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The psychology of psychic distance: Antecedents of asymmetric perceptions[☆]

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ABSTRACT

Already on its introduction into the international business literature, the concept of ‘psychic distance’ implied asymmetry in the distance perceptions between country pairs, a characteristic corroborated in subsequent empirical studies. However, predominant empirical operationalizations and their theoretical underpinnings assume psychic distances to be symmetric. Building on insights from psychology and sociology, this paper demonstrates how national factors and cognitive processes interact in the formation of asymmetric distance perceptions. The results suggest that exposure to other countries through emigrants and imports of cultural goods and services have asymmetric effects on psychic distance perceptions. The size of these effects appears to vary with the size of the home country – smaller countries tend, on average, to perceive psychic distances to the rest of the world as smaller than do bigger ones. The reputational status of target countries relative to that of the home country is found to have a non-linear, asymmetric effect on distance perceptions.

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1. Introduction

Research in international management has long embraced psychic distance (and related concepts, such as institutional, cultural or economic distance) as central to the understanding and explanation of international business phenomena. Their field of application covers a vast number of research areas, including the internationalization process of the firm, the performance of foreign subsidiaries, knowledge management, expatriate management, as well as neighboring disciplines like marketing (Berry, Guillén, & Zhou, 2010). With few exceptions, the literature treats distance as an obstacle that makes operations across national borders more difficult.

Despite their popularity, inconsistent research findings have led authors to question the usefulness of the distance concepts commonly employed in the literature (Berry et al., 2010; Stöttinger & Schlegelmilch, 2000; Tung & Verbeke, 2010). In an influential articulation of this critique, Shenkar (2001) lists a number of methodological and conceptual challenges. To address these, considerable research attention has been devoted toward

improving definitions and operational measures of distance (Berry et al., 2010; Brewer, 2007; Dow & Karunaratna, 2006). In contrast, only little effort has been directed toward a better understanding of the casual mechanisms involved (Nebus & Chai, 2014; Tung & Verbeke, 2010; Zaheer, Schomaker, & Nachum, 2012).

A root-cause of the lack of progress with regards to the conceptual challenges is the misleading nature of the metaphorical use of ‘distance’ to indicate differences in perceptions between countries of one another, in their cultures or in their institutional characteristics. In contrast to geographical distances, such differences are, for example, neither stable nor necessarily symmetric (Shenkar, 2001, 2012). Moreover, as Nebus and Chai (2014) point out, prevalent usage in international business studies has tended to overemphasize the distance component of the concept, while de-emphasizing its ‘psychic’ or ‘psychological’ aspect. In this paper, we aim to contribute toward the improvement of the theoretical foundations of the concept ‘psychic distance’ by explicitly focusing on its psychological and perceptual component. Drawing on insights from psychology and sociology, we offer a theoretical framing that helps to understand distance perceptions between country pairs. This lens, we believe, will be particularly useful for research addressing not only traditional questions of export market selection, entry modes and international expansion but also for studies of other issues involving cross-country interaction.

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The objective of the paper is to empirically and theoretically address Shenkar's (2001) criticism related to the "illusion of symmetry" that plagues most distance measures. It focuses on and attempts to explain the asymmetries observed in the psychic distance perceptions between countries. We empirically test our hypotheses by means of the data set originally collected and described in Håkanson and Ambos (2010), encompassing questionnaire responses from 1400 managers in 25 countries. Håkanson and Ambos (2010) presented empirical evidence for the existence of such asymmetries, but while their subsequent analysis helped to unveil relevant antecedents of distance perceptions, it did not discuss how and why asymmetries arise. This is the problem addressed in this paper. Its theoretical framing and the empirical tests presented aim to inform our understanding of how psychic distance perceptions are formed, a largely ignored issue in the international business literature. The problem addressed is not merely of great theoretical interest when gauging, for example, likely future changes in psychic distance perceptions; as recently demonstrated in the case of international trade (Håkanson, 2014), asymmetries in psychic distance perceptions can affect international patterns of interaction more generally.

The paper is structured as follows. In the following section, we briefly review the literature on psychic distance, discussing definitions, conceptualizations and measurement approaches as well as the inconsistent research findings the concept has yielded so far. Most common operationalizations of psychic distance – including the 'cultural distance' proxy proposed by Kogut and Singh (1988) – relate to familiarity, proximity and similarity between countries. This leads us, in Section 3, to borrow insights from the psychology literature to develop our hypotheses, focusing on cognitive processes that influence the formation of distance perceptions (Nebus & Chai, 2014). Section 4 details the methodology employed in testing the hypotheses and briefly describes the empirical psychic distance data published in Håkanson and Ambos (2010) that provide the empirical basis for the study. This is followed by a summary of the results and the empirical support obtained regarding the influence of cognitive processes on psychic distance formations. The paper concludes with a discussion of the findings and their implications, limitations and future research avenues.

2. The psychic distance concept

The psychic distance concept originated in the literature on international trade, where it was first introduced by Beckerman (1956), as an obstacle to trade complementary to that of geographical distance. Although Beckerman did not offer a clear definition of the concept, the idea was picked up by other international trade economists but was not generally afforded much scrutiny. In a classic study, Linnemann (1966: 27) writes, in an enumeration of circumstances that impede trade between countries:

A last group of factors (which might be the most important of all) could be described as those relating to the "economic horizon" of a country, or to the "psychic distance". Perfect knowledge of the market does not exist, either for producers or for consumers. The spectacular improvements of the world's communication system notwithstanding, we are still much better informed about what happens and exists in our immediate neighbourhood than about conditions prevailing in far-away countries. Thus, propinquity leads to better business information, greater familiarity with laws, institutions, habits, and language of the partner country, more similarity in the way of life and in the preference pattern between the countries, and similar – sometimes rather intangible – trade-stimulating factors.

Like Linnemann, international economists have generally captured the effects of psychic distance on international trade patterns – along with those of freight costs and costs of time in transit – by the geographic distance between trading partners, adding at times other symmetrical variables, such as 'common language' or 'colonial ties'. Until recently (Håkanson, 2014), possibly asymmetrical effects of psychic distance have not been afforded attention.

To the international business community, the psychic distance concept was introduced by the so-called Uppsala school (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975) as an element influencing export market selection and firms' internationalization patterns. Psychic distance was defined as "factors preventing or disturbing the flow of information between potential and actual suppliers and customers" (Johanson & Wiedersheim-Paul, 1975: 308).

Since relevant, high quality market information would be more readily available from more developed economies, their operational measurement of psychic distance included characteristics of the target market, such as its GDP/capita and the educational level of its workforce (Vahlne & Wiedersheim-Paul, 1973). By implication, the psychic distances between more and less developed countries would be inherently asymmetric. However, like in most subsequent studies, the analysis focused on psychic distances from a single focal country and the question of symmetry did not attract attention. With the subsequent acceptance of the practice to proxy psychic distance by the cultural distance index suggested by Kogut and Singh (1988), which is by definition symmetrical, the issue all but disappeared from the agenda.

Subsequently, psychic distance continued to attract attention and a number of definitions have been developed. Among others, psychic distance has been defined as barrier to learning and understanding about a foreign environment (Nordström & Vahlne, 1994), uncertainty related to a foreign market (O'Grady & Lane, 1996) and the perception and understanding of cultural and business differences (Evans, Treadgold, & Mavondo, 2000: 377). Whereas some authors explicitly understand it as a measure of similarity between two countries (Sim & Ali, 1998) or, conversely, as the perception of differences between them (Sousa & Bradley, 2006; Sousa & Lages, 2011), others define it as a knowledge gap (Petersen, Pedersen, & Lyles, 2008), as an obstacle to information flow (Håkanson & Ambos, 2010) or in terms of managers' familiarity with foreign markets (Berry et al., 2010; Brewer, 2007; Dow & Karunaratna, 2006). Many authors, however, remain somewhat imprecise about their exact understanding of the concept and the rationales underlying employed operationalizations.

Like the multitude of definitions and theoretical conceptualizations, the correct measurement approach has also been subject to debate (Dow & Karunaratna, 2006; Prime, Obadia, & Vida, 2009). Measurements of psychic distance have either been based on objective or on perceptual approaches and operationalizations. Objective approaches include, in addition to the long generally accepted Kogut and Singh index of cultural distance, the use of geographic regions (Plá-Barber, 2001; Ronen & Shenkar, 1985) as well as formative indices such as the one constructed by Brewer (2007) which combines indicators of inter-country relations such as commercial, political, social, historical and geographical ties. Perceptual operationalizations commonly rely on the use of Likert scales to capture respondents' distance perceptions. Items usually cover a range of potential distance-creating factors such as differences in language, business practices, political systems, levels of economic development, per capita incomes, lifestyles or traditions (Evans & Mavondo, 2002; Sousa & Bradley, 2006; Sousa & Lages, 2011). Other perceptual measures have been based on the use of concentric circles (Dichtl, Koeglmayr, & Müller, 1990), free magnitude scaling (Stöttinger & Schlegelmilch, 1998) or

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