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Mind the gap: Impact of formal institutional distance and human rights differences between the host and home countries on emerging market multinationals' choice of ownership strategy

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Abstract

Recent decades have witnessed a rapid expansion of emerging-market multinational enterprises' (EMNEs). These newly internationalising firms are faced with challenges as they go abroad. One of the sources of this challenge is the gap between codified formal institutions and the extent to which they are upheld in practice. Drawing on recent critiques, we explore the links between EMNEs' ownership strategy, the difference in the host-home countries in terms of the formal institutions and mediating role of human rights. Our analysis draws on the data for EMNEs from five emerging markets, Brazil, Russia, India, China and South Africa, between 1998-2011. The results suggest a partial mediation effect of human rights difference on the formal institutional distance and EMNEs' ownership stakes, namely, when EMNEs acquired targets in the developed countries. Thus, our study contributes to the literature by evidencing the effect of formal institutions being transmitted via human rights differences between home and host countries.

Keywords: emerging market multinationals, ownership strategy, human rights, host country institutions, formal institutional distance, cross-border acquisitions

INTRODUCTION

Emerging-market multinational enterprises (EMNEs) have been catching up to their counterparts from developed economies by pursuing an aggressive and fast-paced international expansion strategy (Guillén and García-Canal, 2009; Jing Li and Oh, 2016), overwhelmingly choosing mergers and acquisitions as their preferred entry mode (Buckley et al., 2010). Yet, there is a gap in our understanding of how the EMNEs' internationalisation and ownership strategy is influenced by the home and host country characteristics (such as formal institutions and human rights) (Chikhouni et al., 2017; De Beule et al., 2014). In order to address this research gap, we draw on transaction cost economics (TCE), one of the dominant approaches to understanding and capturing cross-national differences, and notably internationalisation studies (Dunning, 1988; Hennart, 2010; Rugman and Verbeke, 1992; Zhao et al., 2004). Hennart (2010) provides valuable insight into the contribution of TCE to international business. In this stream of research, firms are internalising non-pecuniary externalities due to natural imperfections in the market (Dunning and Rugman, 1985; Hennart, 1982). Furthermore, due to information asymmetry issues in global trade, cross-border exchange will entail positive transaction costs. This is particularly true in the case of acquisitions as foreign targets might obfuscate or not share information on one hand. On the other hand, acquirers might not always have the resources to conduct appropriate due diligence. Also, in this context, institutions become relevant as they can set boundaries within which organisations need to operate (North, 1990). Scholars have elucidated the challenges of conducting cross-border investments given the distance between the acquiring and target countries (Chari and Chang, 2009). Studies have noted that limited clarity in the formal institutions can generate costs for firms (Rivera-Santos et al., 2012), which is crucial when firms undertake strategic decisions to invest in foreign countries (Gaur et al., 2022; Verbeke and Kano, 2013; Maekelburger et al., 2012).

In this study, adopting TCE lens, we aim to examine the impact of formal institutional distance on EMNEs' ownership strategy and the mediating role of the differences in human rights between their home and host countries. Given their differences from developed-country MNEs in terms of their capabilities and global expansion strategies, EMNEs represent a particularly interesting challenge to theorising on MNE internationalisation strategies (Ang et al., 2015; Peng et al., 2008). We build on recent studies examining the relationship between institutional differences between home and host countries and EMNEs' ownership strategies (Demirbag et al., 2009; Gaffney et al., 2016; Kotabe et al., 2000; Liou et al., 2016; Malhotra et al., 2016; Pinto et al., 2017; Xie, 2014; Yang, 2015; Gaur et al., 2014; Cuervo-Cazurra et al., 2018).

Since the findings of these studies have been mixed, we incorporate recent critiques (Zaheer et al., 2012) to examine how the direction of distance, rather than its sheer magnitude, affects EMNEs' ownership strategies (Chikhouni et al., 2017; Contractor et al., 2016; Duanmu, 2011; Hernández and Nieto, 2015). We focus on formal distance, which reflects differences in home and host country regulatory environments (Ang and Michailova, 2008). The directionality of differences in regulatory institutions has been recently highlighted as particularly important for MNEs' entry strategies and ownership choice by Hernández and Nieto (2015). However, as their study focused on European small and medium enterprises, its emphasis limits the generalisation of their results to much wider settings. It has been noted that the transaction cost of doing business is greatly affected by the direction of this difference (Eden and Miller, 2004).

One of the challenges for EMNEs expanding to new countries is the uncertainty that emerges from the deviation of governance in the host country from the written and codified formal institutional structures (Ang et al., 2015). Recent works have examined the implications of these governance issues for EMNEs' international operations (Villo et al., 2020). Respect for human rights represents one such deviation (Bachmann and Pereira, 2014). In contrast to the now considerable amount of literature on foreign investors' responses to corruption (Collins et al., 2009; Uhlenbruck et al., 2006), studies examining similar effects of human rights practices remain sparse (Giuliani and Macchi, 2014; Wettstein, 2009). EMNEs' home countries' institutional quality is often low (Khanna and

Palepu, 1997). The extent to which the governments of these countries commit to human rights implementation has often been questioned (Ciravegna and Nieri, 2021). Hence, EMNEs might face challenges in dealing with human rights issues due to their lack of experience and negative home-country perceptions by partners and external stakeholders (Fiaschi et al., 2017). Yet, EMNEs expand in part to acquire knowledge and thus human capital (Li, Li and Shapiro, 2012), whose development at the national level is also enabled by respect for human rights (Blanton and Blanton, 2007a,b).

Anecdotal evidence shows the growth of awareness amongst EMNEs of the importance of human rights to their business. Large EMNEs like Tata and Indian Oil have started adopting explicit human rights policies (Tikoo, 2010). Mark Hodge, director, UK-based Global Business Initiative on Human Rights, stated, "when companies take care of human rights of neighbourhood populations…it's likely to ensure availability of healthy and educated manpower, consumers for their products, and local goodwill, which secures amicable environment for their operations" (Tikoo, 2010). Thailand's Thai Union reportedly experienced acquisition negotiations breaking down with a potential target in the United States due to concerns over human rights issues in its home country (Cheeseman, 2015). The company has since worked to appeal to the government to improve Thailand's human rights records, with the Chief Financial Officer explaining that this "clearly helps the reputational factor when pursuing MandA activities" (Iwamoto, 2016). This interest in examining the influence of human rights on firm strategies is also supported by case-study evidence of EMNEs investing in pro-social activities in their foreign activities (Pegg, 2012). A study by Klossek and colleagues (2012) on Chinese subsidiaries in Germany observed that their reputation building strategies are similar to those of the developed country firms. Yet, empirically no studies have linked ownership strategy with the human rights differences between host and home countries.

The main research objective of this study is to examine whether the human rights distance mediates the effect of formal institutional distance on EMNEs' ownership strategies, namely, whether the effect of formal institutions is transmitted via human rights differences between home and host countries. We test our hypotheses on a sample of 1747 cross-border acquisitions in 125 economies by acquirers from five major emerging markets (EMs): Brazil, Russia, India, China and South Africa (BRICS). We find that in the case of formal institutional distance, EMNEs will acquire higher stakes in their targets in the developed host markets. Formal institutional distance's effect on ownership is partially mediated by the human rights distance between the home and the host countries. Focusing on EMNEs and incorporating multiple home and host countries, we extend the theorising on the direction of institutional distance and EMNE ownership choice (Hernández and Nieto, 2015; Trąpczyński and Banalieva, 2016) and work on foreign direct investment (FDI) by EMNEs (Cui and Jiang, 2009) in the context of societal institutions. Our findings contribute to the debate on the ownership strategies of EMNEs in response to environmental uncertainty stemming from an institutional distance (Liou et al., 2016; Madhok and Keyhani, 2012). We also provide an empirical contribution, namely the use of a novel dataset on human rights.

The rest of the paper is organised as follows: first, we present the literature review and our hypotheses. The following section provides information on the methodology and results. We conclude the paper with the discussion section that outlines the limitations, future research and policy implications.

THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Formal institutional distance, transaction cost economics, and EMNE ownership strategies

North (1990) and subsequent works in this area have noted the role of institutions in creating boundary conditions for firms to engage in a context. This is more pertinent in the context of international business. Institutional differences between home and host countries create numerous challenges for multinational firms (MNEs) entering new countries (Gaur and Lu, 2007; Brenes et al., 2019). International business research has identified this as the transaction cost of conducting cross-border activities (Eden and Miller, 2004). The transaction cost perspective suggests that in conducting their cross-border expansion, MNEs face a trade-off between the benefits and costs of integration and shared ownership (Anderson and Gatignon, 1986). Greater control not only enables coordination of the local operations but also potentially allows firms to benefit more from the intangible assets acquired with the target, such as relevant knowledge and human capital. At the same time, higher commitment also bears increased risk exposure for the investor, especially in less certain environments, as it comes with limited reversibility options. Large institutional distance increases firms' liability of foreignness (LOF) as they go abroad, resulting in a number of hazards, such as unfamiliarity and local discrimination (Zaheer, 1995). For instance, the lack of knowledge about the local institutional context has been cited as one of the major sources of competitive disadvantage for foreign investors (Delios and Beamish, 1999). From a transaction cost perspective, these challenges related to unfamiliarity are typically associated with internal uncertainty, whereas hazards associated with the unpredictability of the host-country environment, regardless of the extent of distance, are associated with external uncertainty (Zhao et al., 2004). Faced with greater uncertainty stemming from institutional differences, firms can choose between different ownership strategies, either sharing ownership and risks with local partners or opting for greater control of the local operations (Xie et al., 2017).

Although EMNEs are arguably more accustomed to environmental turbulence (Cuervo-Cazurra and Genc, 2011), EMNEs typically lack the traditional ownership advantages possessed by mature market MNEs abroad (Ramamurti, 2009, 2012), they face not only LOF but also the liability of emerging-ness (Madhok and Keyhani, 2012), or origin (LOR) (Gaur et al., 2011): the disadvantages faced by EMNEs in a host country over and above those faced by mature-market MNEs. Some have theorised that EMNEs seek to compensate for these shortcomings through ambitious acquisitions, whereas others considered how LOR would, conversely, constrain EMNE ambitions through limited experience and capabilities and negative stereotyping by potential partners (He and Zhang, 2018). Research regarding EMNE ownership strategies has to date, provided mixed findings. Kotabe and colleagues (2000) examine companies from Brazil, Chile, and Mexico and find that in strategic alliances, high institutional distance will lead to higher stakes by these firms. Multilatinas are likely to go for higher ownership in their targets, according to Pinto and colleagues (2017). In a study of BRIC companies, Gaffney and colleagues (2016) found that they tend to acquire larger equity stakes in distant economically developed countries. One argument for this observation could be that EMNEs expect the transaction cost to conduct activities in these countries to be higher due to institutional differences, leading them to acquire higher stakes. Studies of Chinese firms (Li and Xie, 2013; Xie, 2014), service EMNEs (Lahiri et al., 2014), and surveys of EMNEs from multiple countries provide similar results (Chikhouni et al., 2017; Liou et al., 2016). Yet, Lee and colleagues (2014) and Yang (2015) find the opposite result to other studies. Piscitello and co-authors (2014) observe that EMNEs from China and India opt for partial ownership in acquired firms in institutionally distant European countries, which they explain by EMNEs' limited absorptive capacity. That is, EMNEs might face higher transaction costs while conducting their activities in developed countries as compared to the developing ones, increasing ownership could minimise their transaction cost exposure.

In light of these mixed results, we turn to the recent critiques of extant applications of the concept of institutional distance. First, it is often calculated as a composite measure, which conflates the effects of different types of institutions. Second, both magnitude and direction of institutional distance have strategic implications for MNE decision-makers (De Beule et al., 2014; Hernández and Nieto, 2015; Konara and Shirodkar, 2018; Zaheer et al., 2012). This view suggests a potentially asymmetric effect of distance for MNEs and EMNEs: a developed-country firm expanding into an emerging country will face a different set of transaction costs than an EMNE expanding into a mature market, despite the absolute measure of institutional distance suggesting otherwise (Chikhouni et al., 2017). This asymmetry may be particularly more pronounced in the case of formal institutional distance since levels of regulatory development still differ considerably between emerging and mature markets (Ang and Michailova, 2008). From an EMNE perspective, entering a developed market might pose a different set of issues compared to when entering a developing country.

We theorise that given the differences in the rule of law and political governance (Bae et al., 2013; Tan and Chintakananda, 2016), EMNEs might invest heavily in markets with a better quality of governance, stronger property rights enforcement and more transparent regulations (Chittoor et al., 2009; Cuervo-Cazurra and Ramamurti, 2015) but which can in fact add transaction costs in these host markets as EMNEs do not have the experience or mechanisms to manage these regulatory compliances. In this case, vertical integration can help EMNEs mitigate some of these costs of compliance and stakeholder management. Further, they might incur the costs of recruiting, training and transferring their employees to manage their foreign operations (Khan et al., 2019).

We, therefore, argue that formal institutional distance with regards to other developing countries for these EMNEs is likely to be associated with lower degrees of uncertainty and perceived hazards. In sum, we argue that EMNEs are likely to establish dominant ownership in countries with comparatively more robust regulatory institutions because of the challenges associated with compliance and stakeholder management in such investments, and hypothesise:

Hypothesis 1. *EMNEs will engage in higher ownership in their cross-border acquisitions when they experience positive formal institutional distance, namely, when they acquire in developed countries as compared to acquiring targets in developing countries.*

EMNEs and host-home country human rights issues

In a recent study, Ang and colleagues (2015) propose that a subset of regulatory institutions, such as human rights, civil rights, political stability, and law enforcement, is not always explicitly codified, as most previous research has assumed, and thus can also represent a source of uncertainty or a mechanism to elucidate uncertainty in the business transactions. These issues present a reality that can be considerably different from the indicators of the formal institutional environment and serve as an additional source of uncertainty beyond the formal institutional distance. Rodan (1997) discusses the political turmoil in Singapore during 1996, following the dissolution of the parliament in the year before and trailed by months of political unrest. There were allegations and criminal and civil cases against the political parties in power as well as the opposition. Coupled with changes to the electoral system, which affected the voice of democracy, those were reflected in the lower human rights index ranking of Singapore for that year.

According to Blanton and Blanton (2007b), human rights issues can have opposing effects on investors' perceptions of uncertainty and risks in the host country. A negative perspective suggests that human rights suppression, particularly whereby workers' voice is constrained, could generate perceptions of economic efficiency and opportunities for worker exploitation amongst investors (Blanton and Blanton, 2007b). A more positive view posits that respect for human rights in a country signals a favourable investment environment. Poor human rights, similar to government corruption or weak law enforcement, serve as a source of uncertainty for decision-makers (Karhunen and Ledyaeva, 2012; Sartor and Beamish, 2018), indicating the increased transaction cost in conducting business within a country. Previous work has acknowledged that EMNEs may be more tolerant of risks and uncertainties than their developed-market counterparts (Cuervo-Cazurra and Genc, 2008; Morck et al., 2008): for instance, firms originating in highly corrupt environments may regard corruption as a regular business practice. However, in contrast to policy volatility and corruption, human rights issues represent a potential disruption to ongoing business operations as they often precede or are preceded by protests and/or violent conflict (Franklin, 2014; Garriga, 2016). Given their own experience with these circumstances, recently internationalising EMNEs might be reluctant to invest in countries with an unstable business environment as such investments might incur higher transaction costs (Chari and Shaikh, 2017).

There are at least two scenarios under which policy-practice decoupling (Bromley and Powell, 2012) in the area of human rights can take place. Governments may offer symbolic commitments to global treaties they ratify by incorporating human rights into the legal framework yet fail to ensure that such laws are respected. Alternatively, states may not ratify human rights treaties or do so ceremoniously without ever translating them into laws. In both cases, this would result in a lack of corresponding local regulation (Hafner-Burton and Tsutsui, 2005). In sum, human rights observance in the country can raise investors' concerns not only due to reputational risks but also as an indicator of a potential mismatch between policy and practice, where government conduct may be harder to predict. This may be particularly important for EMNEs escaping uncertainty that induces additional transaction costs back home (Malhotra et al., 2016). These EMNEs are likely to be attracted to countries where human rights observance is stronger than in their own. In line with our prior discussion, EM investors would perceive such countries to have the stability required to grow their global business and potential for development, thus, overall, lower cost of doing cross-border activities. This, we propose, fits well with EMNEs' internationalisation aspirations and reduces uncertainty regarding severe host-country risks (Sartor and Beamish, 2018) as well as adaptation requirements (Ang et al., 2015) in a number of ways.

Human capital is crucial to EMNEs in the process of international expansion. Liou, Chao and Ellstrand (2017) suggest that the lack of skilled labour at home acts as a major source of competitive disadvantage for EMNEs, driving their outward FDI and high-commitment ownership strategies. Edwards and colleagues (2019: 540) discuss the case of Brazilian MNEs, where "approach to the generation of skilled labour is shaped by the negative perceptions that senior managers have of the system of skill development at home." Evidence from development studies links human rights with the quality of human capital, such as educational attainment and the ability to leverage training opportunities (Isham et al., 1997). Conversely, human rights concerns amongst workers are likely to affect their productivity and EMNEs' ability to effectively leverage their talents (Blanton and Blanton, 2007b). In settings characterised by human rights-related uncertainty, EMNEs would face additional ex-post costs of coordination and monitoring employee performance (Richards and Yang, 2007; Tan and Mahoney, 2006).

Effective use of human capital also requires appropriate adaptation of human resource management strategies, particularly in the post-acquisition phase (Zheng et al., 2016). Ataullah and colleagues (2014) find that for EMNEs, acquisitions are not a guarantee of employee productivity, which requires robust integration strategies. We, therefore, argue that better human rights observance, particularly in the area of worker empowerment rights, also reduces uncertainty-related transaction costs for EMNE investors by signposting appropriate practices beyond those stipulated in formal laws. This consideration is particularly relevant to EMNEs who often confer greater autonomy upon their subsidiaries than their developed-market counterparts (Wang et al., 2014). In contrast to contexts like Germany, where labour enjoys considerable empowerment (Fainshmidt et al., 2018), in a number of EMNEs' home countries, worker rights can be an issue of a symbol rather than substance (Akorsu and Cooke, 2011; Zhu et al., 2011). As a result, as Zhu and colleagues (2014) find, EMNEs can struggle with union relations in countries where labour rights are less predictable.

Finally, Chikhouni and colleagues (2017) theorise that discrimination by local firms is one of the drivers behind EMNEs' preference for higher ownership stakes in more developed host countries. They reason that this negative image may deter local companies from entering into partnerships with EMNEs. Because human rights are a politically sensitive and visible issue (Barry et al., 2013), observed differences in human rights practices in home and host countries can strengthen this perception. EMNEs may therefore find it difficult to find willing local partners or complete negotiations (He and Zhang, 2018) in contexts with better human rights protection, resulting in losses incurred through negotiation costs (Chen and Hennart, 2004). While these considerations of host country human rights have been shown to be of importance to investors from developed economies (Garriga, 2016; Orentlicher and Gelatt, 1993), we aim to understand how human rights and formal institutional distance considerations apply to EMNEs. We theorise these below, building on our above discussion.

Formal institutional distance, host-home country human rights distance and EMNE ownership strategies

Our above discussion suggests that human rights issues can emerge as deviations from the formal institutional arrangements in a country, suggesting the presence of gaps between formal governance and practice (Ang et al., 2015). Due to its universal and fundamental nature, respect for human rights has therefore been established as one of the governance quality indicators as perceived by foreign investors. Where governments do not respect human rights, this has been associated with other grave governance quality concerns that detract investors, adding costs to their international investments (Arregle et al., 2013; Blanton and Blanton, 2007b): although formal regulations may be apparent to investors, human rights issues can suggest the absence of government's will to uphold written laws, raising concerns about the real robustness of local governance (Blanton and Blanton, 2007a,b; Guillén and Capron, 2016).

The formal institutional distance can influence EMNE decision-makers' understanding of the extent of human rights issues in the host country. Previous work in political science suggests that respect for human rights in a country requires government integrity, whereas instability and corruption typically create conditions for human rights violations (Englehart, 2009). Both weak and overly powerful government institutions contribute to human rights breaches (Hafner-Burton, 2014). Corruption, for example, often signals poor bureaucratic controls that consequently lead to the proliferation of human rights violations that go unpunished due to rampant principal-agent problems (Bohara et al., 2008). Evidence suggests that a better business environment attracts FDI, which in turn contributes to greater human rights observance (Blanton and Blanton, 2007b; Hafner-Burton and Tsutsui, 2005). In sum, evidence suggests that human rights distance could potentially mediate the effects of formal distance direction on (EMNE) ownership strategies.

To consider how such mediation might take place, we build on the prior discussion to conceive of several scenarios. In the case of developed country home-host related formal institutional distance, we have argued that the differences in the quality of home-host institutions can be expected to increase some of the transaction costs for EMNEs emerging from uncertainty in their home countries' institutional systems and adaptation through codification in governing rules. In these settings, human rights frameworks are also more likely to be codified and implemented (Marsh and Payne, 2007), which might exacerbate the costs of compliance and further encourage higher ownership levels in such transactions. In the case of the developing country host-home formal institutional distance which follows the opposite direction, adaptation to less stringent local regulatory requirements in developing countries is facilitated by EMNEs' own home-country experience and fewer regulatory demands (Cuervo-Cazurra and Genc, 2008); thus transaction costs reduce with the lesser need to adapt to norms and uncertainty. We therefore propose:

Hypothesis 2. *The host-home country human rights difference positively mediates the relationship between formal institutional distance and EMNEs' investment in their cross-border targets.*

METHODS

We use Tobit regression analysis in our empirical study (Chari and Chang, 2009; Liou et al., 2016) as the relevant data for our analysis is censored at lower and upper levels as deal values only range between 0-100%. The rest of this section will focus on sample and data collection, definition and sources of our various variables, the model for empirical analysis, and results.

Sample and data collection

The acquisition details for empirical analysis were obtained from SDC Platinum, provided by Thomson Reuters Financial Securities Data. All completed deals from five emerging economies between 1995 and 2011 are included in this study. These five emerging economies, Brazil, India, China, Russia, and South Africa, have accounted for a large part of the global deals in recent years (UNCTAD, 2014). These five countries chosen for our study are widely recognised as the leading EMs, and many of these have been included in various reports (see, e.g., O'Neill, 2001, in which the term was introduced). Based on these various earlier classifications, we chose the countries that accounted for the large volume of cross-border investments (Liou et al., 2016). We excluded minority stakes below 10% as these deals are likely to be portfolio investments (Liou et al., 2016). Multiple deals by the same acquirer within a one-year window were consolidated into one observation. We also excluded deals without deal value and other key variables. The final sample consists of deals in 125 host countries. Table 1 provides detailed information on the sampled acquirers and targets engaged in cross-border deals.

[insert Table 1 about here]

Dependent variable

The dependent variable, *Ownership level*, in these cross-border deals is measured by the scale of equity ownership that the acquirer owns in the target firm after the acquisition. This value of equity ownership is derived from the SDC Platinum database, which lists it as a continuous variable between 0.1% to 100%. Extant literature has used a 10% cut-off to exclude portfolio investments, which might be confounded with actual strategic acquisitions. Also, using a continuous variable instead of two levels of equity investment (full or partial acquisitions) has the advantage of demonstrating granular ownership change in our study (Chen and Hennart, 2004; Liou et al., 2016; Malhotra et al., 2011). The details on sources of our variables and their measurement are provided in Table 2.

[insert Table 2 about here]

Independent variables and mediator

The data on formal institutional distance, *Formal institutional distance*, is obtained from the Heritage Foundation. Its Index of Economic Freedom has been widely used in existing studies to measure distances between the formal institutions in the home and host countries (Aybar and Ficici, 2009; Liou et al., 2016). The formal institutional distance is the value of the difference in the Index of Economic Freedom scores of the host and home country, so we subtract the Index of Economic Freedom score of the home country from the Index of Economic Freedom score of the host country and obtain a positive value. For example, when, in 2010, an Indian MNE (Index of Economic Freedom score = 53.8) buys a UK target (Index of Economic Freedom score = 76.5), their formal institutional distance score will be 76.5-53.8 = 22.7. In the other case, when EMNEs acquire firms in countries with economic freedom lower than their own country, these values will be negative (for example, when a Chinese EMNE acquires a firm in Angola). This approach is similar to the distance calculation in Konara and Shirodkar (2018).

We use two variables to indicate various human rights factors in the host country, namely, the *Physical integrity rights index* and the *Empowerment rights index*. Data for these indicators are obtained from the works of (Cingranelli et al., 2014). The *Physical integrity rights index* is an additive index that consists of four different elements – torture, extrajudicial killings, political imprisonments, and disappearances (Cingranelli and Richards, 1999). All these four indicators take values between 0 (frequent occurrences), 1 (occasional occurrences), and 2 (no occurrences). Thus, the value for this measure could range between 0 (no government protection for these seven rights) and 8 (full government support for these seven rights). The *Empowerment rights* value consists of several sub-elements - Foreign Movement, Domestic Movement, Freedom of Speech, Freedom of Assembly and Association, Workers' Rights, Electoral Self-Determination, and Freedom of Religion indicators. These various elements are added to form the host country's empowerment rights index (Richards et al., 2001). The cumulative index takes values between 0 (no government protection for these seven rights) to 14 (full government support for these seven rights).

We then calculated the human rights distance for the individual index by subtracting the value in the home country from the host country. For example, in the case of an Indian company buying a target in the UK, we subtracted the *Physical integrity rights* value for India (0) from the *Physical integrity rights* value for the UK (7) in the year (2011) that the deal was carried out, thus, obtaining the value for *Physical integrity rights distance* as 7. Thus, positive values will indicate that human rights governance was better in the target country compared to EMNE's home country. For example, in the case of an Indian company buying a target in Vietnam, we subtracted Empowerment rights value for India (7) from the *Empowerment rights value* for Vietnam (1) in the year (2011) that the deal was carried out, thus, obtaining the value for Empowerment rights distance as -6. This indicates that empowerment rights governance was better in the acquirer country compared to the target country.

We also derived two other measures of the human rights index, namely *Human Rights distance* (PCA) and *Human Rights cumulative distance*. In order to obtain *Human Rights distance* (PCA), we conduct a principal component analysis of two human rights variables, *Physical integrity rights index* and *Empowerment rights index*, independently for home and host countries to obtain one component each for home and host country, following which we subtracted the principal component of home-country human rights from the principal component of host country human rights. *Human Rights cumulative distance* was obtained by first adding the individual values of two variables, *Physical integrity rights index* and *Empowerment rights index* into one single value which indicated the cumulative index for human rights within a country, and then subtracting home human rights cumulative value from the host human rights cumulative value. For example, if the host human rights cumulative value were 22 (8+14) and home human rights cumulative value 11 (4+7), then the *Human Rights cumulative distance* would be 11 (22-11).

Comparing the combination of the formal institutional distance and human rights distance is interesting, and we observe cases where institutional development is high in a country. At the same time, it can have lower levels of human rights protection. In 1996, for instance, Singapore had higher formal institutional development in relation to EMs such as China. At the time of the previously discussed turmoil in the country, there were allegations and criminal and civil cases against the political parties in power as well as the opposition. There were also several changes to the electoral system which affected the voice of democracy by creating regional disparities and vote dissipation, and this reflects in terms of the human rights index ranking of Singapore for this year (Rodan, 1997).

In our sample, we have 292 cases (17% of our sample), where the formal institutional values and human rights values were in divergence, i.e., these are countries where the formal institutional distance is positive, but human rights distance is negative (example, Chinese investment in Singapore) or where the formal institutional distance is negative, but human rights distance is positive (example, Russian investment in Ukraine or Indian investment in Nepal). As discussed earlier, we observe the case when the Chinese investment in Singapore leads to higher values for formal institutions but lower values for human rights. In our sample, we observed that Russia has higher formal institutional values than Ukraine, but the human rights values in Ukraine were higher than those in Russia. Similarly, we observed that comparing India and Nepal, India has better formal institutions, but human rights in Nepal were better than that in India, so in this case, again, we observed divergence between the formal institutional values and human rights values.

Control variables

We use cultural distance, *Cultural distance*, as a control variable to account for subtle as well as the major difference between the acquirer and target countries regarding their culture. The cultural distance is linked with social and normative factors (House et al., 2004; Nicholson and Salaber, 2013), and has been widely used to measure cultural effects in cross-border acquisitions (Ang et al., 2015; Gaur et al., 2007; Nicholson and Salaber, 2013). We use the measure for the cultural distance that is widely used in the extant literature, Hofstede's methodology for assessing cultural values, which were adapted by authors to measure the cultural distance between the two countries (Kogut and Singh, 1988; Nicholson and Salaber, 2013). This methodology produces a score to indicate the absolute cultural difference between the host and home countries. Following Kogut and Singh (1988), lower values of the score suggested cultural proximity, and higher values indicate that acquiring and target countries are culturally dissimilar.

Along with cultural distance between the two countries, we also control for several deal-, firm- and country-level characteristics. We control for industry relatedness of deals. *Same industry* is a dummy variable that takes value one when both acquirer and target belong to the same industry. The studies

(Denis et al., 2002; Moeller and Schlingemann, 2005; Shleifer and Vishny, 2003) have indicated the industry association effects in acquisitions, and we control for this effect using a dummy variable. *Deal value* takes the log value of the deal price (Gubbi et al., 2010; Moeller and Schlingemann, 2005). *Cash* variable is the payment method of the acquisition and takes value one if the acquisition was conducted through cash instead of equity transfer. The payment has been observed to influence the ownership levels (King et al., 2004; Lahiri et al., 2014). Government ownership and its effect on acquisitions by EMNEs are widely discussed in extant literature (Lahiri et al., 2014; Liou et al., 2016; Nicholson and Salaber, 2013). We control for this effect using a dummy variable for government ownership of acquirer (*Government Ownership*), which takes value one when a government agency owns the acquirer. Also, the past acquisition experience impacts the acquirer's future acquisition approach as they will be better able to anticipate and manage risks in international transactions (Lahiri et al., 2014; Liou et al., 2016). We control for this effect by including a variable, *Past experience*, in our model. We control for target effects by including the dummy variable, *Public target*, which takes value one if the target is publicly listed. Capron and Shen (2007) have shown underlying strategic differences in the acquisition of public and private targets and also differing outcomes of these acquisitions.

Several country-level effects in our empirical model are controlled using various control variables. The economic differences between the two countries (*GDP distance*), measured as the difference in their respective GDP per capita, are used to control differences in economic development (Liou et al., 2018). Studies have suggested that minority shareholder protection in countries can determine the governance structure in cross-border deals and promote acquirers to claim full control during the acquisitions (Ferreira et al., 2010). We also control the level of inward foreign direct investment in the host country (*Inward foreign direct investment*) as it might encourage acquirers to gain a larger share in the targets to prevent a hostile takeover (Kogut and Chang, 1991). The GDP of the home country (*Home country GDP*), which indicates the macroeconomic environment of the acquirer country that can impact the ownership strategy in cross-border acquisitions is also controlled in this study.

Furthermore, we take into account the various industry effects, country differences, and year effects by including dummies for different sectors, countries, and years. The dummies to represent the industries are created per the first two digits of the acquiring firms' industry codes (Brouthers and Brouthers, 2003). The country dummies were created for five acquirer countries by having values 1 or 0, for example, dummy (China) is 1 if the acquirer EMNE is from China, and 0 otherwise.

The descriptive statistics and correlation analysis of the dependent, independent, mediator, and control variables are given in Table 3. After our initial analysis, we created the composite variable for human rights to examine the combined effects of various individual elements of human rights.

[insert Table 3 about here]

Model and analysis

Due to the censoring of our data at lower and upper levels, we use Tobit regression analysis in our empirical study (Chari and Chang, 2009; Liou et al., 2016) as this method is better than the ordinary least squares analysis in the case of censored data. Typically, when the dependent variable is bounded between two levels, the Tobit regression analysis provides an accurate estimate of the independent and control variables (Cuypers and Martin, 2006). We also used the cluster option in STATA to pool together the observations that belong to the same firm. Extant studies have used this method to control for the common-factor effect due to acquisitions from the same firm (Chari and Chang, 2009; Liou et al., 2016). In order to test the mediation effect, we used the method adopted by Baron and Kenny (1986) and Zhao et al. (2010). This method involved considering the direct effect of explanatory and mediator variables independent of each other on the dependent variable, as well as considering the effect of the explanatory and mediator variables together. The empirical model used in this study consists of *Yn,* which is the dependent variable denoting the level of shares owned by the acquirer in the target. *Xi* is the independent variable and measures the formal institutional distance between the acquirer and the target. *Ij* are the mediating variable used individually in each empirical analysis, and *Ck* is the set of control variables. The empirical model, in general form, is shown below:

$$Yn = \beta o \ + \sum \beta iXi + \sum \beta k\ Ck + E$$

$$Ij = \beta o \ + \sum \beta iXi + \sum \beta k\ Ck + E$$

$$Yn = \beta o \ + \sum \beta j\ Ij + \sum \beta k\ Ck + E$$

$$Yn = \beta o \ + \sum \beta iXi + \sum \beta j\ Ij + \sum \beta k\ Ck + E$$

Each empirical model generates variance inflation factor (VIF) between 1-3 which are much below the accepted levels of 10 or above, which indicates the multicollinearity problems (Hair, Anderson, Tatham and Black, 1998).

Results

Table 4 presents the results of our analysis. Columns 1 in Table 4 consists of estimates for our baseline model. Column (2) presents the results of hypothesis 1. We observe that coefficient ($\beta = 0.369$, $p = 0.000$) is positive and significant. Thus, we find evidence that EMNEs are likely to acquire higher stakes in targets in institutionally distant countries (in this case, developed nations).

Columns (3) and (6) show that the estimated coefficients for formal institutional distance on various human rights distances are positive and highly significant. The estimates vary between 0.079 ($p = 0.000$) for *Physical integrity rights distance* to 0.090 ($p = 0.000$) for *Empowerment rights distance*. These results indicate a positive relationship between the formal institutional distance and various human rights distances. The results of the effect of the various human rights indices on ownership are presented in columns (4) and (7). The estimates vary between 1.596 ($p = 0.000$) for *Physical integrity rights distance* to 0.611 ($p = 0.000$) for *Empowerment rights distance.*

Lastly, we estimate the coefficients for the full model, including the independent as well as the mediation variables (columns (5) and (8)). The results in columns (5) ($\beta = 0.294$, $p = 0.000$) and column (8) ($\beta = 0.340$, $p = 0.000$) show that the ownership level in the target firm is positively related

to the formal institutional distance between the home and host country. Also, the result shows that human rights distance positively and significantly mediates this effect ($\beta = 0.948$, $p = 0.05$ (*Physical integrity rights distance)*). Thus, we observe that the inclusion of the human rights distance in the empirical model strengthens the effect of the formal institutional distance on the ownership in the target firms and partially mediates the effect between the formal institutional distance and the ownership stakes. The Sobel test results confirmed that human rights have a significant partial mediating effect on the relationship between formal institutional distance and ownership ($z = 3.89$, $p<0.001$ (*Physical integrity rights distance)*; $z = 2.47$, $p<0.001$ (*Empowerment rights distance*)).
The VIF values for individual variables across the various models ranged between 1.02 – 2.07, and the mean VIF values for the models ranged between 1.20 – 1.32. These values are lower than ten, which is within the tolerance levels (Hair et al., 1998).

[insert Table 4 about here]

Among our control variables, we observe that cultural distance has a negative and inconsistent effect on the ownership strategy. The acquisitions in the same industry, high deal value, paid via cash, and high inward foreign direct investment will lead to EMNEs acquiring higher stakes in their targets. Conversely, in the case of the public target, EMNEs will acquire lower stakes.

Robustness checks

The PCA and cumulative human rights distance values discussed in the earlier section was used to conduct the robustness tests, and the results of these analyses were similar to those presented in this paper. We operationalised ownership using two different methods. One, we defined ownership construct as majority or minority ownership and operationalised it using a dummy variable that took value one if the ownership was over 50% and zero otherwise. Two, we classified the ownership construct along with three levels of ownership, namely, minority ownership, majority ownership (50-99%), and full ownership (100%). The analyses present results like those included in this paper. Minority shareholder protection can also promote and enable the development of various supporting institutions in the country (Guillén and Capron, 2016). We create two variables, *Minority shareholder protection (HOST)* and *Minority shareholder protection (HOME)*, which indicate the level of minority shareholder protection in the country (Guillén and Capron, 2016). There are several missing values for these two variables as we do not have data for all acquirer and target countries in our sample. We included these two variables in our robustness check analysis, and we obtained results that are similar to those presented in this paper.

DISCUSSION

Since the critique of Zaheer and colleagues (2012), international business scholars have increasingly started to incorporate the role of direction into the discussion of distance to qualify the nature and extent of uncertainty presented by the magnitude of distance to international investors. To contribute to these debates, we set out to address this relationship by examining the role of the direction of formal institutional distance and home-host country human rights governance in EMNEs' ownership choices. Our results show that EMNEs are likely to acquire higher stakes in targets in institutionally distant countries, namely, the developed countries, and formal institutional distance has a positive relationship with various human rights distances. Our results also indicate that the inclusion of the human rights distance strengthens the effect of the formal institutional distance on the ownership in their targets indicating a partial mediation effect.

Much of the previous research has focused on the formal institutional distance, in aggregate (Hernández and Nieto, 2015; Konara and Shirodkar, 2018; Trąpczyński and Banalieva, 2016), or as a set of dimensions (Contractor et al., 2016). The dimensions of distance have so far received less attention within this stream of research (Contractor et al., 2016; Duanmu, 2011). Drawing on the transaction cost lens, we argue and empirically show that emerging transaction costs from greater regulatory clarity in the developed countries impels EMNE investors to pursue higher stakes in targets based in such markets. Our baseline findings support those of Hernández and Nieto (2015), who report similar findings for European small and medium enterprises (SMEs). However, we provide nuance to this finding by introducing the partial mediating effect of (directional) human rights distance into our proposed framework. We argue that human rights gaps present a distinct type of governance failure (Wettstein, 2009; Brenes et al., 2019; Ciravegna and Nieri, 2021), which creates further challenges for EMNEs to benefit from global expansion. Our findings suggest that formal governance influences EM investors' strategies directly and also indirectly through human rights issues in host countries.

Our paper also contributes to the research on EMNE strategies towards host country institutions (Gaur et al., 2014). EMNEs have been found to be more open to risk-taking and tolerant of political instability than their developed-market counterparts, which allows them to enter and succeed in countries with similarly underdeveloped formal institutions (Cuervo-Cazurra, 2012; Cuervo-Cazurra and Genc, 2008). At the same time, EMNEs have been shown to invest in developed countries (Le and Zak, 2006; Stoian and Mohr, 2016). As a reflection of these conflicting findings, despite the widely established view that EMNEs compensate for their weaknesses by increasing their presence in economies with developed institutions, studies of institutional distance effects on EMNE ownership have produced mixed results. We show that despite having been socialised into volatile contexts, social governance issues affect EMNE ownership decisions, tempering their global strategies. The fundamental nature of human rights risks might therefore distinguish them from other types of uncertainty, such as corruption.

Finally, we make an empirical contribution to the research on the implications of the direction of institutional distance. Previous works have examined the effect of regulatory distance direction for ownership strategies of European SMEs (Hernández and Nieto, 2015) and the performance of (E)MNEs in multiple host countries (Konara and Shirodkar, 2018; Trąpczyński and Banalieva, 2016). Others considered alternative dimensions of distance. Duanmu (2011) examined how corruption distance direction between multiple MNE home countries and China affects ownership decisions. Contractor and colleagues (2016) studied how the direction of technological capacity, language, geography, economic development, and intellectual property protection affects MNE performance in the context of multiple home and host country settings. We depart from these works by combining the directionality of formal institutional distance and a novel dimension of human rights distance as an important yet hitherto underexplored element of institutional asymmetry between home and host countries. With growing concerns about interactions between business and human rights context (Wettstein, 2012), our approach provides an important extension to the current conceptualisation of their governance in international business.

Lastly, we make an empirical contribution by using a unique dataset combining the formal institutional distance and country-specific human rights values.

Limitations, future research and policy implications

Our study has limitations, which open up avenues for future research. First, the Cingranelli-Richards Human Rights Data Project ran between 1995 and 2011, therefore we were only able to consider deals made within that period. Yet, other work on EMNE internationalisation dealt with similar challenges (Fiaschi et al., 2017), and this timespan still reflects the period of EMNEs' rapid expansion (UNCTAD, 2013). Future work could leverage new data sources to extend our results as well as incorporate other national characteristics (Ehie, 2016; Ndiweni and Sibanda, 2020). A more fine-grained analysis could assess differences in choices investigated in this paper across private and state-owned EMNEs, as well as by EMNE home countries, which can differ in their motives for expansion (Cui and Jiang, 2009; Rao-Nicholson and Cai, 2018; Lu, 2020). Third, our research findings could be extended by incorporating EMNEs' post-entry legitimacy-building strategies (Klossek et al., 2012; Pollach, 2015; Zhang et al., 2018), which would more fully explain their ability to achieve and maintain legitimacy in contexts characterised by stronger formal institutions and human rights governance. Furthermore, future studies can focus on individual emerging markets and identify if there are specific human rights issues (Kakabadse et al., 2005) which drive international investment decisions by their MNEs. Lastly, we control for the cultural effects in our empirical model, but we do not incorporate theorisation of this factor in our paper; hence, future studies can look at including cultural differences in their studies (Nguyen and Yeh, 2022).

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Table 1. Key characteristics of the acquisitions

Acquirers' home country	Number of deals	% of deals	Deal value ($Mil)	% Deal value
India	526	30%	61541.95	17%
China	410	23%	106709.94	29%
South Africa	381	22%	53245.14	15%
Russia	265	15%	80888.25	22%
Brazil	165	9%	62992.74	17%
Grand Total	1747	100%	365378.02	100%

Table 2. Variables, measures and data sources

	Variable name	Description/Measure	Data source	Literature references
Dependent variable	Ownership Level	The shares owned by the acquirer in the target after the acquisitions.	SDC Platinum database	Liou et al., 2016
Independent variables	Formal institutional distance	These are the ten economic freedom elements of each market and then the score difference between the acquiring firm's home country and target country.	Index of Economic Freedom, from Heritage Foundation	Aybar and Ficici, 2009; Liou et al., 2016
	Physical integrity rights distance, Empowerment rights distance, Human Rights distance	The host country human rights protection indicator consists of two measures – the physical integrity rights index (PIRI) and the empowerment rights index (ERI). The physical integrity rights index (PIRI) is an additive index that consists of four different elements – torture, extrajudicial killings, political imprisonments, and disappearances. The empowerment rights index (ERI) consists of seven sub-elements - Foreign Movement, Domestic Movement, Freedom of Speech, Freedom of Assembly and Association, Workers' Rights, Electoral Self-Determination, and Freedom of Religion indicators.	Cingranelli and Richards (1999), Cingranelli, Richards, and Clay (2014)	Cingranelli et al., 2014
Control variables	Cultural distance	Using Kogut and Singh (1988) methodology, the cultural distance between the acquirer and target countries is calculated by using the power distance, uncertainty avoidance, individualism, masculinity, long term orientation, and indulgence.	Hofstede website (2016)	Ang et al., 2015; Gaur et al., 2007; Nicholson and Salaber, 2013
	Same industry	This is measured using the four-digit SIC codes of the acquirer and target firms. It is 1 when acquiring and target firms have the same SIC codes and 0 if otherwise.	SDC Platinum database	Denis et al., 2002; Moeller and Schlingemann, 2005; Shleifer and Vishny, 2003
	Deal value	The log of the deal value		Gubbi et al., 2010; Moeller and Schlingemann, 2005
	Cash	This is coded as 1 if transaction payment is in cash and 0 if otherwise.		King et al., 2004; Lahiri et al., 2014
	Government Ownership	If the acquirer is majority-owned by a government agency, this is coded as 1 and 0 if otherwise.		Lahiri et al., 2014; Liou et al., 2016; Nicholson and Salaber, 2013
	Past experience	For acquirers with past cross-border experience, this is coded as 1 and 0 otherwise.		Lahiri et al., 2014; Liou et al., 2016
	Public target	If the target is publicly owned, this variable is coded as 1 and 0 otherwise.		Capron and Shen, 2007
	GDP distance	This is the difference in the GDP per capita of the home and host countries.	The World Bank	Liou et al., 2018
	Inward foreign direct investment	It is an inward foreign direct investment in the target country.	The World Bank	Kogut and Chang, 1991
	Home country GDP	This is the acquirer's home country GDP per capita.		Kogut and Chang, 1991

Table 3. Descriptive Statistics

Sr. No.	Variable	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13
1	Ownership Level	75.71	30.78	1.000												
2	Formal institutional distance	15.59	13.23	0.066	1.000											
				***												
3	Physical integrity rights distance	2.07	3.50	0.061	0.546	1.000										
				***	***											
4	Empowerment rights distance	3.05	5.21	0.085	0.343	0.540	1.000									
				***	***	***										
5	Cultural distance	68.41	27.14	-0.102	0.424	0.266	0.298	1.000								
				***	***	***	***									
6	Same industry	0.33	0.47	0.048	-0.102	-0.087	-0.020	-0.093	1.000							
				**	***	***		***								
7	Government Ownership	0.01	0.09	-0.064	0.012	0.004	-0.013	0.021	-0.022	1.000						
				***												
8	Deal value	209.14	746.09	0.018	-0.037	0.006	0.038	0.076	0.020	-0.016	1.000					
				**		***	**	***	*	**						
9	Cash	0.34	0.47	0.029	0.076	0.011	-0.050	0.060	-0.021	0.001	0.021	1.000				
					**		***	***								
10	Past experience	0.40	0.49	0.019	-0.114	-0.037	0.014	-0.024	0.014	-0.029	0.134	0.027	1.000			
				**	***	**				*	***					
11	GDP distance	16.95	20.14	0.156	0.464	0.285	0.233	0.209	-0.029	-0.023	-0.058	-0.042	-0.110	1.000		
				***	***	***	***	***		**		**	***			
12	Public target	0.22	0.42	-0.344	0.140	0.099	0.107	0.097	-0.014	0.000	0.108	0.121	0.071	-0.101	1.000	
				***	**	***	***	***			***	***	***	***		
13	Inward foreign direct investment	60451.73	81122.89	0.178	0.412	0.145	0.240	0.300	-0.035	-0.016	0.051	0.009	-0.020	0.387	-0.023	1.000
				***	***	***	***	***	**		***			***		
14	Home country GDP	3943.309	3233.225	-0.060	-0.168	-0.093	-0.115	-0.074	-0.045	0.102	0.141	0.064	0.125	-0.579	0.1073	-0.011
				***	***	***	***	***	***	***	***	**	***	***	***	

*** p<0.01, ** p<0.05, * p<0.1

Table 4. Results of the Regression Analysis for the Degree of Ownership in Cross-border acquisitions (using actual values for formal institutional distance ranging from -71.9 t0 42.1)

VARIABLES	(1) Ownership Level	(2) Ownership Level	(3) Physical integrity rights distance	(4) Ownership Level	(5) Ownership Level	(6) Empowerment rights distance	(7) Ownership Level	(8) Ownership Level
Formal institutional distance		0.369***	0.079***		0.294***	0.090***		0.340***
		(0.074)	(0.006)		(0.078)	(0.012)		(0.075)
Physical integrity rights distance				1.596***	0.948**			
				(0.391)	(0.410)			
Empowerment rights distance							0.611***	0.325
							(0.233)	(0.231)
Cultural distance	-0.073**	-0.077**	-0.002	-0.060*	-0.074**	0.032***	-0.080**	-0.087**
	(0.034)	(0.034)	(0.002)	(0.034)	(0.034)	(0.004)	(0.035)	(0.035)
Same industry	2.891**	2.893**	-0.0875	2.776**	2.976**	0.103	2.509*	2.859**
	(1.413)	(1.414)	(0.088)	(1.414)	(1.413)	(0.153)	(1.416)	(1.414)
Government Ownership	-13.425	-13.420	0.171	-13.900	-13.590	-0.236	-13.550	-13.350
	(10.291)	(10.290)	(0.553)	(10.060)	(10.370)	(0.829)	(9.719)	(10.240)
Deal value	0.002***	0.002***	-2.49e-05	0.002***	0.002***	-3.34e-05	0.002***	0.002***
	(0.000)	(0.000)	(5.97e-05)	(0.000)	(0.000)	(8.18e-05)	(0.000)	(0.000)
Cash	4.917***	4.913***	-0.166**	5.338***	5.070***	-0.112	5.186***	4.950***
	(1.414)	(1.415)	(0.083)	(1.414)	(1.413)	(0.155)	(1.416)	(1.413)
Past experience	1.695	1.692	-0.103	1.684	1.790	0.053	1.433	1.675
	(1.407)	(1.405)	(0.084)	(1.407)	(1.402)	(0.151)	(1.414)	(1.405)
GDP distance	-0.004	-0.003	0.049***	-0.008	-0.050	0.054***	0.056	-0.021
	(0.067)	(0.068)	(0.004)	(0.071)	(0.071)	(0.007)	(0.069)	(0.070)
Public target	-25.356***	-25.350***	0.056	-24.420***	-25.400***	0.315*	-24.230***	-25.450***
	(1.888)	(1.887)	(0.108)	(1.873)	(1.886)	(0.185)	(1.871)	(1.884)
Inward foreign direct investment	4.10e-05***	4.09e-05***	-4.62e-06***	5.70e-05***	4.53e-05***	2.15e-06**	5.09e-05***	4.02e-05***
	(9.89e-06)	(9.86e-06)	(5.28e-07)	(9.41e-06)	(9.99e-06)	(9.68e-07)	(9.50e-06)	(9.88e-06)
Home country GDP	5.15e-05	6.15e-05	-1.54e-04***	3.87 e-04	2.08 e-04	-5.50e-05	1.98 e-04	7.93e-05
	(5.86 e-04)	(5.86 e-04)	(3.55e-05)	(5.89 e-04)	(5.88 e-04)	(6.65e-05)	(5.90 e-04)	(0.000585)
Year dummies	Included	Included	Included	Included	Included	Included	Included	Included
Country dummies	Included	Included	Included	Included	Included	Included	Included	Included
Industry dummies	Included	Included	Included	Included	Included	Included	Included	Included
Constant	75.110***	76.110***	1.096**	74.020***	75.070***	-4.359***	78.540***	77.520***
	(6.988)	(6.999)	(0.493)	(14.900)	(7.011)	(0.748)	(15.300)	(7.070)
Observations	1,725	1,722	1,722	1,725	1,722	1,722	1,725	1,722
Pseudo R-squared	0.218	0.221	0.602	0.217	0.223	0.721	0.213	0.222

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 5. Robustness tests: Using Human Rights distance (PCA) and Human Rights distance (cumulative) values

VARIABLES	(1) Ownership Level	(2) Human Rights distance (PCA)	(3) Ownership Level	(4) Ownership Level	(5) Human Rights distance (cumulative)	(6) Ownership Level	(7) Ownership Level
Formal institutional distance	0.369***	0.0296***		0.339***	0.182***		0.316***
	(0.0743)	(0.00343)		(0.0766)	(0.0194)		(0.0770)
Human Rights distance (PCA)			2.192***	1.040			
			(0.805)	(0.818)			
Human Rights distance (cumulative)						0.523***	0.293*
						(0.150)	(0.154)
Cultural distance	-0.0773**	0.00580***	-0.0738**	-0.0833**	0.0328***	-0.0795**	-0.0866**
	(0.0345)	(0.00129)	(0.0346)	(0.0346)	(0.00674)	(0.0346)	(0.0346)
Same industry	2.893**	-0.0220	2.630*	2.915**	0.0211	2.526*	2.813**
	(1.414)	(0.0441)	(1.415)	(1.414)	(0.232)	(1.416)	(1.416)
Government Ownership	-13.42	-0.0459	-13.59	-13.38	-0.125	-13.59	-13.38
	(10.29)	(0.233)	(9.809)	(10.28)	(0.989)	(9.846)	(10.28)
Deal value	0.00296***	-6.85e-07	0.00278***	0.00296***	-5.36e-05	0.00283***	0.00298***
	(0.000932)	(2.92e-05)	(0.000917)	(0.000938)	(0.000138)	(0.000925)	(0.000944)
Cash	4.913***	-0.0754*	5.276***	4.992***	-0.364	5.321***	5.060***
	(1.415)	(0.0439)	(1.417)	(1.414)	(0.231)	(1.415)	(1.413)
Past experience	1.692	-0.00457	1.483	1.697	-0.00689	1.431	1.625
	(1.405)	(0.0428)	(1.413)	(1.405)	(0.226)	(1.413)	(1.407)
GDP distance	-0.00315	0.0152***	0.0542	-0.0189	0.108***	0.0215	-0.0358
	(0.0685)	(0.00211)	(0.0696)	(0.0700)	(0.0112)	(0.0710)	(0.0709)
Public target	-25.35***	0.102*	-24.30***	-25.45***	0.443	-24.41***	-25.46***
	(1.887)	(0.0552)	(1.868)	(1.882)	(0.293)	(1.866)	(1.882)
Inward foreign direct investment	4.09e-05***	-2.61e-06***	5.76e-05***	4.37e-05***	-6.23e-06***	5.43e-05***	4.30e-05***
	(9.86e-06)	(2.65e-07)	(9.50e-06)	(1.01e-05)	(1.42e-06)	(9.42e-06)	(9.89e-06)
Home country GDP	6.15e-05	8.10e-05***	-1.66e-05	-2.28e-05	-3.08e-05	0.000147	4.99e-05
	(0.000586)	(1.75e-05)	(0.000595)	(0.000588)	(9.49e-05)	(0.000589)	(0.000586)
Year dummies	Included	Included	Included	Included	Included	Included	Included
Country dummies	Included	Included	Included	Included	Included	Included	Included
Industry dummies	Included	Included	Included	Included	Included	Included	Included
Constant	76.11***	-2.237***	80.91***	78.43***	-2.853**	74.47***	84.90***
	(6.999)	(0.211)	(15.30)	(7.252)	(1.167)	(6.851)	(7.766)
Observations	1,722	1,722	1,725	1,722	1,720	1,723	1,720
Pseudo R-squared	0.221	0.691	0.213	0.222	0.712	0.215	0.222

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1