



Unbundling the differences between Psychic and Cultural Distance: An empirical examination of the existing measures



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ABSTRACT

The diversity between the country-scores of Hofstede, Schwartz, GLOBE, Håkanson and Ambos and Dow and Karunaratna is the main focus of this study. To investigate the correlation between the country-scores of these CD (Cultural Distance), pPD (perceived Psychic Distance) and PDs (Psychic Distance stimuli) instruments we apply the Mantel test, a test predominantly used in anthropology and genetics, which can be particularly insightful when examining “distance” data. The matrix correlation findings provide evidence supporting the high diversity between these measures and their lack of consistent results for the same countries. Therefore, despite the similarity between the way of conceptualizing and operationalizing CD that Hofstede, Schwartz and GLOBE share, these CD measures do not report consistent findings. Consistently, the lack of correlation, between the PDs measure of Dow & Karunaratna and pPD of Håkanson & Ambos, indicates the diversity between PD stimuli measures and perceived PD measures. At the same time, while the two Psychic Distance (PD) measures indicate high correlation in some cases, overall they are highly diverse from the CD measures. We argue, therefore, that identical studies could reach significantly different conclusions by simply using different measures of CD, pPD & PDs which then denotes significant implications for the reliability of research findings. Additionally, we point out potential weaknesses of these measures when examining culturally proximate countries and multicultural nations.

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1. Introduction

Researchers and scholars have strived to comprehend and evaluate the nature of culture and its impact on human actions for many decades (Earley, 2006). To empirically measure the interaction between national diversity and business activity, an assortment of different Cultural Distance (CD), perceived Psychic Distance (pPD) and Psychic Distance stimuli (PDs) measures emerged. These CD, pPD & PDs measures have been the focal point of debates since their construction. A large part of the International Business (IB) field, along with other fields (such as International Marketing and International Management), has been committed in examinations involving the reliability, applicability and generalizability of these measures of national diversity (Tung and Verbeke, 2010).

Along with contributing to the extensive debate that involves these measures, the key motivation of this paper lies in the way researchers have chosen to implement the country-scores of one framework over another. According to Brewer and Venaik (2011),

researchers select arbitrarily between these measures without appropriate justification or rationalization. Therefore, when researchers choose to implement the values of one measure over another, as if they would provide identical country-scores, their findings could be inconsistent. Considering the diversity in which different CD, pPD & PDs measures capture variation between national cultural characteristics and the way managers interpret them, the focus of this study is to examine all values for all countries available by different frameworks. We employ the CD measures of Hofstede (1980), Schwartz (1999), and GLOBE by House, Hanges, Javidan, Dorfman, and Gupta (2004), the PD stimuli measures of Dow and Karunaratna and the perceived PD measurement by Håkanson and Ambos (2010). Although this is not an exhaustive list, especially of pPD and PDs measures proposed in the literature, we decided to focus on the ones that could provide estimates for a comparable set of countries. Prime, Obadia, and Vida (2009) provide a detailed list of various perceptual and stimuli psychic distance measures. It is evident from their list that significant heterogeneity in conceptualisation, operationalization and measurement make a comparison between all different measures impossible. Ellis (2008), furthermore, argues that most papers are constructing single country psychic distance measures and thus their comparison is very difficult. Most papers in the literature that provide psychic distance

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(PD) measurements focus on a single country case and therefore we have focused on the two constructs of perceived PD and PD stimuli that provide information and measurements for a significant number of country pairs.

The focus of this paper is the empirical examination of the correlation of the CD, pPD&PDs values that each measure advocates. It is important to note that these CD, pPD&PDs measures are selected since they are frequently implemented and extensively debated in the literature (Earley, 2006) and particularly for providing CD, pPD&PDs country-scores that can be empirically tested. Hence, we could not incorporate the country clusters of Ronen and Shenkar (1985), the dimensions of Trompenaars and Hampden-Turner (1997) or any other framework that does not report country-scores.

The main contribution of this research lies within the identification of the vast diversity among the country-scores of each measure and delivering evidence that can shed light to some potentially weak areas of these measures. Furthermore, we do not only examine the country-scores per se but rather how these are diversified across countries worldwide. Given the different samples and methodologies followed by the measures it is natural that the country-score between any given country A and B will be different (lower or higher) and not directly comparable. To further clarify, we set the following example: If we only examine and compare the CD, pPD&PDs values between China and Italy according to the five measures, we cannot report any useful findings; but if we investigate how different the CD, pPD&PDs values between China and Italy is to the CD, pPD&PDs values between USA and Greece according to the five measures, we are then able to evaluate their consistency. Therefore, we explore the correlation of the measures across all CD, pPD&PDs values reported.

The measures have considerable differences and similarities in the way they conceptualize and operationalize national CD, pPD&PDs. Several studies (Baskerville, 2003; Earley, 2006; Kim & Gray, 2009; Shenkar, 2001) have produced comparisons among these measures involving plentiful debates and discussions addressing the effectiveness and validity of these measures. In addition, these assorted CD, pPD&PDs measures have also been held responsible for the lack of cohesion in the cross-cultural research area (Sousa & Bradley, 2008). In general, this field has been characterized as being problematic as a result of the lack of consistency and reliability of the findings of different empirical studies which incorporated these measures in their analyses (Tihanyi, Griffith, & Russell, 2005).

The debates have been reflecting on the theoretical and methodological elements of these measures, pointing out their conceptual and empirical limitations. While most of these studies were constructed on a conceptual level, other studies, such as Drogendijk and Slangen (2006) and Kim and Gray (2009), have empirically examined if the different measures point out similar findings and are consistent in determining different variables (such as entry mode). While these studies have explored the different results that occur by using these measures, there is an evident lack in the literature of an empirical examination of the differences of these measures based on their country-scores. No previous study has produced an in-depth investigation of the CD, pPD&PDs values between countries that each measure points out.

This study has also been motivated by the meta-analysis findings of Avloniti and Filippaios (2012), Reus and Rottig (2009), Magnusson, Wilson, Zdravkovic, Zhou, and Westjohn (2008), and Tihanyi et al. (2005) which point out that the measures used to capture CD, pPD&PDs in a study significantly influence the outcomes derived. More specifically, these meta-analysis studies have provided evidence that the relationship between CD, pPD&PDs and other variables (such as performance and entry mode) is highly dependent on the measures incorporated.

Consequently, the assorted and diversified measures may have partly caused the complexity and inconsistency that surrounds the relationship between CD, pPD&PDs and different business activities or strategic decisions (Magnusson et al., 2008; Reus & Rottig, 2009). These arguments, in addition to the arguments of various other studies addressing the efficiency of these measures (Drogendijk & Slangen, 2006; Earley, 2006; Steenkamp, 2001), provide a strong motive to pursue their examination.

The remaining of the paper consists of the following sections. Our research is initiated with an analysis of the different CD, pPD&PDs measures and a reflection on the criticisms involving their theoretical or methodological limitations. In the methodology section, we explain the matrix correlation analysis employed to examine these measures. This cross disciplinary methodology is based on the Mantel test, a test dominantly used in anthropology and genetics which has not been previously used in the business or management fields. Then, in the results section we point out the significant variation that each measure advocates. We also indicate that for multicultural countries and for nations in the same region the measures are highly diverse. To conclude, we reflect on the implications and contribution of our findings and indicate some suggestions for further research.

2. Literature review

2.1. Cultural Distance and Psychic Distance

The IB literature displays a considerable amount of attention and effort in capturing diversity between nations. It is considered as a fundamental element in enlightening the patterns of overseas expansion, the decisions concerning different modes of entry, the level of adaption required relating to marketing and strategic issues, and finally foreign market appeal and the performance of Multinational Enterprises (MNEs) (Barkema, Bell, & Pennings, 1996). The most well-known concepts for capturing cultural variation among the home and the host nation are the concepts of cultural and psychic distance.

Sousa and Bradley (2008) have supported that only a small number of concepts in international studies have captivated the interest of scholars more than these two concepts. One of the most important and frequently used definitions of CD was developed by Hofstede (2001, p. 9) who advocated that it is “the collective programming of the mind that distinguishes the members of one group or category of people to another”. On the other hand, PD is defined as the factors, such as language, religion and education, which disrupt the flow of information between two countries (Johanson & Wiedersheim-Paul, 1975). According to Sousa and Bradley (2008) PD incorporates elements of CD and researchers stress the importance of CD in PD (Dow & Karunaratna, 2006) since the findings of different scholars indicate that higher CD leads to higher levels of PD (Håkanson & Ambos, 2010). Despite the links between the two concepts, their major difference lies in the level of analysis. The purpose of PD is to capture individual manager perceptions and understandings of PD, while CD focuses on a national level analysis (Sousa & Bradley, 2008). Furthermore, Håkanson and Ambos (2010) noted that the distinction between CD and PD has become considerably blur, partly as a result of Kogut and Singh's (1988) claim that CD and PD are in many aspects similar concepts.

According to Sousa and Bradley (2008) the concepts are interrelated with considerable confusion and misperception, since several studies use the terms of CD and PD without making any distinction. Even though the concepts are highly diversified in the way they perceive and capture national diversity, they are sometimes treated as being equals or surrogates. More specifically, researchers sometimes interchangeably use terms by using PD as a

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