Track 1, international business after the BRIC's rush, competitive session

Relativity and asymmetry in distance

The role of strategic distance in the internationalization decisions of Brazilian and Italian firms

ABSTRACT

Distance studies often assume geographic distance in absolute terms rather than relative to firms' perceptions, and symmetric between two countries. By comparing six case studies of Brazilian and Italian ventures internationalized respectively in Italy and Brazil, we address this gap. We first find that geographic distance is relative to a firm's prospective internationalisation plans. Second, we identify a considerable asymmetry in perceptions of distance when we pair-wise compare Italian cases with Brazilian ones.

Third, more geographically distant markets – in terms of kilometres - are perceived as less distant if they are a strategic hub for entering other more strategically distant markets in the future. Moreover, firms consider the *strategic distance* of target markets, in addition to psychic, institutional, geographic, and cultural distance. We thus argue that markets have also to be considered in terms of *strategic distance.*

Keywords: geographic distance; asymmetry; relativity; strategic markets.

Relativity and asymmetry in distance

The role of strategic distance in the internationalization decisions of Brazilian and Italian firms

INTRODUCTION

The issue of distance is at the heart of international business studies. However, much remains to understand about this construct, about how firms make sense of it, and how internationalisation decisions are affected by distance perceptions. This is partially ascribable to the fact that distance studies often understand distance in absolute terms rather than relative to firms' perceptions, and symmetric between two countries. Such assumptions have led to oversimplifications and biases when analysing distance as an influencing factor of firms internationalization paths and performance. Building on the seminal critique by Shenkar (2001) we aim to address this gap by investigating (i) at the firm level, (ii) in the context of firms international growth, the two issues of relativity in geographic distance and of asymmetries in distance perceptions when pair-wise comparing matches of firms. In doing so we address the recent calls for research to investigate geographic distance relativity and sub-national spatial variation (Håkanson & Ambos, 2010; Beugelsdijk & Mudambi, 2013; Goerzen, Asmussen, & Nielsen, 2013;), as well as to recognize the existence and the importance of asymmetries when studying distances (Shenkar, 2001, 2012; Zaheer, Schomaker, & Nachum, 2012). We analyse six case studies of Brazilian and Italian ventures internationalized respectively in Italy and Brazil. We choose to study a pair of countries as recommended in the most recent literature (Puthusserry, Child, & Rodrigues, 2014), and we investigate the effects of distance at a firm level, rather than only at a macro level, thus addressing an additional gap (e.g. Ellis, 2007). Our research questions can be framed as follows: (a) at the firm level, to what extent geographic distance is *relative*? (b) Do geographic, psychic, cultural, and institutional distances have a *symmetric* nature when comparing the internationalisation of Italian firms in Brazil and vice-versa? To the best of our knowledge, no previous study has analysed this

dyad of assumptions about the nature of distance concurrently, in the context of the process of internationalisation, and adopting a firm perspective. This research extends the studies on the internationalization process of firms in a globalized era, where distances increasingly show traits of relativity and asymmetry. It also addresses the EIBA conference theme, in the understanding of these issues pair wise comparing firms from a developed and an emerging country. In outlining the issue of strategic distance, this paper responds to the call for studies of EIBA Conference about novel ways after the BRICs rush to assess at the firm level the attractiveness of foreign countries.

LITERATURE REVIEW

The distance construct and its dimensions

The concept of distance has been widely used by international business (IB) scholars from the seminal work by Hymer (1976) where the liability of foreignness increases the more the country is distant in the geographic sense, to (Dunning, 1988) where the concept of distance becomes multidimensional (economic, social, cultural, political) and Ghemawat (2001). In these studies, the basic assumption is that unfamiliarity (distance) arises because of lack of information, hence generating additional costs.

Geographic distance

Geographic distance determines increasing costs of transportation (Leamer, 1974; Clark, Dollar, & Micco, 2004;) and difficulties in monitoring market and firm's activities abroad (Grant, 1987), creating barriers to face-to-face communication and direct interactions (Bell & Kozlowski, 2002; Hinds & Bailey, 2003). Distance-based proxies have been used in a number of studies measuring transport costs (e.g. Hummels, 2001; Clark et al., 2004; Combes & Lafourcade, 2005). A negative correlation between geographic distance and trade volumes was found by Beckerman (1956)'s study of intra-European trade. Since then studies have argued that geography is a barrier to international trade (Leamer, 1974; Hummels, 2001; Limao & Venables, 2001; Frankel & Rose, 2002;). At the level of the individual firm, findings about the perceived effects of geography still remain mixed (Ellis, 2007).

Cultural distance

According to Hofstede (1980, p. 9) “Culture is the collective programming of the human mind that distinguishes the members of one human group from those of another. Culture in this sense is a system of collectively held values”. Later on, the concept has been extended or redefined for instance by Schwartz (1992), Trompenaars (1993), Inglehart (1997) and the GLOBE team (House, Hanges, Javidan, Dorfman, & Gupta, 2004). From the point of view of firms internationalisation studies, results about the effects of cultural distance are mixed. Some found that the cultural environment in a target country was the least important factor affecting managerial decision making (e.g. Robertson & Wood, 2001), others that it was the most important factor (e.g. Edwards & Buckley, 1998). Moreover, only a few studies (e.g. Lee, 1998; Swift, 1999) had included perceptions to study the dimensions of cultural distance, but at the same time often treating the latter interchangeably with psychic distance.

Psychic distance and the relationship with cultural distance

The definition of psychic distance varies greatly within the literature, depending upon its operationalization. The original construct of psychic distance was first coined by Beckerman (1956), later spread by (Johanson & Wiedersheim-Paul, 1975, p. 24), as “the sum of factors preventing the flow of information to and from the market”, and then operationalized by Vahlne and Wiedersheim-Paul (1973). In the empirical literature, measures of psychic distance have frequently adopted the Kogut and Singh (1988) index or an adapted version as a measure of cultural distance (e.g. Grosse & Trevino, 1996; Morosini, Shane, & Singh, 1998; Brouthers & Brouthers, 2001; Manev & Stevenson, 2001). For this reason psychic distance has been often equated to cultural distance (Kirkman, Lowe, & Gibson, 2006; Håkanson & Ambos, 2010) generating much confusion. The two constructs have been actually found to be distinct, the latter being determined by the former, and by individual values of the managers (Sousa & Bradley, 2006). Currently, consensus has been build around the fact that the Kogut and Singh index cannot be considered as a proxy for

psychic distance as a whole (Sousa & Bradley, 2006, 2008) for a series of reasons (cfr. e.g. Beugelsdijk, Maseland, Onrust, van Hoorn, & Slangen, 2015).

Institutional distance

The concept of institutional distance refers to the extent to which two countries' institutional profiles differ (Ferner, Almond, & Colling, 2005). Institutions influence bilateral business relationships (Puthusserry et al., 2014). They affect the ability of a company to interact and therefore the transaction and related costs of coordination (Verwaal & Donkers, 2003; Eden & Miller, 2004), and influence entry mode decisions (Meyer, Estrin, Bhaumik, & Peng, 2009) by moderating the costs of alternative organizational forms (Williamson, 1985).

From "dimensions" to "vectors" of distance

The extant literature widely acknowledge multiple dimensions (attributes) of distance. On the other hand, it is less widely acknowledged that distance also has vectors along which its understanding – at the firms level- develops and is embedded in internationalization processes. These vectors refer to the issues of relativity and asymmetry in distance perceptions.

Geographic distance, by definition, is symmetric – and thus an absolute measure - meaning that the distance from point A to point B is identical to the distance from point B to point A. In distance studies, geographic distance between two countries is often calculated as the spatial distance between the centres of each country pair (Berry, Guillén, & Zhou, 2010) or as the distance between capital cities (Slangen & Beugelsdijk, 2010). This have led to assume within-countries characteristics as *homogeneous*, meaning that the home and host environment are thought as interchangeable (Shenkar, Luo, & Yeheskel, 2008). Such an assumption does not take into consideration that geographic distance at the firm level first, is much affected by differences in transport costs that, in turn, depend on the exported product itself, its weight and volume (cfr. e.g. Clark et al., 2004; Combes & Lafourcade, 2005), and, second, by sub-national differences and non-spatial homogeneity (Beugelsdijk & Mudambi, 2013; Nebus & Chai, 2014). These considerations

imply – when at the firm level – understanding distance in relative terms, rather than just absolute ones.

The "illusion of symmetry" also affects cultural and psychic distance constructs (Shenkar et al., 2008). Recent studies have warned about the fact that countries' relationships are not unidirectional (Tung & Verbeke, 2010), and repeatedly found evidence of psychic distance asymmetry (Dichtl, Leibold, Köglmayr, & Mueller, 1984; Dow, 2000; Ellis, 2007; Brock, Shenkar, Shoham, & Siscovick, 2008; Child, Rodrigues, & Frynas, 2009; Håkanson & Ambos, 2010; Puthusserry et al., 2014; Yildiz, 2014).

In the context of firms' international expansion symmetry in cultural and psychic distance constructs is difficult to defend (Shenkar, 2001) too. In fact, intra-country heterogeneities (Beugelsdijk & Mudambi, 2013; Goerzen et al., 2013) shall be accounted for, as they are major sources of opportunities, innovation and creativity (Shenkar et al., 2008). In this perspective we can conceptualize (cfr. figure 1) distance constructs through ad "fictive sunburst of vectors", where, from the firm point of view, each vector represents a distance construct and points to sub-national location rather than country-means.

Insert Figure 1 here

Italy and Brazil: country comparison according to "classic" distance constructs' operationalization

The analysis of Brazilian internationalisation to Europe has been progressively become an under-studied topic in the literature, while much more attention has been devoted to analyse the behaviour of trade and internationalisation patterns of Asian firms. At the same time Brazilian figures in the World trade figure prominently, emerging as a major player in the global scenario. Brazil is the sixth largest economy in the world. In 2010, GDP growth reached 7.5%, the highest growth rate in the past 25 years, and a real GDP growth rate of 2,2% in 2014 (OECD, 2013). According to the World Investment Report 2014, Brazil has been the world's fifth leading destination for FDI inflows in 2013. Despite the first internationalisation moves started back in the 1970s, only recently

Brazilian companies have given rise to substantial investment operations abroad (Fleury & Fleury, 2011).

Italy is the second largest European trading partner of Brazil after Germany, and the eighth largest in the world. Trade between the two countries grew between 2003 and 2012 by 170%, reaching an amount of 8 billion dollars, with a surplus in the balance of payments for Italy of 1.6 billion dollars (ICE, 2013). Italian exports in Brazil has grown by the 265% between 2003 and 2012 (Italian Embassy in Brasilia (2013), driving Italian companies to achieve a market share of 2.8% (ICE; 2014). In 2012 the Italian FDI flows have grown by the 116% compared to 2011, rising from 457 million to 986 million dollars (ibid). Up to April 2014 the presence of 888 Italian production subsidiaries has been recorded in the country (Italian Ministry of Foreign Affairs, 2012). In 2012, 2525 Brazilian firms (all sizes) exported to Italy (MDIC, 2012). In 2013 Brazilian export toward Italy amounts of $ 2.7494 million USD, the 2.7% of the total exports of the first ten destinations (MDIC, 2012). In 2008 Brazilian investments in Italy amounted of 0,88 mld Euros, unfortunately it is hard to know the exact final destination of such investments because many Brazilian companies prefer to send the first funds in tax havens.

According to Hofstede (1983) Italy and Brazil are highly similar countries characterized by Large Power Distance-Strong Uncertainty Avoidance. They appear quite distant both in terms of geographic measures and in terms of institutional and economic characteristics, but at the same time they could appear close in terms of cultural distance because of the exceptional migration of Italians towards Brazil between the end of the XIX century and the first half of the XX century (cfr table 1).

Insert table 1 here

EMPIRICAL WORK

This study follows a multiple case-study method (Eisenhardt, 1989; Eisenhardt & Graebner, 2007) and, according to Yin (1994)'s typology, can be classified as exploratory because it aims at extending the theory of distance in international business studies.

Our initial database consists of about 300 Italian firms with a direct presence in Brazil (ITA, 2014) and 13 Brazilian Multinational (FDC, 2014) with a direct presence in Italy, of different ages, size, and operating in differing industries ranging from manufacturing to services. We then selected three Italian firms internationalised in Brazil, and three Brazilian firms internationalised in Italy that were available to conduct one or more in-depth interviews (cfr. table 2) and that could be pair-wise compared. The first two pairs are comparable in terms of age: ATOM and Dudalina are mature established firms, 7Pixel and Cinex are relatively young firms. The third pair, Torrevilla – TDV, is made of firms comparable in terms of their representativeness of country-specific industries viz. the wine industry for Torrevilla: Italy is the second producer of wine in the world in terms of quantities and it has a world reputation for its wine quality. And the medical market - for TDV: Brazil is the largest medical market in Latin America, where the firm enjoys relatively high levels of quality reputation. The number of pairs is guided by theoretical sampling (Eisenhardt, 1989).

Moreover, firms' industries are all relevant in respect to the amount of export/import in both countries, in both directions (ISTAT report, 2013), while the 7Pixel case is interesting to get insights of a young firm in an highly innovative and evolving sector. We indeed followed a variation logic instead of a replication one (Eisenhardt & Graebner, 2007) in order to have greater insights to understand the distances constructs and attributes.

We in-depth interviewed, either the entrepreneur, or the manager in charge of the internationalisation process, lasting between 60 and 120 minutes each. Interviews were designed to address the constructs of our research framework, i.e. to address relativity and symmetry imputed to distance constructs. In order to do so – and as suggested by Tung and Verbeke (2010) - we investigate several types of distances: cultural, psychic, institutional, economic and geographic. We triangulate interview data we rely on secondary sources such as Lexis-Nexis-Company dossier, internet sources, and firms' annual reports.

The analysis is carried out assuming that country level differences are intended as factors affecting firm behaviours. Data coding, interpretation and the process of theory building from case studies

from the follows the Grounded Theory approach to qualitative research (Strauss & Corbin, 1990). First we pool in-depth interviews quotes and codes through tabular displays, then we perform a cross-case analysis, to focus on the key themes of geographic relativity, and the sub-category of intra-country homogeneity/heterogeneity. Then we pair-wise compare Italian and Brazilian firms to assess symmetry in psychic, cultural, and institutional distance perceptions. Last we abstract from the empirical evidence and we enunciate a set of Propositions.

Insert Table 2 here

FINDINGS AND DISCUSSION

Geographic distance relativity: the role of strategic markets and strategic hubs

We asked our respondents to provide us with a measure of geographic distance from their country of origin, to respectively Brazil or Italy. Each firm reports different assessments of geographic distance (cfr. table 3 for case studies evidence). Some report objective measures: Weight/Volume ratio of 240 km/m^3 for exporting cutting tables (Atom); taxes plus transport costs (Dudalina). Others conceptualize geographic distance in respect to their product/service specificity. For Torrevilla, what it matters is cargos' efficiency in maintaining product integrity (wine bottles) and the speed of reaching Brazilian harbours; 7Pixel did not sense any geographic distance because of the nature of the service (online engines for comparing products' prices). According to Cinex CEO their products are "excessively heavy and take up too much space to be exported to Italy". TDV only delivers 30 kg of products maximum to Italy for each delivery. For this firm geographic distance is not a direct problem: their products are very light and small, moreover they join a partnership with Fedex. The specificity of their product i.e. it is small, light, plus the efficiency of the logistic system thanks to the partnership with Fedex, make them able to export all over the world without sensing distance issues. For instance they easily export to Iran, which is a distant country in terms of km, and also in terms of culture, institutions etc. Geographic distance at the firm level is thus relative to product/service specificities. Previous studies in economic geography (cfr.

e.g. Clark et al., 2004; Combes & Lafourcade, 2005) found that geographic distance at the firm level is affected by differences in transport costs that, in turn, depend on the exported product itself.

The second finding we get from our in-depth interviews with Brazilian firms, is that they understand geographic distance in terms of perspective plans of internationalization. This finding clearly came out from analysing Dudalina's case study. In 2012, the firm entered the Italian market in the attempt to exploit it first as a hub for the whole European market (as well as for the Russian market) and, second, as a hub for entering the U.S. market thanks to the increased brand reputation gained in Europe. Specifically, they chose to locate in Milan - and in no other place in Italy - because the city is thought as the only strategic location for gaining a reputation in the European market, and to subsequently approach the U.S. market. According to Dudalina's Head of internationalisation, "it does not matter that the firm is not gaining profit from this activity" (i.e. from their flagship store in Milan). Milan is (i) "geographically strategic because it is a hub for Europe and Russia", and (ii) "strategic from the point of view of brand reputation, needed in order to enter the U.S. market". "Milan is a market made of tourists" and they "sell the 70% of products to Russian tourists", but this market is "strategic in order to penetrate Europe and most of all, the U.S." Dudalina did not decide to approach U.S. directly from their home country, Brazil, but first they decided to build a fashion brand reputation in Europe (specifically in Milan, Italy) in order to access the American market. In this case the Italian market is less distant than the US one for strategic reasons, while it is in terms of kilometres. A similar finding also emerged from Cinex case study. The owner states: "We are unable to export to Italy because we have a product that is too heavy and takes up too much space. For this reason our interest is to continue to develop new products directly in Italy and then export them to other neighbouring countries". To Cinex, Italy is a hub for exporting to other European countries, that otherwise would not be approachable directly from Brazil. Locating in Italy is strategic because it provides both the market knowledge ("European customers are much more demanding in terms of quality than Brazilian ones") and the technological know-how necessary to develop higher quality products required to gain access to the

European highly competitive furniture industry, and to its customers. This could be achieved thanks to the firm's partnerships and strategic alliances with Italy, the establishment of a dedicated office, and a R&D Lab in Treviso to develop new products with the aim to acquire and learn as much as possible. Treviso, located in Veneto (north-east of Italy), is part of one of the most important furniture clusters in Italy – and in Europe - where knowledge is embedded and shared within the network. With a similar aim, but in a different location, Cinex also decided to establish a partnership with an American firm to develop an innovative glass for smart phones:"We try to adapt products for local markets: with an American partner we are developing a super-tiny glass for the I-Phone. If we manage to develop it, we will export a lot more in more distant markets". Being located in Italy as a hub for industry/brand reputational aims to access other European countries is also confirmed in the TDV case. The general manager says "If you are able to approach and stay in the Italian market, the others [the other markets] will think you have a good reputation/status in terms of quality".

The above evidence leads us to argue about the *strategic closeness* of a country in respect to prospective internationalisation plans. March and Simon (1958) developed the concept of *strategic bridging*, meaning that psychic distance can be reduced through selecting overseas locations where it is easier to conduct trade and investment. In this case we go a step further arguing that markets first of all can be *strategically distant.* In most cases some factors which make market strategic (sophisticated demand, key customers and competitors, institutions, etc.) also make them complex (cfr. Zucchella & Servais, 2012) to deal with, and to penetrate. Dudalina's case well describes how these kinds of markets can be approached thanks to steps in more *geographically distant*, but *strategically closer* markets. Milan is farer from Brazil than the U.S. in terms of kilometres, but is *closer* to the objective of entering the American market in terms of strategy: Milan is a hub for building brand reputation and positioning in Europe. Not only bridging can provide access to social capital provided by a local partner relevant to penetrating local markets, understanding local regulations, or recruiting skills (Puthusserry et al., 2014), but it is strategic from the point of view of

the positioning of the brand in the competitive arena of that specific industry. The same holds for Cinex and TDV plans of internationalization, whose respondents reported the strategic importance of Italy as a hub for the European markets, mostly in terms of reputation and technological knowledge and expertise. Figure 3 depicts a hypothetical scenario where two strategic objectives are fixed in five and eight years from today: i.e. respectively entering U.S. and Japan, that from the point of view of the firm, U.S. and Japan are two *strategically distant* markets.

Insert Table 3 and Figure 3 here

Dudalina, Cinex and TDV cases well highlight the importance of the *sub-national level*: i.e. different firms might have different perceptions not only of a foreign country as a whole, but also within the same country (sub-national spatial heterogeneity), thus once more stressing the relative nature of geographic distance. Milan is thought by Dudalina as the only possible location in Italy for their strategic attempt, explained above. In this sense, the firm focuses on the potential of a city (perhaps located in a cluster) of being a hub enabling access to other (more distant) markets. In the case of Cinex, straight from the early birth of the firm, the owner decided to set up an office in Italy, in Treviso, the location of one of the largest furniture manufacture poles in Europe. Right from the outset, this entrepreneur worked to develop links between Brazil and Italy to exchange technology and define market trends. The partnership with Italy was strengthened further still by an alliance agreed with the design studio Decoma, signed in 2004 and by the establishment in 2008 of the Cinex Lab in the city of Treviso. Also in this case the sub-national level was highly relevant in terms of internationalization choices: the city of Treviso – and no one else – was chosen as strategic to access the Italian, and then, the European market. Being located in specific agglomerates (e.g. clusters) or specific cities, permit firms to acquire relevant knowledge and to learn. "...we have an Italian office that develops new products because we want to learn technological advancements and best practices" emphasized Cinex' CEO. Learning from network relationships have been crucial factors for both Dudalina and Cinex that could approach the Italian market thanks to partnership with local firms."He [the partner] is a kind of ambassador for the company. He knows everything

about the Italian market. It would have been impossible to access the Italian market without the Italian partner" told us Dudalina's head of internationalization". "Learning in the hub" is key: in the above described cases, technological and reputational learning takes place in those sub-national locations the firm uses as hubs for prospective internationalization plans. Firms locate within clusters or specific cities because of very specific value chain objectives (Cantwell & Mudambi, 2005; Schmitt & Van Biesebroeck, 2013) or internationalisation patterns that are market, asset or efficiency seeking (Beugelsdijk & Mudambi, 2013) or, as according to our evidence, because they use such locations as hubs for further strategic internationalization objectives. This imply accounting for spatial heterogeneity.

It is interesting to note that the above findings do not hold for Italian firms internationalized in Brazil. These firms do not seem to understand Brazil neither as a strategic hub for other prospective internationalization plans, nor as a location for technological learning and for gaining reputation.

Distance asymmetry: more on the role strategic markets

This section addresses our second research question i.e. whether psychic, cultural, and institutional distances are symmetric when pair-wise comparing the three Italian cases with the Brazilian ones: ATOM – Dudalina; 7Pixel – Cinex, and Torrevilla – TDV.

ATOM's institutional distance perception is high. According to the CEO: "Institutional distance is huge because of the heavy protectionist policies, especially a complex system of tariffs and duties that penalized foreign entrants". At the same time the perception of cultural distance is mild. For Dudalina, institutional distance issues are not a priority as these can be quite easily overcome. For this firm Italy is not distant in terms of institutional distance "Italy is highly similar to Brazil in terms of bureaucracy, tax"; while it is in terms of heterogeneity "There are differences in the internal demand: Italians look at fashion, Brazilian at the product itself".Overall, Italy is perceived strategically close for the aim of achieving the objective of entering a psychically and culturally distant market, the U.S.

An analogous thinking to that of ATOM CEO, is also shared by 7Pixel CEO: “There is a huge institutional distance in terms of artificial barriers. Moreover, we have underestimated cultural distance and history before entering the market”. Speaking about institutional distance, Cinex CEO states: “labour legislation is too complex. Bureaucracy and norms are extremely demanding and complex”. While in respect to cultural distance he states: “The south of Brazil is similar to Northern Italy in terms of religious and culinary habits, at the same time Italians are extremely suspicious, thus it is very difficult to convince Italians in our industry on the quality of a foreign product, especially if it comes from Brazil [...] Italians are highly concerned with the cost and the benefits of products’ quality”. This second match of firms highlights the asymmetry in terms of cultural distance perceptions: 7Pixel found – after having approached Brazil - that cultural distance is actually relevant. Cinex CEO perceives cultural affinities between Italy and Brazil. Both firms report considerable institutional distance perceptions.

The third and last match of firms seems to confirm previous evidence. Torrevilla senses great psychic and institutional distance, while mild cultural distance. “We need stable and skilled (in our business) human resources but in Brazil it is difficult to find the human resources we need. Regulation and bureaucracy are complex and heavy especially because of protectionist policies. On the other side Brazil is very similar in terms of culture”. On the opposite, TDV’s general manager does not seem particularly concerned with institutional distance. He considers Italian institutions efficient compared to the Brazilian ones “Italy follows EU dental regulation, so it is very easy to have the necessary certification. All institutions that authorize the entry of our products are agile and efficient. On the opposite, in Brazil to the issuance of a certificate can take up to one year. Italy is very fast.” Antithetical to Torrevilla, cultural and psychic distance are critical for TDV. The firm sees that Italian customers’ quality expectations are very high “It is very difficult to convince Italian customers about the quality of a foreign product, especially if it is Brazilian” and stress the fact that their company may gain reputation in the eyes of the Italian customers thanks to the recent

acquisition by a French firm “We experience difficulties in increasing our market share. The dental sector in Italy is highly competitive and do not trust Brazilian products that much”.

Overall, case-matches evidence a considerable asymmetry distance perceptions. First, Brazilian cases do not perceive Italy distant in terms of culture, while Italian cases generally do so. One reason for this may reside in the fact the Brazilians are much more “accustomed” to the Italian culture because of the exceptional migration of Italians they assisted between the end of the XIX century and the first half of the XX century. Second, Brazil is perceived by Italian firms as highly distant in terms of institutions, while Italy is perceived by Brazilian firms as mildly distant or, in some cases, even easily approachable.

We argue that asymmetric perceptions are attributable to the fact that countries are understood and understood by firms in their *qualitative features,* and whether these are strategic to prospective internationalization plans. In cognitive theory (Tversky, 1977) it is argued that assumptions of similarity between *objects* may not hold because some objects need to be represented in terms of many *qualitative* features rather than a few quantitative dimensions (Farjoun & Lai, 1997). The assessment of similarity is based on the comparison of *features* rather than the comparison of metric distances between points (ibid). Building on this argument – conceiving markets as (extremely) complex *objects* - qualitative features play a critical role to decision makers for developing assessments, in this specific case, those regarding market entry choices. Such an argument has implications to the so-called “distance-similarity metaphor”, according to which, cultural, psychic, and institutional distance are often mistakenly used as a metaphor to say that near countries are more similar to the firm’s home market than far ones (Shenkar, 2012; Zaheer et al., 2012). Firms initially select markets they perceive as similar, and later they may select countries they perceive as more dissimilar (Erramilli & Rao, 1990; Stöttinger & Schlegelmilch, 1998; Pedersen & Petersen, 2004; Chetty & Campbell-Hunt, 2004), or less “familiar” (Bell, 1995; Pedersen & Petersen, 2004). A similar reasoning is found in IB process internationalization approaches (Vernon, 1966; Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977) that assume firms progressively expanding

from their home country into markets with greater psychic distance, thanks to accumulated experiential learning. We contend that firms judge markets in terms of their strategic closeness/distance. Judgement of markets in terms of their *strategic distance* is a qualitative assessment and not a quantitative one based on "metric distances between points". Strategic distance is thus inherently asymmetric.

A further finding we get is that case matches provide evidence of asymmetries as to the reach of the "country of origin effect". Dudalina, Cinex and TDV reported that, in approaching the European markets, they suffer from reputation issues. This was not perceived by the three Italian firms in the sample in the process of approaching the Brazilian market. The former group benefit from a "global" country of origin effect, while the latter only enjoy a "regional" one. This is evident especially in the Torrevilla and TDV match: Torrevilla could benefit from a "global country of origin effect": Italian wine quality reputation crosses national and European boarders and spreads globally. TDV seems to enjoy only a "regional country of origin effect": its reputation spreads within the Latin American region, but it does not seem to be extendible neither the European continent as a whole, nor to Italy. This is why this firm sense they will gain reputation thanks to the recent acquisition by a French company.

Propositions

We frame our set of Propositions as follows.

Proposition 1a. At a firm level of analysis, geographic distance is relative: a more geographically distant market in terms of kilometres is perceived by the firm as less distant if it represents a strategic hub for prospective market entry choices.

Proposition 1b. Strategic hubs are those sub-national locations where firms decide to locate, in order to gain reputational and technological learning.

Proposition 2. In a pair-wise comparison of two firms based in country A and B, respectively internationalized to country B and A, psychic, cultural, and institutional distances are not symmetric because markets are assessed and judged in terms of their strategic-distance/closeness.

CONCLUSIONS

In this article we have investigated firms distance perceptions in internationalization decisions. Our empirical work on six case studies has revealed relativity in the perception of geographic distance. In particular, (i) Geographic distance is relative to the type of product/service and logistic issues. (ii) Prospective internationalisation plans can explain current markets selection in geographically distant (in terms of kilometres) markets, because (iii) more geographically distant markets are conceptualized as less distant when they are strategic hubs for entering strategically distant markets in the future. Sub-national locations are critical in the choice of hubs location as they are the source for reputational and technological learning. (iv) We then find considerable asymmetry in perceptions of distance when comparing the Italian case studies with the Brazilian ones. In accordance to what was argued by Ellis (2006) i.e. that entry decisions are driven more by market opportunities than by minimizing the costs of overcoming distance, we go a step further explaining the why. We argue that firms indeed consider the *strategic distance* of target markets, rather than psychic, institutional, and cultural distances. Judgement of markets in terms of their *strategic distance* is a qualitative, subjective, assessment and thus by nature asymmetric. This implies that, with respect to psychic, institutional and cultural distances, these are asymmetric as they are assessed by the firm in terms of their strategic features that are thus, subjective to the firm, and not unidirectional.

This study provides managerial implications too. Our findings highlight the priority for managers to consider the relative strategic importance of markets. This because actual internationalization choices in *distant* countries in terms of km can be explained by the fact that these are hubs to access *strategic* markets in the future. Thus, managers should look beyond distance (Hernández & Nieto, 2014): although the destination country may exhibit great differences for instance in terms of culture, institutions, and geography from the origin, it may be a *hub* for *prospective* internationalization plans. On top, managers should draw particular attention to sub-national areas

because of their strategic importance both for penetrating the market itself, but also as a hubs where reputation and technological learning are accumulated to target other markets.

Our research has a number of limitations, starting with the fact that the firms taken into consideration are a small number, and that we only analyse two countries: hence findings may not be generalizable yet. At the same time, thanks to our interviews with the firms we could build a structured questionnaire that will be employed in the next step of our research project to test our preliminary findings – framed in our Propositions - in a systematic way, on a larger sample of firms.

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TABLES AND FIGURES

Table 1. Italy and Brazil: Country comparison

Variable		Operationalization	Literature/Data source
Differences in Economic development		Economic distance -Income: GDP per capita (US$) -Inflation: GDP deflator (% GDP) -Exports of goods and services (% GDP) -Imports of goods and services (% GDP)	Ellis (2008) World Bank 2012. World Development Indicators http://data.worldbank.org/country/brazil
GDP per capita (2012 US$)	Italy 36103,891 Brazil 11339,521		
Inflation, GDP deflator (annual %)	Italy 1,336 Brazil 5,345		
Exports of goods and services (% of GDP)	Italy 28,811 Brazil 12,557		
Imports of goods and services (% of GDP)	Italy 30,309 Brazil 13,987		
Institutional Distance			

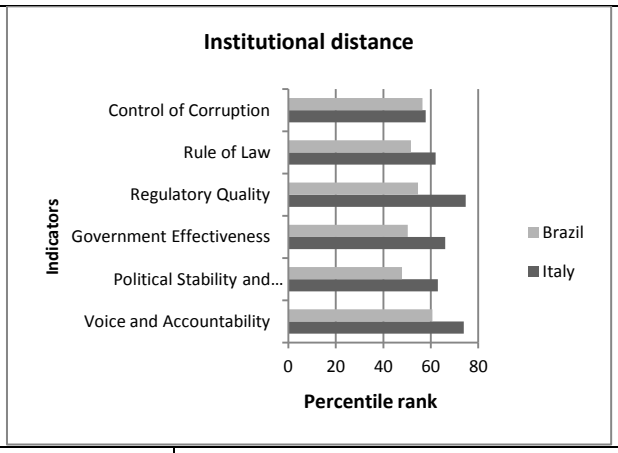
		Perception-based governance indicators developed by the World Bank Institute. Measurement of country performance on six different dimensions of governance: control of corruption; rule of law; voice and accountability; government effectiveness; political stability; regulatory quality. These aggregate indicators are based on 31 individual data sources produced by a variety of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms.	Kaufmann, D., Kraay, A., & Mastruzzi, M. (2009). Governance matters VIII: aggregate and individual governance indicators, 1996-2008. World bank policy research working paper, (4978).
Cultural distance	1.105	Index based on Kogut and Singh index to assess cultural distance at *country level*: $CD_j = \sum_{i-1}^{4} \{(I_{ij} - I_{ih})^2 / V_i\} / 4$ where Iij stands for the index for the ith cultural dimension and j^{th} country, and V_i is the variance of the index of the ith dimension; h indicates the home market	According to Ellis (2008) even if the Kogut and Singh index is flawed (Dow and Karunaratna 2006; Shenkar, 2001), the measure is still largely used by many studies studying cultural distance (Dow, 2000; Grispud and Benito, 2005; Sousa and Bradley, 2006; Mitra and Golder, 2002).
Geographic distance	Brasilia-Rome: 8,905.63 Km	Geographic distance measured as the distance in kilometers between countries' capitals	Geographic coordinates collected from The World Factbook (2012)
Sorce: own elaboration			

Table 2. A synopsis of the firms

Firm	Year of constitution	Size (= number of employees)	Turnover in € in 2012	Foreign Sales/Total Sales	Subsidiaries	Year of internationalization to Brazil	Industry	Products
ATOM Located in Vigevano (Italy)	1946	120	30.000.000	80%	Atom US; Atom Brazil; Atom France; Atom Spain; Atom Germany; Atom UK; Atom India; Atom Shanghai; Atom Dong Guan.	Late 1980s	Cutting of flexible and semi-rigid materials- B2B	Diecutters arms, diecutters bridges, numerical control diecutters, cutting tables in continuous, machines for the preparation of the upper, machines for injection molding
7Pixel Located in Giussago (Italy)	2002	100	15.000.000	2.5%	Spain (with the proprietary website Shoppydoo SL) and Brazil	2007	Internet comparing prices engines	Trovaprezzi, ShoppyDoo, MissHobby, Drezzy
Torrevilla Located in Torrazza Coste (Italy)	1907	36	7.547.912	3%	Shangai (showroom)	2012	Wineries	Wines, Brandy, And Brandy Spirits
DUDALINA Located in Sao Paulo (Brazil)	1953	2350	2.500.000 US $	5%	Italy (showroom) Panama (franchising) Stockholm (franchising)	2012	Cut and Sew Shirt (except Work Shirt) manufacturing	Shirts
CINEX Located in Bento Gonçalves (RS) (Brazil)	1998	340	30.000.000*	1%	Italy (office devote to designing and creating new products)	1998	Home forniture and accessories	Windows, doors
TDV Located in POMERODE (Santa Catarina) (Brazil)	1989	76	25.000.000*	30%	-	2006	Dental	Products for dentistry

Source: own elaboration
* 2014 data

Table 3. Case studies evidence

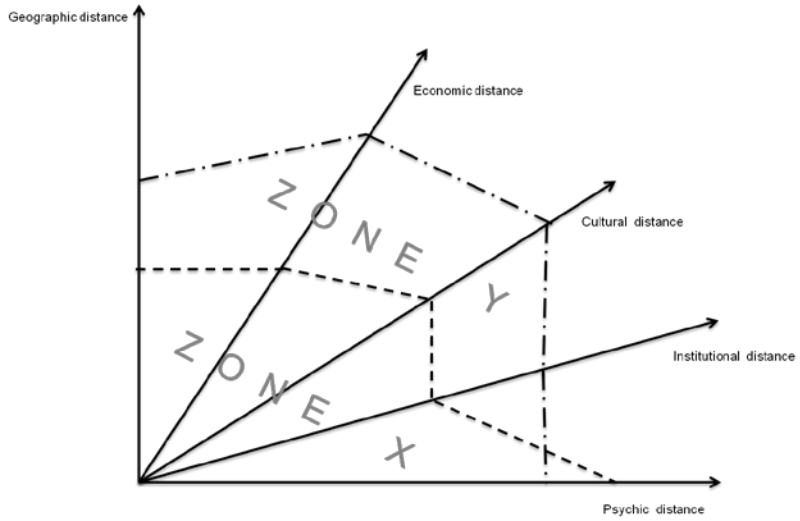
Topic	Firms					
	Italian firms			Brazilian firms		
	ATOM	**7 Pixel**	**Torrevilla**	**Dudalina**	**Cinex**	**TDV**
Attractiveness of Italy/Brazil	Brazil has niche customers for the firm's products	High growth and dynamism in the near future	Brazil will have a huge demand for wines in the near future	1. Italy is a strategic location, a hub for both the whole EU market, and later, to approach the US market (after we have been able to position the brand in Europe). 2. Italy is strategic also because here we sell to tourists: it would have been impossible to rely only on internal Italian clients	1. "Property rights on patents are very efficient" 2. "It is an innovative country and the 3. "There is a well developed market for creativity and design"	1. The Italian market is willing to pay higher prices for quality products. 2. Technical levels are very high (both of producers and those expected by customers). 3. Italian customers ask for high quality, and our products can give them 4. Italy means quality. "If you are able to approach and stay in the Italian markets, the others will think you have a good reputation/status in terms of quality
Institutional distance	Import duties on machinery footwear has historically been high (more than 30%) making impossible the competition based on price and forcing companies like Atom to bet on a strong technological differentiation, as well looking for a different model of presence on the market.	Yes there is a relevant institutional distance	-	No, highly similar to Brazil, in terms of bureaucracy, tax.	1. Labour legislation is too complex. "Unions own too much power". 2. Bureaucracy and norms are extremely demanding and complex	"Italy follows EU dental regulation, so it is very easy to have all the necessary certifications. Institutions authorizing the entry of our products are agile and efficient. On the opposite, in Brazil to the issuance of a certificate can take up to one year. Italy is very fast." Import taxes in Brazil are around 60%, while in Italy only between 2% and 8% .
Cultural distance	Mild	"Cultural and historical factors have been much more influential and critical than what we expected"	They do not have any wine consumption culture	Difference in the internal demand: Italians look at fashion, Brazilian at the product itself	"The south of Brazil is similar to Northern Italy in terms of religious and culinary habits". "At the same time Italians are extremely suspicious, thus it is very difficult to convince Italians in our industry on the quality of a foreign product, especially if it comes from Brazil"	"It is very difficult to convince Italian customers about the quality of a foreign product, especially if it is Brazilian. As regards the dentition the Brazilian spend more with dental aesthetics, while Italians do more maintenance (specific treatments)".
Internal demand	Not relevant	Very heterogeneous internal demand, but not dynamic over time.	-Or very high segments, or very low. But generally they prefer sweat wine	Difference in the internal demand: Italians look at fashion, Brazilian at the product itself. "We face higher costs in terms of marketing /advertising to try positioning the brand"	1. "Italians are very demanding with the quality and technology, Brazilians are now beginning to aim for such high quality levels" 2. Demand difference	"Italians are very demanding in terms of quality, the price is secondary. While Brazilians look more at the price. The Italian customer is loyal. Today we export to the same customers we started exporting to since the very the beginning"
Entry barriers	Protectionist policies (complex tariffs and duties)	The most dissimilar entry barriers are the arfifical ones	-Artifical barriers: very strict labelling requirements -Protectionist policies: tariffs on imported wine (more than 150% of the cost price) Such duties also differ among the Brazilian states - Unfavourable exchange rate - Barriers to entry (access channels: the role of distributors and consumers access) Distributors are very loyal and work a lot to help you entering the market. One in Belo Horizonte and one in Sao Paulo - Barriers to entry (difficulty in creating partnerships with local companies): nope but	Competition; difficulty in creating partnerships with local firms; artificial barriers (but very similar to Brazil). "We face the competition of Italian fashion brands"	Difficulty in creating partnerships with local firms	"We experience difficulties in increasing our market share. The dental sector in Italy is highly competitive and do not trust Brazilian products that much . We hope that now that we have been acquired by a French company, this will make it easier to be trusted and to increase the market share".

			enter the market through previous partnerships with Italian wine well-known brands of Tuscany region			
Geographic distance (Km vs firm specific efficient distance)	Weight/Volume: cutting tables: 240 km/m3	-	"No problems, we use very efficient cargos"	-To EU: 10% (Tax + transport costs) -To US: 10% -To Australia: 15%	"We are unable to export to Italy because we have a product that is too heavy and takes up too much space. For this reason our interest is to continue to develop new products directly in Italy for and then export them to other neighbouring countries"	"The max weight that we send to Italy at a time is 30kg, because our clients do not need to have stocks. We also have an Italian partner that help us a lot with the distribution"
Psychic distance	Mild	Mild	"Wine prices in Brazil are extremely high"	"This is not a problem unless we have our Italian partner"	1. "Italy has a very good processes of quality standard certification: Italians are highly concerned with the cost and the benefits of products' quality". 2. High competition in this industry in Italy	"Italy has quality standards certifications. Italians are very concerned with weighting the cost and the benefit of the quality." High competition of this sector in Italy
Respondent Experience	Not relevant	The funder is highly committed to explore markets, in his view it is better to learn from experience, and see the market rather than anticipate entrance By the way the founder had no relevant personal prior experience in foreign markets	Both in China and Brazil a person with 20 years of experience in the market.	- First experience in Italy -Third internationalization experience (previously in Latin America and Germany) -Does not speak Italian	1. Experience in Italy: the respondent has lived in Italy 2. Internationalization experience in Italy and England 3. He speaks English 4. Prior experience in exporting when working in his father's company	The General Manager is Argentine, he speaks English and Portuguese. The Export Coordinator speaks both English and Spanish, the Export Assistant speaks English.
Experiential Learning	-	. Internationalization had the form of exploring markets: France, Spain, Netherlands, UK for two main reasons: - Develop the product with new local advances and knowhow - Avoid formal predictive models that are more expensive than actual experience in the market - The founder is highly committed to explore markets, in his view it is better to learn from experience, and see the market rather than anticipate entrance with sophisticated predictive models	-	Social learning: "This theme is the biggest challenge for us since we're in different markets and each market has peculiarities. We are learning a lot and at a speed that is much higher than we expected." Technological learning: "We have gained and are still gaining the know-how for the process of internationalization. The first most important point is to understand the market so we can program in a matter of logistics, price, positioning etc… We cannot use Brazil as a reference". Market learning: In adapting products for local markets: • In targeting multiple market segments in a foreign country: • In managing foreign partners (distributors and licensees): • In tracking customer needs and trends: "These 4 points above are, without a doubt, the four crucial points for our international operations. Since we began our international operations we are trying to develop these 4 points. We need to put our concept and product in different markets. Honestly, nowadays, we have more questions than answers. We have created a committee for internationalization strategy, so that we can understand all these points together and be able to organize ourselves to attend many different markets.	Technological learning: " we have an Italian office that develops new products because we want to learn technological advancements and best practices". Market learning: "We learn a lot when we confront with "senior" customers, as they are the most concerned with product quality, that has to be high but at the same time with a non excessively high price" "We try to adopts products for local markets: with an American partner we are developing a super-tiny glass for the I-Phone. If we manage to develop it, we will export a lot more in more distant markets". "We think our global customers to be satisfied in terms of quality with the products that we have entirely developed in Italy".	The company exports in more than 65, very diverse countries in the world. The French acquirer has developed and patented a proprietary technology, that is licensed to TDV. The company is known for the quality of products and expertise. Market learning: the company makes no modifications to the product to be sold in Italy. In Italy the firm relies on two distributors not exclusive distributors.

Role Of Local Relationships	Not relevant	Crucial: in all foreign markets where it is present, the firm had previous direct contacts, either through Italian employees or personal contacts. In all cases the choice of market entry is given by previous personal relationships. According to the CEO: "the greater the distance the greater the level of trust you have in relation to the local contact. It 'was very difficult to find a reliable and constant". Difference between firms' needs of stable and trustable human resources and actual human resources with a very high turnover rate. Very difficult to find really trustable workers	Crucial: the firm enters the market through previous partnership with Italian well known wine brands of Tuscany region	Partnership with an Italian firm to open their Italian showroom in Milan. showroom."He [the partner] is a kind of ambassador for the company. He knows everything about the Italian market. He was a pre-existing contact of the company, who worked for 10 years for the company. It would have been impossible to access the Italian market without the Italian partner".	The firm uses Italian consulting firms to ease the process of market access.	

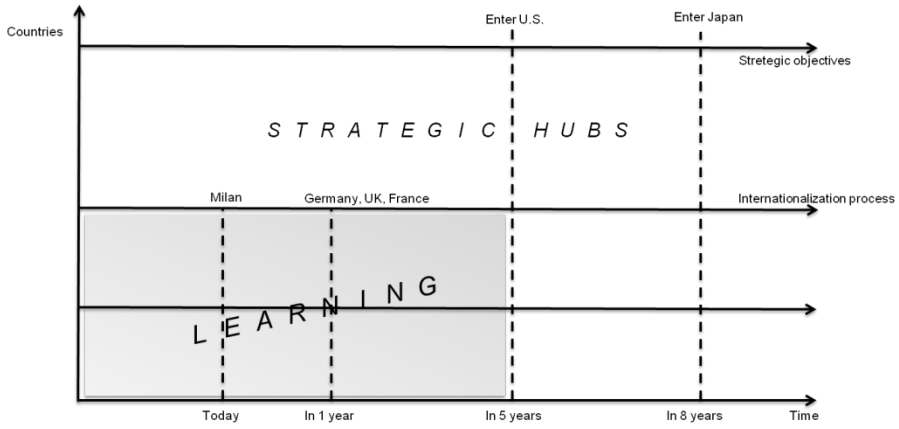
Source: own elaboration

Figure 1. Vectors of distance operating at a sub-national level



Source: own elaboration

Figure 2. The role of future internationalization plans in actual market entry choices



Source: own elaboration