



# Putting the “psychic” Back in Psychic Distance: Awareness, Perceptions, and Understanding as Dimensions of Psychic Distance



James Nebus<sup>a,\*</sup>, Kah Hin Chai<sup>b</sup>

<sup>a</sup> Strategy and International Business Department, Sawyer Business School, Suffolk University, 8 Ashburton Place, Boston, MA 02108, United States

<sup>b</sup> Department of Systems and Industrial Engineering, National University of Singapore, Singapore

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## ABSTRACT

Unlike the IB literature whose emphasis within the term ‘psychic distance’ has been more on “distance” and less on “psychic,” our starting point is all “psychic” and no “distance,” assuming distance is defined as the difference between two countries. We propose that psychic distance be centered on the firm’s managers and explain how their cognitive limitations, perceptions, heuristics, and experiences interact with a foreign environment to influence their decision making. We replace the conventional definition of distance with the cognitive dimensions of managerial *awareness*, *perceptions*, and *understanding*. *Awareness* captures the manager’s consciousness of foreign context elements relevant to the firm’s decision, *perception* is the manager’s interpretation of the extent of these relevant environmental elements, and a manager’s *understanding* captures the relationships among these context elements and the firm’s decision. We argue that a multidimensional psychic distance construct is necessary as many of distance’s problems are due to the illusion it promises of capturing a manager’s perception of a complex foreign environment in a single number. Our approach eliminates distance’s problems of symmetry and linearity. It also eliminates the constraint that distance is only associated with negative outcomes. After explaining the theoretical value of *awareness*, *perception*, and *understanding* by developing propositions predicting context traps, we present our operationalization of psychic distance.

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## 1. Introduction

The IB literature of the past thirty five years which addresses the concept of ‘psychic distance,’ and its offshoot ‘cultural distance,’ can be characterized as nothing short of prolific, pervasive, and provocative. The literature is prolific as more than seventy nine empirical studies include psychic or cultural distance as an antecedent or moderator (Harzing, 2004; Kirkman, Lowe and Gibson, 2006; Tihanyi, Griffith and Russel, 2005). It is pervasive as it has been used to explain many different outcomes in different literature streams from entry mode (Kogut and Singh, 1988; Morosini, Shane and Singh, 1998; Reuss and Lamont, 2009), export behavior and trade flows (Brewer, 2007; Dow, 2000; Dow and Karunaratna, 2006), sequence of internationalization (Nordstrom and Vahlne, 1994), to strategy (Sousa and Bradley, 2005) and organizational performance (Evans and Mavondo, 2002; Holzmüller and Kasper, 1991). Finally, it has been provocative in that there have been no less than twelve theoretical articles whose sole purpose is criticizing or commenting on the psychic, or cultural, distance construct or its operationalization (Bae and Salomon, 2010; Drogendijk and Zander, 2010; Evans, Treadgold and Mavondo, 2000; Shenkar, 2001, 2012; Shenkar, Luo and Yeheskel, 2008; Smith, 2010; Stöttinger and Schlegelmilch, 2000; Tung and Verbake, 2010; Zaheer, Schomaker and Nachum, 2012). Our paper is positioned within the stream of literature on comment and critique of psychic distance, but it differs from this previous literature in three ways.

\* Corresponding author. Tel.: +1 617 973 5366.

E-mail addresses: jnebus@suffolk.edu (J. Nebus), iseckh@nus.edu.sg (K.H. Chai).

First, our view differs from IB literature whose emphasis within the term ‘psychic distance’ has been more on “distance” and less on “psychic.” Our starting point for examining psychic distance (PD) is with a model that is all “psychic” and no “distance,” at least as the literature defines distance as the difference between two countries. We propose a model of PD which is centered on the firm’s managers and explains how their cognitive limitations, perceptions, heuristics, and experiences interact with a foreign environment to influence their decision making. We argue to replace distance with the cognitive dimensions of managerial *awareness*, *perceptions*, and *understanding*. *Awareness* captures the manager’s consciousness of foreign context elements relevant to the firm’s task, *perception* is the manager’s interpretation of the extent of relevant elements in the environment, while a manager’s *understanding* captures the relationships among these context elements and the firm’s decision. Our approach solicits from the manager those foreign environmental elements which are most relevant for a given decision. We argue that a multidimensional PD construct is necessary as many of distance’s problems are due to the illusion it promises of capturing a manager’s perception of a complex foreign environment in a single number. Our approach eliminates distance’s well accepted problems of symmetry and linearity (Shenkar, 2001). It also eliminates the constraint that distance is only associated with negative outcomes (Drogendijk and Zander, 2010).

Second, we demonstrate the theoretical value of *awareness*, *perceptions*, and *understanding* dimensions of PD through a set of propositions which increase the depth of explaining the negative outcomes associated with the environment and human decision making. We do this by explaining specific, practical, but universal problems of context–context traps. Context traps, pitfalls associated with context, occurs because individuals misperceive, are oblivious to, or don’t understand the environment. The “trap” results in a product, service, asset or knowledge being transferred across contexts, even when doing so changes its meaning or alters its function. The consequence is that products or services which are meaningful, valid, and useful at the original context may be meaningless, not valid, or even worse – dysfunctional – when applied in the destination context (Doz and Santos, 1997; Doz et al., 2001). Our research question in this section is why does human decision making cause managers to fall into context traps? We identify specific context traps that occur due to characteristics of both human decision makers and their context.

Third, we realize that this cognitive perspective also comes at a cost – measuring human perceptions of the environment and capturing a person’s understanding of relations among them is perhaps the most difficult and laborious of methods. Hence, we examine what it costs to put the “psychic” back in psychic distance by comparing the methods necessary for our cognitive model to other approaches in the literature. We do not hold our proposed PD operationalization as the one solution that fits all research studies. Our view is that there is room under the umbrella concept of PD for multiple sets of alternative methods, indicators, and measures of the environment depending on theoretical and empirical trade-offs among simplicity, generalizability, and accuracy (Weick, 1979). The point not to be overlooked is that each trade-off toward simplicity is accompanied by assumptions that open the door for alternative explanations. We compare these assumptions among different measures of PD found in the literature with the PD model described herein.

This remainder of this paper is organized in five sections. The next section argues our impetus for a cognitive perspective of PD and discusses the extant PD literature categorized according to PD’s operationalization. The third section introduces the dimensions of our PD construct. The fourth section explains the theoretical value of awareness, perception, and understanding by developing propositions predicting context traps. The fifth section discusses the methodology associated with our operationalization of PD.

## 2. Psychic distance – “the inconsistency perpetuated over time”

An apt starting point for this paper on psychic distance is Harzing’s (2004: 103–104) conclusion in her critique of the literature on cultural distance (CD) and entry mode:

“Most studies in this field have succeeded in completely removing the manager(s) who make(s) the entry mode decision from the equation. First, no researcher in the field ever seems to have bothered to ask managers whether CD was a factor that influenced their entry mode decisions. Second, if experience with other cultures was included at all as an independent variable, it was aggregated at the company level. However, companies do not make decisions, individuals do.”

Harzing makes three arguments that are points of departure for our theory development. These arguments and their implications form the premise for our measurement model of the psychic distance construct:

1. Managers (not firms or firm home countries) should be at the center of the psychic distance construct and its operationalization. Certainly, the firm is an important context for managers and provides resources for their actions, but in the end managers make the decisions.
2. Managerial decision making is the process or mechanism through which psychic distance influences firm outcomes. Therefore, PD should capture a manager’s perceptions of those environmental elements that influence his or her decision.
3. Managers have a wide variety of experiences. The implication is that they have different perceptions, biases, and knowledge of the foreign business environment. PD should capture the individual manager’s relevant perceptions, familiarities, and anxieties.

To this we add a fourth premise which is rarely stated, and thus often overlooked, because studies commonly focus on only one type of outcome or decision:

4. The nature of the decision (e.g. the decision whether to export, or the decision whether to initiate an efficiency seeking investment) will cause different aspects of the foreign business environment to be relevant to the decision. PD should capture the manager’s perceptions of those elements of a foreign environment that are most relevant to the decision which affects the

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