

RETHINKING PSYCHIC DISTANCE: FROM DISSIMILARITIES TO PROBLEMS

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ABSTRACT

Psychic distance has been a core concept of international business for more than three decades. However, psychic distance has remained controversial, its operationalization has been associated with different measures, and is furthermore the subject of a well-known paradox.

The present study highlights a different philosophy of measuring psychic distance, based on perceived problems, rather than the usual similarities/differences approach. The exploratory results presented confirm the importance of this ‘problems’ approach, considering the effects on two performance dimensions.

1. Introduction

“Cross-cultural research is like virtue – everybody is in favour of it, but there are widely differing views of what it is and ought to be” (Kale and Barnes, 1992)

Psychic distance has been a core, albeit controversial, concept (Shenkar, 2001) in International Business, Management, and Marketing after the visibility achieved in 1975 by the research of Johanson and Wiedersheim-Paul. This has been a factor considered in many studies of international

market selection, international market entry mode choice, and firm international market performance (Lucas de Freitas, 2002)

However, the use of psychic distance has been mostly based on the perception of general (dis)imilarities between countries/markets and then applied to the specific ventures being studied, indistinguishably for the various modes of entry and channel evolution, from exports, partnerships, joint ventures, to full subsidiaries.

We perceive two different problems at play in this general and undifferentiated approach. The important factors for international ventures may vary according to the form taken – e.g. language may become an increasingly important factor when dealing with more integrated modes; these modes would require constant and in-depth contact in the destination-country language vs. more infrequent contacts which are possible and effective in a lingua franca such as English when dealing with expert import or distribution firms in the destination market, when the company is ‘simply’ exporting.

Psychic distance has been the subject of dual operationalization in the present study:

- a) As measured by the perception of similarity/difference between both home country and destination country;
- b) As measured by specific management perception of problems (arising from the same items as in a.), but for each venture selected and considering the capabilities and skills available to the firm.

The first measure is general, whereas the second measure is specific. E.g. considering the language dimension: there may be a big difference in the language between the two countries, but it may not be a problem if the contacts are being made in English with importing or distribution companies proficient in that language.

There may be generally quite dissimilar cultural dimensions between both countries involved in the venture, but these may not be perceived as problematic for several reasons such as: the managers involved may be experts (even nationals of the country); the client may be a subsidiary of a firm from the same country of origin.

On an anecdotal basis, sometimes choice of country of destination has been based on the specific knowledge provided by spousal or other relationships of the company founder, or other perceived intrinsic personal advantages such as foreign language spoken by the entrepreneur.

Lucas de Freitas (2001, 2002) found significant effects from specific market knowledge particularly on the performance in the served markets, but also on some entry mode choices. On the other hand, Slangen and van Tulder (2009) speculate on the basis of their findings that it is possible that cultural “distance plays no role at all in the entry mode choices of Dutch MNE executives”, which would (possibly) rather evaluate the “governance quality of the countries”. In a qualitative study, Brewer (2003) argues the importance of familiarity (micro), rather than similarity (macro).

The general psychic distance measures may be appealing when dealing with macro-data, but much less informative when dealing with smaller samples of ventures of different natures (e.g. exporting, JV, part- or full-subsiidiary). The present study focuses solely on exporting relationships (ventures), and this may explain post-hoc some of the effects (or lack thereof) of dimensions of psychic distance which appear unimportant such as language.

2. Psychic Distance and Performance: a review

2.1. Effects of Cultural Diversity

The current study aims to compare two different ways to evaluate psychic distance (PD) and to test its influence on two export performance dimensions. One way to measure PD summarizes the exporter’s perceptions about ‘cultural’ issues perceived as problematic in the relationship between the export company and its client in each export venture. The other PD measurement focuses on the differences (or ‘distances’) between the environments of both countries, and has been widely accepted by the exporting behaviour literature (Stottinger and Schlegelmilch, 1998).

Skarmeas et al. (2001) suggest that studies about relationships between exporters and importers should include constructs concerning cultural differences such as PD. Conway and Swift (2000) mention that, when a high level of PD occurs, building and/or developing business relationships may be damaged. Kale and Barnes argue that international interactions probably are

affected not only by national culture issues but also by the organizational culture and individual personality types.

It is well known that managers' ethnocentric assumptions may lead to errors in international business, with effects over the marketing programs settlement and over products' choice and adaptation (Root, 1987)

According to Schuster and Copeland (1999), it is precisely because businesses are handled by people that in a global economy, an adaptation to cultural differences is required. Mitra and Golder (2002) report the evidence of cultural diversity effects on marketing decisions and negotiation. As an example, PD may be responsible for managers' perception of different markets' lower attractiveness (Stottinger and Schlegelmilch, 2000); in consequence, the psychically closer market will most probably be the first to be entered (Chetty and Hamilton, 1996), since uncertainty level is higher in psychically distant markets (Liesch and Knight, 1999, quoted by Scholl, 2006). However, Dow's (2000) results show that, as international experience increases, international market selection is less influenced by PD

Unlike physical distance between two countries, PD may not be symmetrical, depending on the direction of evaluation (O'Grady and Lane, 1996), what Shenkar (2001) calls "illusion of symmetry", and a further paradox.

2.1. Are cultures converging or are they diverging?

In an increasingly global world does it still make sense to speak of PD? Is it an overestimated concept (Mitra and Golder, 2002), or even past its due date, (Stottinger and Schlegelmilch, 1998; 2000)? Are cultures, in fact, converging or are they diverging? These questions are far from being a closed debate; about this Mehta et al. (2001) state that while some academics assure that cultures, management values and practices are converging (Misawa, 1987; Harpaz, 1990; Ralston et al., 1992) others assure that divergence is more common (Erez, 1986; Morris and Pavett, 1992; Welsh et al., 1993) and the latter are, nowadays, much more than the former (Redding, 1994). The question is to know if the contact with different ways of doing business alters the value systems, or, conversely, if culture is strong enough to warrant managerial values differentiation between

countries. Do the global environment effects (convergence) or do the local culture effects (divergence) prevail over managers' values - or, a third alternative (Ralston et al., 1993), are they are mixing ("crossvergence"?). These authors state that until then and in a predictable future it is possible to assert that national cultures will influence managers' behavioural idiosyncrasies in different countries, leading to systematic differences of behaviour (Steenkamp, 2001). The connection between national values and strategic management behaviour is settled by Harris and Ghauri (2000).

Griffith and Harvey (2001), quoting Casmir (1999), also mention this "third culture" - unique to the relationship and to the network - resulting from the mixing of communication strategies and cultural contexts, being different from each of them but, in a way, combining national and organizational cultures of both partners. To Marshall and Boush (2001), after a short period of interaction and learning, the relationship story and the personal characteristics should overlap to cultural differences, which will be soon eroded, as for exporters' decision making. This "third culture" is also mentioned by Rodriguez and Wilson (2002). Back to 1980, Adler (1980) (quoted by Gómez-Mejia and Palich, 1997) had suggested that organizations can build new organization and management forms beyond each member individual culture. Peñaloza and Gilly (1999) mention a marketers' acculturation process by their and theirs' customers cultures blending.

Other studies support a cultural convergence perspective. We want to enhance, by its meaning, Deshpandé et al.'s (2003) suggestion of the possibility that successful Japanese businessmen might be building corporate cultures different from the prevailing national culture. In fact, this seems relevant, bearing in mind that the Japanese culture idiosyncrasy lead to the formation of a cluster (cultural area) only for itself, in Steenkamp's (2001) analysis.

Acculturation (Berry, 1980, quoted by Shenkar, 2001) has been pointed out as a cultural convergence mechanism. Wars, conquests and colonization were, in the past, responsible for acculturation, while more recently this role has been performed by the emigration, tourism and international trade. Besides acculturation, Shenkar (2001) mentions, as a mechanism able to shorten PD, the increase of communication and interaction, the acquired international experience (learning to O'Grady and Lane, 1996) and the attractiveness of some cultures.

Other authors advocate the cultural divergence or a limited convergence. These argue that cultures resist to change, the differences between them remaining rather stable, and that, in spite of product and service standardization (Mehta et al., 2001; 2003) and a substantial business behaviours standardization, cultures and local values remain vibrant and dominant (Schuster and Copeland, 1999). Mehta et al.'s (2003) results show that, in spite of the convergence factors, cultural differences remain between countries and, therefore, the need to adapt management styles.

2.2. Evolution of psychic distance concept measurement

The term “psychological distance” first appears in 1956, introduced by Beckerman (Dow, 2000). It was however in the 70's that authors like Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) gave widespread visibility to the concept. The operationalization of PD has been object of debate and evolution throughout time. It has been said that PD's export behaviours forecasting capability depends on potential improvements on the concept operationalization, since empirical studies are scarce and the measurement instruments used are not sophisticated enough (Stottinger and Schlegelmilch, 1998; Evans et al., 2000). Shenkar (2001) considers cultural distance to suffer from serious conceptualization and measurement problems .

PD was at first measured by objective indicators, such as the importers' countries economic development, the difference between countries' economic development levels, the importers' countries education levels and the difference between countries' education levels, the differences between business languages, differences in culture and language between countries and the previous existence of trade channels between countries (Vahlne and Wiedersheim-Paul, 1973, quoted by O'Grady and Lane, 1996). Other authors, such as Luostarinen (1980) also used objective indicators, by resorting to secondary data. Besides the national language and the economic environment, Klein and Roth (1990) include the accepted business practices, the legal system and the communication infrastructure (Stottinger and Schlegelmilch, 1998). However, Evans et al. (2000) consider that Klein and Roth's study introduced a subjective element, seeing that respondents were asked to classify the PD issues using a seven point scale.

In the 80's and in the 90's first years, many researchers used scales based on Sethi's (1971) clusters or on Hofstede's (1980) dimensions (Dow, 2000). However, Sethi's variables didn't include language differences, religion, political and legal systems, culture and business practices and Hofstede dimensions didn't include, besides those mentioned, education levels differences and industrial development levels. In 1988, Kogut and Singh (1988) introduced a composite index, based on Hofstede's dimensions. However there is an increasing acceptance that distance between countries may be also defined by the prevailing religion, the business language, the government type, the emigration flows to the focal country, the language, the development stage, the market size and sophistication (Shenkar, 2001). Furthermore Evans and Mavondo (2002) considered political, economic and market structures, as well as business practices and language differences as PD core elements. More recently, Ghemawat (2001) even advocates that distance between countries evaluation should include cultural, administrative, geographic and economic dimensions.

It became obvious that PD's evaluation taking into account only cultural differences is a major limitation.

Furthermore it has become increasingly evident that considering the country as unit of analysis represents an "obvious simplification" (Barkema and Vermeulen, 1997). Accordingly, O'Grady and Lane (1996) argue that the PD measurement at a national level doesn't reproduce the real distance between a company and its foreign market since it may hide important regional, structural and industry specific differences as well as personal experiences. This last issue was also reported by Swift (1999) to whom individuals' backgrounds and cultural experiences affect PD, which should be a combination of national, organizational and individual factors. To Triandis (1994) (quoted by Lenartowicz and Roth, 1999), the unit of analysis – the culture or the individuals – determines the existence of two types of cultural studies. However, although being important, culture is not deterministic, since people are free to act differently from their culture (Peñaloza and Gilly, 1999), that is, culture does not invade all the aspects of individuals' beliefs (Markóczy, 2000). When business relationships are the research object, they should be evaluated also at an individual level, as proposed by Johanson and Wootz (*in* Turnbull and Valla, 1986), including a specific knowledge and feelings of social closeness towards each customer. The

acknowledgement that PD could be evaluated at an individual level cleared the way to the introduction of PD's measurement through managers' perceptions of distance factors (Stottinger e Schlegelmilch's, 1998; Evans and Mavondo, 2002) Regarding this O'Grady and Lane (1996) argue that if one wants to really know the distance to a market, individual perceptions, understandings and experiences must be taken into account.

2.4 Organizational culture and psychic distance

We think that the conceptualization of PD construct should include a dimension portraying the differences between partners' organizational cultures since many issues related to cultural distance stem from organizational culture differences (Datta, 1991, quoted by Morosini et al., 1998). Deshpandé and Farley (2004) consider that organizational culture varies considerably from country to country, being related to national cultures. Back to 1991, Holzmüller and Kasper (1991) consider that research on exports couldn't ignore any longer organizational culture, since it determines what is important and positive, or not, to the company. Furthermore, Shenkar (2001) states that organizational culture alters the national cultural distance dynamics. Differences between organizational cultures may also have an impact on the way business relationships develop (Hewett et al., 2002).

2.3. Alternative measurements of psychic distance: a proposal

PD's importance stems from the fact that it may represent a substantial barrier to the international development process (Rundh, 2001); besides, Leonidou, (1995) had previously revealed the connection between cultural distance and the barriers' to export perceived importance. In the same direction, Johanson and Wiedersheim-Paul (1975), argue that between markets cultural distance affects the entry barriers and the operation in international markets; to Katsikeas and Dalgic (1995), the substantial differences on technologic, legal, economic and socio-cultural systems underlie the problems of import activities. PD can then be seen as a barrier to understanding and learning (Evans and Mavondo, 2002) or as a problem to the information flow to the foreign market (Johanson and Wiedersheim-Paul, 1975); this view is shared by Swift (1999), to

whom culture may be a barrier to interaction. This barrier can however be reduced as the company gains international experience (Dow, 2000), since a major PD's component is based on experimental knowledge (Johanson and Vahlne, 1990). O'Grady and Lane (1996) argue that having experience with a market, theoretically considered a distant one, may make it closer than another *a priori* considered close, but in which the company has no direct experience. To Swift, individual experience can be a core PD's cause, affecting attitudes and prejudices formation towards business partners. At an individual level, experience can be gained through travelling abroad or by immigrant managers (Scholl, 2006). On the other hand, Dow (2000) report the existence of a gap in DP's measurement, since studies avoid the missing problem factor. Besides, Bello et al. (2003), evaluate PD through "the problems a firm encounters as a result of its ignorance of the socio-cultural differences experienced in the foreign market", namely problems with cultural issues, language, customs and values and foreign business practices. We want to highlight Shenkar's (2001) proposal about the introduction of cultural distance cognitive measures that should interpret managers' adaptation to foreign countries difficulties. Accordingly to this, Nordström and Vahlne (1992) (quoted by O'Grady and Lane, 1996) suggested that PD should include a business difficulty dimension. To Conway and Swift (2000) the PD's variables don't all have the same importance, and to Shenkar (2001) not all the cultural gaps are important to performance, in line with Hofstede (1989) to whom some cultural gaps are more damaging than others, which was proved by Barkema e Vermeulen's (1997) results. The relative importance assumed by different PD's variables at different stages of a business relationship is, to Swift (1999) vital for those variables analysis. We believe that the relative importance of PD's variables varies from company to company according to each manager's perceptions and background, and it should be measured accordingly.

Summing up: if PD represents a barrier to interaction, if each individual experience may be a crucial PD's source, if different PD's variables assume different importance levels, if not all cultural gaps are important to performance and, finally, if the PD evaluation has avoided the problem factor, then, we believe that it is necessary to take into account not only differences' perceptions concerning each D.P. factor but also the importance level each individual assigns to that

difference. Picking up Scholl's (2006) arguments it is to understand that, for example, a Chinese manager working in Portugal for several years most probably will think that PD's factors represent big differences, although, because he controls them, they won't constitute major process exporting problems; that is one thing are the perceived differences and another thing are the difficulty perceptions that each of those differences brings into the exporting process.

To operationalize the construct PD we propose two scales: scale A evaluates PD by managers' perceived differences at national - culture, language, business practices, political and legal systems (e.g. Evans and Mavondo, 2002) and business language (e.g. Vahlne and Wiedersheim-Paul, 1973, quoted by O'Grady and Lane, 1996) - organizational – company culture and working processes and methods (Leonidou et al., 2002) - and relationship – closeness to the customer levels (Leonidou et al. 2002); alternatively, scale B evaluates PD by managers' perceptions about the problems brought to the business relationship by the very same differences. The two (translated) scales are presented in section 3 (on data collection).

2.4. Export Performance

The complexity of the concept “export performance” clearly is highlighted by Bonoma and Clark (1988) who state that “perhaps no other concept in the marketing short story appears to be so obstinately resistant to conceptualization, definition or application”; in the same vein, Matthyssens and Pauwels (1996) stated that “so far, there isn't an export performance uniform definition...” May be for these reasons, Zou and Stan (1998) state that “it is difficult, or even impossible, to compare the findings of different studies” on export performance. Since Tookey (1964), although this is one of the most researched fields, it is one of the less understood international marketing areas (Katsikeas et al., 2000). To Shoham (1998), “any international performance definition is context specific”. Sousa's study (2004) shows that “export performance evaluation often is company type and context specific” and consequently “dogmatic views” should not be assumed. To Katsikeas et al. (1996), performance assessment has to be done at each market level, since incentives to, and problems with, export, may significantly differ from destination to destination and vary with the time period under investigation (Gómez-Mejia and Palich, 1997).

There are three paradigms underlying research on export performance (Collins–Dodd, 2000):

1° - The Resource-Based Paradigm suggests that export performance is the result of activities at the company level

2° - The Contingency Paradigm, which states that no single strategy is universally suitable rather the effects of company's characteristics on export performance depend on the specific company's context (Cavusgil e Zou, 1994).

3° - The Relational Paradigm which examines the network of business interactions and conceives export expansion through the sequential development of relationships with foreign customers (Styles and Ambler, 1994).

2.5. Relationships with customers' roles in export performance

Psychic distance is important to performance in that relationships are important to performance. There are four theoretical views usually adopted to explain the sources of organizational relationships' performance: the Commitment-Trust Theory (Morgan e Hunt, 1994), Dependence (Hibbard et al., 2001), Transaction Costs Economies (e.g. Heide and John, 1990) and Relational Norms (Lusch and Brown, 1996; Siguaw et al. 1998). The first approach states that a customer's commitment and trust on the supplier determine relationship performance. The second approach argues that performance is the result of the relationship's power/dependence structure. The Transaction Costs Economics advocates that exchange partners' decisions and performance are affected by transaction specific investments and by partners' opportunism. At last, Relational Norms advocates that relational norms between partners affect cooperative behaviours and relationships performance (Cannon et al. 2000). For a better export understanding it is necessary to study the issues that give shape to the interaction between partners (Leonidou and Kaleka, 1998). Regarding to this it seems important to mention Ford's et al. (1987) findings which advocate that successful exporters attach more importance to long term relationships rather than to short term profits. These authors conceive the export development as a relationships management process. "The critical nature of channel relationships in the strengthening of competitive advantage" was established by Thirkell and Dau (1998) and, as predictable, they also affect export performance.

Accordingly, Piercy et al. (1998) conclude that “the difference between high performance exporters and low performance exporters, as for customer relationships skills, is dramatic. Back to 1994, Cavusgil and Zou (1994) reported that frequently was mentioned that success was, in export markets, tied to the ability to develop strong and mutually profitable relationships with foreign partners. Indeed, efforts made towards the development and keeping of good relationships with importers may be more efficient than some investments in conventional marketing (Piercy et al., 1997); accordingly, Skarmas and Katsikeas (2001) prove that high performance importers’ relationships, with international suppliers, show high levels of relationalism and trust. Leonidou et al. (2002) conclude that companies that keep harmonious relationships (vs. those who keep problematic ones) have three more times clients and more frequent orders; the authors also state that relationship atmosphere is even more crucial in cross-boarder activities. Palmatier et al. (2007) show that trust-commitment are companies’ performance key-determinants, confirming these constructs’ mediating role on the performance. Ling-yee and Ogunmokun’s (2001) results also show that relational issues contribute for the achievement of financial goals. Evans and Laskin (1994) argue that relational marketing effectiveness should be translated into more satisfied customers, higher loyalty and, for the supplier, higher profits. According to Cannon and Perreault (1999), literature shows the connection between long term relationships and suppliers’ performance, namely as for sales growth, control costs decrease and inventory maintenance, profitability levels (Kalwani and Narayandas, 1995), achievement of mutual financial results, costs reduction and repurchase (Andaleeb, 1996). In 1998, Lee (1998) point out the connection between export performance and the exporter’s perception of relational exchange. On the other hand, relationship’s nature, by allowing the decrease of different types of costs, increases the motivation for a future business expansion with the incumbent supplier (Cannon e Homburg, 2001), while buyer’s perceptions towards the relationship with the supplier are connected to repurchase intentions (Hewett et al., 2002).

2.6. Psychic distance effects on performance

The effects of PD, cultural distance or other related constructs on the organizations performance have been extensively studied, although, frequently, the findings don't confirm the negative predicted relation (e.g. Gómez-Mejia and Palich, 1997); in Evans e Mavondo's (2002) study the findings reveal a positive connection between either PD or business distance and performance. As for the organizational culture effects on the company's performance, Li et al. (2001) results suggest that similarity between cultures is not always relevant.

2.7. Psychic Distance Paradox

Companies generally attempt to start their internationalization processes to countries perceived as psychically close, in order to reduce uncertainty and costs (Johanson & Vahlne 1977) and to increase success possibilities. However things may happen differently since the supposed similarity may in fact hide unpredictable barriers to performance (O'Grady and Lane, 1996). Research findings on the subject don't allow a definite conclusion about the direction – positive or negative – of the connection between PD and performance (Evans and Mavondo, 2002). These authors state that if the PD's connection with performance shows a positive sign, such fact suggests the existence of a PD paradox, as Hoang's (1998) results show; according to O'Grady and Lane (1996) this paradox stems from the fact that operations management in psychically close countries is not unavoidably easy. The positive connection between cultural distance and foreign acquisitions' performance (Morosini et al., 1998) seems to confirm this paradox. However Stottinger e Schlegelmilch's (1998) findings reveal that PD didn't show, in any case, significant effects on the export performance, in contradiction with Dabholkar et al.'s (1994) suggestion that similar experiences and cultural backgrounds should have a positive effect on the performance. A possible explanation to the fact that cultural similarity leads to a better contractual efficiency may be traced back the Agency Theory (Karunaratna et al., 2001) since cultural closeness or the will to reduce the behavioural cultural gap may lead to lesser negotiation costs, which probably will give rise to more efficient exporter-agent contracts.

Several other explanations for the PD paradox have presented. Evans and Mavondo (2002) mention the possibility that psychically distant markets may represent good strategic or financial opportunities, providing a solid differentiation base and thus to avoid local direct competition, or they may exhibit high economic growth rates or weaker competition or even they may allow to benefit from the pioneer advantage or, finally, more research and planning resources may be allocated to these markets. Another proposed explanation for the PD paradox states that cultural diversity may lead to the perceived need to better know the foreign market environment and thus more research to be made and higher flexibility in response to its changes (Gómez-Mejía and Palich, 1997) leading to better performance (Evans et al., 2000). As for language similarity, its perception may in fact take to communication failures and errors.

As a matter of fact, what seems to be psychically close may be more distant than expected and give rise to managers' negligent attitudes (O'Grady and Lane, 1996).

From the aforementioned we propose the following research hypothesis:

H: Psychic Distance negatively affects the performance of the exporter relationship.

3. Methodology and data collection

3.1. The sample

In the current research, the unit of analysis is one export relationship between an exporter and a well defined customer in a foreign market. In order to identify the universe of Portuguese exporting companies we used a database with 6,291 companies. Since 868 companies had no e-mail address, 5,423 inquiries were sent by e-mail. Two hundred and six answers were received, three of which invalid. The response rate was thus 4.3%. The working sample was formed by two hundred and three companies.

The research instrument

The questionnaire was designed, pre-tested, and sent by e-mail. The respondents were asked to select the third most important foreign customer (by purchasing volume from the supplier

during the previous year) to be their answers' focus. This procedure was expected to avoid potential deviations caused by the importance of the chosen customer and it is meant to prevent the possibility of a regular most important customer choice, and was followed by Rokkan et al. (2003) and Zaheer et al. (1998).

Two scales were used for the measurement of psychic distance: similarities and problems:

A – SIMILARITIES SCALE

A1) To what extent do you believe that Portugal and your customer's country are similar or different, concerning: (1 = Completely similar; 7 = Completely different)

a) Language b) Business Language c) Business practices d) National culture e) Political and legal systems

A2) To what extent do you believe that your company and your customer's are similar or different, concerning (1 = Completely similar; 7 = Completely different)

f) Company culture g) Working methods/processes

A3) (1 = Completely distant; 7 = Completely near)

h) How close do you believe the personal relationship with this customer is?

B – PROBLEMS SCALE

In what extent do you believe the following issues represent a problem to your company in the relationship with this customer? (1 = not a problem; 7 = a major problem)

a) Customer's national language b) Customer's country business language c) Customer's country business practices d) Customer's country culture e) Customer's country political and legal systems f) Customer's company culture g) Customer's working methods/processes h) Personal relationship with the customer.

4. Methodology and data analysis

4.1. The constructs

The methodology employed for data analysis was chosen for robustness and transparency. Exploratory factor analysis was employed to assess dimensionality of the constructs. The models studied were simple, first order regressions, without considering second-order interaction effects. Several models were tested for consistency of results.

The dependent variables were the two performance measures (performance of the relationship and degree of innovativeness arising from the relationship).

The regressors were the three dimensions of psychic distance (PsyDist) and of the degree of importance of the problems caused by the psychic distance items, (ProbPD).

The items used to assess psychic distance are portrayed in Table 1. These have each a core aggregated (multi-item) dimension (high Cronbach-alphas), with two separate items (language and personal relationship). This dimensionality structure occurred in both measures of country dissimilarity and perceived problem for the export venture under consideration.

Table 1

	Country Dissimilarity/ 'Distance' PsyDist	Perception of Problem for venture ProbPD
a) Language	DIFLANG	PROBLANG
b) Business language used c) Business practices d) National culture e) Political-legal system f) Culture of the company g) Work methods/processes	PSYDIST0 $\alpha=0.816$	PROBPD0 $\alpha=0.875$
h) Level of personal relationship with the customer	DISTPREL	PROBREL

The uniqueness of the individual items led to their persistent consideration in the study. However, particularly the dimension of personal relationship, given the significance of the results, will deserve multiple-item assessment in future studies, to control for reliability.

Performance has been measured with 11 items variously derived from the literature.

We found two distinct dimensions, the first with nine items relating to sales evolution and general evaluation of the relationship, and the second with two items pertaining to the benefits for product improvement and new product ideas arising from the venture.

For simplicity the first dimension was labelled PERFORM0 (for performance;) and the latter INNOV (for innovativeness). The internal reliability of both dimensions is good: the first nine-item scale presents a Cronbach-alpha of 0.921, and the two-item dimension having 0.861.

4.2. Psychic distance relationship with performance (PERFORM0)

Considering the performance dimension PERFORM0 as dependent variable, and the dimensions of both psychic distance and problems due to the psychic distance items as independent variables, two dimensions of general psychic distance become significant (PSYDIST0 and DISTPREL and both at 5%), as well one (but highly significant at 1%) dimension of the problem variable (PROBREL).

PSYDIST0 has the majority of the psychic distance items (6). DISTPREL and PROBREL are both related to personal relationships, and have opposite signs, as expected, given that one represents problems, and the other similarities.

Judging by the correlation matrix there are collinearity effects in the main model which may explain the unexpected positive coefficient of PSYDIST0 (an increase of the performance measure with the increase of this dimension of psychic distance).

Using the backward elimination procedure of linear regression, starting with all 6 dimensional constructs of psychic distance as regressors, we find that two dimensions remain in the final model (Table 2).

The variance explained is low, even by the full model, but we are not trying to be all-inclusive in the definition of models explaining performance – we are trying to assess the significance (absolute and relative) of the various dimensions of psychic distance.

Interestingly, both dimensions that remain in the parsimonious model have to do with personal relationship: DISTPREL – level of distance in the personal relationship with the customer significant at 10% (p-value= 0.052), and PROBREL – problems with personal relationship distance, highly significant.

Table2

Model Summary			
Model	R	R Square	Adjusted R Square
1	.379 ^a	.144	.117
5	.345 ^e	.119	.110

a. Predictors: (Constant), PROBREL, DIFLANG, PSYDIST0, DISTPREL, PROBLANG, PROBPD0

e. Predictors: (Constant), PROBREL, DISTPREL

Dependent Variable: PROBLM0

Model		Standardized Coefficients	t	Sig.
		Beta		
1	(Constant)		-.107	.915
	DIFLANG	-.092	-1.207	.229
	PSYDIST0	.148	2.015	.045
	DISTPREL	-.149	-2.106	.037
	PROBLANG	-.010	-.129	.898
	PROBPD0	-.115	-1.352	.178
	PROBREL	-.237	-2.904	.004
5	(Constant)		-.129	.898
	DISTPREL	-.136	-1.953	.052
	PROBREL	-.283	-4.066	.000

a. Dependent Variable: PERFORM0

Both coefficients are negative, with greater distance in the relationship leading to lower performance. But the latter one (related to the problem with distance for the particular export venture considered) is much more significant than the coefficient representing the effect of the generic distance of the relationship with the customer.

If we consider separately the three dimensions of PSyDist and ProbPD, the importance of a few more dimensions becomes apparent.

Effects of the dimensions of psychic distance in general (PsyDist): considering as regressors only the three general psych distance dimensions, the language difference (DIFLANG) becomes significant, albeit only at 10%, DISTPREL becomes more significant (1%). but the aggregated measure PSYDIST0 is not-significant. The variance explained is drastically reduced from $R^2 = 34.5\%$ to 5.8% . The significant coefficients have negative signs consistent with an a priori expectation of reduction of performance with the increase in perceived 'distance' of language and personal relationship. R^2 is much smaller (6.3% for the full model, and 5.8% for the parsimonious one than when considering all 6 measures.

Effects of the dimensions of perceived problems of the psychic distance items (ProbPD): considering as regressors only the three dimensions of the ‘problems’ measurements, the relationship dimension (PROBREL) is still the only (very highly) significant regressor in the full model (and the only remaining independent factor in the final parsimonious model).

However, the model explains 10.1% (R^2), more than the one with only the PsyDist dimensions, but still less than 1/3 of the R^2 of the model using both measurements (PSyDist and ProbPD).

4.3. Psychic distance relationship with performance innovativeness (INNOV)

Considering now the innovativeness performance dimension INNOV (product improvement and new product creation with customer) as dependent variable, and the psychic distance measurement dimensions as independent variables (Table 3).

In the full model DIFLANG and DISTPREL are significant at 5% and 1% respectively, with a positive effect. This would mean an increase of innovativeness with an increase in the ‘distance’ of language and personal relationship.

As with the previous dependent variable, R^2 is low, since we are not trying to be exhaustive in the factors considered in the model, being rather interested in evaluating the significance amidst the dimensions of psychic distance.

In the more parsimonious model obtained via backward regression the two dimensions, each measured by six items, PSYDIST0 and PROBPD0 are significant, but only at 10%. These variables are matched – one for the psychic distance measurement and the other for the problems perceived for the same items in the specific export ventures considered – in both cases dealing with personal relationships with the customer (the latter has a much better p-value of 0.057).

Table 3

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.395 ^a	.156	.130	.93833191
3	.386 ^c	.149	.132	.93717623

a. Predictors: (Constant), PROBREL, DIFLANG, PSYDIST0, DISTPREL, PROBLANG, PROBPD0

c. Predictors: (Constant), DIFLANG, PSYDIST0, DISTPREL, PROBPD0

Model		Standardized Coefficients		t	Sig.
		Beta			
1	(Constant)			-.017	.987
	DIFLANG		.156	2.067	.040
	PSYDIST0		-.118	-1.614	.108
	DISTPREL		-.238	-3.388	.001
	PROBLANG		.032	.411	.681
	PROBPD0		-.107	-1.268	.206
	PROBREL		-.098	-1.212	.227
3	(Constant)			.029	.977
	DIFLANG		.145	2.129	.034
	PSYDIST0		-.121	-1.672	.096
	DISTPREL		-.263	-3.941	.000
	PROBPD0		-.138	-1.913	.057

a. Dependent Variable: INNOV

Considering a priori expectations, only the coefficient of DIFLANG does not match: it is negative. A posteriori rationalization may lead us to consider that greater innovativeness may arise from more relationships with more different customers – but there is no reason for this to be for the language dimension. It is a significant, but unexpected result.

PSYDIST0, DISTPREL (at 5%; from psychic distance) and PROBPD0 (very highly significant, from problems perceived with distance for the specific export venture) all have negative coefficients, consistent with a priori expectations of increased innovativeness performance with a reduction of the distance.

Considering only the three general psychic distance dimensions of PsyDist, all are significant at 5% (DIFLANG, PSYDIST0) and 1% (DISTPREL). In this model DIFLANG presents the same unexpected positive sign. R^2 is 13%, slightly less than the 14.9% of the previous model (adj. R^2 of 11.7% vs. the original 13.2%).

Considering only the three dimensions of perceived problems of psychic distance items for the considered export ventures ProbPD, all three dimensions are also here significant, though PROBLANG and PROBREL at 10%, and only PROBPD0 at 5%. These dimensions explain much less ($R^2=7.2\%$) than those of PsyDist ($R^2=13\%$). PROBLANG presents the same unexpected sign as did DIFLANG.

In contrast with the case of the previous dependent variable (PERFORM0), for the INNOV dependent variable, the dimensions of PsyDist are overall more significant than the dimensions of ProbPD.

5. Conclusions and suggestions for further study

There is an interesting consistency throughout the models considered in this study on the significant factors. These results are also reflected in the summary of one-factor regression models presented in the appendix.

A major conclusion is about the importance of the personal relationship items: one and/or the other were significant for all the dependent variables considered.

This research had a dual representation of psychic distance: one more macro, based on similarities/differences relative to the destination country, and another, more micro, focusing on the perceived problems of the 'cultural' items perceived by managers relative to the particular export venture. This had already been partially broached by Brewer (2003), in a qualitative study, and we believe the present quantitative study provides strong support, albeit in the specific context of export ventures. PROBPD0 (a central dimension of ProbPD) as a single regressor is more significant for more of the considered dependent variables than the corresponding dimension PSYDIST0 of psychic distance.

The perspective of psychic distance perceived from a specific 'problems' approach, rather than a countries similarity/difference, provides significantly more explanatory power. However, this should be further tested, with other entry modes and more multi-item dimensional measures, and also for additional confirmation that it explains the psychic distance paradox.

APPENDIX: Summary of single regressor results

Table 4 presents results of the single effect of each independent variable on each of the two dependent variables considered.

Table 4

	<u>COUNTRY</u> (PSYDIST)		
<u>Indep. Variable →</u>			
<u>↓ Dependent variable ↓</u>	DIFLANG	PSYDIST0	DISTPREL
PERFORM0	Not significant	Not significant	0.002 and negative
INNOV	0.027 and positive	0.035 and negative	0.000 and negative
	<u>VENTURE</u> (PROBPD)		
<u>Indep. Variable →</u>			
<u>↓ Dependent variable ↓</u>	PROBLANG	PROBPD0	PROBREL
PERFORM0	0.061 and negative	0.009 and negative	0.000 and negative
INNOV	Not significant	0.002 and negative	0.014 and negative

(p-values; sign of coefficients)

The two multi-item dimensions of both psychic distance and of problems with ‘distance’ have different significant effects when regarding the dependent performance variables. Both are significant for INNOV, but PROBPD0 more significant (at 1%) than PSYDIST0 (at 5%); This pattern is more accentuated with the dependent variable INNOV, with PROBPD significant (1%), and PSYDIST0 not even significant at 10%. PSYDIST0 is less related to the dependent variables than PROBPD0, i.e. the ‘problems’ variable has significantly more effect. Both have the expected signs.

The single-item language dimension have different effects. PROBLANG is significant (p-value=0.061) only for PERFORM0, but with the expected sign, whereas DIFLANG is only significant (p-value=0.027) for INNOV, but with an unexpected sign. This last result signals greater perception of innovativeness with ventures involving languages which are more different. However, this should be further studied, to understand why a similar effect does not occur with the multi-item dimension PSYDIST0.

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