

The Psychic Distance Concept: A Review of 25 Years of Research (1990–2015)

Mariola Ciszewska-Mlinarič¹, Piotr Trąpczyński²

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Abstract

Purpose: There have been numerous studies analyzing the role of psychic (and cultural) distance in the internationalization process focused on relationships between distance and market selection, entry mode, or subsidiary performance. Still, cumulative findings of this body of research are mixed and inconclusive. Thus, this review aims for a rigorous presentation of past research on psychic distance, with particular focus on the aspects of international business operations affected by psychic distance in the light of empirical studies.

Methodology: This review encompasses 55 papers, both empirical and conceptual, published between 1990–2015 in top IB, international marketing, and management journals. In general, the papers under review were published in 27 journals, with the vast majority of them being published in 2005 or later. The vast majority of reviewed papers are of empirical character (47 papers), while eight are conceptual.

Findings: Since 2005, the number of articles published in top academic journals that featured the term “psychic distance” in the title has quadrupled. Common research topics include not only the core domain of internationalization process and performance, but also focus on understanding the concept of psychic distance, analyzing its antecedents and coping modes. Other studies have addressed the performance implications of psychic distance in conjunction with variables like strategy adaptation to foreign markets.

Research limitations/implications: While the present review is limited in the number of papers taken into account, it does provide an initial overview of the structure of the field. However, the comparability of findings of different studies is limited by factors such as firm samples or presence of multicultural nations. In terms of directions for further research, promising topics include the relationship between perceived and ‘real’ distances or the effectiveness of different coping modes.

Originality/value: The present paper identifies key research streams related to psychic distance and its role for international business. Based on an analysis of their content, it outlines several avenues for further investigation.

Keywords: psychic distance, entry strategy, performance, antecedents, coping modes

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¹ Kozminski University

Corresponding address: Kozminski University, Jagiellonska 57/59 St., 03-301 Warsaw, e-mail: mariolac@kozminski.edu.pl

² Poznan University of Economics and Business

Corresponding address: Poznan University of Economics and Business, Collegium Altum, Powstańców Wielkopolskich 16 St., 61-895 Poznan, e-mail: piotr.trapczyński@ue.poznan.pl

Introduction

Psychic distance (PD) is one of the fundamental theoretical concepts in international business and cross-cultural management literature. The term was coined by Beckerman (1956) in his study on intra-European trade flows, but owes its importance in the management literature to the researchers from the University of Uppsala, who used it to explain the internationalization process of the firm (Johanson and Vahlne, 1977). According to the Uppsala model, at the initial stage of their internationalization process, firms tend to enter most familiar markets and then gradually “move on to less familiar territories” (Dunning, 2001, p. 40).

PD is defined either as a combination of factors disturbing the flow of information between the company and its target market (Johanson and Vahlne, 1977), thus afflicting the process of learning about and understanding a foreign country (Nordstrom and Vahlne, 1994), or as the level of uncertainty resulting from cultural differences and other factors hindering learning and operating abroad (O’Grady and Lane, 1996). Discussing the combination of factors determining PD, researchers point at different sets of variables, such as “differences in language, culture, political systems, level of education, level of industrial development, etc.” (Johanson and Vahlne, 1977, p. 308); “dominant religion, business language, form of government, economic development and levels of emigration” (Boyacigiller, 1990, p. 363); or “language, business practices, political and legal systems, education, economic development, marketing infrastructure, and industry structure” (Evans et al., 2000b, p. 166). The name of the concept is explicitly related to *psyche*, (i.e. mind or soul). Evans and Mavondo (2002) recognize this feature and define PD as the “distance between the home market and a foreign market, resulting from the perception of both cultural and business differences” (2002). This definition incorporates two elements crucial to the concept of PD: its multidimensionality and its subjective (perceptual) nature.

There are numerous studies analyzing the role of PD in the internationalization process focused on relationships between distance and market selection (Brewer 2007a,b; Dow, 2000; Ojala and Tyrväinen, 2009; Palmero et al., 2013), entry mode (Fletcher and Bohn, 1998; Kontinen and Ojala, 2010) or foreign market performance (Dikova, 2009; Evans and Mavondo, 2002; Griffith and Dimitrova, 2014). Still, cumulative findings of this body of research are mixed and inconclusive. In particular, while PD was found to pose a relevant variable in location decisions, there are further other variables, such as market size, opportunity seeking behavior, and actions taken by managers, which make the effect of PD less pronounced. Moreover, certain scholars have found that different PD stimuli may affect international location choices in a differentiated manner (Palmero,

Durán Herrera and De la Fuente Sabaté, 2013). However, some studies do not find any significant effect of PD on location choice decisions at all (see e.g. Przybylska, 2013), as they are affected by other variables, such as market size (Sinha et al., 2015). As far as the effects of PD on firm performance are concerned, some scholars have argued for a negative relationship between the two variables (e.g. Hutzschenreuter, Kleindienst and Lange, 2014). However, the proponents of the so-called PD paradox have advocated a positive relationship due to the limited learning and adaptation of managers in seemingly close markets (O'Grady and Lane, 1996; Hang and Godley, 2009; Evans and Mavondo, 2002). Apart from that, numerous scholars have also called for a more nuanced approach to the relationship of PD with performance as it may be mediated by other factors such as the innovation ability of internationalizing firms (Azar and Drogendijk, 2014) or entry strategy and retail strategy adaptation (Evans, Mavondo and Bridson, 2008). As in the case of location choice, some scholars investigating performance do not find any significant influence, at all (Stöttinger and Schlegelmilch, 1998).

Furthermore, the antecedents of PD, as well as mechanisms to reduce uncertainty resulting from PD, have remained rather unexplored (Sousa and Bradley, 2006; Zanger, Hodicová and Gaus, 2008). For instance, no support was found for either the managers' age or education as determinants of PD (Fletcher and Bohn, 1998), or for centralization of the decision-making process and international experience (Evans et al., 2008). Finally, findings related to the effects of PD on the development of foreign channel relationships have remained inconclusive, pointing to the positive role on foreign market network cooperation (Nordman and Tolstoy, 2014), while at the same time there is a negative moderating effect on the relationship between communication facets and trust and satisfaction (Johnston et al., 2012). Although there is also some evidence that these relationships may change with time, Magnusson and Boyle (2009) propose that PD can be detrimental to foreign channel relationships in early stages, whilst it may serve as an asset in later stages. Recognizing the aforementioned diversity and the inconsistency of present findings, the objective of this paper is to rigorously present extant research on PD, deliberately excluding cultural distance from the review. The following section presents the methodology of the review, which is followed by the discussion of key research themes and their findings. Finally, possible future directions of PD research are outlined.

Review methodology

The present literature review followed Ricks et al.'s (1990) indications, which served as guidance for other reviews in this field (e.g. Werner, 2002). According to Ricks et

al. (1990, cited in: Werner, 2002, p. 278), a research review should pursue the objective of identifying and examining “recent literature on the basic issues so that the reader can be brought up to date and guided towards what can be read in order to obtain the depth of understanding desired”.

With this aim, we have searched three bibliographical databases (ProQuest, EBSCO Business Source Complete, J-Stor). To identify relevant papers, we followed a two-step approach. First, we searched for papers that used the term “psychic distance” in their titles. This approach allowed us to identify papers that treated PD as a central research phenomenon, and omit papers that inaccurately use “cultural distance” (CD) as a synonym of PD, or “ritually” mention PD. For instance, unrestricted search in EBSCO yielded 980 papers using the term “psychic distance” in the main text. Taking into consideration that PD is one of the key constructs within international business (IB) field, it is not surprising that researchers often mention the phenomenon in the introduction, theory development, or discussion section. However, the vast majority resemble ritual cites, which does not advance our understanding of the concept. Second, to ensure a high quality level of the review, we only included papers published in most influential academic peer-reviewed journals indexed either in the Harzing list, ABS list, or in the Thomson Reuters’ Master Journal List. Third, we have focused only on papers that directly examine the significance of PD in the context of international business decisions, challenges and outcomes.

Applying these three criteria, the final sample of reviewed articles consists of 55 papers, both empirical and conceptual, published between 1990–2015 in top IB, international marketing, and management journals such as *Journal of International Business Studies*, *International Business Review*, *Journal of International Management*, or *Journal of International Marketing*. In general, the papers under review were published in 27 journals (Table 1), where the vast majority of papers were published in 2005 or later (Figure 1).

Table 1. Top academic journals and the number of articles involving PD in title

| INTERNATIONAL BUSINESS | MANAGEMENT & AREA STUDIES |
|--------------------------------------------------------|--------------------------------------------------|
| International Business Review (5) | Australian Journal of Management (1) |
| International Studies of Management & Organization (1) | Baltic Journal of Management (1) |
| Journal of International Business Studies (5) | European Business Review (3) |
| Journal of International Management (3) | International Journal of Management (1) |
| Management International Review (5) | Journal for East European Management Studies (2) |
| | Journal of Management and Organization (1) |

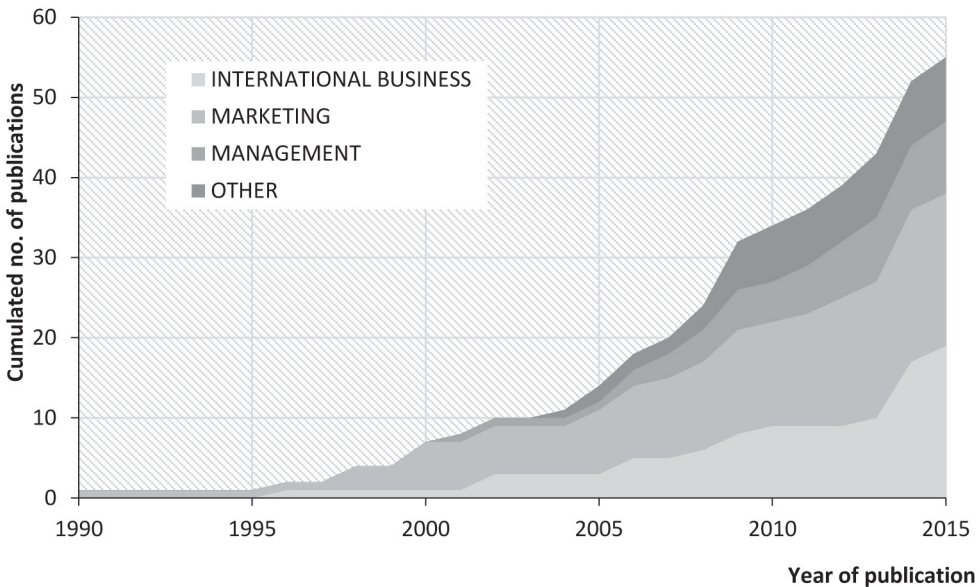
| MARKETING | OTHER* |
|---------------------------------------------------------------|----------------------------------------------------------|
| International Journal of Retail & Distribution Management (1) | Business History (1) |
| International Marketing Review (6) | International Journal of Human Resource Management (1) |
| Journal of Global Marketing (2) | Journal of Behavioral Finance (1) |
| Journal of International Consumer Marketing (1) | Journal of International Accounting Research (1) |
| Journal of International Marketing (6) | Journal of International Entrepreneurship (1) |
| Journal of Marketing Channels (1) | Journal of Small Business and Enterprise Development (1) |
| Journal of Marketing Management (1) | Journal of Socio-Economics (1) |
| Journal of Strategic Marketing (1) | Transformations in Business & Economics (1) |

Note: Search for “psychic distance” in a paper’s title.

*Including: entrepreneurship, finance, economics, business history, and human resource management.

Source: own work.

Figure 1. Cumulated number of articles published between 1990–2015, by field of the academic journal



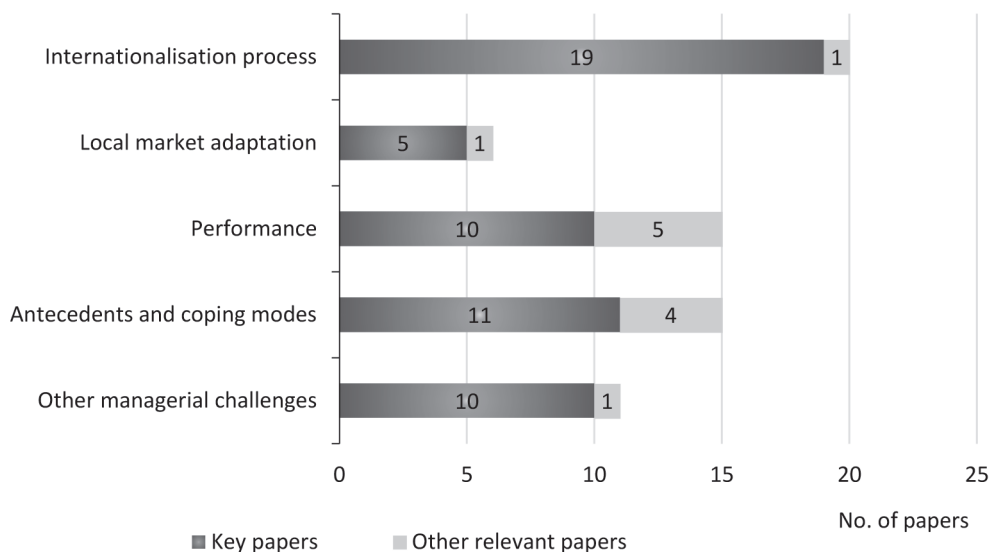
Source: own work.

The review proceeds as follows: In the ensuing section, key research directions within PD literature, their findings and contribution to the IB field are identified and synthetically presented. Subsequently, implications of the review findings for further research in this field are thoroughly discussed.

Psychic distance: overview of key research topics

Despite significant attention paid by researchers to the concept of PD, the popularity of PD as a key research topic has been particularly evident in the last decade (Figure 1). Since 2005, the number of articles published in top academic journals that featured “psychic distance” in the title has quadrupled. Popular research topics include not only the core domain of internationalization process and performance but also focus on understanding the very concept of “psychic distance,” analyzing its antecedents and coping modes. The findings of the studies identified within this review were summarized under five major streams based on their research questions and predominant analyzed relationships involving PD. Thus, the five identified research streams reflect the predominant research areas closely related to PD in international business studies. In cases where a given contribution was broader (i.e. extending one topic), the paper was still classified to one of the main streams as a “key paper,” but additionally we have recognized its diverse contribution by assigning the paper to the other relevant stream. Therefore Figure 2 presents the number of key papers and other relevant contributions in each of research streams, while Figure 3 depicts all major variables and relationships that were examined. Additionally, all papers included in the review are summarized in Table 2. The vast majority of reviewed papers are of empirical character (47 papers), while eight are conceptual.

Figure 2. Psychic distance research 1990-2015 by key research topic



Source: own work.

Table 2. Psychic distance research 1990–2015, by topic and chronology

| (I) PD & INTERNATIONALISATION PROCESS (selection of market & entry modes, speed of internationalization) | | | | | Results/propositions |
|-------------------------------------------------------------------------------------------------------------|--------------|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Authors | Method | Sample | Examined phenomenon | | |
| Ojala (2015) | Conceptual | Not applicable | Internationalization process of small and new ventures | Cultural distance as moderator on the relationship between PD and market attractiveness; geographic distance as more stable than cultural distance; network relationships as a bridging mode; PD as barrier to network building. | |
| Sinha, Wang, Scott-Kennel and Gibb (2015) | Qualitative | 10 cases of software INVs from New Zealand | Process of international market entry by software INVs (initial and subsequent market-entry choice) | Market size, rather than PD, drives initial and proactive entry by INVs, but later they experience the PD paradox. Subsequent entries are based on managerial selection criteria (as opposed to growth opportunities); entry into more distant markets is less likely, and rather reactive | |
| Blomkvist and Drogendijk (2013) | Quantitative | Chinese OFDI into 174 countries between 2003–2009 | Level of Chinese OFDI in foreign markets | Supported (-) for PD as aggregate construct, and for some of PD stimuli, incl. differences in culture, religion, democracy Significant (+) for language (significant, but opposite direction) | |
| Palmero, Durán Herrera and De la Fuente Sabaté (2013) | Quantitative | 160 Spanish MNEs with 659 locations of subsidiaries in Europe | FDI location choice | Supported (-) for differences in industrial development, language, distances in democracy and religion Significant (+) for distance in education (contrary to expectations) | |
| Przybylska (2013) | Qualitative | 4 Polish born-global SMEs | Choice of foreign markets | PD does not have a significant influence on foreign market choice | |
| Freeman, Giroud, Kafadellis and Ghauri (2012) | Qualitative | 22 Australian firms with FDI located in the UK | Increased resource commitment | Effects of PD on early increased resource commitment decisions are different for born-globals and recent entrants (less affected) than for older entrants. | |

| | | | | |
|----------------------------|-------------------------------------|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Kontinen and Ojala (2010) | Qualitative | 4 case studies of Finnish, family owned, manufacturing SMEs, operating in France | Entry modes | Family SMEs mainly follow a sequential process, favour indirect entry modes, and choose more psychically close markets before entering more distant market. To overcome distance, SMEs use distance-bridging factors |
| Ojala and Tyrväinen (2009) | Mixed: quantitative and qualitative | 53 Finnish software SMEs entering 26 countries 4 case studies of Finnish SMEs in the Japanese market | Market selection (first three target markets) | Macro-level quantitative analysis does not clearly support the impact of PD Qualitative approach reveals the impact of PD, but indicates also other factors influencing entry decisions (e.g. market size, opportunity seeking behavior) |
| Hosseini (2008) | Conceptual | Not applicable | MNC entry behavior in foreign markets | Application of behavioral economics to shed light on PD and PD paradox |
| Ellis (2008) | Quantitative | 924 foreign market entries made by 302 Chinese exporters | Entry sequence into foreign markets | Direct effect of PD not supported PD moderates the negative relationship between market size and entry sequence |
| Authors | Method | Sample | Examined phenomenon | Results/propositions |
| Brewer (2007a, 2007b) | Quantitative | Australian exporters in a sample of 25 countries | Foreign countries as destination for Australian exporters | Supported (-) Development of information-flow based measure of PD |
| Babichenko (2006) | Conceptual | Not applicable | Not applicable | FDI in Estonia may serve as “psychic gateways” to other post-Soviet economies Classification of distance-creating, compressing, and bridging factors |
| Dow and Karunaratna (2006) | Quantitative | Trade flows among 627 country pairs | Intensity of trade between countries | PD stimuli (differences in national culture, language, educational levels, industrial development, political system and in religion, time zones and colonial ties) have differentiated impact on trade. CD not significant |

Table 2. (Continued)

| Authors | Method | Sample | Examined phenomenon | Results/propositions |
|----------------------------------------------|--------------|-----------------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Arenius (2005) | Qualitative | 4 case studies of Finnish technology-based INVs | Speed of foreign market penetration | PD decreases the speed of market penetration, as INVs need more time to establish a position in the foreign network Social capital as a means to overcoming PD |
| Kim and Rhee (2001) | Quantitative | 135 firms (25 Japanese, 36 American, 74 European) | FDI decisions in Korea | Effects of psychic distance on FDI entry modes |
| Dow (2000) | Quantitative | 315 Australian SMEs, high value-added manufacturers | Export market selection Comparison of PD measures | Supported (-). A panel-based instrument has a better predictive ability than Sethi's (1971) and Hofstede's (1980) scales |
| Fletcher and Bohn (1998) | Quantitative | 541 Australian exporters | Inward, outward and linked forms of entry modes Antecedents of PD | Relationship between PD is weakest with inward internationalization forms, stronger with outward forms and most visible with linked forms Knowledge, experience, strategic approach |
| Klein and Roth (1990) | Quantitative | 477 Canadian exporters, manufacturing | Export channel integration | PD is a negative incentive for exporters to integrate forward (under conditions of low asset specificity) |
| (II) PD & LOCAL MARKET ADAPTATION | | | | |
| Azar and Drogendijk (2014) | Quantitative | 186 low-tech Swedish exporters | Innovation adaption PD-Performance | Supported (+) Innovation plays a mediating role |

For other relevant papers see also: Evans et al. (2008; section IV)

| | | | | |
|-----------------------------------|--------------|------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Sousa and Lages (2011) | Quantitative | 301 Portuguese exporters | PD operationalization Marketing strategy adaptation | PD dimensions (country distance and people distance) are positively associated with cultural distance Supported (+) |
| Sousa and Lengler (2009) | Quantitative | 201 Brazilian exporters | Adaptation of the international marketing-mix strategy Export performance | Supported (+) Significant (+) (contrary to expectations) |
| Evans and Bridson (2005) | Quantitative | 204 international operations by 102 non-food retailers, based in USA, UK, Western Europe and Asia Pacific region | Adaptation of the international retail offer | Supported (+) |
| Sousa and Bradley (2005) | Quantitative | 301 Portuguese export firms | Marketing strategy adaptation | Supported (+) |
| (III) PD & PERFORMANCE | | | | |
| Griffith and Dimitrova (2014) | Quantitative | 151 US exporters | Satisfaction with export performance Complementarity of capabilities and performance satisfaction | Significant (-) for cultural PD, but not for cultural PD Supported (moderating effect of both, business and cultural PD) |

Table 2. (Continued)

| Authors | Method | Sample | Examined phenomenon | Results/propositions |
|-----------------------------------------------|---------------|-----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| Håkanson (2014) | Quantitative | Bilateral trade in the period 1962–2008 between the world's 25 largest countries | Trade flows' elasticity | The negative impact of PD on trade have decreased over time PD perceptions highly dependent on geographic distance |
| Hutzschenreuter, Kleindienst and Lange (2014) | Quantitative | 91 German MNEs | MNC performance | Added cultural, governance, and geographic distance have a negative effect on MNE performance |
| Hang and Godley (2009) | Qualitative | Longitudinal cases of 3 retail sectors in China | Performance of overseas Chinese and Western entrants, since the 1850s | PD measured at an individual level has an impact on the market entry sequence of retail firms |
| Dikova (2009) | Quantitative | 208 FDI made by West European MNEs in the CEE | Subsidiary performance | Supported (+) in the absence of market-specific knowledge |
| Evans and Mavondo (2002) | Quantitative | 204 international operations by 102 non-food retailers, based in USA, UK, Western Europe and Asia Pacific | Financial performance Strategic effectiveness Operationalization of PD | Supported (+) Supported (+) Disaggregation of PD increases its explanatory power |
| Evans, Treadgold and Mavondo (2000b) | Commentary | Not applicable | Performance Operationalization of PD | PD paradox as important future theme PD operationalization need to include perceived distance and the specific factors that create such a perception |
| Evans, Treadgold and Mavondo (2000a) | Conceptual | Not applicable | Performance of international retailers | PD, along with other firm/individual level factors, explains performance |

| | | | | |
|---------------------------------------------------------------|-------------------------------------|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Stöttinger and Schlegelmilch (1998) | Quantitative | 104 US firms | Development of export sales | No significant impact of PD on export ratio or export growth of companies; no correlation between geographic distance and PD |
| O’Grady and Lane (1996) | Mixed: qualitative and quantitative | 10 in-depth case studies of Canadian retailers in the US 180 Canadian and 90 US retail companies | Performance Conceptualization of PD | Cultural and business differences between Canada and the US greater than expected (and perceived by managers); assumptions about similarity of the US and home market strongly associated with poor performance in the US; can prevent managers from learning about critical difference Asymmetry of PD; PD measured at perceptual level of a management team |
| (IV) PD’s ANTECEDENTS, DETERMINANTS & COPING MODES | | | | |
| Baack, Dow, Parente and Bacon (2015) | Quantitative experiment | 197 Australian managers | PD explained by Confirmation bias | Supported <i>For other relevant papers see also: Arenius (2005; section I), Kontinen and Ojala (2010; section I), Babichenko (2006; section I), Fletcher and Bohn (1998; section I)</i> |
| Puthusserry, Child and Rodrigues (2014) | Mixed: qualitative and quantitative | 30 British SMEs and their 30 Indian partner SMEs | Dimensions of PD Modes of coping | Differentiated impact on business: cultural dimensions are less important than institutional dimensions of PD. Asymmetry in distance perceptions Absorption, contingent, pragmatic and non-coping mode |
| Nebus and Chai (2014) | Conceptual | Not applicable | Individual determinants of PD Decision making traps | PD cognitive dimensions – managerial awareness, perceptions, and understanding |
| Smith, Dowling and Rose (2011) | Conceptual | Not applicable | Antecedents of PD – National level – Individual level | National level: culture, language, education, industrial development, political systems, religions, time zones, colonial ties Individual level: international experience, cultural background, education, command of foreign languages, conservative nature |

Table 2. (Continued)

| Authors | Method | Sample | Examined phenomenon | Results/propositions |
|------------------------------------|-----------------------|----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Håkanson and Ambos (2010) | Quantitative | 1414 managers from 25 largest countries | PD explained by macro-level determinants | Supported (+) for cultural, geographic and linguistic distance, current and historical political rivalry, difference in economic development Supported (-) for economic development, governance system, and its general influence |
| Child, Rodrigues and Frynas (2009) | Primarily qualitative | 32 British SMEs exporting to Brazil | Modes of coping with PD | Bridging, avoiding, inability to cope |
| Evans, Mavondo and Bridson (2008) | Quantitative | 204 international retail operations reported by 102 non-food retailers, based in USA, UK, Western Europe and Asia Pacific region | Antecedents of PD at firm level – international experience – centralization of decisions Marketing strategy adaptation Entry mode (cost and control) Performance | Not supported (+) Not supported (-) Supported (+) Supported (-) Supported (+) |
| Zanger, Hodičová and Gaus (2008) | Qualitative | 18 case studies of SMEs from the Saxon-Czech border area | Antecedents of PD Operationalization of PD | Objective knowledge of a foreign market and experience with a foreign market as factors influencing perceptions of both country-related characteristics and products and companies. Call for a wider inclusion of perceived differences in political and legal situations, mind-set, and historical development |
| Sousa and Bradley (2006) | Quantitative | 301 Portuguese exporters | Antecedents of PD – Conservation values – Cultural distance Operationalization of PD | Supported (+) Supported (+) PD and CD should be assessed separately |

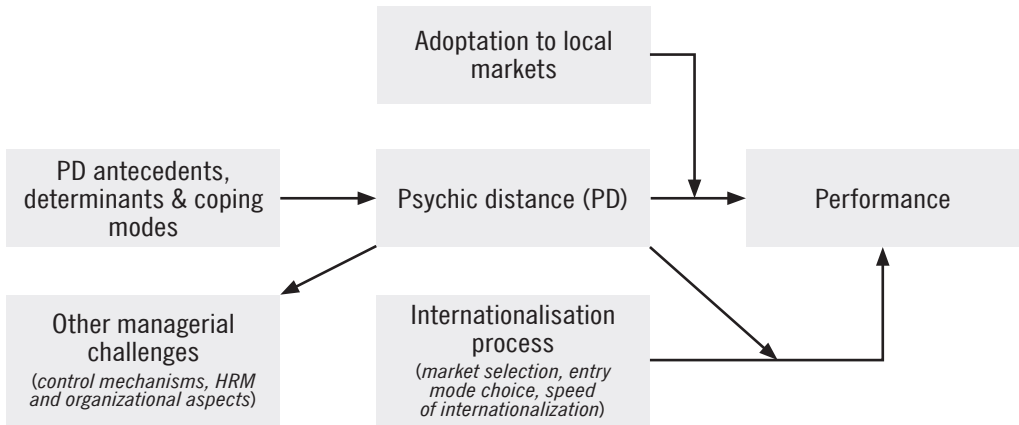
| | | | | |
|-----------------------------------------|--------------|------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Yamin and Sinkovics (2006) | Qualitative | 5 case studies of UK firms | Determinants of PD online internationalization | Experience with online internationalization is likely to reduce PD 'Virtuality trap' as the online analogue of PD paradox |
| Child, Ng and Wong (2002) | Qualitative | 5 case studies of Hong Kong firms' expansion to Anglo-Saxon locations | Determinants of PD Conceptualisation of PD | Distance-creating, distance-compressing, and distance-bridging factors Call for inclusion of other than objective measures |
| (VI) OTHER MANAGERIAL CHALLENGES | | | | |
| Magnusson, Schuster and Taras (2014) | Quantitative | 1,006 students from 20 different countries | Performance of global virtual team (GVT) | PD has a positive effect on GVT performance |
| Nordman and Tolstoy (2014) | Quantitative | 188 Swedish exporting SMEs | Learning processes of internationalizing SMEs | Relationship PD has a positive effect on both relationship knowledge transfer and on relationship inter-connectedness at the foreign market level |
| Sachdev and Bello (2014) | Quantitative | 248 US exporters, hi-tech products | Control mechanisms (information sharing) in export / exchange relationships | PD moderates the relationship between asset specificity and information sharing |
| Safari, Thilenius and Hadjikhani (2013) | Qualitative | Individual and focus group interviews, involving 51 Swedish individuals/ consumers | Consumers' behaviour in international online purchasing | High uncertainty hinders consumers' exchange with international online vendors (IOVs) that are associated with high PD on a national level PD changes as the customers gain access to information forming trust toward specific IOVs |
| Albaum (2012) | Quantitative | 3984 US and foreign students | Business ethicality values | None of three distant measures (Brewer 2007a; Ellis 2008; Fletcher and Bohn) is a significant indicator of business ethicality |

Table 2. (Continued)

| Authors | Method | Sample | Examined phenomenon | Results/propositions |
|-----------------------------------------|--------------|---------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| Johnston, Khalil, Jain and Cheng (2012) | Quantitative | 150 importers from Taiwan | Effects of communication frequency and bidirectional communication on both, trust and satisfaction Effects of trust and satisfaction on joint action | Supported (negative moderation effect of PD) Not supported (negative moderation effect of PD) |
| Magnusson and Boyle (2009) | Conceptual | Not applicable | Development stages of international relationships | PD may be detrimental to the relationship in its early stages, but in later stages PD may serve as an asset |
| Tanure, Barcellos and Fleury (2009) | Quantitative | 8 HR managers and 143 expats of Brazilian MNCs | PD and international HRM (expatriate adaptation) | No significant effect of PD on the location choice of Brazilian expatriates |
| Zhu and Yang (2008) | Quantitative | Macro-level data from the four financial crises in the 1990s i.e. the Mexican, Asian, Brazilian, and Russian crises | Financial crisis contagion | Supported (-) (financial crisis less/more contagious with greater/smaller PD between countries) |
| Hassel and Cunningham (2004) | Quantitative | 31 foreign subsidiaries of an MNE based in Finland | MNC's management (budget) control of foreign subsidiaries | High reliance on budget control is associated with high subunit performance, only in case of subsidiaries with low PD |

Source: own work.

Figure 3. Key variables and relationships analyzed within international business research devoted to PD



Source: own work.

(I) PD and Internationalization Process: Foreign Location Choice, Entry Modes, Sequence and Speed

It has been argued that internationalization takes different forms and that PD will impact differently on each form depending whether it is outward, inward, or linked (Fletcher and Bohn, 1998). Significant attention has been devoted to the choice of foreign locations. Brewer (2007a,b) finds that countries, characterized by the shortest PD to Australia, have the largest number of Australian exporters. Dow and Karunaratna (2006) show that the intensity of trade between countries is negatively related to differences in education, differences in the degree of democracy, differences in religion, and former colonial ties. A similar relationship emerges for outward FDI (OFDI) by Chinese firms studied by Blomkvist and Drogendijk (2013). They find that OFDI is influenced by an aggregate construct of PD and by some of PD stimuli, including differences in culture, religion, democracy, and language. In a similar vein, Palmero, Durán Herrera, and De la Fuente Sabaté (2013) observe that distances in levels of industrial development and language have a negative relationship with Spanish FDI, as do distances in democracy and religion. Moreover, distance in education occurred to be positively associated with probability of an MNE having a subsidiary in a given country, which may reflect an efficiency-seeking motive behind the investment.

However, Dow (2000) also observes that while PD is a significant predictor of early export market selection for Australian SMEs, its influence declines significantly between first and second market entry decisions, indicating that the influence of PD

on managerial decisions decreases with international experience. Moreover, factors such as market size, opportunity seeking behavior, and actions taken by managers (Ojala and Tyrväinen, 2009), or the very type of traded goods, such as homogeneous vs. differentiated (Håkanson and Dow, 2012; Håkanson, 2014) can make the effect of PD less significant. Ojala and Tyrväinen (2009) find that knowledge-intensive SMEs perceive Japan as a psychically distant country, and also that the large market size in Japan was a key reason behind market entry. Thus, the firm was able to reduce by acquiring relevant knowledge through recruiting. PD is a relevant variable in location decisions, there are also other variables, such as market size, opportunity seeking behavior, and actions taken by managers, which make the effect of psychic distance less visible in macro-level quantitative analyzes.

Some authors also note that different PD stimuli may affect international location choices in a differentiated manner. For instance, Palmero, Durán Herrera, and De la Fuente Sabaté (2013) argue that for foreign entrants in Central and Eastern Europe, levels of industrial development and language can be regarded as obstacles to foreign direct investments, distance in education turns out to be positively associated with investments, reflecting an efficiency-seeking MNE motive behind these decisions. Conversely, some studies do not find any significant effect of PD on location choice decisions, at all (see e.g. Przybylska, 2013). Nonetheless, Ellis (2008) also observes that PD negatively moderates the negative relationship between market size and market entry sequence. PD effects appear to be stronger for earlier foreign market entries, indicating that PD is asymmetrical between buyers and sellers, and also that effects of PD diminish over time. Freeman et al. (2012) distinguish three types of firms: born-globals, recent entrants, and older entrants. They argue that born-globals and recent entrants are to a lesser extent affected by PD, whilst more affected by external variables. In fact, firm experience can be a moderating variable on the relationship between PD and internationalization decisions. Sinha et al. (2015) find that a key driver of proactive market entry by INVs from small, open economies is market size rather than PD. However, with increased internationalization, managerial perceptions of PD increase despite experiential learning, making entry into more distant markets less likely and rather reactive.

In terms of entry modes, Kontinen and Ojala (2010) find that family SMEs predominantly follow a gradual process and show preference for indirect modes of entry prior to entering France. The French market is viewed as psychically distant, yet firms can reduce distance by means of a range of distance-bridging factors. However, few papers address the actual organization of export activities and the effects of PD thereon. For instance, Klein and Roth (1990) study the determinants of export channel structure,

finding that under conditions of low asset specificity (with larger perceived difference between the home market and the foreign market) there is a negative incentive for exporters to integrate forwards.

On the whole, it can be argued that research belonging to this stream is diverse and hardly comparable due to the distinct nature of each of the variables pertaining to internationalization strategy. Nonetheless, it can be concluded that while PD is generally found to reduce the exposure to risks (either related to unfamiliarity of a given market environment or to the investment of resources in that foreign market), this relationship is more complex and affected by a number of contextual factors at firm and country level. Thus, future research should in particular deepen the understanding of market choice and market entry decisions by exploring how PD is incorporated in the underlying decision-making process. Such investigation may deliver further relevant mediating and moderating variables for quantitative studies. Moreover, it has been argued that managerial perceptions rather than entirely objective premises affect strategic decisions. Therefore, it may be interesting for further studies to compare and contrast the effect of both objective PD stimuli, PD perceptions by decision makers, and evaluate the role of their fit or misfit for internationalization decisions mentioned above.

(II) PD and Local Market Adaptations

Most studies pertaining to marketing strategy for international markets find that PD increases the extent to which retailers adapt their offer (Evans and Bridson, 2005; Sousa and Bradley, 2005; Sousa and Lengler, 2009). Specifically, PD is positively related to the degree of promotion and product adaptation (Sousa and Bradley, 2005), price adaptation, and distribution adaptation (Sousa & Lengler, 2009). Moreover, Sousa and Lengler (2009) find that PD has a direct positive effect on performance, which provides support for the argument that increased managerial attention to a foreign market and more dedicated measures taken to consider local market specificity do translate into superior outcomes. Sousa and Lages (2011) decompose PD into country distance and people distance, confirming that both dimensions are positively associated with the adaptation of product, promotion, pricing, and distribution strategies for the overseas market. Likewise, Evans and Bridson (2005) distinguish PD components related to market structure, business practices and language differences, and find that they affect adaptation of retail offer in foreign markets. Azar and Drogendijk (2014) observe that PD is positively associated with technological and organizational innovation adoption in foreign markets. Thereby, innovation plays a mediating role in the PD-performance relationship. The authors argue that perceptions of higher PD increase a firm's efforts to innovate, as well as to cope with requirements found in the foreign

market environment. Moreover, their study indicates that the combination of both organizational innovations, such as more efficient production techniques, and technological innovations such as new products, leads to enhanced firm performance by enabling quicker reactions in a highly competitive environment.

However, studies summarized within this stream of research fall short of capturing the extent of adaptations, which may be necessary to appropriately address foreign market needs. Hence, further extensions of the existing studies should incorporate broader concepts than merely marketing-mix instruments or innovation adoption, such as the very business model and its known components.

(III) PD and Performance

The relationship between PD and the performance of firms involved in international business operations is a complex one. In fact, Hutzschenreuter, Kleindienst and Lange (2014) find that incremental governance, cultural, and geographic distances added subsequent internationalization steps, have a negative effect on firm performance. Thereby, added governance distance appears to explain the largest part of variation in firm performance, followed by added cultural distance. They acknowledge that the effect on firm performance may be contingent on the degree to which MNEs are aware of cross-country differences and hence proactively take measures to reduce negative effects of added PD stimuli upon firm performance. O'Grady and Lane (1996), in a seminal contribution, identify the PD paradox, where Canadian retailers' assumptions about similarity of the US and the Canadian home market are strongly associated with their poor performance in the US. In fact, assumptions of cultural similarity can prevent managers from learning about critical differences, which objectively exist across foreign markets. This paradox has been supported by some other scholars, such as Hang and Godley (2009) in their study of Chinese retailers in foreign markets. Also Evans and Mavondo (2002) indicate that PD is positively associated with organizational performance in distant markets, while in case of close markets the relationship is negative. Likewise, also note that managers underestimate differences between home and host countries and that entrant firms experience shock effects when they enter adjacent but not distant countries.

However, the explanation of the PD-performance relationship may require the inclusion of other intervening variables. Evans, Treadgold, and Mavondo (2000a) in their conceptual contribution postulate that other factors apart from PD, such as strategic decision making process, entry strategy, degree of adaptation, or international experience should be taken into account when investigating performance effects. In fact, factors such as

the innovation ability of internationalizing firms (Azar and Drogendijk, 2014), or entry strategy and retail strategy adaptation (Evans, Mavondo and Bridson, 2008) have been empirically identified as mediators on the direct performance effect of PD.

Conversely, PD may also affect the performance impacts of other variables as a moderator. Hassel and Cunningham (2004) show that high budget emphasis as a means of control in multinational companies is associated with high subunit performance in countries with small PDs, but not in countries with larger PD. Griffith and Dimitrova (2014) note that business and cultural PD moderate the relationship between complementarity of capabilities and satisfaction with export performance, however in opposite directions. Dikova (2009) also finds that foreign subsidiary performance is positively related to PD only in the absence of market-specific knowledge. If MNEs do have experience in the region of entry, or have previously established a subsidiary with a local partner, PD appears to have no effect on subsidiary performance. The complexity of this relationship may explain why some influential contributions in this field – including Stöttinger and Schlegelmilch (1998) – do not find a significant impact of PD on performance. Accordingly, more studies are indeed needed to shed light on the PD-performance relationship, taking into account theory-driven situational variables, which may either moderate or mediate it.

(IV) Antecedents and Coping Modes

Antecedents of PD, as well as mechanisms to reduce uncertainty resulting from PD, constitute relatively new and thus largely unexplored fields. Research on factors affecting managerial perceptions of distance remain fragmented and offer only partial answers. Nonetheless, several individual-level antecedents of PD have been empirically tested. For instance, Zanger, Hodicová, and Gaus (2008) argue that individual-level objective knowledge of a foreign market and manager's experience with a foreign market are key factors that influence the perception of country-related characteristics, and perceptions of products and companies, which form perception of distance. Sousa and Bradley (2006) have examined managers' international experience (captured by 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), and found that it had a negative effect on PD, while managers' conservation values resulted in a higher PD perception. O'Grady and Lane (1996) observe that direct experience with the foreign market may also substantially lower the risk of PD paradox. Also Fletcher and Bohn (1998) find that managers' knowledge of foreign cultures and experience in foreign transactions, as well as their willingness to adapt strategic approach to international business increase the likeli-

hood of internationalizing into more psychically distant markets, rendering PD to be a less important barrier to internationalize. However, neither managers' age nor education received support as determinants of PD. Most recently Baack, Dow, Parente, and Bacon (2015) provided empirical support that confirmation bias affects managers' perceptions of psychic distance, indicating that (p. 952): "when managers are faced with a proximate (or distant) country, they may tend to underestimate (or overestimate) how different that country is from their own in terms of psychic distance, due to biases rooted in past experiences and existing beliefs regarding that country".

Among firm-level determinants influencing perceived distance, centralization of the decision-making process and international experience (number of foreign markets and number of years of operations in those markets) were studied by Evans et al. (2008), but their influence on PD was not empirically supported. Yamin and Sinkovics (2006) examined the effects of online internationalization on PD, suggesting that firm experience with online internationalization is likely to reduce PD. The authors also develop a concept of a 'virtuality trap' which is seen as a "the online analogue of the psychic distance paradox" (Yamin and Sinkovics, 2006, p. 339). Several studies have also examined macro/environment-level determinants of PD (or PD stimuli), including cultural, geographic and linguistic distance, current and historical political rivalry, differences in economic development, economic development, and governance system (Håkanson and Ambos, 2010; Dow and Karunaratna, 2006).

Only recently Smith, Dowling, and Rose (2011) developed a comprehensive, conceptual framework of PD, which clearly specifies PD's determinants at national and individual level. Among individual level characteristics, Smith et al. (2011) include objective traits such as international experience, cultural background, education, and command of foreign languages. While in the case of subjective characteristics the authors mention the conservative nature, which corresponds to risk tolerance, flexibility, proneness to change, conformity, tradition, and security values. Similar to other researchers, Smith et al. (2011) also identify national level antecedents such as: culture, language, education, industrial development, political systems, religions, time zones, and colonial ties. However, they argue that key for PD and resulting perception of operating difficulty are not objective national differences per se, but instead information received by managers on differences, noting that the assessment of received information is influenced by subjective and objective characteristics of individuals. This comprehensive model of determinants and underlying process of information processing has not been empirically verified yet.

Studies of distance-reducing mechanisms are still in their infancy, although important contributions have already been made. Child, Ng, and Wong (2002) argued that the expansion of Hong Kong firms to Anglo-Saxon locations can be explained by special factors that compressed or bridged PD, and they developed a framework of distance-creating, -compressing, and -bridging factors. Babichenko (2006) further developed that framework, and defined PD as “the sum of the distance-creating factors minus the sum of the distance-compressing and distance-bridging factors” (p. 215). Later, examining British SMEs exporting to Brazil, Child, Rodrigues, and Frynas (2009) indicated specific distance-bridging factors, which may be influenced by the company and which lowered uncertainty in foreign markets. The authors listed the following factors: company ownership (in family owned businesses the owner/manager is responsible for the well-being of the family and the company, which results in a more conservative approach), education or training obtained in a foreign country, previous experience in a foreign country, presence of a trusted friend or a loyal employee, personal network, cooperation with a trusted foreign partner, and employment of professional managers. Three possible ways of dealing with difficulties raised by psychic distance, (which can be grouped as active and passive modes), were denoted (Child et al., 2009): a) bridging – active utilization of distance reducing factors, which leads to lowering transaction cost; b) avoiding – avoiding transaction costs or transferring the problem onto other partners within the companies network; and c) non-coping – which means that the company was not able to find a proper response to the negative aspects of psychic distance. Kontinen and Ojala (2010) have supported these findings in their research on Finnish SMEs operating in France, indicating that in order to overcome distance, SMEs use distance-bridging factors. Considering this research stream, one of the most promising avenues of future studies calls to consider the contingency perspective within studies of PD (e.g. Puthusserry, Child and Rodrigues, 2014), alongside modes to reduce it, including such factors as the sector in which the company is operating.

(V) PD and Other Managerial Challenges

As preceding sections demonstrate, PD has been investigated as moderating variable on a number of managerial and organizational aspects of foreign market operations. One such research area pertains to the management of foreign market relationships. Griffith and Dimitrova (2014) indicate that when export managers perceive greater business PD, they select export partners with fewer complementary capabilities. Likewise, Sachdev and Bello (2014) find that PD moderates asset specificity’s effect on information sharing. There is also empirical evidence that PD enhances knowledge development in foreign customer relationships, as it is positively related to SMEs’ foreign market network cooperation (Nordman and Tolstoy, 2014). Complementary to

those findings are the results of Johnston et al. (2012) who note that PD negatively moderates the relationship between communication facets and trust and satisfaction. However, PD does not hinder relationships between trust and satisfaction and joint action in international channels of distribution. In addition to this assertion, Magnusson and Boyle (2009) propose that PD can be detrimental to foreign channel relationships in early stages, whilst it may serve as an asset in later stages.

More specifically, another aspect, which may affect organizational performance is related to international human resource management, and expatriate performance in particular. Tanure et al. (2009) show that perceived distance, objective cultural distance, and the expatriate's perceptual inaccuracy had a significant effect on expatriate adjustment difficulty for one's first foreign assignment. However, on subsequent assignments all measures of distance turn out to be significant. In fact, expatriates have been found to be sent to predominantly psychically close markets (Tanure, Barcellos and Fleury, 2009). The authors argue that firms should support expatriates better, either through appropriate intercultural trainings or through more refined selection procedures in order to improve their preparation for foreign assignments given a certain level of PD and the resulting need of adaptation. The latter emerged as a crucial challenge regardless of the level of PD. Currently, there seems to be a mismatch between expatriates' adaptation problems and HR managers' perceptions of the entire process, which clearly leaves room for more dedicated firm policies (Tanure, Barcellos and Fleury, 2009).

Further, as far as organizational effectiveness is concerned, Magnusson, Schuster, and Taras (2014) argue that in global virtual teams (GVTs), team-level PD is positively related to expectations of challenges. Moreover, as pointed out previously, their findings confirm that PD has a positive effect on performance: whereby this effect is mediated by effort so that an increase in PD increases effort, which in turn improves performance. Hassel and Cunningham (2004), find another relevant organizational aspect, which is that a high reliance on budget control and low PD are associated with high affiliate performance. While in the case of affiliates with a high PD, the parent firm's use of budget control does not lead to superior performance.

Finally, PD can also affect business operations as it is related to differences in the foreign business environment, such as foreign customers. Safari, Thilenius and Hadjikhani (2013) propose that high uncertainty hinders consumers' exchange with international online vendors (IOVs) that are associated with high PD on a national level, which may change if customers gain access to information forming trust toward specific IOVs. Finally, at a more general level, Zhu and Yang (2008) find that financial crises are transmitted to a lesser extent to countries with higher PD.

Conclusions and research implications

The review of extant studies pertaining to the effects of PD on different aspects of firm internationalization and management of international operations leads to several overarching conclusions, as well as suggestions for further investigations devoted to the role of PD.

Referring to the very notion of PD, problems related to construct measurement have surfaced in a number of empirical studies. Some scholars dealing with PD have proposed and tested novel measures (Brewer, 2007 a,b; Dow and Karunaratna, 2006), comparing PD perceptions with objective stimuli (Dow and Ferencikova, 2010; Hakanson and Ambos, 2010; Sousa and Bradley, 2006). In fact, while different PD measures tend to correlate, they yield distinct outcomes (Child, Rodrigues, and Frynas, 2009), depending on the specific empirical context, such as different firm samples, the presence of multicultural nations, or the specific relationships under study, such as different types of international experience affecting firm decisions. Therefore, the comparability of findings of different studies cited here is somewhat limited.

Smith, Dowling, and Rose (2011, p. 130) argue that PD should be defined as “the perception a business person has of the level of difficulty they would encounter in a foreign market if they were to undertake business operations in that market.” These authors remind us that PD stimuli at the national level reach the individual in the form of knowledge flows and are then received. Their interpretation, contingent on objective (such as international experience, education, or language skills) and subjective (notably the conservative nature) individual characteristics, leads to the perception of PD or operating difficulty in foreign markets, which affects managerial decisions in internationalization. The noted difficulty aspect also appeared in the construct of “hassle factor” by Schotter and Beamish (2013), who apart from the classic case of language also include factors such as climate, business facilitation, health risks and medical standards, internet access, food and water hygiene, business hotel standards, local transport standards, visa requirements, personal safety risks, as well as risks for female executives. They find that this construct negatively moderates the relationship between foreign direct investment potential and investment intensity. Clearly, more research is needed, which includes both a broader operationalization of difficulties in foreign markets, as well as individual and firm-level factors affecting their perception.

While the present review is limited in the number of papers taken into account – as only titles were searched for PD – it provides an initial overview of the structure of the field. Internationalization processes have been clearly predominant among existing

studies, followed by those focused on performance. A glance at their findings, however, reveals that further investigation is advisable due to their contradictory character.

On a methodological note, out of 47 empirical papers 33 have used quantitative methods, 10 qualitative methods, while four used mixed methods. Given the well-established character of many constructs used in this research field, this explanatory focus is not surprising. However several aspects, including notably coping modes, still require more in-depth investigation and a better understanding of their effectiveness determinants.

In terms of avenues for future research, a promising topic revolves around the relationship between perceived and “real” distances. In fact, managers tend to over or underestimate distance to foreign markets (O’Grady and Lane, 1996). However, while several authors have acknowledged the existence of the PD paradox based on their empirical findings, they have predominantly linked the distance variable to outcome variables such as organizational performance. At the same time, it is not necessarily distance or its perception that affects performance, but decisions made on the basis of specific perceptions that can have certain performance outcomes. Therefore, a possible avenue for future research could pertain to the comparison of perceptions of particular aspects of the environment with actual, objectively measured values, and the use of the resultant differences as a predictor variable, thus showing whether “confident” or “conservative” decisions lead to better outcomes, and what individual, firm – and country level variables can affect that relationship.

Another emerging stream pertains to determinants of perceived distance and mechanisms to reduce uncertainty resulting from PD. Although important contributions have been made (e.g. Smith et al., 2011; Puthusserry et al., 2014), questions as to which factors at national, firm, and individual level determine perceived distance, and the way managers cope with distance, need further theorizing and empirical testing in different country, industry, and firm settings. For instance, studies examining PD in the context of born-global firms (BGs) or international new ventures (INVs) are scarce. Although the *born-global* phenomenon seems to challenge the logic of the stage model of internationalization, the notion that PD is no longer relevant as the construct explaining internationalization, would be a far-reaching simplification. Child et al. (2009, p. 202) argues that the only assumption that can be undermined is “the assumption that psychic distance generates uncertainties which business people are unwilling to tackle.” Still, this may suggest that a high attractiveness of a market as perceived by decision-makers to some extent offsets the importance of uncertainty and risk resulting from perceived differences between markets. Nonetheless, research conducted

within the context of born-global firms demonstrates that PD reduces the speed of market penetration (Arenius, 2005), or its influence becomes more evident not in initial, but in subsequent market entries when INVs experience the PD paradox (Sinha et al., 2015).

Finally, Johanson and Vahlne (2009) revisit the original Uppsala model based on the concept of liability of foreignness and the premise that PD affects location and entry mode choice, by putting forward the notion of “liability of outsidership” rooted in the network approach. In fact, the development of social capital in foreign markets can be crucial for improving access to information or identifying foreign partners and customers (Arenius, 2005). In the context of firms from emerging markets, a recently discussed issue is related to their advantages in other similar markets (Cuervo-Cazurra and Genc, 2008; Del Sol and Kogan, 2007). While there is some evidence that these firms are successful due to having been established in similar business environments and thus better coping with host country challenges, little is known about the very nature of this advantage at the level of managerial perceptions that lead to expansion decisions and their outcomes. Therefore, the context of emerging country firms could be a fruitful empirical setting for further refining the notion of PD and accounting for factors that contribute to its reduction.

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