

## Psychic distance, its impact and coping modes Interpretations of SME decision makers

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### Abstract:

- This paper adopts an interpretative focus in addressing SME decision makers' perceptions of psychic distance. It draws on empirical evidence from British SMEs exporting to Brazil. The study also addresses the hitherto neglected question of how SMEs cope with the difficulties of engaging in international business with psychically distant countries. It discusses the implications of its cognitive approach and findings for further research and conceptual development.
- Results indicate the relevance of a broad-based multi-dimensional interpretation of psychic distance. Distance dimensions also have a differential impact on doing business with Brazil, although a strong socio-institutional cluster appears. Further exploration of the understandings that SME decision-makers have of psychic distance-related impacts and the possibilities of coping with these, illustrate how they attempt to bridge psychic distance features or adopt avoidance measures.

**Keywords:** Brazil · Coping strategies · Exporting · Interpretation · Psychic distance · SMEs · UK

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## Introduction

Studies in psychology demonstrate that human beings tend to avoid unfamiliar situations compared with familiar ones (e.g., Powell/Ansic 1997). In the theory of international trade and investment, the idea of 'psychic distance' implicitly captures this insight by suggesting that the perceived differences between the characteristics of a firm's domestic environment and those of a foreign country generate uncertainties among business decision-makers which may discourage the firm's international diversification into that country.

Despite the inherent reasonableness of this proposition, psychic distance is a concept with a long and patchy history, and it has been written off more than once (e.g., Stöttinger/Schlegelmilch 1998). Its study has suffered from various handicaps, one of them being the limited attention that has been given to the 'psychic' side of the concept. Previous studies on psychic distance have focused on differences between countries and have mainly relied on questionnaire survey data (e.g., Klein/Roth 1990), 'expert' respondents (e.g., Dow 2000) or national indicators (e.g., Dow/Karunaratna 2006), while failing to examine the cognition of relevant decision makers in any depth (Stöttinger/Schlegelmilch 2000). The neglect of the cognitive dimension is a significant omission, given that perceptions and understandings of decision-makers represent the core feature of the psychic distance concept (Evans/Treadgold/Mavondo 2000). Furthermore, it is specific individual decision-makers whose perceptions and skills in overcoming psychic distance are consequential for the international expansion of a firm. Therefore, there is a case for studying the role of psychic distance in greater depth within the reasoning of executives who have decided to diversify internationally.

This paper reports a study of how executives in British small and medium-sized enterprises [SMEs] with a business interest in Brazil perceived aspects of distance between the two countries and the ways in which psychic distance impacted on their business with Brazil. Its primary aim is not to develop or validate a new psychic distance construct but, rather, to allow respondents to unpack the concept and to articulate the relevance of its constituent dimensions. The findings indicate how psychic distance can be interpreted in more differentiated and subtle ways than has generally been recognized. A further contribution lies in the demonstration that some dimensions of psychic distance have greater impact on the conduct of international business than do others. Thirdly, the study shows that, although they have limited resources, even small firms may be able to cope with the barriers posed by psychic distance through conscious managerial action.

The following section briefly reviews the history of the psychic distance concept, arguing that its relevance has been masked by questionable methodological and theoretical assumptions. The scope and method of the research is then described, followed by a presentation of its findings. Their theoretical and practical significance are discussed and their contribution to knowledge summarized.

## Psychic distance: history and problems

It is generally accepted that Beckerman (1956) coined the term 'psychic distance' when analysing factors that impact upon the level of trade between countries. Although Beckerman mainly addressed economic distance in terms of transport costs, he suggested that psychic distance was also relevant in terms of factors such as the knowledge of foreign markets gained through personal contacts. Others, in the meantime, continued to define distance in terms of geography or transport costs (e.g., Linnemann 1966, Leamer 1974). Gruber and Vernon (1970, p. 260) were sceptical about identifying distance with transport costs alone, and argued that the concept should also incorporate 'other frictions associated with distance, such as limitations on businessmen's knowledge about sources and markets'. This broader approach was first applied empirically in studies of the internationalization of Nordic multinationals, which are widely accepted as the starting point for research on the concept of psychic distance within international business (Johanson/Wiedersheim-Paul 1975, Johanson/Vahlne 1977).

Johanson and Wiedersheim-Paul (1975, p. 308) defined psychic distance in terms of 'factors preventing or disturbing the flows of information between firm and [foreign] market'. They identified differences in language, culture, political systems, level of education, and level of industrial development as examples of such factors, though their empirical work relied primarily on geographical distance. Johanson and Vahlne (1977) added differences in business practices to the list. Nordstrom and Vahlne (1994, p. 42) subsequently offered a modified definition as 'factors preventing or disturbing firm's learning about and understanding of a foreign environment'. Although the Nordic studies employed factual rather than cognitive indicators of psychic distance, their definitions imply that limitations on the ability of business decision makers to know about or understand a foreign environment will add to uncertainty about that environment. As Evans and Mavondo (2002) point out, such uncertainty is not the same as distance. The link between the two is denoted by the 'psychic' aspect of distance, namely how the distance and its consequences are perceived and interpreted. As Evans and her colleagues also comment, 'it is the mind's processing, in terms of perception and understanding, of the cultural and business differences that form the basis of psychic distance' (Evans/Treadgold/Mavondo 2000, p.165). This justifies the definition of psychic distance we shall adopt, namely the distance that is *perceived* to exist between characteristics of a firm's home country and a foreign country with which that firm is, or is contemplating, doing business or investing. Stöttinger and Schlegelmilch (2000) note that relatively few studies have taken account of the perceptual component of psychic distance, despite the inherently cognitive nature of the concept. In order to contribute towards filling this gap in the literature, the focus of investigation we adopt is that of the organizational decision maker.

The limited exploration of decision makers' perceptions in studies of psychic distance is one problem with the way the concept has been operationalized. Another lies in the temptation to summarize it unduly. The early studies postulated a range of dimensions that might enter into psychic distance, such as differences in culture, language, political and legal systems, level of education, industrial development and business practices (e.g., Carlson 1974, Johanson/Vahlne 1977, Johanson/Wiedersheim-Paul 1975). Nevertheless, the attractions of parsimony made it tempting to assume that psychic distance could be

captured through a single indicator or at least a single composite indicator (Dow 2000). Thus in subsequent studies, cultural distance was commonly used as a proxy for psychic distance (e.g., Kogut/Singh 1988, Benito/Gripsrud 1992). In their review of fifty-nine empirical studies on psychic distance, Magnusson et al. (2005) found that approximately half of them used Kogut and Singh's index of cultural distance.

However, the use of cultural distance as a proxy for psychic distance entails making heroic assumptions that (1) culture is the most significant distance factor for decision-makers dealing with trade and investment decisions in firms, and that (2) culture is closely associated with other distance factors so justifying the concept's operationalization in terms of a single dimension. Although there is evidence that under certain conditions cultural distance does have an impact (Tihanyi et al. 2005), a uni-dimensional emphasis on culture as an explanatory variable limits our understanding of other cross-national differences and their potential relevance to firm internationalization (Ronen/Kraut 1977, Shenkar 2001). Evans and Mavondo (2002, p. 17) comment that 'the lack of conclusive findings when using one item to measure psychic distance has resulted in questions regarding its explanatory power'. Some authors have suggested that other aspects of country difference be taken into account, such as language and institutional differences (Harzing 2003), competitive environment and industry structure (O'Grady/Lane 1996). They argue that the full explanatory power of psychic distance can only be revealed when its individual constituent components are measured. Indeed, in their recent quantitative study on the effects of eight different components of psychic distance, Dow and Karunaratna (2006) found culture to be statistically the least significant factor, which further underlines the importance of reviving a multi-dimensional concept of psychic distance.

Psychic distance has been studied primarily as a predictor of foreign market entry and export development (e.g., Dow 2000, Evans/Treadgold/Mavondo 2000, Mitra/Golder 2002). The pioneering studies of Johanson and his colleagues developed the proposition that internationalization proceeds through stages of increasing psychic distance. Subsequent research, however, has indicated that the stages theory itself does not always apply, for example, to 'born global' small entrepreneurial firms (cf. Knight/Cavusgil 1996, Rialp/Rialp/Knight 2005) or to firms from emerging economies seeking to 'catch up' with established multinationals through the accelerated learning that entry into psychically distant developed economy markets can provide (Child/Rodrigues 2005). Disconfirmation of the stages theory might therefore be thought to weaken the analytical contribution offered by the psychic distance concept. However, what it actually disconfirms is the assumption that psychic distance generates uncertainties which business people *are unwilling to tackle*. Thus, the attractiveness of some foreign markets in terms of their size and growth rate might be sufficient to offset, in the judgment of business decision makers, the uncertainties and risks associated with psychic distance. Johanson and Wiedesheim-Paul (1975) themselves admitted that foreign market size may independently influence decisions in the internationalization process. This possibility directs our attention to the specific problems that firms associate with psychic distance in markets they have already entered or to the ways in which they endeavour to overcome such problems. We actually have relatively little knowledge about how firms might deal with problems associated with psychic distance *once they have become engaged* in business with a foreign country.

Another limitation of much existing research is that it does not take account of the special difficulties that smaller firms are likely to experience in coping with the impact of psychic distance. Compared to larger firms, SMEs are relatively deficient in the resources required to cope with the uncertainties of internationalization (Buckley 1989, Fujita 1998). These deficiencies are not confined to finance and technology; they may also include limited information about the attributes of potential locations for international diversification and a lack of staff to conduct relevant business development work. Their small size also reduces their negotiating leverage. These limitations constitute a 'liability of smallness' (Aldrich/Auster 1986). In addition, SMEs tend to have less experience of foreign transactions compared to MNCs (Lamb/Liesch 2002) and in this respect face a 'liability of newness' (Freeman/Carroll/Hannan 1983). Because of these disadvantages, SMEs are likely to face greater problems in overcoming the 'liability of foreignness' and meeting its attendant costs (Zaheer 1995) than do MNCs possessing greater size, resources, experience, visibility and potentially valuable connections. Moreover, the centralized mode of control and decision-making often found in smaller firms (Child 1973) may present further difficulties for managing a distant operation.

Thus, new-to-market companies have to unlearn and learn new ways of doing business in foreign territories, the perceived 'foreignness' of which can be indicated in terms of psychic distance. Coping with this challenge incurs transaction costs which for a small firm may be both disproportionately heavy and difficult to avoid. Many of the elements of psychic distance identified in the literature concern embedded aspects of the foreign business environment that it may be difficult to change, such as regulations specified by legislation. Only large MNCs have the possibility of influencing host governments to change such issues through political representation. National associations expressing a collective voice on behalf of SMEs usually cater for their own nationals rather than foreign firms. This suggests that, in order to reduce the impact of psychic distance, SMEs will have to resort to more informal means such as engaging in the local culture by building trust relationships with local partners or possibly find ways of avoiding or evading the problems. Overall, these considerations imply that psychic distance and its impacts on doing business abroad are likely to impinge more on SMEs than on larger firms, and that it is therefore particularly important to study the phenomenon in relation to SMEs.

These limitations in existing work may have obscured the full significance of psychic distance for SMEs engaging in international business. They leave several questions to be addressed, especially concerning the executives who actually make decisions about the internationalization of their firms. One longstanding but still open question is how such decision makers make sense of psychic distance and in particular whether they distinguish between different constituent dimensions of the construct. If they do, then the question arises as to the significance that executives attach to different psychic distance dimensions in terms of their potential impact on conducting business abroad. If executives regard psychic distance as having an impact on practice, a third question follows, namely how they cope with the difficulties that it may present for their foreign business.

We believe that addressing these questions can contribute a better understanding of how decision makers interpret different dimensions of psychic distance, *and* how they apply this interpretation to the management of their business with the respective foreign country. Our assumption is that an understanding of the way managers conduct interna-

tional business has to be informed by an appreciation of how they perceive the situations in which they operate. This orientation towards the cognitive aspect of psychic distance is consistent with the argument that strategic choice and managerial intentionality should be incorporated into studies of internationalization (Hutzschenreuter/Pedersen/Volberda 2007).

## Scope and method

This paper addresses the three questions we have posed through a study of the views and reported experiences of leading executives in British SMEs exporting to Brazil. Brazil is a potentially attractive foreign market as one of the four large emerging economies, the BRICs (Goldman Sachs 2003). It is, however, a country for which *prima facie* one would expect British business people to perceive high levels of psychic distance. It may be viewed as psychologically different by British firms because of the mutually low familiarity with each country's language and culture, high geographical distance and the bureaucratic complexities of the Brazilian regulatory system. Bureaucratic restrictions are largely responsible for the fact that Brazil is a relatively costly country into which to export goods (World Bank 2006a, 2006b). In 2006, Brazil ranked only 45<sup>th</sup> out of 82 economies in terms of being a business-friendly environment (The Economist 2006). Previous comparative research had also suggested that respondents from a range of developed countries tended to ascribe relatively high psychic distance to Brazil (Stöttinger/Schlegelmilch 1998). Brazil therefore presents a suitable case for examining the presence of psychic distance and its impacts.

The primarily qualitative methodology we adopt is consistent with Stöttinger and Schlegelmilch's (2000, p. 172) suggestion that 'a more qualitative approach to capturing the various facets of the construct may represent a promising starting point'. The study reported here serves to clarify the psychic distance concept and to indicate its impact. We defined psychic distance as decision makers' perceptions of how different the Brazilian business environment is from that of the UK in terms of aspects likely to have relevance for doing business with Brazil. As a point of departure for eliciting their perceptions of psychic distance, respondents were presented with the schedule shown in the Appendix. This lists 12 factors of 'distance' and asked how much *difference* they perceived along each dimension between UK, their domestic country, and Brazil, using a five-point Likert-type scale. In each case, they were also asked to elaborate on their responses and in particular to describe the nature of any differences they noted. The 12 dimensions were derived from an examination of available literature, especially the pioneering Nordic studies, and from experience with a previous more limited list in research into internationalization among Hong Kong Chinese family businesses (Child/Ng/Wong 2002, Wong 2002). The overall framework within which the 12 dimensions is located was informed by Ghemawat's (2001) 'CAGE' classification of distance between two countries into cultural, administrative, geographic and economic factors. His classification is a relatively comprehensive one. Thus cultural distance includes differences in language and social norms; administrative distance includes differences in political system, government policies and institutions; and economic distance includes differences in income levels,

infrastructure, human and other resources. Dow and Karunaratna (2006) also employ a relatively comprehensive multi-dimensional set of 'psychic distance stimuli', covering culture, language, education level, level of industrial development, political system, religion, time zone and previous colonial ties, albeit their analysis was at the country rather than firm level. Since the terms we used for each dimension are not obscure, we decided not to define them for fear of unduly constraining interviewees' responses.

In addition to questions on *perceived difference*, the interviewees were asked how much *impact* they perceived each dimension to have on their business with Brazil. They were asked to articulate the reasons for the answers they gave, and how their firms responded to problems which they said psychic distance presented for their business with Brazil. It will be seen that sometimes an effective response had not been found. All the interviews were tape-recorded and they provide qualitative insights into the psychic distance perceived between Brazil and the UK, its business relevance, and possible adjustment modes. Since the ways in which the firms responded to psychic distance-related problems were discerned from qualitative comments, these were coded independently *post hoc* by the first two authors and any divergences were subsequently reviewed in order to achieve an agreed threefold classification mentioned on page 18 below. In reporting our findings, we shall first present the relatively simple quantitative statistics and then explore the meanings behind them.

The study covers 32 British small and medium-sized firms [SMEs]. Their key characteristics are profiled in Table 1. All of the firms were exporting to Brazil, or actively attempting to enter that market, and some had established offices in Brazil as well. Every firm was personally visited between November 2004 and October 2005, and 37 in-depth interviews conducted with the person(s) responsible for decisions on the firm's involvement with the Brazilian market. Due to the small size of the firms, in 16 cases the interviewee was the CEO. Each interview was tape-recorded and usually lasted for about 90 minutes; normally about one-third of this time was taken up with the questions concerning psychic distance discussed in this paper. Seventeen of the firms were manufacturing and fifteen were providing services.

Due to a recent acquisition, one firm marginally exceeded the European SME upper threshold of 250 employees.<sup>1</sup> The firms' proportion of total sales value arising outside the UK averaged 61.7 percent, and only nine of them relied on the domestic market for more than 50 percent of their sales. On the whole, they were committed and experienced exporters. If we exclude one very small education information service provider having 100 percent of its sales from Brazil, none of the SMEs relied heavily on the Brazilian market – the highest proportion of total sales by value arising in Brazil was 10.5 percent and the average was only just over 4 percent. Six firms were in the process of entering the Brazil market and four subsequently decided to withdraw from it. They had not, on the whole, had a long engagement with Brazil, with an average of only 4.6 years since their first contact there. Their profile indicates that most of the firms were at a relatively early stage of learning about Brazil. This leads to the expectation that the psychic distance their executives attach to Brazil will be quite high and be seen to have a significant impact on their ability to do business there.

**Table 1:** Profile of Firms (N=32)

Parameter	Profile
Employees	Range: 2–300 Average: 72.5
Annual sales turnover (£m)	Range: 0.04–16.0 Average: 5.7
Percentage sales exported	Range: 10–100 Average: 61.7
Percentage sales exported to Brazil	Range: 0–100 Average: 6.9

## Findings

### Multidimensionality of psychic distance

Table 2 presents descriptive statistics, Pearson correlations with a probability of 0.5 or less on a two-tailed test, and Cronbach Alpha scores for the dimensions of psychic distance. It is immediately evident that relatively few of the different psychic distance dimensions are correlated at a level that is unlikely to have occurred by chance. Internal reliability analysis also indicated a relatively low level of clustering between the 12 items ( $\alpha = 0.69$ ). The Cronbach Alpha value improved somewhat (to  $\alpha = 0.76$ ) when four distance items were removed: geography, language, education, and regulations. Although it could be argued that the remaining eight items form a cluster, it is a relatively weak one. This means that a substantial amount of variance among items would be discounted if they were aggregated into a single scale. Moreover, according to these data it would be unwarranted to reduce psychic distance to cultural distance. Indeed, cultural distance was only related to two other psychic distance dimensions, namely legal system and business practices. This is consistent with the conclusion reached by Dow and Karunaratna (2006, p. 91) from a recent macro-level study, namely that ‘the Hofstede measures of cultural distance are, at best, a minor component of a much broader set of psychic distance stimuli’. On balance, it therefore appears to be appropriate to accept the original multi-dimensional delineation of the concept.

There is further support for a multi-dimensional approach to psychic distance in the descriptive statistics. The mean scores given by respondents for the various psychic distance dimensions are far from uniform. The greatest distances tended to be perceived in language, regulations, and legal system. Other dimensions for which the mean was above the mid-point of the scale were culture, logistics infrastructure, and geographical distance. By contrast, relatively low distance was perceived for level of technical development and level of education. A number of respondents pointed out that the sections of the Brazilian population with which they had business dealings were well educated and technically advanced, and that this influenced the low distance scores they gave. They were aware that low distance on these dimensions did not apply to Brazil as a whole. For example, the CEO of a firm advising on medical regulations commented that:

**Table 2a:** Means, Standard Deviations, and Statistically Significant ( $p < 0.05$ , Two-tail Test) Correlations between Psychic Distance Items

Psychic Distance Items	1	2	3	4	5	6	7	8	9	10	11	12
1 Geography	–											
2 Culture		–										
3 Language			–									
4 Level of education				–								
5 Level of technical development					0.66	–						
6 Level of economic development						0.38	0.57	–				
7 Logistics infrastructure								–				
8 Political system									–			
9 Legal system							0.43	0.46		–		
10 Regulations										0.39	–	
11 Business practices												–
12 Business ethics									0.40	0.38		–
<b>Mean</b>	3.09	3.16	4.03	2.31	2.19	2.81	3.16	2.75	3.41	3.84	2.72	2.81
<b>Standard Deviation</b>	1.17	1.17	0.82	1.20	1.18	1.20	1.46	1.22	1.16	1.22	1.20	1.28

N=32. Decimal points omitted for correlations

A lot of people that we see in companies in medical device factories in Brazil are pretty poorly educated, but, against that, a number of people at my sort of level within a company will have two or three degrees. They will be a doctor and a lawyer. So you’ve got a lot of big differences [within Brazil] ... There’s a lot of people who have a fairly low level of education; there’s a lot of people who seem to have a much higher level of education.

Some respondents added further qualifications that could usefully be incorporated into future psychic distance research. For instance, several commented that distance from the UK in terms of culture is far less in the case of cosmopolitan cities such as Sao Paulo than for other parts of Brazil. The fact that respondents not only differentiated between psychic distance dimensions but also between the extent to which they applied to different areas or segments of Brazil points to an opportunity to refine psychic distance measures so that they are applied more specifically to those parts of foreign countries which are relevant to respondents. A further opportunity for operational refinement emerged from the fact that (as illustrated later on) the majority of respondents interpreted ‘logistics infrastructure’ to mean institutional rather than physical barriers to the flow of goods and services.

Examination of the interviewees’ own discourses served to substantiate the quantitative distinctions they made between different aspects of psychic distance between Brazil and the UK. For example, on average the distance between the two countries’ political systems was seen to be less than that between their regulatory systems. Typical comments on the former were:

**Table 2b:** Cronbach Alpha Scores for the 12 Items of Psychic Distance

Psychic Distance Items	Alpha if item deleted ( $\alpha=0.69$ for all items)	Alpha if item deleted ( $\alpha=0.76$ for 8 items shown)
Geography	.72	–
Culture	.67	.74
Language	.71	–
Level of education	.71	–
Level of technical development	.65	.74
Level of economic development	.65	.73
Logistics infrastructure	.66	.72
Political system	.68	.74
Legal system	.65	.70
Regulations	.71	–
Business practices	.68	.74
Business ethics	.69	.74

- ‘It’s a nice, happy, stable, comfortable environment. It’s on an even keel’.
- ‘Brazil now certainly seems to be far more politically stable’.
- ‘I would see greater stability in Brazil as compared with the UK’.

whereas views on Brazilian regulations included:

- ‘We find regulations a biggie ... the regulations are constantly changing’.
- ‘Regulations in general is a huge issue. I gave it a 5 and the main reason I rated that at 5 was because there are very strict regulations to follow’.
- ‘Regulations? Well, there are a lot of different regulations over there and it did affect our business’.

Because the people interviewed already had experience of Brazil, at least in terms of having tried to break into its market, they found it difficult to assess psychic distance other than in terms of its applicability to their own business. The brief quotations just given illustrate this with respect to the dimension of regulations. This degree of familiarity with the focal foreign country may have contributed to a greater discrimination between different distance items than might be expected if the same questions had been asked before such familiarity had developed. Moreover, while an *a priori* view on some dimensions such as culture, language and political system could be informed through media exposure and general knowledge without any direct engagement with a foreign country, an assessment of other dimensions such as regulations and business practices cannot be so readily informed in advance of actual experience.<sup>2</sup> These considerations suggest that care needs to be taken to describe the precise fieldwork contexts in which questioning takes place when comparing the findings of different studies into psychic distance.

**Table 3:** Means, Standard Deviations, and Statistically Significant ( $p < 0.05$ , Two-tail Test) Correlations between Items concerning the Impact of Psychic Distance

Impact of Psychic Distance Items	1	2	3	4	5	6	7	8	9	10	11	12
1 Geography	–											
2 Culture		–										
3 Language			–									
4 Level of education			36	–								
5 Level of technical development		35		42	–							
6 Level of economic development	42				41	–						
7 Logistics infrastructure		53			47		–					
8 Political system						36		–				
9 Legal system	37			43		48	54	67	–			
10 Regulations				36					52	–		
11 Business practices		44	35	42		62	41	49	69		–	
12 Business ethics		33					69	56	64	37	51	–
<b>Mean</b>	2.19	2.34	3.28	1.59	2.19	2.25	2.63	2.16	2.16	3.25	2.25	2.41
<b>SD</b>	1.20	1.36	1.49	0.95	1.35	1.19	1.76	1.27	1.44	1.63	1.48	1.54

N=32. Decimal points omitted for correlations

#### Significance of psychic distance dimensions for business

The evidence of multi-dimensionality in the responses on psychic distance enables the second research question to be asked, which is whether all of the psychic distance dimensions were perceived to be equally significant for the conduct of business with a given foreign country – in this case Brazil. Table 3 presents descriptive statistics and Pearson correlations having a probability of 0.5 or less on a two-tailed test, for the *impact on doing business with Brazil* that interviewees attributed to each psychic distance dimension.

Generally, the mean scores for items denoting the impact of psychic distance dimensions were lower than those for the corresponding aspect of psychic distance itself. The largest gap between psychic distance and its impact was for the legal system, followed by geographical and cultural distance. While the psychic distance perceived to exist between the UK and Brazilian legal systems tended to be scored quite high, the perceived impact that this difference had on the firms' business with Brazil tended to be scored quite low. Judging by the comments made to us in the interviews and illustrated later, this appears to be importantly due to an almost universal determination not to get entangled with the Brazilian legal system and a perceived ability in many cases to rely on local Brazilian partners to deal with any legal issues should they arise. In regard to geographical distance, modern communications and ease of travel were often seen to minimize it – in effect 'compressing' it (cf. Child/Ng/Wong 2002).

In view of the attention that has been given in the literature to cultural distance, it may be noted that the average score for the impact of cultural distance fell well below the scale

mid-point. Many respondents commented to the effect that it was relatively easy to adjust to the easy-going and welcoming culture of Brazil, although it differed from British culture. For example, the Chairman of a company manufacturing rotary diamond dressers said that cultural adjustment was not a problem:

There is a difference, but you work with that cultural difference and you recognize it, so it's not important from that point of view ... It's a different dimension, something to learn from. So I see it as not a barrier, from that sense.

It is also relevant that only two of the companies were marketing directly to the general public in Brazil. Respondents often noted that the people they were dealing with in Brazil shared a similar educational and technical background to themselves, which further reduced the significance of cultural distance. It should also be borne in mind that the firms we studied were exporters, with only a few having their own local employees. Judging by comments made, the limited occurrence of Brazilian employees also helped to make differences in education level appear relatively inconsequential. It is possible that firms with substantial foreign direct investment and local workforces may attribute greater significance to cultural and educational differences.

While there were differences in the perceived impact of different psychic distance dimensions, the clustering among them as indicated by internal reliability analysis was substantially greater than for the indicators of psychic distance *per se* ( $\alpha=0.84$ ). The degree of clustering improved marginally (to  $\alpha=0.85$ ) if the impacts of geographical and language distance were removed. The tightest clustering was between the impacts of differences in legal system, political system, business practices, business ethics, and logistics ( $\alpha=0.86$ ). The impacts of differences in business ethics and logistics systems were strongly linked primarily, as we shall illustrate, because of the disruptive role that corruption was perceived to play. This pattern of clustering suggests a connection in the minds of respondents between the impacts on their business stemming from the distinctiveness of Brazil's institutional system and the impacts that arise from differences in its business ethics and practices. The role played by institutional characteristics points to this being primarily a 'social', rather than a 'cultural', impact factor. These results suggest that a considerable degree of uni-dimensionality emerges in psychic distance, when considering its perceived impact on international business transactions. It appears that the unifying factor here is that the 'social' distance factors all contribute to an increase of transaction costs.

The interviewees' comments illustrate the negative consequences they perceived this social impact factor to have for their business with Brazil. For example, the Managing Director of a company that inspects and certifies lifting equipment associated with the oil and gas sector related the following difficulties:

We were getting hit with more taxes and more charges. We were running into visa problems as we weren't getting to renew visas because they said "Well, you've got to prove your Brazilian contingency..." We'd a big problem when some of our equipment broke down when it was there and the charges to get it through customs on the way out and to get it back in were horrendous. In fact the only way to get through customs is to bribe them and as a company we don't do that. But we did

because we had to save ourselves and our job and get our job done ... It's a corrupt country I'm afraid. So it was very hard. It's been the hardest thing this company's ever suffered ...

The Managing Director of a company supplying machine tools and spares said:

My understanding from people I've met, legal people, is that agreements between the UK and Brazil first and foremost have to be in Brazilian law. Secondly, it seems to be more defending the Brazilian company or individual than it does to the UK. And if the legal agreement is signed it is very difficult to get out of it ... and also setting up a business in Brazil, if you set up a company it's very difficult to close a company.

An example of the perceived link between logistics and business ethics was provided by the Sales Director of a firm making powders for filters, who supplies to one large customer in Brazil:

We have had a whole 40 foot container load of goods held up by customs for over three months in Santos [the port for Sao Paulo]. Our customer can't get it shifted and we can't send out any more material to Brazil until the problem is solved because of the impact it would have on our cash flow. We are told that what the customs people want is a brown envelope, but I am not prepared to agree to that.

The local representative of an engineering consultancy company involved in the oil and gas sector described how local regulations could have a major impact on his business in Brazil. In his case, this was related to the need of his potential main client, a large Brazilian public company, to be seen to avoid accusations of corruption:

Regulations in general is a huge issue. I gave it a 5 and the main reason I rated that at 5 was because of the difficulties in getting contracts with X [Brazilian customer]. They have very strict regulations to follow and it's a pain to be hired by them. It's always a huge obstacle to overcome ... I'm trying to work out some ways to change the situation, but that's just an example of a huge barrier I have here and that's all related to regulations.

### Coping with difficulties related to psychic distance

The fact that the SMEs had decided to expand to Brazil despite difficulties associated with psychic distance raises the question of how they cope with the problems that arise. In order to address this question, we identified all of instances for which the interviewees had given a psychic distance impact score of 4 or 5; in other words above the mid-point of the scale presented to them. There were 104 such instances. However, six of these scores referred to positive rather than to problematic impacts. For example, Brazil's poor logistics systems were seen by a supply-chain consulting company as providing it with a major market opportunity. These six instances were excluded. Additionally, there were 13 instances in which respondents had given low scores to psychic distance-impact items because, as they explained, their firm had been able to cope with their potentially negative

implications. These were included in the overall count, giving a total of 111 instances of difficulties arising from psychic distance.

We examined the content of interview responses and classified them according to one of three categories of coping with a negative psychic distance impact. The first category is coping through a mechanism to 'bridge' psychic distance. This was often the help provided by an agent or distributor or a member of the firm's staff stationed in Brazil. We distinguished between bridging and the second category - avoiding. Whereas bridging involves reducing a transaction cost, avoiding involves averting a transaction cost or transferring the problem to other members of the firm's network. One firm for example, found ways around Brazilian regulations through insisting on payment in advance for goods or services provided. Usually bridging is motivated by the need to assess tacit knowledge or skills associated with the foreign markets which the exporting firms do not have, but locals do. While bridging involves designing solutions that require medium to long term commitment by a firm, avoiding is mainly short-term oriented and instead involves solutions that side-step problems. The third category is one of 'inability to cope', where the firm had not found an answer to the negative aspects of psychic distance.

In over half (52 percent) of the instances mentioned in the interviews, the firms were coping with the impact of psychic distance through various bridging mechanisms. In a small number of instances (13 percent), they had found ways of avoiding the negative effects of the impact. In over one-third of the instances, however, the negative impacts were posing a serious problem for the SMEs concerned, which had not found ways of coping with them. Table 4 indicates the modes of coping through bridging and avoiding psychic distance impacts that firms had adopted. These are illustrated by quotations from the interviews; examples of a failure to cope are also shown.

A common way of bridging psychic distance and its impact is through enlisting the help of a competent and trusted Brazilian agent, distributor or partner. In three-quarters of the firms visited, the significance of developing trust-based relations with local partners was mentioned spontaneously by interviewees, including some who had suffered losses and other setbacks due to a failure to establish mutual trust. Having a Brazilian agent, distributor or partner led to fewer reported difficulties due to differences especially in culture, educational level, logistics, regulations and business ethics. Some firms were directly employing their own Brazilian staff with the tacit knowledge to cope with local issues. This arrangement was again reported as working well in cases where trust was present, based on a strong identity with the firm, but it had failed in other instances where local staff has proved to be disloyal.

Although a 'relationship marketing' style can facilitate the bridging of psychic distance (cf. Abramson/Ai 1998), there is also a substantive side to it. The problem solving that bridging addresses may require access to tacit knowledge, such as an understanding of regulations, or to tacit skills such as drawing on local social capital, as comments in Table 4 illustrate. The latter includes a use of *jeitinho*, which has been defined as a particular way in which Brazilians are able to bend rules in their favour and overcome major obstacles. *Jeitinho* has been celebrated by many as flexibility in doing business and organizing. However, if stretched too far, *jeitinho* can raise serious legal and ethical issues in which foreign companies prefer not to get involved (Rodrigues/Barros 2002).

**Table 4:** Coping with Psychic Distance

<b>1. Bridging</b>		
<b>Mode of Coping</b>	<b>Needs</b>	<b>Illustrative Quotations from Interviews</b>
Reliance on agent	Tacit knowledge of foreign regulations and business practices	The answer to those questions would be, I'm sure, completely different if we didn't have a close friend on the ground over there advising us and guiding us through the maze of regulations.
	Tacit knowledge of the foreign culture	He shields me from a lot of the individual problems on the shop floor, or cultural problems. When you get there, I'll go into customers with him, there aren't real problems, it's like talking to you: they're Brazilian, you're Brazilian and ... excellent relationship, no great problem.
	Informal adaptation to foreign business norms	We operate on an entirely ethical level, but one has to recognize that in a lot of these markets the work of the agent is not the sort of work which we would want to be involved with.
Reliance on distributor and partners	Tacit knowledge of the foreign political environment	We're very much reliant on our distributor and our partners obviously to understand the political environment within that market and one would hope that they would be in a position to overcome whatever arose ... that whichever way the country went they would be in a position to overcome that.
Use of local professionals	Coping with the foreign institutional system	So, the bureaucracy. You need lawyers [in Brazil] for employment, you need lawyers there handling the financials in the business, bits and pieces. You need to have importation agents and things like that and you've really got to rely on those there. You've got to have local accountants and things like that.  You just have to understand how to do these things: deal with bureaucracy, accounting rules, handle employment issues, import license, visas, etc. So we'll need to recruit some local experts...there are rules and obviously you've got to follow them, and there are expenses to get solutions to it and it takes time. So, you've just got to make sure. It goes back to understanding how the system works.

**Table 4:** (continued)

<b>1. Bridging</b>		
<b>Mode of Coping</b>	<b>Needs</b>	<b>Illustrative Quotations from Interviews</b>
Reliance on employee from the target foreign market	Tacit knowledge of the foreign culture	Alex [a young Brazilian employee] facilitates my contacts with Brazil tremendously with communication...because even when people understand English they don't understand all the shades of the language. When it comes to making arrangements to meet people ... she made all the arrangements for me, that saved me hours, and I had the most effective time in Brazil I ever had.
<b>2. Avoiding</b>		
<b>Mode of Coping</b>	<b>Needs</b>	<b>Illustrative Extracts from Interviews</b>
Letter of Credit and Pre-payment	Safeguarding against non-payment	... if somebody wants to buy a product from me, if they can provide me with a Letter of Credit, if they can buy my products or pay for them before it leaves here...I'm not going to send anything to Brazil unless I've been paid for it.
Pre-payment	Safeguarding against non-payment and avoiding involvement in the foreign legal system	I wouldn't have a clue how the legal system in Brazil worked, but again, you know, when I speak to my potential customers in Brazil, you know, we're just talking about the "legal system" of buying my range of products. They make an enquiry, I make them an offer. They can have my product as long as they pay for it prior to leaving the factory ... So, you know, using that system, I hope I would never have to go into a legal system to get somebody to pay money.
Applying UK terms and conditions for sale	Safeguarding against contract default	As a company marketing statistical and scientific software, we always use UK terms and conditions for our business, and given the high visibility of its main customers, such as major banks and universities, we believe that a judgment against them in the UK would resolve any problems.
Indirect Sales to Foreign Market	Escaping regulatory and logistical problems	Any regulatory or legal issues are dealt with by distributors or direct customers, while logistical problems are avoided by using air freight which is economic for small, light high value products.
	Avoiding high tariffs	So we have a philosophy there of when we do the business that's down there, we get the orders actually placed through [major customer] and the other international contractors, outside Brazil. So the actual orders are cut outside

**Table 4:** (continued)

<b>1. Bridging</b>		
<b>Mode of Coping</b>	<b>Needs</b>	<b>Illustrative Quotations from Interviews</b>
Infringing Regulations	Escaping bureaucracy	Being an American owned company, [the company's owners] have an office in Mexico so if there aren't barriers between Mexico and Brazil we could legitimately go that route ... Visas are another ridiculous problem. So we fly to San Paolo as a tourist and then get an internal flight to Rio. Again it's illegal just like the equipment [being brought in]. They're forcing you to take these actions, but if you want to work there you've got to do what it takes.
<b>3. Non-coping</b>		
<b>Problem Area Encountered</b>	<b>Illustrative Extracts from Interviews</b>	
Geography	The geographical distance between us and Brazil creates considerable difficulties for servicing our installations out there in the oil fields. We haven't really found an answer yet.	
Culture	I've said 'can we just get down to business?' That's UK culture. You just can't do that in Brazil ... I find it incredibly frustrating because I just wanted to know - 'Do we have a deal or don't we have a deal? What are the time scales? What's the probability factor? That's been a big problem for me in trying to get the next deal done.	
Logistics	Things don't move. When we have shipped equipment in or put equipment into the system, it gets stuck in customs, it gets stuck in holding points across the border. We've tried it through Houston and we've tried it through the UK. Different people have tried it by getting all the paper work done on the Brazilian side as well as over here. It should be nice and smooth going through, but it never happens that way.	
Political System	It's the volatility there, what it's going to do to the currency, what it's going to do to the whole progress of development of Brazil. This is a really significant factor ... you want some degree of stability. I think that the political instability and political issues, that's a concern. I see there is a big political risk trading in Brazil.	
Regulations	To actually deal in business and understand the taxes and the charges and that, the licences you need, is very hard ... We went there [Brazil], you know, and it was an import license, then this licence, and that licence. We thought we had found out what we needed, but as we developed into the building, we then had more to pay. 'Well, now you've got this building you've got to pay tax for this.' It was never said upfront. Maybe we didn't ask the question, but we didn't know how to ask the question.	
Business Ethics	If you want something done in Brazil there's a way that will take a long time, which is the right way - it will take three or four months. And there's a wrong way: if you want something done quickly, you've got to pay for it. [Q. And if things are not done quickly?] You may definitely lose an order.	

One risk in doing business with Brazil, and elsewhere, is that of not being paid for goods or services supplied. Some of the SMEs were able to avoid the problem, either by enjoying a position in which they could insist on advance payment or by arranging for invoices to be paid outside Brazil. The advantage of having a strong market position in reducing risk of non-payment or other defaulting on transactions was evident for several firms. For example, a company marketing statistical and scientific software always insists on UK terms and conditions for its business. Given the high visibility of its main customers, such as major banks and universities, it believes that a judgment against them in the UK would resolve any problems. The fact that the company is the sole supplier for a number of major software producers strengthens its ability to insist on these terms and to avoid financial risks in doing business with Brazilian customers. Yet another way of avoiding uncertainties associated with currency restrictions in Brazil is to contract for goods or services outside the country, sometimes through an intermediary customer. A few firms had decided that the only way to avoid unusually severe institutional restrictions imposed by the Brazilian authorities, such as import tariffs and regulations, was to by-pass them even if this meant breaking local laws.

### Non-coping

In just over one-third of the instances where psychic distance dimensions were perceived to have a high and problematic impact on business with Brazil, the executives interviewed indicated that they had not found ways of mitigating that impact. Logistics and import duties were the specific issues for which an inability to cope were most often mentioned.

Despite the relatively high cultural distance between Brazil and the UK that interviewees tended to perceive, they rarely mentioned this as a serious impediment to doing business. Indeed, any problems that cultural differences presented were normally regarded as fairly easy to overcome given some sensitivity and the hospitable nature of Brazilian people. The main exception was two aspects of Brazilian culture that academics have also noted – ambiguity and a relaxed attitude towards time (Rodrigues/Barros 2002).

In conclusion, while a sizable minority of firms are unable to mitigate the impact of psychic distance dimensions, the data points to the ability of the majority of firms to bridge or avoid problems related to psychic distance. Indeed, the key dimensions where firms encountered greatest difficulties in mitigating impacts – logistics and import duties – were not among the traditional psychic distance dimensions identified in the psychic distance literature such as culture or geographical distance. Our findings, which point to a disjuncture between *perceived difference* on the one hand and *impact of psychic difference* on firm success on the other, may help to explain apparent anomalies in firm behaviour identified in the previous research on firm internationalization.

### Discussion

The focus of this paper has been on the cognition of the organizational decision maker, which has been previously neglected in the psychic distance literature. The opportunity

to engage in dialogue with the executives provided a number of insights not readily found in previous studies on the psychic distance concept. In view of the doubts that have been expressed about the concept of psychic distance, it is important to note that the executives questioned clearly found the notion of differences between their home environment and that of Brazil to be both meaningful and relevant. Face-to-face conversations with them demonstrated that they were able to articulate and elaborate on the dimensions of potential difference that we presented to them. The only one that was not interpreted as expected was 'logistics infrastructure', which the majority of respondents found meaningful in terms of institutional rather than physical barriers to distribution. Our evidence therefore indicates that the psychic distance concept remains robust and valid. This may not be a fresh insight, but it is a useful affirmation in view of the disparagement that the concept has received.

The opportunity to engage in dialogue with the executives also provided insights helpful to the future development of psychic distance research. Their views affirm the multidimensionality of the construct. They did not in the main perceive differences between Brazil and the UK to comprise a unified gestalt. Rather, they tended to see greater distance between the two countries along some dimensions than along others. Moreover, some went further to maintain that distinctions had to be made within Brazil when talking about that country's distance from the UK. While some of these within-country distinctions may be a concomitant of Brazil's very large size, others such as the distinction between cosmopolitan cities and smaller communities will also apply to other countries. These findings imply that, rather than attempting to reduce psychic distance to a single dimension or an aggregate score, further investigations should proceed in the opposite direction. They suggest that there is merit in adopting a methodology which allows respondents to proffer a more differentiated and subtle view of psychic distance. This necessarily more qualitative approach, of course, faces practical limitations concerning the sample sizes desirable for purposes of assessing generalizability. On the other hand if it does greater justice to the views decision makers actually hold, it may well address a salient weakness in psychic distance research, namely the concept's inconsistency as a predictor of international business behaviour.

Another potential reason for the inconsistency of psychic distance as a predictor of international business behaviour lies in the divergence between the degree of psychic distance perceived and the level of *impact* it is seen to have on doing business abroad. Some dimensions of psychic distance dimensions that tended to be scored quite highly, such as culture, were not perceived to have a correspondingly high impact. Our respondents pointed to two contingent factors that may moderate the impact of cultural distance. One is whether a firm is marketing directly to the general public in a foreign country, as opposed to supplying to personnel in other organizations whose comparable level of education and technical sophistication may well mitigate the impact of cultural differences. The other factor concerns the extent to which a foreign country's culture is accommodating in the sense of being friendly, flexible and open to foreigners. Cultural distance can therefore be high when generalizing to a country as a whole, but not necessarily central to the nature of specific business transactions and, in some countries, it can be relatively easy to accommodate to. This interpretation suggests that that relevant contextual and contingent factors need to be considered more carefully in the analysis of cultural effects,

particularly bearing in mind the considerable inconsistency that Magnusson et al. (2005) found among the results of studies that have related cultural distance to market entry mode or international business performance.

The potential connections between psychic distance and the conduct of international business have not generally been studied with respect to specific post-market entry issues. The present study has contributed new insights into how psychic distance *impacts* on operational aspects of SMEs' international business. It has, moreover, demonstrated variety in that impact. This provides further justification for treating psychic distance as a differentiated construct. At the same time, the scores given by respondents, and the comments they offered, indicate that they were aware of connections among the impacts of those distance dimensions that concern socio-institutional characteristics. These connections indicated the presence of a dominant factor underlying psychic distance impacts that was not evident for psychic distance scores per se. This 'social impact' factor appears to provide the common thread behind many of the difficulties that were experienced in transacting with Brazil. It is consistent with the view that contrasting business systems constitute the more significant environments for international business, compared to differences in culture (Whitley 1999, Hall/Soskice 2001, Whitley 2006). Our respondents generally regarded institutional differences as significant for their business with Brazil, partly because they were more intractable. A smaller foreign firm does not, of itself, normally have much leverage over officials. Institutional factors deserve to be accorded greater consideration in future research.

The widely expressed view that Brazilians were easy to relate with also appeared to help overcome a major distance factor, that of language. Language was the dimension generally regarded as having the greatest (negative) impact on doing business with Brazil. Levels of familiarity with each other's language tended to be very limited, although paradoxically competent interpreters and/or tolerant partners seemed to make this easier to bridge than socio-institutional differences. Objectively, a common language between countries is usually associated with a shared historical and institutional heritage, in a manner that can compress psychic distance (Child/Ng/Wong 2002). Our results suggest that, in the opposite case where there is little common history, institutional development or language between two countries, it is the institutional distance that will pose the greater practical problems. Nevertheless, further research into the status of language among the portfolio of psychic distance factors could be revealing. As Feely and Harzing (2002) observe, language is a neglected factor in international business research.

The tendency for the impact of psychic distance dimensions to be scored lower than those for the level of psychic distance itself suggests that even small firms may find ways of coping with the impact of some dimensions through conscious managerial action. The cognitive orientation we adopted provided insights into how the SMEs studied were able to 'bridge' or 'avoid' the negative impacts of psychic distance. The contribution that trusted business associates in Brazil could make to effective bridging was frequently mentioned, as were ways in which such relationships were initiated. It became clear that SME executives do not find it cost-effective or feasible to accumulate country-specific information and knowledge in-house. They do not have the capacity to employ specialists to do this or to engage expensive consultants for the same purpose. If they happened to have a personal command of such information this was an unusual bonus. These consi-

derations heighten the importance in their minds of securing such information through trusted social relationships with foreign associates.

This conclusion is consistent with the growing awareness of how trust-based networking is particularly significant for the successful internationalization of SMEs. It is also consistent with evidence that relationship marketing styles based on trust and harmony may be more effective in certain cultures, especially those of emerging economies in which traditional values are stronger and formal institutional alternatives are weaker (Abramson/Ai 1998). However, we know relatively little about how such networking is initiated and maintained (Zaheer/Harris 2006, Zain/Ng 2006). Our study suggests that this would be a worthwhile area for further investigation.

While the distinction between bridging and avoidance is sometimes rather tenuous, it is based on the difference between reducing and averting transaction costs, which appears to be conceptually sound and also worth pursuing further in future investigations. Moreover, avoidance is not necessarily easy to achieve, and some forms of it transgress laws and regulations and are therefore inherently risky. One of the contributions of this study is to add the idea of distance-avoidance to the analytical framework offered by Child, Ng and Wong (2002) in terms of distance-compression and distance-bridging as factors alleviating the problems or uncertainties associated with psychic distance.

This paper extends the scope of psychic distance discourse in several ways. Its findings suggest that the case of internationalizing SMEs requires a modified theoretical approach in which high risk and vulnerability combine with limited internal resources to make the finding of trusted partners abroad a very significant requirement for success in foreign markets. Although the risk and vulnerability are associated with the various 'liabilities' that SMEs face abroad, SMEs may also enjoy some advantages in establishing compensating trust-based foreign business relationships. For according to the SME executives interviewed, trust between their company and a foreign associate was virtually synonymous with trust between their key actors. In most cases, the SME and its foreign associate were effectively individuals, in line with the observations of Holmlund and Kock (1998). It was their CEOs or other senior managers who personally met and otherwise communicated with their partners in Brazil, and who developed social bonds with them. These SME actors developed close social ties with their Brazilian partners and often with their families as well. Virtually all of them were owners of their companies or shared in that ownership. The identity that the key actors had with their firms appeared to provide them with a special legitimacy, which in turn enhanced their trustworthiness. They could vouch personally for their firm's commitment. There was for them no distinction between principal and agent. Whereas in the case of a larger organization trustors might attribute the locus of control for the trustee's behaviour to his or her organizational role, this is much less likely for an SME where the locus of control is readily attributable to one or two individuals (Ring/van de Ven 1994).

We have analyzed psychic distance not only in terms of the perception of differences between countries, but also with reference to the capacity to cope successfully with these differences. The benefit of applying a broad-based perspective to psychic distance lies in how this can lead to a realization that some distance factors may be perceived as beyond the ability of a firm to handle due to their institutional embeddedness, while others can be mitigated or avoided. This leads on to a further contribution of this research, namely its

practical implications. The study suggests that from the point of view of the host country bridging may be the more constructive mode of coping with psychic distance. For avoidance involves short-term solutions, some of which may be illegal, and it requires less commitment from a foreign partner. Yet the relatively difficult business environment of countries like Brazil may encourage short-term solutions and commitment. Consequently, psychic distance is not simply a perception of the difficulties in pursuing international business in a particular country; it has a real manifestation through its consequences. Distrust and pessimism can encourage firms to divert their attention to other markets or simply divest. Therefore, we contend that research on the firm's capacity to cope successfully with inter-country differences should become an integral part of future studies on psychic distance. Otherwise, we run the risk that psychic distance alone may fail to explain apparent anomalies in firm behaviour.

## Conclusion

The evidence we have presented is that, far from being past its due date, psychic distance is a concept that deserves revival and development. Much of its apparent failure to have analytical or predictive utility probably stems from three main causes. One is the emasculation of the concept itself in terms of reducing it to a single dimension or a single overall measure that is insufficient to capture the complexities and subtleties of the concept or indeed of actual country characteristics. The present study has only begun to establish the case for tempering a uni-dimensional cultural orientation in the analysis of international business environmental differences with an appreciation of institutional factors. This is one line of enquiry that deserves to be pursued much further. A second cause lies in the failure to take adequate account of managers' cognitions and intentions. This had encouraged a neglect of their motivations and the actions they adopt to cope with the problematic impacts of psychic distance. A third problem lies in the general tendency to apply the psychic distance concept to decisions about export or foreign direct investment location choices, to the neglect of how it also points to the challenges that business people face once they have decided to engage with a given foreign location. Insofar as psychic distance points to operational difficulties, the ways in which these are interpreted are of considerable potential relevance to our understanding of international business. These and the other issues we have raised deserve further attention.

The study reported here is subject to a number of limitations that render its conclusions tentative rather than definitive. Above all, our research findings are based on the examination of psychic distance between two countries only and from the viewpoint of business people in just one of the two countries, and they draw on a limited number of interviews. However, while the small scale of the study and the country selection present methodological limitations, the current over-reliance on factual – often quantitative – data rather than cognitive data is unlikely to yield the same depth of insight provided by an understanding of the interpretations of relevant decision makers. Indeed, since the interpretation of psychic distance is of an inherently cognitive nature, the current analytical focus on country differences in terms of broad culture or geographical distance indicators can only provide a very incomplete view of the decision-making process within interna-

tionalising firms. To go further in understanding the basis on which fruitful collaborative relations can be established between potential international business partners – clearly a fruitful basis for bridging psychic distance – future studies should take account of *mutual* perceptions and the extent to which they may diverge. We have argued the case for pursuing a primarily qualitative, cognitive approach towards teasing out the ‘psychic’ side of psychic distance and we believe that this approach opens many exciting opportunities for future research, which will help us towards a better understanding of what psychic distance means for internationalising firms.

## Endnotes

- 1 It had 300 employees. By contrast, the upper employment threshold in the US definition of an SME is 500 employees.
- 2 There was, however, no systematic association between the length of business experience executives had with Brazil and their psychic distance scores.

## Appendix

Opening Questions asked of SME Interviewees concerning Psychic Distance between Brazil and the UK, and its Impact on their Business with Brazil.

Please evaluate the following features, using a scale of 1 to 5, where:

1 = ‘no real difference’/‘does not impact on my business at all’

5 = ‘very great difference’/‘impacts on my business very much’.

Respondents were then asked to elaborate on each answer, and their replies were tape recorded.

<b>Feature</b>	<b>Degree of difference between Brazil and UK</b>	<b>Extent to which it impacts on my business with Brazil</b>
Geographical distance		
Culture		
Language		
Level of education		
Level of technical development		
Level of economic development		
Logistics infrastructure		
Political system		
Legal system		
Regulations		
Accepted business practices		
Business ethics		

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