

EXPORTER'S PSYCHIC DISTANCE: CONCEPTUALIZATION, MEASUREMENT, AND IMPACT ASSESSMENT

ABSTRACT

In the international marketing literature, psychic distance (PD) has been one of the most widely used and researched constructs in recent decades. In response to inconsistent and often conflicting results, the aim of this study is to develop a definition of perceptual PD based on exporters' perceptions and provide researchers with a sound measurement instrument of PD in the context of exporter–importer relationships.

INTRODUCTION

Psychic distance (PD) is a key construct when studying exporter–importer relationships because PD differentiates cross-border relationships from local business relationships (Rosson and Ford, 1982). Recent research (Dow and Karunaratna, 2006) has resolved most of the problems highlighted by Shenkar (2001) regarding the conceptualization and measurement of objective PD. However, an examination of the literature on exporter–importer relationships shows that multiple problems affect the study of PD in this particular context. First, some research still uses objective measures for PD when there is a growing consensus on using perceptual subjective measures when examining the influence of PD on managers' decision making. Second, a variety of conceptualizations and operationalizations of PD are employed. Finally, most of the scales used to measure PD are misspecified, causing the inflation of the coefficients that assess the influence of this phenomenon and casting doubt on the results of the fragmented research on the influence of PD in exporter–importer relationships.

Our study aims to resolve the aforementioned problems by proposing a grounded conceptualization and a sound measurement of exporters' perception of PD. With our new conceptualization of PD, we can offer a thorough explanation of the influence of PD on interfirm attitudes, such as trust. Finally, our new instrument allows for an unbiased test of this relationship.

PD IN EXPORTER–IMPORTER RELATIONSHIPS

We analyzed 17 articles that examine exporter–importer relationship and incorporate a construct closely related to PD in their analysis (see Table 1). We included articles that analyze the impact of cultural distance in our selection because of some authors' tendency to use this terminology to describe PD (e.g., Lee, 1998). We also included articles that use the construct of cultural sensitivity, which refers to how firms overcome issues related to PD (Lohtia et al., 2005, 2009; Styles et al., 2008). Finally, we considered Chelariu et al.'s (2006) similar construct of perceived foreignness, which assesses differences in language, lifestyle, and working styles.

 Insert Table 1 here

Issues with the Conceptualization of PD

The majority of the studies adopt a subjective approach to PD, in which respondents are asked to assess their perception of what Dow and Karunaratna (2006) call stimuli of PD. However, two studies (Nes et al., 2007, Zhang et al., 2003) assess cultural distance using Kogut and Singh's (1988) index, and one (Ha et al., 2004) seems to equate geographical distance and cultural distance by using this criteria to split the world between close and far counties. These three studies adopt an objective approach to the assessment of PD, which has been strongly criticized by Shenkar (2001) on the grounds that it does not necessarily reflect the true perception of decision makers' PD. Highly experienced export managers' perceptions of PD with a specific country do not necessarily parallel the assessment of distance using objective measures, because export managers are continuously in contact with foreign markets. This results in a phenomenon of acculturation in which managers accustom themselves to the

foreign culture and business practices. Thus, the first issue in terms of conceptualization comes from the fact that some studies still use an objective approach to define PD when there has been a growing consensus regarding the use of a subjective perceptual approach when the aim of the study is to examine the impact of PD on managerial decisions. The second conceptual issue stems from the differences in units of analysis when assessing PD. The majority of studies conceptualize PD as differences between the home and the foreign market. On the other hand, Chelariu et al. (2006), Leonidou et al. (2006), and Katsikeas et al. (2008) assess differences between the trading parties themselves. Both approaches can be viewed as problematic. First, comparing the foreign market with the home market may not be adapted to a perceptual assessment of PD because typically, export managers do not deal with their home market and lack the required experiential knowledge to perform a comparison (Prime, Obadia, and Vida, 2009). Second, limiting the comparison to the internal environment of the two firms may lead to the exclusion of factors pertaining to the foreign macro-environment that represent stimuli of perceptual PD. Yamin and Sinkovics (2006) propose a third unit of analysis—namely, by comparing the firm's experience in other markets (including the home market) with the firm's experiences in the focal foreign market. This unit of analysis seems more appropriate for the study of exporting relationships because it takes into account the actual experience of the staff and encompasses PD stimuli that are internal and external to the cross-border dyad. The third conceptualization issue stems from the fact that many studies (e.g., Ha et al., 2004, Sousa and Bradley, 2005) limit their definition of PD to differences among specific stimuli without referring to the managerial relevance of such differences. As a consequence, these differences may not be relevant to exporters (e.g., climatic conditions in Sousa and Bradley, 2005). However, Bello et al. (2003, p.6) contend that PD arises from differences “that make it difficult or problematic for a firm to formulate and implement international business strategies”. Chelariu et al. (2006) refer to the inconsistencies between

the trading partners cognitive frameworks, and Skarmeas et al. (2008, p.4) define PD as “a set of elements inhibiting the flow of information to and from a particular foreign market.” As Shenkar (2001) suggests, it is important to highlight differences that produce “friction” or “drag.” Thus, it is necessary that the definition includes the problems that are actually associated with the stimuli of PD.

Issues with the Operationalization of PD

Operationalization issues result from the choice of the facets along with the choice of items used to operationalize PD. First, Shenkar (2001) indicates that cultural distance alone cannot account for the distances that firms need to overcome when operating internationally and that PD should incorporate elements pertaining to the foreign economic–legal environment along with issues related to business practices. Thus, studies that examine exclusively the impact of cultural distance (e.g., Nes et al., 2007; Solberg, 2008; Zhang et al., 2003) or operationalize PD as cultural distance (Bello and Gilliland, 1997) may not fully reflect the reality of the issues experienced in international exchanges. As Katsikeas et al. (2008) argue, a more comprehensive operationalization of PD should include differences in culture, language, legal and economic systems, business practices, and other country-level factors. Second, in all the studies we examine here, the researchers selected the items used to operationalized PD. Prime et al. (2009) argue that when using a perceptual measure of PD, subjects rather than researchers should define the content of the construct by indicating the stimuli that cause PD, because perception is interpretative and highly subjective. PD stimuli may vary from context to context. For example, PD stimuli relevant to the export activity likely differ from those that affect firms that operate in foreign markets through local subsidiaries. Thus, the items used to operationalize PD should be generated by the subjects (export managers) who experience the phenomenon.

Issues with the Measurement of PD

A major problem found in the literature is the misspecification of most scales used to assess PD. The scales used to measure PD assess the level of the stimuli of PD (or how these stimuli are overcome by the exporting firm). By definition, stimuli are elements that cause PD. However, 13 studies (see Table 1) adopt a reflective specification for their scale. In a reflective scale, the causality flows from the construct to its indicators. Because stimuli cause the phenomenon of PD, a reflective specification is inappropriate for assessing PD. With causal manifest indicators, a formative approach should be adopted (Diamantopoulos and Winklhofer 2001). With PD almost always positioned as an exogenous construct, its misspecification leads to the inflation of the regression coefficients from PD to the dependent variables. Diamantopoulos, Riefler, and Roth (2008, p. 8) explain the problems associated with construct misspecification:

"A reflective treatment of a formative construct reduces the variance of the construct because the variance of a reflectively-measured equals the common variance of its measures, whereas the variance of a formatively-measured construct encompasses the total variance of its measures. Consequently, if a misspecification reduces the variance of the exogenous variable while the level of the variance of the endogenous variable is maintained, the parameter estimates for their relationship increases."

This suggests that the parameters generated by 13 of the 17 studies that examine the influence of PD on export relationships are inflated. This issue casts doubt on the findings of these studies because it cannot be ascertained whether the significant links that they report are due to an inappropriate specification of the PD measure.

Issues with the Nomological Network of PD

The literature has tested the influence of PD on interfirm attitudes, relational norms, firms' behaviors, and performance. Table 2 summarizes the results for the most frequently examined dependent variables in exporter-importer relationships.

 Insert Table 2 here

Except for trust and commitment, it should be noted that the low rate of replication makes it difficult to define a solid nomological network for the construct. The lack of a strong theoretical basis is reflected in the contradictory hypotheses generated for important dependent variables, such as trust and norms. Clearly, it is difficult to ascertain whether the inconsistencies in the findings are due to the impact of PD or to differences in the conceptualization, operationalization, and measurement of PD.

The literature review suggests that severe problems affect the research on PD and its impact on exporter relationships. Multiple conceptualizations coexist. Some refer solely to the stimuli of PD to define the construct (e.g., Katsikeas et al., 2007), and others address exclusively the consequences of PD (e.g., Leonidou et al., 2006). However, it is striking that with one exception (Chelariu et al., 2006), none of the conceptualizations addresses the psychological nature of PD. Thus, the construct is defined by its antecedents and/or consequences without a hint of the true nature of the phenomenon. The operationalizations often lack managerial relevance because the pertinence of the stimuli included in the measure has not been examined. Finally, the misspecification of two-thirds of the scales used to measure PD hampers the confidence in the results of the studies. As a consequence, we believe that it is necessary to develop a new measure to assess PD as perceived by exporters. Because PD is perceptual, the content validity of the construct should be assessed by asking exporters about the components of the variable. Thus, we begin the scale development process with a qualitative study to examine the PD stimuli that are relevant to the exporting context, which will allow for a better conceptualization of the phenomena.

FORMATIVE INSTRUMENT DEVELOPMENT

Research Design

Given the objectives of the study, we adopt the following research design: First, a qualitative study allows for a new definition of PD and the generation of measurement items. Second, we develop a formative measurement instrument for PD in the context of exporting with PLS (Partial Least Squares) path modeling using data from two samples of French and Slovene exporters. Finally, we examine the impact of PD on interfirm trust (see Figure 1).

Insert Figure 1 Here

Qualitative Study Findings

We conducted 18 in-depth interviews with French and Slovene exporters (for a description of the samples, see Appendix A) and micro analyzed the data with the assistance of a specialized software. We used the grounded theory methodology (Strauss and Corbin, 1998) described in Appendix B to determine the stimuli of PD and define this phenomenon in the context of exporting. The fieldwork helped uncover and classify the stimuli of PD that are relevant to exporters. They are organized into two categories: Cultural Distance (CD) and Business Distance (BD). The study also details the PD-related difficulties that exporters experience when operating abroad: problems understanding the market and the foreign interlocutors and problems working with their foreign partners. Thus, our findings suggest two sets of relationships: (1) between the stimuli identified and the PD on the one hand (2) between PD and the difficulties to operate abroad on the other hand. Being an internal psychic phenomenon experienced by organization members, PD cannot be observed per se. However, it is possible to explain it as a cognitive disorientation by analyzing its immediate consequences for exporting firms. Figure 2 depicts these results.

 Insert Figure 2 Here

Based on this analysis, we suggest the following definition: Perceived PD is an internal, unobservable phenomenon, similar to a cognitive disorientation, resulting from exporters' perceived cultural issues and problems in the business environment and practices. PD makes it difficult or problematic for a firm to understand a foreign market and operate there.

This definition encompasses the following central aspects. First, we distinguish among PD itself, its stimuli (CD and BD), and its immediate consequences. Many conceptual problems identified in the literature are due to a confusion of these three facets of the phenomenon. Second, perceived PD is grounded in perceived issues and problems without reference to the home market because exporters' reference anchor points are their firms' experience. This was highlighted in our qualitative study when only one respondent chose to use his home market as the "easy market" when comparing easy and difficult markets. Third, PD is defined at the level of the export venture (the firm–market level), not the country–country level of analysis. This level of analysis allows our definition to be coherent with the perceptual character of PD and relevant to the export context. Fourth, this definition emphasizes the managerial relevance of perceived PD by considering both the antecedents of PD and its consequences for exporting firms. Finally, the psychological dimension of PD is acknowledged because it is conceptualized as a cognitive disorientation experienced by the staff of the exporting firm.

Formative Instrument Construction

Drawing on the results of the qualitative study, we use the causal factors of PD and its immediate consequences to develop a formative measurement instrument of perceptual PD. We developed the instrument using SmartPLS 2.00 software (Ringle, Wende and Will, 2005)

because this technique is most appropriate when working with formative measures. We followed the method recommended by Diamantopoulos and Winklhofer (2001) and Bruhn, Georgi, and Hadwich (2008). We chose this method because of its suitability for the assessment of field research findings in which antecedents and consequences of unobserved phenomena are identified. The procedure, which incorporates data from two representative samples of exporters from France and Slovenia (see Appendix A), warrants that each indicator be relevant and take into account the notion that firms' perceptions of PD are not equally affected by each factor.

Instrument specification. Our study provides valuable insights into how the underlying dimensions should be collapsed into an overall measure of perceptual PD. The question whether PD should be modeled as a reflective or a formative measure is of particular importance. Diamantopoulos and Winklhofer (2001) argue that reflective specifications of latent variables often mistakenly prevail in the marketing literature. In reflective specifications, higher-order constructs are assumed to cause their dimensions rather than be caused by them. Consequently, dimensions are viewed as strongly correlated and interchangeable facets of the focal construct (Diamantopoulos et al., 2008). In turn, formative specifications view a higher-order construct as being caused by its dimensions. From a formative perspective, the higher-order construct is defined by its dimensions, which do not need to be highly correlated with each other. According to Diamantopoulos and Winklhofer (2001), the choice between a formative and a reflective specification should be based primarily on theoretical considerations. The findings of our grounded theory-based study suggest that a formative measurement approach is the most appropriate. Indeed, the decision rules that Jarvis, Mackenzie, and Podsakoff (2003) develop for determining whether a construct is formative or reflective suggest the use of a second-order formative model for PD in which Cultural Distance and Business Distance are the first-order factors (see Figure 3).

Indeed, in our study, causality flows from the indicators, representing the PD stimuli- to the constructs of Cultural Distance (CD) and Business Distance (BD). In turn, CD and BD are viewed as the cause of the cognitive disorientation that the exporting firms experience. Finally, the disorientation results in difficulties when dealing with the foreign market. In addition, the drivers we identified do not need to be highly correlated with each other. For example, French exporters in our qualitative study reported that they experienced serious problems with behaviors (a stimulus of CD) in African countries. However, the language used (another stimulus of CD) was French and therefore did not represent an obstacle in their interactions with the market. Thus, for these French exporters, language would score very low and behaviors would score very high in the cultural distance first-order construct. For example, French and Slovene exporters to European Union (EU) countries may well estimate that cultural issues score high, though their current estimation of the business distance may score low because of the similarities in the macro environments of EU members. Conversely, Slovene exporters operating in countries which belonged to the pre-1991 Yugoslavia find cultural environments with which they are very familiar as they share many historical and cultural ties. However, the business environments of countries such as Macedonia or Montenegro are radically different from the one provided by EU and Euro-zone member Slovenia. Indeed, participants in the qualitative study repeatedly described situations in which PD drivers (CD and BD) did not correlate with each other. Therefore, our depth interviews revealed that CD, BD and PD respective drivers may not correlate with one another. Consequently, when modeling PD, from a methodological standpoint, a second-order formative measurement approach should be used rather than a reflective measure. Following the classification established by Jarvis et al. (2003), we evaluated a Type IV model that includes both formative and reflective indicators (see Figure 3). This measurement approach, though still rare in business research, has been implemented to assess constructs such as

relationship value (Ulaga and Eggert, 2006) and customer equity management (Bruhn, Georgi and Hadwich, 2008).

 Insert Figure 3 Here

The similarities between Figure 2 and Figure 3 illustrate graphically how the qualitative study findings were properly translated into the measurement specification of PD chosen for this study.

Generation of manifest indicators. Perceived PD is not observable as such. The aforementioned qualitative study revealed its immediate causes (PD stimuli) that can be used as indicators of this phenomenon. The links between the indicators and their respective constructs are causal, and we specified the first order-variables as formative (Jarvis, Mackenzie, and Podsakoff, 2003). We derived each of the six formative indicators from our field study. The qualitative study showed that the stimuli of PD belonged to two general categories: cultural issues and business–economic issues. Hence, the six stimuli identified were organized accordingly into Cultural Distance and Business Distance. Unobservable PD caused difficulties in operating with the foreign market. The six formative indicators (see Table 3) captured the range of causes (PD stimuli) uncovered in our interviews. The field study also allowed for the generation of three reflective indicators, which were needed to develop an index. They referred to (1) the difficulty in understanding the country and its people, (2) the difficulty in managing business relationships, and (3) the difficulty in working in the market. We used seven-point semantic differential scales and Likert scales for scoring. Table 3 shows how the findings of the qualitative studies are used to generate the measurement instrument items.

 Insert Table 3 Here

We checked equivalence between the French and the Slovene wordings of the items following the procedure recommended by Craig and Douglas (2005).

Formative instrument validation. "As the correlation between formative indicators may be positive, negative or zero, reliability in an internal consistency sense is not meaningful for formative indicators" (Diamantopoulos et al. 2008, p. 13). Thus, in this study we adopt Bruhn, Georgi, and Hadwich's (2008) and Diamantopoulos and Winklhofer's (2001) approach to validate formative instruments. This validation requires that (1) the links between formative manifest indicators and first-order constructs and the links between first-order constructs and the second-order construct be significant, (2) the R^2 of the model reach a minimal value, and (3) the formative manifest indicators and first-order constructs cover the entire domain of the construct. Furthermore, the formative and reflective manifest indicators and the first-order formative constructs should meet specific conditions that we justify hereafter.

Characteristics of manifest reflective indicators. The three reflective indicators exhibit adequate characteristics to allow for the validation of the construct. The standardized loadings are superior to .75, with high t-values in both samples (see Table 4). Thus, in each data set, the corresponding latent variables exhibit average variance extracted and composite reliability superior to the established thresholds.

Characteristics of manifest formative indicators. In line with Diamantopoulos and Winklhofer (2001), we checked the collinearity of the six formative indicators (Culture1, 2, and 3 and Business1, 2, and 3) for each set of indicators by examining their variance inflation factor (VIF) and their shared variance (Kleinbaum, Kupper, Muller, and Nizam, 1997). The maximum VIF values were 2.4 for France and 2.7 for Slovenia, well below the commonly accepted cutoff value of 10. Thus, in both samples, we retained all six items for their initial inclusion in the model.

Characteristics of first-order constructs. We checked the collinearity between the two first-order constructs (Cultural Distance and Business Distance) by collapsing each construct into a single variable using their PLS scores. In both samples, the VIF scores were under 1.9, indicating low levels of collinearity. There was also discriminant validity between the two first-order constructs and the second-order construct because the maximum interconstruct correlation was under .71 in both samples (France: .58; Slovenia: .70).

Overall evaluation of the measurement instrument. With the characteristics of the manifest indicators and the first-order factors checked, we evaluated the validity of the formative instrument. This validity is granted when the following conditions are met:

1. *The significance of the regression weights between the formative manifest indicators and the first order factors—that is, cultural distance or business distance.* For both samples, the indicator Business3 (environment) displayed nonsignificant regression weights. In the Slovene sample only, indicator Culture2 (language) exhibited a nonsignificant regression weight. For both data sets, all other first-order formative indicators showed a significant relationship with their respective first-order construct. The results relative to the formative indicators appear in Table 4.

Insert Table 4 Here

2. *The significance of the regression weights between the first-order constructs (CD and BD) and the second-order construct (PD).* As Table 4 shows, this condition is fulfilled in both samples.

3. *The appropriate level of the R^2 of the measurement model.* The R^2 values for the second-order construct were .45 in the French sample and .44 in the Slovene sample. With an R^2 of .26 considered representative of a large effect size (Bruhn et al., 2008), it can be inferred

that the first-order factors described the second-order construct adequately. Furthermore, this assessment should take into account that difficulties in operating in foreign markets can arise from causes other than PD stimuli, such as the competitive pressures in the local market or internal characteristics of the exporting firm (e.g., its lack of international experience). Thus, cultural distance and business distance represent only part the external factors that increase the perceived difficulty of cross-border activities. Thus, R^2 values of .45 and .44 are considered satisfactory (Bruhn et al., 2008).

4. *The exhaustiveness of the indicators used to represent the construct domain.* This condition is also fulfilled because all the indicators generated in the field study are included in the analysis. The results show that the two first-order factors describe the phenomena adequately and must be included in the measure.

However, the nonsignificant regression weights of some formative manifest indicators require further analysis. Indeed, it must be decided whether to exclude the nonsignificant indicators from the instrument. This is an important issue in formative measurement “because failure to consider all facets of the construct will lead to an exclusion of relevant indicators and thus exclude part of the construct itself” (Diamantopoulos and Winklhofer 2001, p. 271). Riefler and Diamantopoulos (2007) argue that the components of a formative construct are context specific. Our objective is to develop a scale that is specific to the exporting context. However, our aim is to propose a scale that is valid across various geographic contexts. Thus, it is necessary to check whether the nonsignificance of the regression weights observed here is due to some geographic characteristics of the sample. These geographic characteristics refer to the countries of origin and countries of destination of the export ventures described in the data. In our data sets, the countries of destination are mostly located within the EU (50% in the case of the French sample, 62% in the case of the Slovene sample). This proportion reflects adequately the weight of EU exports for both countries. However, because the EU

provides countries' macro environments with similar characteristics, many exporting firms in our samples (also located in the EU) might not have perceived the environment characteristics as an issue when assessing business relationships with other EU countries. Indeed, respondents in our qualitative study illustrated environment-related problems with examples taken from outside the EU (in South America, Africa, and Asia). Thus, we checked whether the large proportion of firms that provided responses on export ventures within the EU had affected the significance of the indicator Business3 (environment). To do so, we formed, for each country, data subsets that excluded all responses targeted at the other 26 EU countries. As we expected, with EU destinations excluded, the indicator Business3 exhibited significant coefficients on the construct of business distance in both data sets (France: $r = .28$, $t = 2.4$; Slovenia: $r = .37$, $t = 2.8$). Thus, we decided to keep this manifest indicator in the measure.

Another problem to be examined was the diverging results for the indicator Culture2: language (significant in France, insignificant in Slovenia). Slovenia and France display different characteristics in dealing with foreign language. Although proud of their national language, Slovenes are often multilingual. Slovenia has bilingual areas on its borders with Austria, Italy and Hungary. In addition, the Slovene language shares many common features with the languages used in other countries from the former (pre-1991) Yugoslavia (25% of the responses in the survey), which makes communication much easier. Finally, the use of English is widespread. Any nonnative French speaker having visited France knows that this is not the situation in France and that foreign language use is not very common. A recent survey showed that the use of English remained problematic even in firms' international departments (Le Figaro, 2007; 2008). To show how the score for the indicator Culture2 (language) was geographic context dependent, we tested our instrument on a subgroup of the French data set for which the countries of destination used French as one of their languages (i.e., former French colonies, Belgium, Canada, and Switzerland). The regression weight of this indicator

on the construct of cultural distance became insignificant ($r = .04$, $t = .1$). This shows that unlike in Slovene firms, the use of any foreign language in a business relationship is often a problem for French firms and that language issues are geographic context dependent.

Therefore, we decided to keep the indicator Culture2 (language) in the model because it may be relevant for other geographic contexts. Thus, we kept all six formative manifest indicators and the two first-order factors in the instrument. Hence, all the facets of the construct uncovered during the field work are adequately represented in the measure.

With significant coefficients for manifest indicators and first-order constructs, large R^2 values, and the domain of the construct being exhaustively represented by the formative indicators and first-order constructs, we can conclude that the formative instrument we developed to measure PD exhibits appropriate characteristics and can be considered valid.

IMPACT OF PD ON TRUST

Trust is one of the most widely studied and accepted constructs in relationship marketing because it plays a fundamental role in developing and maintaining successful buyer–seller relationships. Within the context of international channels management, trust is considered a major component of relationship quality (Leonidou et al., 2006; Skarmeas et al., 2008).

Six empirical studies examine the impact of distance on interfirm trust. Four studies assess various distance concepts: cultural distance (Zhang et al., 2003; Nes et al., 2007), distance (Leonidou et al., 2006), or psychic distance (Katsikeas et al., 2008). Furthermore, two studies analyze the construct cultural sensitivity, which can be understood as firms' ability to mitigate PD (Lohtia et al., 2009; Styles et al., 2008).

Most articles posit a negative impact of PD on trust. Leonidou et al. (2006) argue that distance interrupts the communication flow between exchange parties. It keeps the two partners apart and thus hampers the development of a cooperative spirit. Finally, distance

increases the potential for misunderstandings and has a negative impact on the parties' desire to create and develop the relationship. Nes et al. (2007) contend that cultural distance is an obstacle for the development of shared values, which provide a basis of trust development. They further argue that cultural distance reduces the confidence in foreign institutions (another base of trust building) by increasing uncertainty about international contracts and conflict resolution procedures. Katsikeas et al. (2008) conceptualize interfirm trust as a bi-dimensional construct based on the assessment of the levels of equity and efficiency in the exchange. They contend that the perception of equity is compromised of communication problems and misunderstandings resulting from PD. In addition, PD increases perceptions of opportunism because partners do not share the same frame of reference and have different expectations about the other party's behaviors. Perceptions of efficiency are also compromised because PD makes good coordination difficult and reduces the productivity of the exchange. Furthermore, PD adds to the complexity and confusion of decision making because it degrades the quality of bilateral communication.

Another stream of research examines the impact of cultural sensitivity on trust (Styles et al., 2008; Lohtia et al., 2009). Cultural sensitivity is defined as the firm's awareness of differences between domestic and foreign market business practices and its ability to address and manage these differences (Lohtia et al., 2009). As a distance-reducing factor, it is hypothesized to have a positive impact on trust. Lohtia et al. (2009) indicate that interfirm trust is based on perceptions of the partner's benevolence and credibility. They argue that Japanese importers associate cultural sensitivity with benevolence and trustworthiness. Cultural sensitivity helps firms achieve social fitness that leads to smooth and productive interactions. Styles et al. (2008) argue that cultural sensitivity facilitates the extent to which international partners are comfortable with each other, thus creating favorable conditions for relationship-building activities, which in turn positively affect cooperation and trust.

Finally, Zhang et al. (2003) hypothesize a positive influence of cultural distance on trust. They indicate that cultural distance is a barrier for the reliance on trust-based governance mechanisms. However, they believe that these obstacles are offset by the benefits of trustful relationships. As an example, they refer to countries with weak legal systems in which partners need to rely on mutual trust because contracts cannot be enforced in court.

The results of the existing empirical tests are somewhat inconsistent. They are nonsignificant in Leonidou et al. (2006) and significant in Nes et al. (2007) and Katsikeas et al. (2008), all of whom posit a negative impact of distance on trust. Both Styles et al. (2008) and Lohtia et al. (2009) are able to support their hypotheses of a positive impact of cultural sensitivity on trust. However, Zhang et al. (2003) who posit a positive relationship between cultural distance and trust, report nonsignificant results.

Taken together, these studies on the impact of distance on trust in international distribution channels show that research is fragmented. It is impossible to ascertain whether variations in research findings are due to the impact of distance or to the variety of distance assessment. Furthermore, as explained in the literature review, all the studies (except Nes et al., 2007) that found a significant relationship between PD and trust used misspecified instruments and thus, produced inflated regression coefficients.

In this study, we contend that PD is an unobservable phenomenon, similar to a cognitive disorientation that takes place in the mind of the staff of exporting firms. This disorientation makes it difficult to develop interfirm trust. Development of trust is based on cognitive processes and affective responses (Morrow, Hansen and Pearson, 2004). Cognitive processes refer to the “careful, methodical thought process used to determine whether an individual, group or organization is trustworthy” (Morrow et al., 2004, p. 53). They involve a careful evaluation of empirical evidence about the foreign partner. In this case, trust is the outcome of a rational choice based on the interpretation of credible information about the

intentions and the competence of the overseas agent. Affective responses refer to “one’s instincts, intuitions or feelings concerning whether an individual, group or organization is trustworthy” (Morrow et al., 2004, p. 53). They prevail in the initial phase of a relationship when empirical evidence about the exchange party is scarce. As interaction progresses and produces this evidence, affective responses influence the cognitive processes by which trustworthiness is determined. Morrow et al. (2004) indicate that in the case of interfirm relationships, rational cognitive processes prevail on affective responses as drivers of trust. Dwyer, Schurr, and Oh (1987, p.18) share this view, when they contend that “direct experience is likely to be the principal basis for judging trustworthiness” in business relationships. Trust is granted when expectations concerning cooperation and planning are met.

In cross-border exchanges with distant countries, firms develop lower trust levels because the rational processes by which trustworthiness is established is hampered by PD. PD makes it difficult to understand the significance of the dyadic phenomena observed by exporters and impedes the appropriate categorization of these phenomena as beneficial or detrimental to the relationship. PD stimuli include the differences in how personal relationships are handled. For example, a Latin American businessperson could understand the use of legalistic pleas (Chelariu et al., 2006), when one party refers to the formal contract to require compliance from the other party, as a clear sign that the other party aims towards open conflict and wishes to terminate the relationship. However, with a North American partner, this behavior means business as usual and could be interpreted as the foreign exchange party being serious about the business relationship. PD stimuli also include differences in business practices. As another example, the insistence of a supplier located in a developing country to be paid with letter of credits, even after years of good relationships, could be interpreted as a lack of confidence or a desire to keep a strictly transactional

approach. However, this may only reflect the unsophisticated credit market in the supplier's country, in which letters of credit discounting are the only readily available source of financing for exporting firms. Thus, PD acts as a noise that troubles the appropriate assessment of the empirical clues on which the evaluation of trustworthiness is based. Hence, we generate the following hypothesis:

PD has a negative impact on interfirm trust.

We tested this hypothesis with data collected from French and Slovene exporters (see Appendix A), with PLS path modeling, using our newly developed second-order formative measure of PD. We operationalized trust with Morgan and Hunt's (1994) instrument. The reflective instrument for trust displayed adequate reliability and validity in both samples, and we tested it for cross-country invariance. Finally, with both samples, our hypothesis is supported because the analysis shows significant, negative PLS path coefficients between PD and trust: France, $r = -.17$, $t = -2.58$; Slovenia, $r = -.33$, $t = -4.93$.

CONCLUSIONS

The main contribution of this research lies in the conceptualization, operationalization, measurement, and testing of exporters' PD in the context of cross-border business relationships. Unlike prior research, we used a grounded theory approach to identify distinct facets of PD. First, the findings from our depth interviews with export managers suggest two important groups of PD stimuli: (1) the exporter's perception of differences in the culture of the focal foreign market (CD) and (2) the firm's perception of dissimilarities in the local business practices (BD). Second, PD itself is conceptualized as an unobservable phenomenon, similar to a cognitive disorientation that takes place in the mind of the exporting firm's staff. Third, the immediate consequences of PD are uncovered as difficulties in understanding the country, collaborating with local firms, and working in the local market. This approach led us

directly to a measurement specification, and we built and tested the instrument using two representative samples of exporters.

In this study, we addressed several problems detected in the literature. First, PD perceptual nature is acknowledged as we assessed exporters' perceptions when we evaluated the impact of PD on their attitudes and behaviors. Second, the unit of analysis is the firm–foreign market; specifically, issues that trigger PD (PD stimuli) are due to differences between the situation in the foreign market and the firm's own experience. Third, because we derived the PD stimuli from two field studies using French and Slovene exporters, we assert that these stimuli are particularly relevant issues that exporting firms actually experience. Fourth, PD is conceptualized as a broader construct that includes both cultural and business distance. Fifth, the perceptual nature of the construct is reflected by the method used to define its stimuli: i.e., exporters perceptions derived from a qualitative study. Sixth, a novel specification of the construct as a second-order formative instrument secures the reliability of the findings pertaining to its impact on relational phenomena in export dyads.

Furthermore, the conceptualization of PD as a unobservable phenomenon, similar to a cognitive disorientation, allowed for the reintroduction of the psychological dimension of absent from most recent studies. More importantly, it provides a fundamental explanation of how PD disturbs the development of interfirm attitudes, such as trust.

The results of this study should be interpreted through the lens of its limitations. First, because we used export relationships as a research context, the construct developed here may be suited for this context only. Because perceptions of PD are affected by the type of decision to be made and the context prevailing when the decision is made (Dow and Karunaratna, 2006), further field research should be conducted using other contexts, such as when firms operate in foreign markets with their own subsidiaries. Moreover, future studies should investigate the drivers of importers' PD at the other side of the dyadic relationship. Clearly,

the importers different role in the exchange should modify the set of stimuli that triggers the PD they perceive toward the exporters' countries.

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FIGURES

FIGURE 1

Perceptual PD Research Design

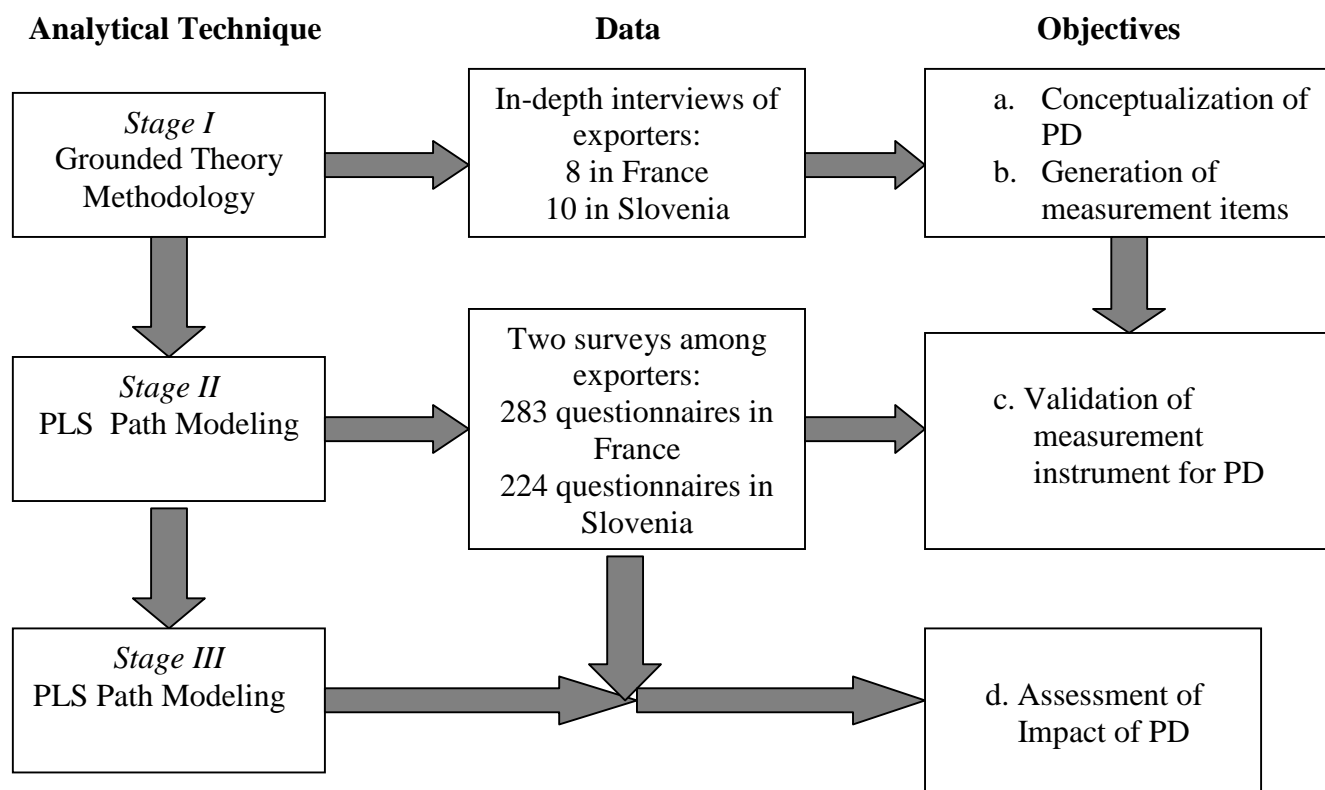


FIGURE 2

Results of the Qualitative Study

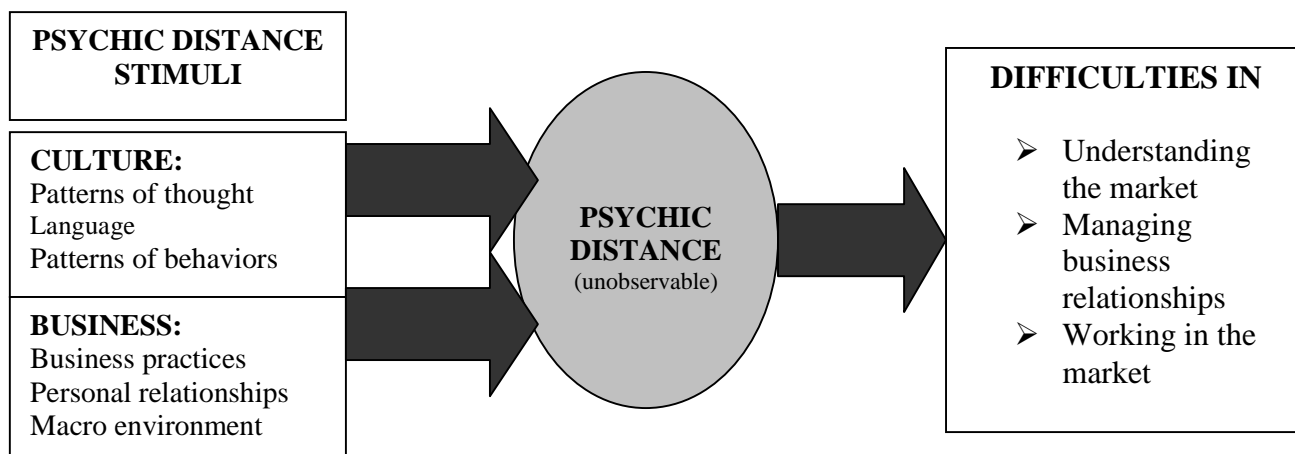


FIGURE 3
Second-Order Formative Model of PD

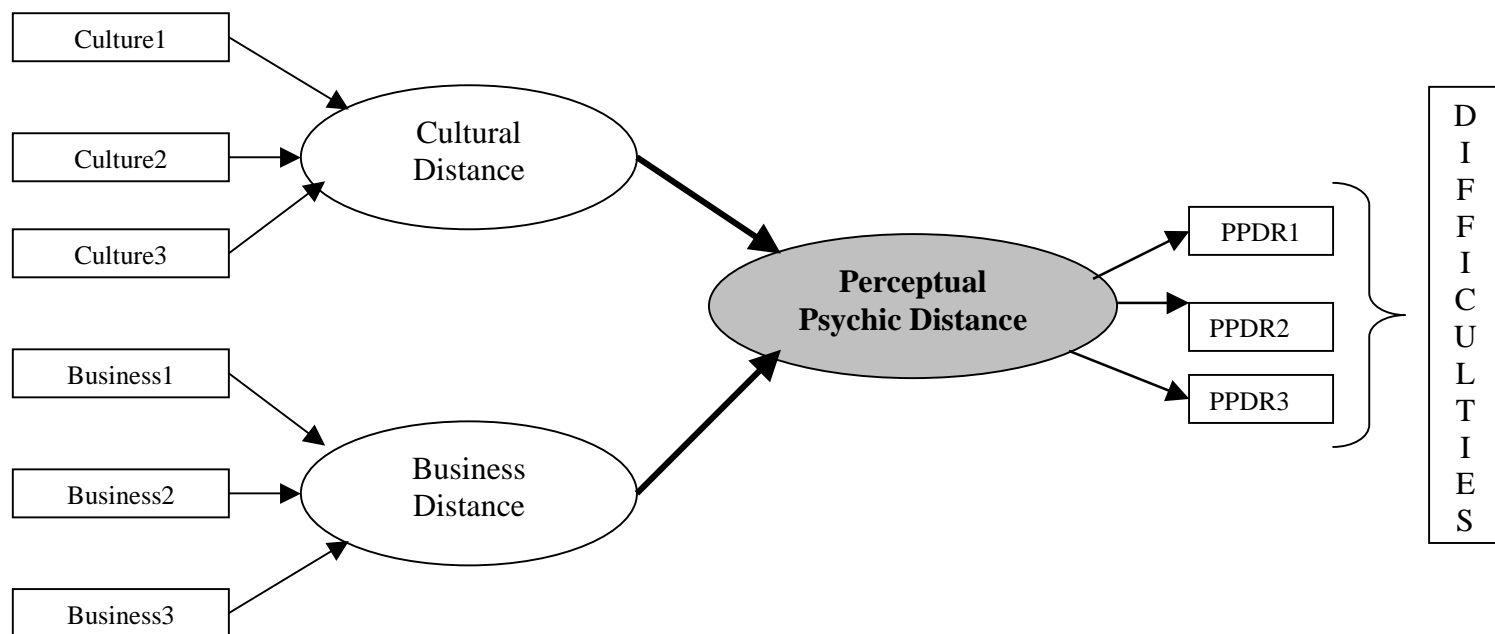


TABLE 1
PD in Empirical Studies of Exporter–Importer Relationships

Article References Respondents	<i>Name of Construct and Definition</i>			
	OPERATIONALIZATION	CONSTRUCT SPECIFICATION	DEPENDENT VARIABLES	RESULTS
1. Bello and Gilliland (1997) JM US Exporters	<i>“Psychic Distance”:</i> <i>Manufacturer’s perception of how different the culture of the target export country is from its home country.</i>			
	- Customs and values of people - Culture of the country - Language of the country	Reflective Scale	Output controls (monitoring)	(-) Supported
2. Lee (1998) IJRM Australian Exporters	<i>“Cultural Distance”:</i> <i>The perceived difference between the home country and the target country.</i>			
	How similar or dissimilar do you think the importer’s country is compared to Australia: 1. In terms of the language. 2. In terms of the business practices in general. 3. In terms of the political and legal systems. 4. In terms of the marketing infrastructure.	Reflective Scale	Exporter Opportunism	(+) Supported
3. Bello, Chelariu and Zhang (2003) JBR US Exporters	<i>“Psychic Distance”:</i> <i>Fundamental differences between the home and foreign market that make it difficult or problematic for a firm to formulate and implement international business strategies.</i>			
	- Culture of the country - Language - Customs and values - Foreign business practices	Reflective scale	- Relationalism (Flexiblity, Information Exchange, Solidarity)	(-) Not Supported
4. Zhang, Cavusgil and Roath (2003) JIBS US Exporters	<i>“Cultural Distance”:</i> <i>No definition provided.</i>			
	Differences in: ▪ power distance ▪ masculinity ▪ individualism ▪ uncertainty avoidance	Index (Kogut and Singh 1988)	- Reliance on Relational Norms (Flexiblity, Information Exchange, Solidarity) - Trust	(+) Not Supported (+) Not Supported

5. Ha, Karande and Sighapakdi (2004) IMR Korean Exporters and Importers	<i>"Cultural Distance"</i> <i>The extent to which a culture is seen as being different from one's own.</i>			
	Sample was divided in two groups according to the location of the foreign partner: Close: China, Japan, South East Asia Far: US, Europe, Australia	Not Applicable	Moderating effect on link between: Dependence and Cooperation Cooperation and Satisfaction Cooperation and Trust Cooperation and Commitment	(-) Not Supported (-) Not Supported (-) Not Supported (-) Not Supported
6. Lohtia, Bello, Yamada and Gilliland (2005) JBR US Exporters	<i>"Cultural Sensitivity":</i> <i>The firm's awareness of differences between domestic and foreign market business practices and its ability to address and manage these differences.</i>			
	Our firm has achieved a: 1. Sensitivity to the difficulties of doing business in Japan that is... 2. Willingness to abide by Japanese business practices and customs that is. . . 3. Knowledge of Japanese culture that is. . . 4. Ability to adapt to the ways of conducting business in Japan that is. . . Below Japanese Expectations. . .Above Japanese Expectations	Reflective scale	- Exporter Attitudinal Commitment	(+) Supported
7. Sousa and Bradley (2005) JSM Portuguese Exporters	<i>"Psychic Distance":</i> <i>Individual's perception of the differences between the home country and the foreign country.</i>			
	- Climatic conditions - Purchasing power of customers - Lifestyles - Consumer preferences - Cultural values, beliefs, attitudes and traditions - Language - Level of literacy and Education	Reflective scale	Adaptation of export marketing strategy	(+) Supported

8. Chelariu, Bello and Gilliland (2006) JBR US Exporters	"Perceived Foreignness": <i>Inconsistencies between the cognitive frameworks of trading partners.</i>			
	"One or more people from our firm who are involved in dealing with our Eastern European partner... 1- ... understand and speak the language of our Partner (R) 2- ... are familiar with day to day living in that country (R) 3- ... understand the working style of people in that country (R)	Reflective scale	- Use of recommendations - Use of legalistic pleas - Economic performance	(-) Not Supported (-) Supported (-) Supported
9. Leonidou, Barnes and Talias (2006) IMM US Exporters	"Distance" <i>The prevention, delay, or even distortion of the flow of information between sellers and buyers, which is responsible for keeping them apart.</i>			
	-distant social relations - unfamiliarity with business environment - unfamiliarity with organizational culture/values/attitudes - unawareness of organizational structure, - unfamiliarity with working methods	Unclear	Relationship Quality: - Adaptation - Commitment - Communication - Cooperation - Satisfaction - Trust - Understanding	(-)Not Supported (-)Not Supported (-)Not Supported (-)Supported (-)Supported (-)Not Supported (-)Not Supported
10. Calantone, Kim, Schmidt and Cavusgil (2006) JBR US, Japanese and Korean Exporters	"Market Similarity" <i>The extent of which an export market is similar to the home market.</i>			
	Laws/regulations in your main export market(s) are very similar to those in your home country. The culture of your main export market(s) is very similar to the culture in your home country.	Reflective scale	Product Adaptation Export Performance	(-) Supported (+) Not Supported

11. Katsikea Theodosiou and Morgan (2007) JAMS British Exporters	<i>"Psychic Distance"</i> <i>How remote a decision maker perceives a foreign market to be in relation to his or her domestic market and in terms of culture, language, values, economic development, and so forth.</i>			
	Differences in: -Culture (traditions, values, language, etc.) -Accepted business practice -Economic environment -Legal system -Communications infrastructure	Reflective scale	Satisfaction with Export Venture	(-)Supported
12. Nes, Solberg and Silkoset (2007) IBR Norwegian Exporters	<i>"Cultural Distance"</i> Not provided			
	Differences in: <ul style="list-style-type: none"> ▪ power distance ▪ masculinity ▪ individualism ▪ uncertainty avoidance 	Index (Kogut and Singh 1988)	Trust Communication	(-) Supported (-) Supported
13. Katsikeas, Skarmas and Bello (2008) JIBS US importers	<i>"Psychic Distance"</i> <i>Differences between trading partners in culture, language, legal and economic systems, business practices and other country-level factors.</i>			
	Same as Skarmas et al (2008)	Reflective Scale	Exporter Opportunism Trust	(+) Supported (-) Supported
14. Skarmas, Katsikeas, Spyropoulou and Salehi-Sangari (2008) IMM UK Importers	<i>"Psychic Distance"</i> <i>A set of elements inhibiting the flow of information to and from a particular foreign market.</i>			
	Differences in: -Culture (traditions, values, language, etc.) -Accepted business practice -Economic environment -Legal system -Communications infrastructure	Reflective Scale	Relationship quality (Trust, Commitment, Satisfaction)	(-)Supported

15. Solberg (2008) JIM Norwegian Exporters	<i>"Cultural Closeness"</i> Not Provided			
	- There is no cultural difference between ourselves and our agent - The cultural differences that might exist between the country of our agent and our country do not represent any problem in our relations with our agent. - There are no language problems between ourselves and our agent	Reflective Scale	Moderating Effect on Link between: Social relationships and Relationship Quality Introductory role of agent and Relationship Quality	(+) Supported (-) Supported
16. Styles, Patterson and Ahmed (2008) JIBS Dyads: Australian Exporters and Thai Importers	<i>"Cultural Sensitivity"</i> Not provided			
	The importer - ...is aware of the difference in doing business in this country - ...always tries to show their willingness to adapt to our way of doing business. -...is aware that the norms for business and communication are different in our culture. -...has worked very hard to familiarize themselves with our legal and economic environment. - ...appreciates the nature of our decision making and management techniques. -...has made an effort to understand some of the cultural values in our country -...is fully aware and understands that, compared with them we need to have more lengthy and detailed discussions before committing to a course of action. -...seems to know a lot about our culture and our way of doing business.	Reflective Scale	Trust Commitment	(+) Supported (+) Supported
17. Lohtia, Bello and Porter (2009) IMM US Exporters	<i>"Cultural Sensitivity"</i> Same as Lohtia et al. (2005)			
	Same as Lohtia et al. (2005)	Reflective Scale	Trust	(+) Supported

TABLE 2
Summary: Impact of PD in the Literature

Dependent Variable	Number of Studies	Hypothesized link	Supported	Not Supported
Trust	6	5 (-) and 1 (+)	4 (+)	2
Commitment	4	(-)	3	1
Satisfaction	3	(-)	3	0
Norms	2	1 (-) and 1(+)	0	2
Opportunism	2	(+)	2	0
Communication	2	(-)	1	1
Mkg. Mix Components Adaptation	2	(+)	2	0
Performance	2	(-)	1	1

Note: "Cultural sensitivity" considered as "opposite" of PD. Hence, hypotheses signs are reversed.

TABLE 3
Indicators Generation for the Formative Instrument

PD STIMULI			
Qualitative Findings			Formative Indicators To what extent the following aspects of the market where your importer operates are a problem for your company (no problem at all...major problem) 7 points scale
Cultural Distance	Patterns of behaviors	CULTURE1	Behaviors of the people
	Language	CULTURE2	Language
	Patterns of thoughts	CULTURE3	Way of thinking of the people
Business Distance	Business practices	BUSINESS1	How business is organized
	Personal relationships	BUSINESS2	Personal relationships with business people
	Macro-environment	BUSINESS3	Environment: economic, political and legal
PD IMMEDIATE CONSEQUENCES			
Qualitative Findings		Reflective Indicators (completely disagree...completely agree) 7 points scale	
Difficulties in:	Understanding the market	PPDR1	It is difficult to understand this country and its inhabitants
	Managing business relationships	PPDR2	In this country, it is difficult to work with local firms
	Working with the market	PPDR3	It is difficult to work in this market

TABLE 4
Results of the Formative Measurement Model

Formative Indicators →First Order Constructs			First Order Constructs →Second Order Construct			Second Order Construct →Reflective Indicators		
	PLS Coefficients	T values*		Path Coefficients	T values*		Loadings	T values*
Culture1→CD	.29 (.65)	2.20 (7.29)	Cultural Distance → PD	.39 (.45)	6.76 (5.21)			
Culture2→CD	.40 <i>(.13)</i>	3.47 <i>(1.55)</i>						
Culture3→CD	.51 (.40)	3.40 (4.03)				PD→PPDR1	.87 (.82)	42.69 (27.21)
Business1→BD	.39 (.28)	3.05 (1.99)	Business Distance → PD	.38 (.26)	6.49 (3.46)	PD→PPDR2	.81 (.76)	23.82 (21.85)
Business2→BD	.64 (.65)	5.36 (7.00)				PD→PPDR3	.87 (.80)	47.88 (19.88)
Business3→BD	<i>.08</i> <i>(.25)</i>	<i>.89</i> <i>(1.87)</i>						
R ² France = 0.45 - R ² Slovenia = 0.44								

*Significant at $p \leq 0.05$ if $|t| \geq 1.95$

CD: cultural distance; BD: business distance. Results for the Slovene data set are in parentheses.

APPENDIX A: SAMPLES

Qualitative Study

After 21 exploratory interviews with exporters, importers, and consultants in international marketing, we gathered data through depth interviews with export managers in French and Slovene manufacturing companies. We selected participants from major databases of French and Slovene exporters. Given the objectives of this study, firms needed to be highly involved in exports through foreign independent intermediaries and work in several countries. In view of the absence of general guidelines to select appropriate firms and gain access to experienced respondents, we opted for the following criteria: (1) Firms had to generate more than 25% of their revenues abroad (not necessarily in any one specific market), and (2) firms had to export to more than 10 countries. We believe that these criteria enabled us to avoid inexperienced respondents who would focus on their organizational problems to explain difficulties in foreign markets. The noise created by such internal issues would have made it difficult to isolate and examine PD, which is the focus of this research.

Our final sample consisted of eight managers in France and ten in Slovenia. This is consistent with sample sizes that scholars recommend for exploratory research purposes (McCracken, 1988, p. 17). Our sample consisted of exporters in various areas, such as consumer goods, cosmetics, electronic equipment and electrical equipment, lubricants, commercial vehicles, and wine production. The size of participating companies ranged from small and medium-sized manufacturers to multinational firms.

In developing our sample, we wanted to maximize diversity among participants (in terms of company size and their activities, participants' backgrounds, products, and export experiences) to allow for the expression of the variety of potential facets of PD. An important aspect was the extent to which exporters interact with different protagonists in local markets as a function of the type of products. The export marketing process involved more or less interaction with local interlocutors or local representatives. Therefore, our sample included firms that interact with multiple local actors to sell their new products for almost each new order they obtain from abroad. In such a context, exporters tend to be in close contact with the end user of the product, and the marketing process requires a continuous exchange of information among the exporter, its foreign distributor, and the final consumer (Styles and Ambler, 2000). At the other end of the spectrum, our sample contained producers of fast-moving consumer goods that often tend to focus their attention on their local representatives, thus largely excluding other foreign parties from their international marketing process.

Because our qualitative study relied on key informants, it was critical to select managers who were key decision makers directly involved in international business relationships. All exporting firms displayed a high percentage of international sales. Respondents were directly in charge of managing five or more foreign markets. Our key informants had at least five years of work experience in their current position. Moreover, in our approach, we included different managerial perspectives by selecting participants who occupied different levels of responsibilities in their respective firms.

Quantitative Study

This study used data collected from two random samples of exporters in France and Slovenia. These two countries provide notably different contexts for the development of export relationships, thus increasing the generalizability of the findings. France has a national market of 65 million consumers and is the fifth-largest world exporter, with 27,500 industrial firms exporting an average of 37% of their sales (SESSI, 2002). Slovenia has a small national market of 2 million consumers, and its 1200 industrial exporters are more dependent than French firms on their export sales (50% of total sales on average) to achieve economic success (AJPEZ, 2006). A founding member of the EU, France is a traditional European democracy with a capitalist economy. Slovenia was part of communist Yugoslavia until its independence in 1991; it joined the EU in 2004 and represents a successful transitional economy (e.g., Slovenia became the first new EU member to adopt the Euro in 2007). The significant historical and cultural differences between the two countries differentially affect how PD is perceived.

Random samples (1500 firms from each country) were extracted using a systematic method from a database of the 32,500 main French exporters and a register of 5000 major firms in Slovenia. This method yielded a total of 1036 (828) industrial firms in France (Slovenia) with more than ten employees that exported at least 10% of their total revenues to more than three countries and used independent foreign distributors. Managers in charge of exporting received an e-mail containing a link to a dedicated Web site. Respondents were asked to base their answers on a business relationship with one of their foreign distributors. To introduce adequate variation in the answers, each sample was divided into three groups. The first group of respondents focused on the relationship with one of their two largest overseas representatives, the second group focused on their third- or fourth-largest foreign distributor, and the third group focused on their smallest export ventures.

Because one person is typically responsible for any particular venture in an exporting firm (Morgan, Kaleka, and Katsikeas, 2004), the study relied on single respondents and assessed respondent competency from several perspectives. First, potential respondents were called to test the reliability of the information in the database. Second, a respondent competency test was included in the questionnaire (Morgan et al., 2004). Managers responded to four questions using a seven-point scale. Questionnaires with a score of less than 4.0 on any of the four questions were eliminated. In addition, questionnaires with a mean score of less than 5.0 for the four questions were excluded. Three questionnaires were excluded for France and two for Slovenia.

The study comprises 283 (224) questionnaires in the French (Slovene) data set (response rate = 26.8% [27.05%]). Firms belonged to 19 of the 21 (8 of the 16) industrial categories recorded in France (Slovenia). The share of firms categorized as small and medium-sized enterprises (<250 employees; European Commission, 2005) was 80% (78%) for France (Slovenia). Exports generated an average of 34% (52%) of the revenues for the French (Slovene) firms. Of the respondents, 89% (79%) belonged to the top management of the firm in France (Slovenia); the remaining respondents were export area managers. The French (Slovene) respondents were responsible for the focal business relationship for an average of 6 (5.5) years.

The focal countries represented adequately the scope of major trading partners of French and Slovene exporters: For France, EU = 50%; the rest of Europe = 8%; former African colonies = 9%; the Middle East and Asia = 20%; the United States, Canada, and Australia = 12%; and the rest of the world = 1%. For Slovenia, EU = 62%, the former Yugoslavia = 25%, the rest of Europe = 5%, the Middle East and Asia = 5%, and the United States and Australia = 3%.

We assessed nonresponse bias by first comparing the demographics (employment, percentage of exports in sales) of the responding firms with nonresponding ones. Second, a random sample of 50 nonrespondents answered five questions corresponding to one item each of the reflective scales. The t-tests of group means revealed no differences between nonrespondents and the sample. Thus, nonresponse bias is not a problem.

APPENDIX B: QUALITATIVE STUDY METHODOLOGY

Analysis and Interpretation

Interviews were conducted in French and Slovene. On average, they lasted 90 minutes. Each interview was audiotaped and transcribed verbatim. Computer-assisted microanalysis was performed using Atlas.ti software. To isolate the relevant data in each language, two researchers individually analyzed the files for mentions of PD. They independently examined each phenomena recorded and evaluated whether the factor described constituted “barriers to learning about the [foreign] market and operating there” (O’Grady & Lane, 1996, p. 330). Thus, if the data source included a statement such as “they have a way to do business that is different [from ours, in France] and that does not help to build business relationships,” we included the statement in the data set for further evaluation. The researchers then compared their data sets and resolved discrepancies in their interpretations using a third academic researcher.

Next, an open-coding procedure was performed following the constant comparative method (Strauss, 1987). This method proposes an iterative process to organize the data, in which each statement is analyzed individually and then compared with previously analyzed statements to identify categories that include similarities and differences between statements (Strauss and Corbin, 1998). In this process, the first statement is analyzed and assigned a label. The next statement is initially compared with the first statement, and it is assigned the same label if it is determined to be similar. The statement receives a new label when it is determined to be different. The procedure is then repeated for all subsequent statements. Statements classified under the same label should reflect the same phenomenon. In this analytical process, the categories and corresponding labels were not predetermined. They were derived from the analysis of each statement because “in grounded theory, concepts are derived from the empirical data” (Geiger and Turley, 2003, p. 581). After we eliminated duplicates, a total the 34 statements remained in the final classification; these were grouped into six categories of factors.

The next stage of the analytical process, axial coding, consisted of “discovering higher-orders connections between the categories” (Geiger and Turley, 2003, p. 585). Strauss and Corbin (1998) recommend that researchers find common underlying factors that explain the phenomenon. Therefore, we organized the six categories along two dimensions. The first dimension involved predominantly cultural issues (i.e., patterns of thought, behaviors, and language prevailing in the foreign markets). The second dimension covered the issues

pertaining to the business environment and practices (i.e., relationships with businessmen; the differences in business practices; and the local economic, political, and legal environment).

Sampling and analysis ceased after we reached theoretical saturation, which refers to the point at which no new category or dimension could emerge from the analysis. We assessed the reliability of our findings by applying the techniques of triangulation and replication (Miles and Huberman, 1994; Strauss and Corbin, 1998). Cross-checking did not show any significant differences between the French and the Slovene findings. To improve content validity further, we resubmitted our findings to the participants to ensure that the PD components identified in our study and their descriptions correctly reflected their professional situation. Export managers largely agreed on the meaning of each component of PD.