

Cultural Distance and Psychic Distance: Two Peas in a Pod?

Cultural distance and psychic distance are two concepts that are widely used in the international business literature. A large number of studies use both concepts interchangeably with no clear distinction between them. The authors propose a new model to assess cultural distance and psychic distance separately. Through the use of survey data of more than 300 managers, this article shows that both concepts are conceptually different and that psychic distance is determined by cultural distance and the individual values of the managers.

As markets continue to become global, a growing number of firms have increasingly committed themselves to search for growth opportunities beyond their home market. However, for a firm to go international, it must often venture into the unknown. As a result, a considerable number of scholars have been conducting research and publishing findings to help firms entering foreign markets. There is a general consensus in the literature that when firms decide to enter foreign markets, they must adjust to a foreign national culture and be prepared for challenges, such as differences in language, lifestyles, cultural standards, consumer preferences, and purchasing power (Albaum and Tse 2001; Lu and Beamish 2001; Peñaloza and Gilly 1999; Pornpitakpan 1999; Sousa and Bradley 2005). The psychic distance and/or the cultural distance concepts have been used in the literature to bypass the complexities of assessing these differences among markets (Clark and Pugh 2001; Eriksson, Majkgard, and Sharma 2000; Evans and Mavondo 2002; Grosse and Trevino 1996).

As a result, few concepts in the international business literature have gained broader attention than cultural distance and psychic distance. The concepts have been applied to a multitude of research areas, from foreign direct investment to firm performance (Benito and Gripsrud 1992; Evans and Mavondo 2002; Grosse and Trevino 1996) and from international joint ventures to the strength of network ties (Manev and Stevenson 2001; Park and Ungson 1997; Pothukuchi et al. 2002). In the literature, however, research on the importance of these concepts has been mixed (e.g., Benito and Gripsrud 1992; Evans, Treadgold, and Mavondo 2000; Lee 1998; O'Grady and Lane 1996; Stöttinger and Schlegelmilch

ABSTRACT

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1998). This appears to indicate that both concepts are poorly understood, and thus guidance to managers may be often confusing. For example, a large number of studies use the terms “cultural distance” and “psychic distance” interchangeably (Eriksson, Majkgard, and Sharma 2000; Fletcher and Bohn 1998; Peng, Hill, and Wang 2000; Sethi, Phelan, and Berg 2003; Shoham and Albaum 1995; Trabold 2002). However, using cultural distance or psychic distance synonymously is challenged by the findings of Nordström and Vahlne (1994), who report that the two concepts capture different phenomena. Nonetheless, these authors stress that though the two concepts address different phenomena, they are still related. Acknowledging this conceptual difference implies that cultural distance and psychic distance cannot be used interchangeably. To overcome the confusion in the literature, we propose that both concepts should be explained more fully and assessed separately.

The structure of the article is as follows: We begin with the theoretical background for this research. Then, we propose the conceptual framework and formulate specific research hypotheses. Next, we provide a description of the data collection process and the methods used to test the hypotheses. Finally, we present our results and conclude with a discussion of key findings and suggestions for further research.

THEORETICAL FOUNDATION

Although Beckerman (1956) and Linnemann (1966) use the term “psychic distance” in their research, studies of Nordic multinationals have been widely accepted as the starting point for research on this concept (Johanson and Vahlne 1977; Johanson and Wiedersheim-Paul 1975; Vahlne and Wiedersheim-Paul 1973). These Nordic studies posit that the extension of activities in the market is related to psychic distance, suggesting that firms enter new markets with successively greater psychic distance. Since then, the literature on the internationalization of the firm has identified psychic distance as a key explanatory variable regarding the firm’s expansion into foreign markets (Child, Ng, and Wong 2002; Johanson and Vahlne 1990; Nordström and Vahlne 1994).

Cultural distance has also received a great deal of attention in the international business literature (Barkema, Bell, and Pennings 1996; Kogut and Singh 1988; Pothukuchi et al. 2002; Shenkar 2001). Several frameworks have been advanced and used in the measurement of the extent to which different cultures are similar or different, such as that of Kluckhohn and Strodtbeck (1961) and Trompenaars (1993), the more empirical framework of Ronen and Shenkar (1985), and the managerial-based framework of Ghemawat (2001). However, the most comprehensive research to date on cultural dimensions is that of Hofstede (1980, 2001). Hofstede’s framework for understanding national differences has

been one of the most influential and widely used frameworks in international business studies. Its relevance is further confirmed by its continually increasing usage in the literature (Sivakumar and Nakata 2001). To arrive at a measure of cultural distance among countries, Kogut and Singh (1988) were the first to combine Hofstede's dimensions into one aggregate measure of cultural distance among countries. Many studies have subsequently used Kogut and Singh's formula or an adapted version as a measure of cultural distance (Agarwal 1994; Brouthers and Brouthers 2001; Grosse and Trevino 1996; Manev and Stevenson 2001; Morosini, Shane, and Singh 1998).

Probably due to their theoretical appeal, both psychic distance and cultural distance have been linked to a variety of important constructs. They have been used to explain the degree of adaptation of the international marketing strategy (Leonidou and Katsikeas 1996), the sequence of foreign investment (Benito and Gripsrud 1992), entry mode (Agarwal 1994), control over export channels (Bello and Gilliland 1997), and firm performance (Evans and Mavondo 2002), among others. As we indicated previously, a large number of studies also use both concepts interchangeably with no clear distinction between them. However, Nordström and Vahlne's (1994) work has questioned this practice. Nevertheless, some authors, though they acknowledge conceptual differences between cultural distance and psychic distance, continue to use these terms interchangeably (Peng, Hill, and Wang 2000; Trabold 2002). We argue that if cultural distance and psychic distance are acknowledged to be conceptually different, the assumption of equivalence that some researchers make and the consequent use of both concepts interchangeably should be considered inaccurate. In the next section, we discuss in more detail the psychic distance and cultural distance concepts by explaining the separate theoretical properties of each concept.

To enhance the understanding of psychic distance, it is necessary to analyze in detail the terms that constitute the concept: "psychic" and "distance" (Evans, Treadgold, and Mavondo 2000). "Psychic," a word derived from the Greek word *psychikos*, which means the mind or soul (Simpson and Weiner 1989), refers to something in the mind of each individual. The distance exists in an individual's mind and depends on how he or she perceives the world. Thus, it is the individual's perception of the differences between the home country and the foreign country that shapes the psychic distance concept (Sousa and Bradley 2005). Therefore, psychic distance cannot be measured with factual indicators, such as publicly available statistics on economic development, level of education, language, and so forth, as Vahlne and Wiedersheim-Paul (1973) and Luostarinen (1979) do.

Psychic Distance Versus Cultural Distance

To measure psychic distance, attention should be paid to the level of analysis at which the concept is assessed. Measurement of psychic distance at the national level may hide important variations (O'Grady and Lane 1996). Thus, the problems in the literature appear to be that current indexes measure psychic distance at a very high level of analysis. The individual's perception is an interpretation of reality and therefore is highly subjective. This means that psychic distance cannot be considered a construct that influences each person in a firm in the same way. Accordingly, the psychic distance concept should be applied at the individual level.

The cultural distance concept refers to the cultural level and not the individual level, as psychic distance does. The cultural distance concept is defined as the degree to which cultural values in one country are different from those in another country. Instead of assessing the individual's perception of differences, the cultural distance concept uses cultural values to assess the distance among countries and not individuals. Consequently, the cultural distance concept should be applied at the country level, not the individual level. Most researchers use Hofstede's (1980, 1991) framework to measure cultural distance. Using Hofstede's indexes to assess cultural distance, Kogut and Singh (1988) develop a composite index to measure the cultural distance among countries. Several other studies have based their estimates of cultural distance among countries using this method (Barkema et al. 1997; Benito and Gripsrud 1992; Li and Guisinger 1991; Rosenzweig and Nohria 1994).

Thus, the level of analysis is a key aspect in understanding our proposed distinction between these two constructs. To be assessed at the individual level, psychic distance must be derived from analyses of the scores of individuals, whereas cultural distance, which should be assessed at the cultural level, should be based on country means. Hofstede's (1980, 2001) indexes are based on the mean scores of the variables for each society. He refers to them as ecological correlations that should be applied at the cultural level (Hofstede 2001). The use of Hofstede's indexes at the individual level is flawed, as demonstrated by his own statement that the dimensions are meant to distinguish cultural groups or populations, not individuals (Hofstede 1998). This confusion about the level of analysis was signaled by Thorndike in 1939 and is known as the ecological fallacy. Therefore, to assume that a finding obtained at one level of analysis holds true at the other level is to commit the ecological fallacy (Hofstede 1980).

Consequently, the use of cultural distance as a synonym and proxy of psychic distance needs to be revised, as does the

level of analysis at which the concepts are assessed. In the next section, we develop a model that addresses these issues and enables the reader to understand more clearly the theoretical role and application of these concepts.

Despite our argument that psychic distance and cultural distance are conceptually different from each other and that they should be assessed at a different level of analysis, a strong relationship between the two concepts is expected to exist. Several authors argue that cultural distances among countries have an influence on the individual's perception (Earley and Mosakowski 2000; Lau and Murnighan 1998; Lee and Jang 1998; Swift 1999). Therefore, considering our definition of psychic distance, we argue that cultural distance has an influence on the individual's psychic distance. The greater the cultural distance of the foreign country from the home country, the less knowledge about the new environment is likely to be available. This means that it will be more difficult to understand and learn about the foreign country. This is further supported by Eriksson, Majkgard, and Sharma (2000), who point out that a large cultural distance between the home and the foreign country makes the task of identifying and interpreting incoming signals more difficult. Thus, it has been argued that greater cultural distance can lead to misunderstandings (Adler 1997; Lincoln, Hanada, and Olson 1981). For example, Zeitlin (1996) suggests that the severity of culture shock is related to the cultural distance between the home and the host country. Consequently, similarity in national culture, or smaller cultural distance, facilitates interaction, whereas dissimilarity, or larger cultural distance, hinders it (Manev and Stevenson 2001). Cultural distance can act as a barrier to interaction among people. Preconceptions of countries at a great cultural distance can emerge that will affect the individual's perception of those countries. Conversely, a small cultural distance could not only result in economic relationships but also manifest itself in more intensive cultural and social interactions, which are supposed to reduce psychic distance. As such, cultural distance is expected to be an important determinant of psychic distance. On the basis of the preceding discussion, we argue that there is a positive relationship between cultural distance and psychic distance. Thus:

H₁: The greater the cultural distance between the home and the foreign market, the greater is the psychic distance.

Understanding the human value systems of individuals is also important. Individuals often view situations differently, and values are an essential element in the explanation of their attitudes and behavior. Values are a core component of a person's identity that serve as guiding principles in the

CONCEPTUAL FRAMEWORK AND HYPOTHESES

Link Between Cultural Distance and Psychic Distance

Individual Values and Their Relationship with Psychic Distance

selection, interpretation, evaluation, and justification of his or her behavior (Schwartz, Sagiv, and Boehnke 2000). Values affect the way a person construes or defines a situation, such that some objects, activities, and potential outcomes are considered attractive, or positively valent, whereas others are considered aversive, or negatively valent (Feather 1995). They are a crucial element for the subjective appraisal of events (Feather 1988). As such, the way individuals perceive the world is influenced by their value systems (Kluckhohn 1951; Rokeach 1973; Schwartz 1992; Schwartz, Sagiv, and Boehnke 2000; Srnka 2004; Williams 1968).

Although the importance of values is recognized in the literature, the difficulty is in knowing how to assess individual values. Schwartz's (1992) work addresses the issue of individual values by moving the level of analysis from the cultural level to the individual level. Although Schwartz's framework has yet to be applied widely in the business literature, given its strong theoretical foundations, it offers great potential for international marketing research (Steenkamp 2001). The use of Schwartz's theory to assess individual values is further substantiated by the fact that it has been tested in more than 200 samples from more than 60 countries on every inhabited continent (Roccas et al. 2002).

Schwartz (1992) derives ten value types that are organized into four higher-order value domains: self-transcendence, self-enhancement, openness to change, and conservation. To explain the relationship between individual values and psychic distance, the role of conservation in Schwartz's work is particularly significant. Conservation comprises three value types: conformity, tradition, and security. The defining goal of conformity is restraint of actions, inclinations, and impulses that are likely to upset or harm others and violate social expectations or norms. Tradition stresses the respect, commitment, and acceptance of the customs and ideas that traditional culture or religion imposes on the individual. Finally, security emphasizes safety, harmony, and stability of society, of relationships, and of self. The single value types that represent conformity are politeness, obedience, self-discipline, and the honoring of parents and elders. The single value types that represent tradition are humility, acceptance of a person's own portion in life, devotion, respect for tradition, and moderation. The single value types that represent security are family security, national security, social order, cleanliness, and reciprocation of favors (Schwartz and Sagiv 1995). Accordingly, the values that constitute the conservation domain emphasize self-restriction, order, and resistance to change, all of which accentuate the goal of preserving established arrangements (Schwartz 1992; Schwartz and Bardi 2001; Schwartz, Sagiv, and Boehnke). For example, Roccas, Horenczyk, and Schwartz (2000) indi-

cate that for people who highly value conformity, it is especially problematic to deal with membership in a group that does not contribute positively to their social identity. Therefore, a person who emphasizes conservation values tends to identify more with his or her own groups and country and is less tolerant to new and different ideas (Roccas et al. 2002; Sagiv and Schwartz 2000; Schwartz and Bardi 2001). Thus, it is possible to postulate that people who emphasize conservation values also perceive greater differences between their home country and the foreign country. Therefore, individuals' personal values are expected to influence their assessment of psychic distance toward a foreign country. Thus:

H₂: The importance that a manager attributes to conservation values is positively related to psychic distance.

We gathered data from export firms in Portugal, which is particularly interesting to study because it is part of the European Union and has long been dependent on international trade. Furthermore, the small size of the domestic market has led to a strong international orientation among Portuguese firms. This strong international orientation is well demonstrated by the identification of 35 different countries by the firms in the sample as their main export market. The sampling frame for the study was based on a government agency database (Investment, Trade and Tourism Office 2001). Questionnaires with an international postage-paid business reply envelope were sent to the managers of 874 firms. This was followed by a reminder letter that included a reply envelope. A total of 315 questionnaires were returned, 301 of which were complete and usable, resulting in a net response rate of 34.4%. This result constitutes a fairly high response rate, considering that the average top management survey response rates are in the range of 15%–20% (Menon, Bharadwaj, and Howell 1996) and that collecting data from a foreign country is more difficult than from a domestic population because of the many obstacles that must be overcome (Douglas and Craig 1983).

Although the existence of a high response rate provides some confidence that nonresponse is not an issue (Weiss and Heide 1993), we assessed the differences between early and late respondents (Armstrong and Overton 1977; Menon et al. 1999). Using a t-test, we compared early and late respondents on several key firm characteristics, such as the number of employees, year of first export, number of foreign markets to which the firm exports, and the number of years of operation of the export department. We found no significant differences between early and late respondents, suggesting that nonresponse bias was not a significant problem in the study.

METHODOLOGY

Sample

Moreover, because anonymity was guaranteed, bias associated with those who did not wish to respond for confidentiality reasons was also reduced (Bialaszewski and Gialourakis 1985).

In the data collection process, we paid particular attention to the identification and selection of the most appropriate person in each firm to participate in the study. To guarantee the reliability of the information provided, we decided that the key informants should be senior managers or have general management responsibility for foreign operations. To minimize the potential for systematic and random sources of error, we also adopted Huber and Power's (1985) and Butaney and Wortzel's (1988) suggested approach of using a single key informant. To ensure that the most appropriate person would receive the questionnaire, each firm was contacted by telephone during the administration of the survey.

Measures

Following the development of the conceptual model and hypotheses, it was necessary to devise ways of measuring the conceptual constructs. The multiple-item measures appear in Table 1. Composite reliabilities for each multiple item scale range from .79 to .87, exceeding the .60 minimum threshold that Bagozzi and Baumgartner (1994) suggest. In terms of variance extracted, the constructs also comply with the recommended minimum level of .50.

Table 1.
Confirmatory Factor Analysis
and Construct Reliability

Constructs and Items	Regression Weights	Standardized Loadings	t-Value
Conservation (CR ^a = .79; VE ^b = .57)			
Conformity	1.169	.881	8.585
Security	1.241	.788	8.981
Tradition	(Set to 1)	.555	
Psychic Distance (CR = .87; VE = .50)			
Climatic conditions	1.114	.640	10.600
Purchasing power of customers	.783	.694	11.523
Lifestyles	.861	.720	11.969
Consumer preferences	.920	.708	11.744
Cultural values, beliefs, attitudes, and traditions	1.149	.757	12.607
Language	1.190	.665	11.028
Level of literacy and education	(Set to 1)	.746	

^aComposite reliability (CR) = $(\sum \text{standardized loading})^2 / (\sum \text{standardized loading}^2 + \sum \epsilon_j)$.

^bVariance extracted (VE) = $\sum (\text{standardized loading}^2) / (\sum [\text{standardized loading}^2] + \sum \epsilon_j)$ (Hair et al. 1998).

Notes: Model fit indexes are as follows: $\chi^2 = 102.240$; d.f. = 34 ($p < .001$); comparative fit index = .992, Tucker–Lewis fit index = .988, and incremental fit index = .992.

We measured cultural distance using the model that Morosini, Shane, and Singh (1998) specify. This index is based on Kogut and Singh's (1998) formula and is an aggregate of Hofstede's (1980) four dimensions of culture. As such, this index is calculated as the square root of the sum of the square of the distance of each of the four dimensions. Support for this approach is provided by the extensive use of this index in the literature (e.g., Agarwal 1994; Barkema, Bell, and Pennings 1996; Brouthers and Brouthers 2001; Manev and Stevenson 2001). Furthermore, we selected this measure of cultural distance because of the extensive evidence of the validity and reliability of Hofstede's (1980) country scores (Morosini, Shane, and Singh 1998; Shane 1992). Thus, we adopted the following procedure to assess cultural distance: First, we asked respondents to identify the firm's most important overseas market. Second, we categorized these markets according to Hofstede's (1980) cultural index values. Finally, we used Morosini, Shane, and Singh's model to calculate the measure of cultural distance of each market from Portugal.

We measured conservation values using Schwartz's (1992) theory. Schwartz and colleagues (Schwartz 1992; Schwartz and Bilsky 1990; Schwartz and Sagiv 1995) develop and extensively test the Schwartz value survey. We also used Schwartz's instructions and scoring procedure in this study. Accordingly, we asked respondents to rate the importance of each single value as a guiding principle in their own life on a nine-point scale, ranging from -1 ("opposed to my values") to 7 ("of supreme importance"). To obtain scores for each value type that constitutes the conservation domain, we obtained the mean score for each participant for the conformity, tradition, and security value types. Feather (1995) and Steenkamp, Ter Hofstede, and Wedel (1999) use a similar method to calculate the scores. As a result, this procedure ensures equal weighting of all value types in the construction of a particular value domain (Schwartz 1992).

To operationalize psychic distance, the measures were based on the theoretical definition of the construct. As we indicated previously, the use of publicly available statistics to capture the construct is not appropriate, considering that psychic distance should be assessed at the individual level. Therefore, it is necessary that the analyses are derived from scores of individual people. In our case, we used Sousa and Bradley's (2005) measures to capture the information that the 301 managers provided regarding their perceptions of differences between the home country and the foreign country (for items, see Table 1). We asked respondents to indicate the degree to which they perceived the home country (Portugal) as different from or similar to the foreign country (the firm's

most important foreign market) on a five-point scale, ranging from 1 (“very similar”) to 5 (“very different”).

In addition to the variables specified in our theoretical model, we include the manager’s experience as a control variable. Previous research suggests that management experience has an influence on psychic distance (Dichtl, Koeglmayr, and Mueller 1990; Evans, Treadgold, and Mavondo 2000; Gripsrud 1990). We chose the measures to assess managers’ experience on the basis of the literature surveyed. Thus, benefiting from previous discussion (Das 1994; Holzmuller and Kasper 1990, 1991; Lages and Montgomery 2004; Peng and York 2001; Stöttinger and Holzmüller 2001), we operationalized managers’ experience by asking the respondents to indicate their level of overseas experience, level of professional exporting experience, the number of foreign languages they spoke, and their level of proficiency of the language that is spoken in the main export country ($\alpha = .68$).

DATA ANALYSIS AND RESULTS

We established content validity through the literature review and by consulting experienced researchers and managers. On the basis of these procedures, we concluded that the measures have content validity. We assessed discriminant validity and convergent validity and scale reliability by confirmatory factor analysis, in line with the paradigm that Gerbing and Anderson (1988) advocate. Table 1 displays the results obtained from the estimation of the confirmatory factor analysis model. An inspection of these results shows that all items loaded on their specified constructs, and each loading was large and significant, indicating convergent validity. More specifically, convergent validity is evidenced by the large and significant ($t > 1.96$, $p < .05$) loadings of the items on their respective constructs (Shoham 1999). In contrast to the other constructs, however, because we assessed the cultural distance construct by only one indicator, it was necessary to fix the measurement coefficient for the construct at 1.0 and the error variance equal to 0. Note that by using this method, we assume that this indicator is a perfect measure of the cultural distance construct (Hair et al. 1998).

We assessed discriminant validity by examining whether the confidence intervals (\pm two standard errors) around the correlation estimates between any two factors included 1.0 (Anderson and Gerbing 1988). In none of the cases did the confidence intervals contain 1.0. In addition, we used Sousa and Bradley’s (2005) measures for product, price, promotion, and distribution adaptation to test the predictive validity of our dependent variable. We assessed product adaptation on a five-item scale: product quality, product design, product warranties, product labeling, and product brand name ($\alpha = .92$). We assessed price adaptation on a four-item scale: con-

cession of credit, price discount policy, payment security, and margins ($\alpha = .84$). We assessed promotion adaptation on a five-item scale: advertising theme, advertising and promotion content, advertising media strategy, sales promotion, and advertising and promotion budget ($\alpha = .95$). We assessed distribution adaptation on a four-item scale: channels of distribution, control over distribution channels, transportation strategy, and budget for distribution ($\alpha = .92$). There are well-grounded theoretical reasons to expect a positive relationship between psychic distance and the degree of marketing program adaptation. This relationship is explained by noting that standardization appears more likely when the foreign market is most similar to the domestic market, whereas adaptation is preferred when markets are viewed as dissimilar (Jain 1989; Shoham, Rose, and Albaum 1995; Sousa and Bradley 2005). A significant zero-order correlation between psychic distance and product adaptation (.40, $p < .01$), price adaptation (.61, $p < .01$), promotion adaptation (.51, $p < .01$), and distribution adaptation (.35, $p < .01$) confirmed the predictive validity of the dependent variable.

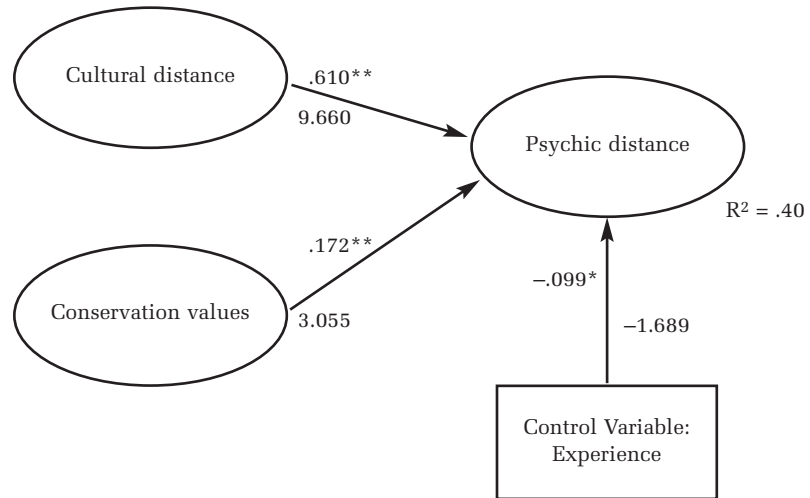
Regarding the reliability of the constructs, Table 1 presents the results of composite reliability and variance extracted. The values for composite reliability are .79 for conservation values and .87 for psychic distance, which exceeds Bagozzi and Yi's (1988) recommended minimum level of .60. In terms of variance extracted, the constructs also comply with the recommended minimum level of .50. Therefore, we conclude that the items used to measure the constructs were both valid (content validity, convergent validity, discriminant validity, and predictive validity) and reliable (composite reliability and variance extracted). Thus, having established a satisfactory measurement model, we can turn our attention to the structural model, which represents the hypotheses under investigation.

Because of the complexity of the model and the need to test the relationships among the constructs simultaneously, we used structural equations (Amos Version 4.0). Despite the significant chi-square for the model exhibited in Figure 1 ($\chi^2 = 268.811$, d.f. = 85, $p < .001$), the fit indexes are indicative of a good fit: comparative fit index = .985, Tucker–Lewis fit index = .979, and incremental fit index = .985.

H₁ posits a positive relationship between cultural distance and psychic distance. We found the direct path coefficient from cultural distance to psychic distance to be significant ($p < .01$) and positive (.610). The greater the cultural distance between the home and the foreign market, the greater is the psychic distance. Thus, H₁ is strongly supported. We also found strong support for the importance that a manager attributes to conservation values on psychic distance (H₂),

Testing of Hypotheses

Figure 1.
Final Model



* $p < .1$.

** $p < .01$.

Notes: Standardized parameter estimate are above the lines, and t-values are below the lines.

which returned a parameter estimate of .172 ($p < .01$). Finally, experience, the control variable, had a negative effect on psychic distance ($p < .1$). Regarding the antecedents to psychic distance, the R-squared value of .40 is respectable, indicating that a substantial proportion of variance of psychic distance is explained by the predictors considered.

DISCUSSION

The major contribution of the study stems from the empirical findings. This study supports the argument that cultural distance and psychic distance are conceptually different and that the methods used to measure both concepts must necessarily be different as well. Particularly important is the need to ensure that the level of analysis at which the two concepts are examined is different. This distinction is important because a large number of studies use the terms cultural distance and psychic distance interchangeably (Eriksson, Majkgard, and Sharma 2000; Fletcher and Bohn 1998; Peng, Hill, and Wang 2000; Sethi, Phelan, and Berg 2003; Shoham and Albaum 1995; Trabold 2002) with no clear differentiation between them. However, this article shows that psychic distance is based on the individual's perception and should be assessed at the individual level, whereas cultural distance is based on cultural values and should be assessed at the cultural level. This has important implications for the firm because by assessing psychic distance at the individual level, it is possible to take appropriate steps to reduce managers' psychic distance toward a foreign market (e.g., by making numerous visits to that foreign market, by providing cross-cultural training). However, cultural distance is assessed at the cultural level and therefore is not concerned with the individual's perception. This means that contrary to

the circumstances that apply under psychic distance, the firm cannot control for the distance between the home and the foreign market.

This study also attempts to extend current knowledge by exploring the simultaneous use of two comprehensive frameworks that have been developed in the past two decades: those of Hofstede (1980) and Schwartz (1992). Contrary to Hofstede's framework, Schwartz's work has yet to be applied widely in the international business literature. However, given its strong theoretical foundations, it offers great potential (Steenkamp 2001), as the present findings demonstrate. Ultimately, the empirical results support the contention that psychic distance is positively related to cultural distance and conservatism values.

The literature suggests that managers relate to psychic distance and cultural distance to bypass the complexities of assessing differences between markets. A focus on the two concepts shows that they capture different phenomena: Psychic distance captures the manager's individual perception of the differences between the home and the host country and is a highly subjective interpretation of reality. Because it is subjective, psychic distance does not affect everybody in the firm in the same way. Managers should treat psychic distance as an individual-level concept that is derived from the individual's cognitive style and individual human values, whereas cultural distance should be treated as a measurement of distance between countries.

Because psychic distance deals with managers' perceived differences in observed phenomena, it is an important determinant of international marketing strategy. Psychic distance influences how managers formulate international marketing strategies and how they adapt marketing programs to different circumstances. An understanding of psychic distance enhances the manager's understanding of the complexity encountered in international marketing. For example, the decision to standardize or adapt the marketing program will be strongly influenced by the manager's psychic distance. Therefore, managers should be aware of the impact of their psychic distance toward a foreign market on their strategic decisions.

The importance for managers of correctly assessing the differences that may exist between the home and the foreign market is crucial for the selection of the appropriate strategy in the foreign market. For example, failing to assess the differences between the home and the foreign market correctly may result in a product being placed in an inappropriate market segment in the foreign market. To be more precise, a manager following a price standardization strategy in the

Managerial Implications

European Union market because of perceived similarities may find that an identically priced product can be positioned in a lower price segment in one country and in a higher price segment in another country, which clearly would be undesirable. Similar conclusions may be drawn for the remaining elements of the marketing mix.

To make accurate decisions about foreign markets, it is necessary to carry out a thorough assessment of the degree of similarity between the home and the foreign market. This may be accomplished by establishing open formal and informal communication channels and by providing cross-cultural training to be aware of the most important cultural differences, both of which can reduce the psychic distance an individual may perceive between the home and the foreign market. Such activities increase cultural tolerance and understanding. For example, participation in international exhibitions or industry-specific trade fairs can be a cost-effective means of providing managers with greater foreign experiences and knowledge. Trade missions sponsored by industry associations or government agencies may also offer valuable opportunities for increasing managers' experience of foreign markets.

The lower the perceived psychic distance toward foreign markets, the more likely it is that the manager will develop successful international business relationships. Managers are less likely to initiate and pursue business relationships with countries they perceive as dissimilar. By treating psychic distance as an individual-level phenomena, the firm can select sales and marketing people who are more likely to be successful in a particular foreign market by considering the individual's psychic distance toward that market. An appropriate match should increase the firm's probability of success.

Limitations

As with any study, our results should be interpreted in light of some limitations. First, the final instrument may have created common method variance that may have inflated construct relationships. This could be particularly threatening if the respondents were aware of the conceptual framework of interest. However, they were not told the specific purpose of the study, and all the construct items were separated and mixed with items of other constructs so that respondents would not be able to detect which items were affecting which factor (Jap 2001). Therefore, we minimized the biasing possibilities of common method variance to a significant degree.

Second, we conducted the study within the context of one country, which may limit the generalizability of the results to some degree. Therefore, additional research should test the framework in other countries as well.

Third, the use of managers responsible for foreign operations presents a potential limitation. It is possible that these managers do not constitute representative samples of other managers and the general population. In this study, the respondents were more likely to be more experienced with foreign markets and cultures than the general population. However, individual values are acquired early in childhood and are stable over time (Schwartz 1992), which suggests that the potential effect of this limitation is reduced.

Fourth, although we gave particular attention to operationalizing the study constructs and validating their measurement, further research should explore the relevance of other items in the assessment of these constructs. For example, the use of Morosini, Shane, and Singh's (1998) model to assess cultural distance is open to criticism. It could be argued that this index is a rather simplistic aggregate of Hofstede's (1980) dimensions and thus liable to the same criticism leveled against Hofstede (e.g., assumptions about the linearity, additivity, and normal distributions of scores; see Barkema, Bell, and Pennings 1996). However, despite an awareness of these limitations, the concept of cultural distance has been widely applied in the literature, and the use of Hofstede's framework to assess differences between countries continues to increase (Barkema, Bell, and Pennings 1996; Hennart and Larimo 1998; Manev and Stevenson 2001; Sivakumar and Nakata 2001).

Fifth, given that Schwartz's (1992) theory is based on a sample of students and academics and not managers, sample equivalence could present a limitation. However, since Schwartz's early work was published, a large number of studies has shown the applicability of his theory to managers (Egri and Ralston 2004; Kozan 2002; Ralston et al. 1999; Ralston, Van Thang, and Napier 1999).

Cultural distance and psychic distance are conceptually different, so the methods used to measure them must necessarily be different. Cultural distance reflects a difference in cultural values among countries that should be assessed at the cultural or country level. Psychic distance is based on the individual's perception and should be assessed at the individual level. This distinction is important for researchers and managers. By assessing psychic distance at the individual level, it is possible to take appropriate steps to reduce the manager's psychic distance toward foreign markets. Although the firm may address the consequences of psychic distance, this is not the case with cultural distance, which is outside the firm's control. We hope that this study contributes substantially to the understanding of cultural distance and psychic distance and that scholars will respond to the call for more work on this subject.

CONCLUSION

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