mean years of schooling, shows a clear positive relationship with Swedish outward FDI stock. This suggests that Swedish firms seek markets with larger differences in human capital. Since the average years of schooling is quite high in Sweden. This could be taken as evidence for that Swedish firms target markets with relatively low human capital. The reason for this could be that the firms seek markets with lower labor costs, which is in line with the discussion regarding the result for women’s economic rights. Also, since the relationship is significant in the time period 2008–2012 but not 1998–2002 nor 2003–2007, it seems like the level of human capital has become more important in recent years.

Finally, turning to the two dummy variables, the language dummy shows a positive relationship in Model 1, 2 and 4, meaning that a shared language increases the probability that Swedish firms choose to locate in that market. This is not surprising since a common language facilitate business interactions. Second, EEA-membership shows a negative relationship with Swedish outward FDI stock. This is rather surprising, as a membership in EEA was believed to simplify business interactions between the member states. However, the negative relationship may be the result of the lack of trade barriers between the member countries and, hence, firms may simply choose to export to the other member states rather than locate their FDI in those markets.
5. Conclusions and suggestions for future research

From the results in this thesis, it can be concluded that cultural distance seems to, at least partly, have an impact on Swedish firms’ choice of FDI markets. The four variables harmony, embeddedness, egalitarianism and women’s economic rights all show a statistically significant relationship in several of the models. However, the additional dimensions Schwartz cultural orientations and the share of women in parliament do not show a significant relationship to Swedish outward FDI stock. Hence, these dimensions cannot be considered trade barriers for Swedish firms when they choose which markets to target in their FDI activities. The results show some support for Hypothesis 1, that country differences along Schwartz dimensions deter FDI. They also show some support for Hypothesis 2b, that Swedish outward FDI stock is positively related to difference in women economic rights, rather than Hypothesis 2a that predicted a negative relationship.

Another conclusion that can be drawn is that other factors besides cultural distance may be of greater importance for Swedish firms in their choice of FDI markets. The set of variables that show the most significant relationship to Swedish outward FDI stock is connected to economic factors and it seems as if Swedish firms favor large and growing markets. It also appears as if Swedish firms view export and FDI as complements rather than two competing ways of reaching foreign markets. Other factors that seem to have an impact on Swedish outward FDI stock include geographical distance, differences in regulatory quality, control of corruption and mean years of education, as well as language and membership in EEA.

These results show that if Swedish authorities are interested in facilitating and boosting Swedish FDI flows then cultural factors should be taken into consideration. Even though other factors as economy and geography might be of greater importance, it seems as if culture have an impact on FDI choices by Swedish firms. Hence, by creating strategies to overcome these potential cultural barriers, policy makers may enable Swedish firms to expand to new markets. This is not solely an interest for profit-seeking firms, but also for governmental authorities since a better firm performance contribute to the economic growth for the country. That is, by facilitating for Swedish firms to explore new business opportunities abroad, authorities do not only help firms to grow, but may also increase the country’s economic welfare. This contributes to society as a whole since it gives the government the capacity to maintain the well being and social sustainability in the country.

For future studies, it would be interesting to explore the relationship between distance and FDI more in detail to understand why some types of distances appear more important than others. Another direction for future research would be to increase the understanding of the mechanisms behind why some of the cultural factors affect Swedish outward FDI stock. It would, for example, be interesting to see...
whether firm performance seems to be affected by cultural distance. If that were the case, then it would probably be an explaining factor to why firms avoid markets that are very culturally different. In relation to this, one could also study whether this relationship differs between cost reducing firms and market seeking firms. Since these firms have different goals with their FDI, cultural differences probably affect them in different ways. Finally, it would be interesting to increase the scope of this study by adding additional variables of interest as well as adding data for more countries. Examples of additional variables could be e.g. labor costs, customs and access to different production inputs.
6. References


