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The psychology of psychic distance: Antecedents of asymmetric perceptions[☆]

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ABSTRACT

Already on its introduction into the international business literature, the concept of ‘psychic distance’ implied asymmetry in the distance perceptions between country pairs, a characteristic corroborated in subsequent empirical studies. However, predominant empirical operationalizations and their theoretical underpinnings assume psychic distances to be symmetric. Building on insights from psychology and sociology, this paper demonstrates how national factors and cognitive processes interact in the formation of asymmetric distance perceptions. The results suggest that exposure to other countries through emigrants and imports of cultural goods and services have asymmetric effects on psychic distance perceptions. The size of these effects appears to vary with the size of the home country – smaller countries tend, on average, to perceive psychic distances to the rest of the world as smaller than do bigger ones. The reputational status of target countries relative to that of the home country is found to have a non-linear, asymmetric effect on distance perceptions.

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1. Introduction

Research in international management has long embraced psychic distance (and related concepts, such as institutional, cultural or economic distance) as central to the understanding and explanation of international business phenomena. Their field of application covers a vast number of research areas, including the internationalization process of the firm, the performance of foreign subsidiaries, knowledge management, expatriate management, as well as neighboring disciplines like marketing (Berry, Guillén, & Zhou, 2010). With few exceptions, the literature treats distance as an obstacle that makes operations across national borders more difficult.

Despite their popularity, inconsistent research findings have led authors to question the usefulness of the distance concepts commonly employed in the literature (Berry et al., 2010; Stöttinger & Schlegelmilch, 2000; Tung & Verbeke, 2010). In an influential articulation of this critique, Shenkar (2001) lists a number of methodological and conceptual challenges. To address these, considerable research attention has been devoted toward

improving definitions and operational measures of distance (Berry et al., 2010; Brewer, 2007; Dow & Karunaratna, 2006). In contrast, only little effort has been directed toward a better understanding of the casual mechanisms involved (Nebus & Chai, 2014; Tung & Verbeke, 2010; Zaheer, Schomaker, & Nachum, 2012).

A root-cause of the lack of progress with regards to the conceptual challenges is the misleading nature of the metaphorical use of ‘distance’ to indicate differences in perceptions between countries of one another, in their cultures or in their institutional characteristics. In contrast to geographical distances, such differences are, for example, neither stable nor necessarily symmetric (Shenkar, 2001, 2012). Moreover, as Nebus and Chai (2014) point out, prevalent usage in international business studies has tended to overemphasize the distance component of the concept, while de-emphasizing its ‘psychic’ or ‘psychological’ aspect. In this paper, we aim to contribute toward the improvement of the theoretical foundations of the concept ‘psychic distance’ by explicitly focusing on its psychological and perceptual component. Drawing on insights from psychology and sociology, we offer a theoretical framing that helps to understand distance perceptions between country pairs. This lens, we believe, will be particularly useful for research addressing not only traditional questions of export market selection, entry modes and international expansion but also for studies of other issues involving cross-country interaction.

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The objective of the paper is to empirically and theoretically address Shenkar's (2001) criticism related to the "illusion of symmetry" that plagues most distance measures. It focuses on and attempts to explain the asymmetries observed in the psychic distance perceptions between countries. We empirically test our hypotheses by means of the data set originally collected and described in Håkanson and Ambos (2010), encompassing questionnaire responses from 1400 managers in 25 countries. Håkanson and Ambos (2010) presented empirical evidence for the existence of such asymmetries, but while their subsequent analysis helped to unveil relevant antecedents of distance perceptions, it did not discuss how and why asymmetries arise. This is the problem addressed in this paper. Its theoretical framing and the empirical tests presented aim to inform our understanding of how psychic distance perceptions are formed, a largely ignored issue in the international business literature. The problem addressed is not merely of great theoretical interest when gauging, for example, likely future changes in psychic distance perceptions; as recently demonstrated in the case of international trade (Håkanson, 2014), asymmetries in psychic distance perceptions can affect international patterns of interaction more generally.

The paper is structured as follows. In the following section, we briefly review the literature on psychic distance, discussing definitions, conceptualizations and measurement approaches as well as the inconsistent research findings the concept has yielded so far. Most common operationalizations of psychic distance – including the 'cultural distance' proxy proposed by Kogut and Singh (1988) – relate to familiarity, proximity and similarity between countries. This leads us, in Section 3, to borrow insights from the psychology literature to develop our hypotheses, focusing on cognitive processes that influence the formation of distance perceptions (Nebus & Chai, 2014). Section 4 details the methodology employed in testing the hypotheses and briefly describes the empirical psychic distance data published in Håkanson and Ambos (2010) that provide the empirical basis for the study. This is followed by a summary of the results and the empirical support obtained regarding the influence of cognitive processes on psychic distance formations. The paper concludes with a discussion of the findings and their implications, limitations and future research avenues.

2. The psychic distance concept

The psychic distance concept originated in the literature on international trade, where it was first introduced by Beckerman (1956), as an obstacle to trade complementary to that of geographical distance. Although Beckerman did not offer a clear definition of the concept, the idea was picked up by other international trade economists but was not generally afforded much scrutiny. In a classic study, Linnemann (1966: 27) writes, in an enumeration of circumstances that impede trade between countries:

A last group of factors (which might be the most important of all) could be described as those relating to the "economic horizon" of a country, or to the "psychic distance". Perfect knowledge of the market does not exist, either for producers or for consumers. The spectacular improvements of the world's communication system notwithstanding, we are still much better informed about what happens and exists in our immediate neighbourhood than about conditions prevailing in far-away countries. Thus, propinquity leads to better business information, greater familiarity with laws, institutions, habits, and language of the partner country, more similarity in the way of life and in the preference pattern between the countries, and similar – sometimes rather intangible – trade-stimulating factors.

Like Linnemann, international economists have generally captured the effects of psychic distance on international trade patterns – along with those of freight costs and costs of time in transit – by the geographic distance between trading partners, adding at times other symmetrical variables, such as 'common language' or 'colonial ties'. Until recently (Håkanson, 2014), possibly asymmetrical effects of psychic distance have not been afforded attention.

To the international business community, the psychic distance concept was introduced by the so-called Uppsala school (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975) as an element influencing export market selection and firms' internationalization patterns. Psychic distance was defined as "factors preventing or disturbing the flow of information between potential and actual suppliers and customers" (Johanson & Wiedersheim-Paul, 1975: 308).

Since relevant, high quality market information would be more readily available from more developed economies, their operational measurement of psychic distance included characteristics of the target market, such as its GDP/capita and the educational level of its workforce (Vahlne & Wiedersheim-Paul, 1973). By implication, the psychic distances between more and less developed countries would be inherently asymmetric. However, like in most subsequent studies, the analysis focused on psychic distances from a single focal country and the question of symmetry did not attract attention. With the subsequent acceptance of the practice to proxy psychic distance by the cultural distance index suggested by Kogut and Singh (1988), which is by definition symmetrical, the issue all but disappeared from the agenda.

Subsequently, psychic distance continued to attract attention and a number of definitions have been developed. Among others, psychic distance has been defined as barrier to learning and understanding about a foreign environment (Nordström & Vahlne, 1994), uncertainty related to a foreign market (O'Grady & Lane, 1996) and the perception and understanding of cultural and business differences (Evans, Treadgold, & Mavondo, 2000: 377). Whereas some authors explicitly understand it as a measure of similarity between two countries (Sim & Ali, 1998) or, conversely, as the perception of differences between them (Sousa & Bradley, 2006; Sousa & Lages, 2011), others define it as a knowledge gap (Petersen, Pedersen, & Lyles, 2008), as an obstacle to information flow (Håkanson & Ambos, 2010) or in terms of managers' familiarity with foreign markets (Berry et al., 2010; Brewer, 2007; Dow & Karunaratna, 2006). Many authors, however, remain somewhat imprecise about their exact understanding of the concept and the rationales underlying employed operationalizations.

Like the multitude of definitions and theoretical conceptualizations, the correct measurement approach has also been subject to debate (Dow & Karunaratna, 2006; Prime, Obadia, & Vida, 2009). Measurements of psychic distance have either been based on objective or on perceptual approaches and operationalizations. Objective approaches include, in addition to the long generally accepted Kogut and Singh index of cultural distance, the use of geographic regions (Plá-Barber, 2001; Ronen & Shenkar, 1985) as well as formative indices such as the one constructed by Brewer (2007) which combines indicators of inter-country relations such as commercial, political, social, historical and geographical ties. Perceptual operationalizations commonly rely on the use of Likert scales to capture respondents' distance perceptions. Items usually cover a range of potential distance-creating factors such as differences in language, business practices, political systems, levels of economic development, per capita incomes, lifestyles or traditions (Evans & Mavondo, 2002; Sousa & Bradley, 2006; Sousa & Lages, 2011). Other perceptual measures have been based on the use of concentric circles (Dichtl, Koeglmayr, & Müller, 1990), free magnitude scaling (Stöttinger & Schlegelmilch, 1998) or

the judgments by expert panels (Dow, 2000; Nordström & Vahlne, 1994).

In line with the perceptual approach – and with Beckerman's (1956) original conceptualization – the present analysis is based on a perceptual definition of psychic distance and empirical measures pertaining to the self-reported perceptions of the psychic distances to foreign countries by English-speaking, academically trained managers in 25 countries (Håkanson & Ambos, 2010). A summary of the characteristics of the survey is given below; for a detailed description the reader is referred to the original reference.

3. Theory and hypotheses

Within psychology, questions as to how perceptions are formed and why individuals may perceive the same object differently have been the focus of many studies. One theoretical rationale for the formation of psychic distance perceptions is provided by the so-called mere-exposure paradigm (Zajonc, 1968). Research in this area has demonstrated that the more often people are exposed to a certain object, the more they tend to like this object and consider it as attractive (Zajonc, 2001). This *mere-exposure effect* appears to be robust across cultures, species, and domains of objects (such as words, sounds, paintings, geometric figures, faces, and persons (Zajonc, 2001; for a meta-analysis see Bornstein, 1989). The experience does not involve conscious information-processing and occurs also when stimuli are not accessible to participant's awareness (Zajonc, 2001).

The mere-exposure effect has been widely tested in the laboratory (with participants typically subjected to neutral visual stimuli, such as nonsensical words) but also in natural settings (with exposures to items from the public sphere, such as pictures of celebrities) (Bornstein, 1989). The effect has been found both for simple stimuli (such as a single tone) and for more complex ones (such as a piece of classical music) (Bornstein, 1989).

The mere-exposure effect has been applied in the management literature as a theoretical mechanism to explain different phenomena in organizational settings. For example, it has been used to explain students' use of a business-decision mindset as a function of being exposed to money (Kouchaki, Smith-Crowe, Brief, & Sousa, 2013), the rivalry between basketball teams of the National Collegiate Athletic Association based on their prior competitive interactions (Kilduff, Elfenbein, & Staw, 2010), and the revenues of grocery stores as a consequence of costumers' mere-exposure to a marketing campaign (Venkatesan & Farris, 2012).

A second stream of relevant research on similarity judgments is the literature on social comparisons and social identity theory (Tajfel & Turner, 1985). Premised on the idea that individuals obtain a sense of identity and direction by comparing themselves to others, social identity theory analyses how people classify themselves and others into social categories, such as by organizational membership, religious affiliation, race, gender or nationality. Such *social comparison effects* involve not only demarcations of in-groups and out-groups but also value judgments as to the relative attractiveness (or lack of attractiveness) of 'others'. Psychological research has established that 'attractive' target groups are typically perceived to be more similar than unattractive ones (Marks & Miller, 1982), and – as outlined below – it appears likely that this effect may also apply in judgments of foreign countries and nationalities.

In the following, we will use both of these perspectives to explain and propose a set of testable hypotheses as to why and how psychic distance perceptions between nations are often asymmetric.

3.1. Exposure effects

Research shows that the formation of individual judgments and perceptions is affected by a wide range of factors, including

non-rational, unconscious internal processes (Scott, 1958), group influences (Sherif, 1935) or persuasive communication (Hovland, 1951). Studying cognitive representations of nations, Forgas and ÓDriscoll (1984: 201) argue that “we do not see the world in an objective, rational and unbiased manner, but according to our values, interests and the norms of our culture”. The formation of impressions of other people and nations can be seen as a process of social categorization, modified by individual characteristics, but heavily influenced by the nature and history of the inter-group relations from which they derive their meaning (Bar-Tal, 1997).

Drawing on the literature on the mere-exposure effect, we suggest that people's exposure to representations of a foreign country increases familiarity and liking, thereby reducing the psychic distance to it. Prior work has applied an evolutionary perspective to explain the mere-exposure effect. Caution toward foreigners increased our ancestors' likelihood of survival and, consequently, their success in reproduction (Bornstein, 1989; Zajonc, 1968). Conversely, being exposed to foreigners without experiencing any detrimental consequences was a good indication that these foreigners were not dangerous but could be trusted (Zajonc, 1968).

Empirical research has demonstrated that the association between mere-exposure and attraction does not rely on conscious information-processing (Monahan, Murphy, & Zajonc, 2000) nor does it depend on social interaction (Zajonc, 2001). Moreland and Beach (1992), for example, report a field experiment in which they exposed students in a classroom to four different confederates of similar appearance for a different number (0, 5, 10, or 15) of class sessions. None of these confederates interacted with the students, but the study found that the more students had been exposed to these confederates the more they rated them as attractive and similar to themselves.

It has also been shown that the experience of familiarity and liking can generalize to other objects that share similarities with the objects presented (Monahan et al., 2000). We therefore suggest that any stimulus that represents a foreign country, such as a commodity, a person, or media coverage, can trigger the association of liking and thereby reduce perceived psychic distance to it. When people have broad and frequent exposure to representations of a foreign country they will tend to experience a smaller psychic distance because they will feel more familiar with it. Conversely, limited exposure will lead to less familiarity and higher perceived distances. Hence, we hypothesize:

Hypothesis 1. The psychic distance to a foreign country tends to decrease with the level of exposure to it.

Our focus on aggregate, national-level asymmetries in psychic distance perceptions warrants the neglect of individual differences in exposure, such as experiences and personal relationships. However, group contacts, such as those to immigrants from other countries, are also likely to trigger mere-exposure effects. We therefore hypothesize that the level of exposure to a foreign country is related to the number of immigrants from it, that immigration will therefore increase familiarity and thereby lower the perceived distance to it.

Hypothesis 1a. The psychic distance to a foreign country tends to decrease with the number of immigrants from it.

A parallel logic suggests that a similar effect can be triggered by the number of emigrants to a given country. The more people from a focal country have emigrated to and settled in a particular foreign country, the more information about that country these emigrants are likely to have conveyed to their friends and relatives at home. This form of exposure will tend to raise perceived familiarity to the country in question and make it seem less psychologically distant,

possibly increasing in a cumulative manner the perceived attractiveness of the country as an emigration target.

Hypothesis 1b. The psychic distance to a foreign country tends to decrease with the number emigrants to it.

An important manifestation of economic, political and cultural influence is the export of 'cultural services', as prominently reflected, for example, in television series or feature films, where American dominance helps to explain the large asymmetries between the psychic distance perceptions of U.S. managers to the rest of the world and those from those in other countries to the U.S. (Håkanson & Ambos, 2010). Since imports of cultural services directly affect the exposure to foreign countries, they can be expected to decrease psychic distance perceptions.

Hypothesis 1c. The psychic distance to a foreign country tends to decrease with the volume of cultural goods and services imported from it.

A second prominent source of exposure is media coverage from and about a foreign country (Jones, Van Aelst, & Vliegenthart, 2013). Studies of international news flow have investigated a range of factors that account for the amount of visibility one country receives in the news media of another (Wu, 1998). One prominent set of such factors – in addition to ones that can be expected to have a symmetric effect, such as geographical proximity or common language – relate to the target country's overall political, economic or military stance in the world system (Galtung & Ruge, 1965; Golan, 2008; Kim & Barnett, 1996), as measured by, for example, GDP, population or military might.

In cross-sectional analyses, such size-related variables have given inconsistent results across nations (Wu, 1998), suggesting that their effect is moderated by 'gatekeepers' – such as international news agencies, news editors and journalists, whose influence differs between countries. Market-based media systems, such as that of the U.S. tend to afford international news less coverage than do public-service-oriented ones, common in Europe (e.g., Iyengar, Hahn, Bonfadelli, & Marr, 2009). In the market-based U.S. media system, both demand and supply side factors have conspired to reduce media coverage of foreign countries over time (Jones et al., 2013; Moisy, 1996).

In line with this argument, Håkanson and Ambos (2010) hypothesized and found support for the idea that larger countries tend to be perceived as psychically more proximate than smaller ones. However, it appears probable that the effect of target country size and significance is tempered by the size of the focal country itself. As in the case of the U.S., news coverage in large countries is likely to be more domestically oriented than that in smaller countries, where events in the international environment are likely to be more immediately important (Iyengar et al., 2009; Jones et al., 2013). On average, therefore, people in smaller countries can be expected to be better informed about bigger neighboring countries (and the world generally) than are people in larger ones, where domestic items are likely to dominate news flows.

Hypothesis 1d. Average psychic distance perceptions to foreign countries are higher in large countries than in smaller ones.

3.2. Social comparison effects

A second stream of relevant research is the literature on social comparisons. Its basis is the theory of social comparison processes proposed by Festinger (1954). It is based on the observation that individuals evaluate their own abilities and opinions by appraising themselves relative to their social environment. Since objective criteria are rarely available, comparisons with others serve as a

source of knowledge of ones' own capabilities and position in society and are intrinsic to individual-level identification processes. According to social identity theory, membership in a social group – as defined by attributes such as gender, nationality, or religion but also profession or leisure preferences – is fundamental to such comparisons. Groups sharing an individual's characteristics represent his or her 'in-groups' and are then contrasted to relevant out-groups (Tajfel, 1978; Tajfel & Turner, 1979). Unsurprisingly, sharing the same place of birth or 'home country' has been shown to be one important basis for such comparisons (Stets & Burke, 2000).

Depending on the relative positions of in- and out-groups in regard to a certain attribute, comparisons are either up- or downwards. Upward comparisons – with targets perceived to be superior – have been found to lower self-esteem and decrease subjective well-being, especially when such targets are seen to be similar in other respects (Morse & Gergen, 1970; Wheeler & Miyake, 1992). However, upward comparisons can also cause positive outcomes. When 'assimilation' rather than 'contrast' effects occur, upward comparisons increase perceptions of similarity (Brewer & Weber, 1994; Brown, Novick, Lord, & Richards, 1992; Collins, 1996), while downplaying differences (Lockwood & Kunda, 1997; Tesser, 1988). The aspirational association with successful others – the "basking in reflected glory phenomenon" (Cialdini et al., 1976) – reflects the optimistic expectation that the status of the better-off target is within realistic reach (Wheeler, 1966). Less has been written on the consequences of downward social comparisons, but, here too, there is evidence for contrast as well as assimilation processes (Blanton, 2001; Wheeler & Miyake, 1992).

Judging the psychic distance to other countries is likely to invoke home country nationals as a social group. Depending on the direction of the comparison, assimilation or contrast effects are likely to influence perceptions, leading respondents to indicate higher similarity toward target nationals seemingly more attractive, at least within a range of comparison perceived as realistic, after which contrast effects will tend to dominate (Marks & Miller, 1982; Zander & Havelin, 1960).

Country attractiveness can encompass a range of national aspects such as market size, market growth, economic activity, political stability, development of the capital market, tax system, investor protection and corporate governance, living standards, social and natural environment, inflation and trade balance or the perceived attractiveness of movie stars (Groh, von Liechtenstein, & Lieser, 2010; Liander, Terpstra, Yoshino, & Sherbini, 1967). Perceptions of such factors create differences in countries' international reputations. Through social comparison effects, these differences are likely to create asymmetries in psychic distance perceptions.

Hypotheses 2. The relationship between country differences in international reputation and psychic distance is curve-linear: Psychic distance perceptions tend to be lowest for target countries with a somewhat higher reputational status than the home country; beyond this point, reputational differences (both positive and negative) tend to increase distance perceptions.

4. Method

4.1. Sample

The hypotheses were tested using the large sample psychic distance dataset collected by Håkanson and Ambos (2010). It includes perceived psychic distances aggregated to national averages, collected by means of an Internet-based questionnaire from more than 1400 respondents in 25 countries, selected on the

basis of the absolute GDP in 2001: Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, France, Germany, India, Italy, Japan, Mexico, Netherlands, Norway, Poland, Russia, South Korea, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the USA. Due to missing values on some of the independent variables employed in the present study, the original sample of 600 country pairs was reduced to 416, the size of the sample used in the statistical analysis.

4.2. Dependent variable

Psychic distance. The questionnaire defined ‘psychic distance’ as the “sum of factors (cultural or language differences, geographic distance, etc.) that affect the flow and interpretation of information to and from a foreign country” (Håkanson & Ambos, 2010: 201). Following precedent authors (Dow, 2000; Ellis, 2007; Nordström, 1990), respondents were asked to use a scale from 0 to 100 to indicate the extent to which they perceived the other countries to be close or far away, setting the distance to the home country at ‘0’ and the most distant country to ‘100’. On completion of the task, respondents were presented with their resulting country ranking in ascending order, allowing for corrections when necessary.

The data was collected between fall 2003 and spring 2008 when collaborators directed questionnaires toward local executive MBA students. The targeted population was English-speaking, academically trained managers with a few years of business experience (for further details, please refer to the original reference). Like in Hofstede’s (1980) sample of IBM employees, the respondents to the questionnaire are obviously not representative of the total populations of their countries of origin. However, they appear reasonably typical of the subset of people involved in international business decisions, thereby helpfully reducing within-country variance, in comparison to samples including, for example, representative numbers of peasants in remote mountain villages, school children and old-age pensioners.

In consequence of the targeted sampling strategy, the inter-rater reliability of perceived psychic distance was very high: .938. Coupled with a substantial between-group, country-pair

variance – with a standard deviation of around 44 per cent of the mean – this justifies the aggregation of individual-level data to country level (Chan, 1998).

In the following analysis, the dependent variable is the respondents’ average perceived psychic distance to each of the other 24 countries (Table 1).

4.3. Independent variables

Migration. Data on bilateral immigration and emigration were collected from the United Nations (2013), estimating 2010 stocks of foreign-born population in the respective countries. Unfortunately, the database is not complete, reducing the number of bilateral observations from 600 to 554 for each variable, jointly to 510. Since the variables are highly positively skewed, migration is in the regressions measured by the natural logarithm of the absolute number of migrants.

Imports of cultural goods and services. Comparable data for trade in ‘personal, cultural and recreational services’, which includes, for example, ‘audiovisual and related services’, is available only for a small part of the country pairs in the sample (UN Service Trade, 2014). Unable to test the significance of trade in cultural services directly, we use as a proxy variable the annual value of newspapers, journals and periodicals imported from a foreign country into the home country in 2007. This data, collected from UN Comtrade (2014), is reported in current U.S. dollars under SITC Rev. 3 codes 892.1 (“Books, pamphlets, maps and globes, printed (not including advertising material)”) and 892.2 (“Newspapers, journals and periodicals, whether or not illustrated or containing advertising”). Of course, the volume of such imports depends not only on the importance of their countries of origin but also on the size of the local market. Import values were therefore normalized by dividing them by the size of the local population. Due to skewness, the natural logarithms of the per capita import values were used.

Origin country size. The size of origin countries was measured by their GDP in 2007 (in current U.S. dollars), obtained from the World Bank’s World Development Indicators (World Bank, 2008). According to the hypothesis, average psychic distance perceptions

Table 1
 Psychic distances between the 25 sample countries (from Håkanson & Ambos, 2010).

Distance to	Distance from																								
	ARG	AUS	AUT	BEL	BRA	CAN	CHE	CHN	DEU	DNK	ESP	FRA	GBR	IND	ITA	JPN	KOR	MEX	NLD	NOR	POL	RUS	SWE	TUR	USA
ARG	0	69	67	76	12	59	68	87	58	72	30	50	66	69	47	78	77	23	62	66	65	81	71	77	57
AUS	60	0	55	67	59	47	56	46	42	39	62	47	40	43	65	34	41	59	48	43	52	81	46	80	53
AUT	60	58	0	19	58	44	10	63	9	25	35	26	28	65	23	59	63	52	25	29	27	39	28	44	51
BEL	58	59	24	0	54	42	24	63	15	24	31	9	24	59	23	58	66	49	8	29	28	40	26	43	50
BRA	12	69	69	73	0	57	71	72	60	75	46	54	67	58	56	61	72	25	65	67	66	77	65	74	50
CAN	44	30	44	47	39	0	39	48	32	36	51	30	29	48	51	41	35	23	36	32	44	58	34	63	10
CHE	60	57	11	19	58	39	0	65	12	25	33	18	28	55	20	57	56	53	21	26	34	43	26	47	50
CHN	92	59	90	81	79	77	93	0	91	87	85	90	87	43	88	33	21	68	90	88	91	56	85	78	79
DEU	54	50	8	9	50	41	9	52	0	17	31	20	24	53	24	39	47	45	12	23	22	30	22	31	42
DNK	63	57	23	24	62	41	25	60	16	0	40	28	25	60	34	59	61	55	17	9	29	42	13	53	56
ESP	27	60	28	19	30	48	29	62	25	34	0	16	27	52	12	51	59	24	29	33	27	39	34	35	47
FRA	48	49	24	8	41	37	16	48	22	31	20	0	22	52	14	42	45	38	21	32	28	34	32	38	48
GBR	48	30	27	18	45	22	23	48	19	18	27	23	0	33	29	38	40	39	16	20	27	34	20	42	28
IND	86	59	80	71	74	77	79	48	79	82	81	77	57	0	74	47	50	67	78	81	82	66	74	77	77
ITA	36	48	17	22	35	47	19	56	25	36	16	16	29	47	0	42	51	36	28	37	25	34	34	28	46
JPN	84	49	81	80	76	71	75	29	78	76	89	79	72	55	82	0	22	65	83	83	84	72	74	69	55
KOR	89	63	86	88	82	81	87	25	86	86	88	87	83	57	86	29	0	73	85	86	89	72	81	75	68
MEX	23	70	67	64	24	40	66	77	58	70	33	54	63	62	53	57	67	0	63	66	64	74	63	74	18
NLD	58	57	20	7	60	41	19	62	13	16	35	25	19	59	30	58	51	54	0	19	28	40	20	44	56
NOR	67	61	25	29	68	42	28	61	22	9	46	32	28	68	36	61	67	60	23	0	31	41	9	56	58
POL	67	75	35	36	73	60	50	65	37	45	50	42	45	69	35	74	71	60	43	41	0	20	36	48	69
RUS	77	81	60	59	80	70	67	41	57	65	64	60	59	52	54	63	56	67	64	63	30	0	56	41	70
SWE	64	60	22	26	63	40	25	64	20	9	42	30	27	61	35	59	60	57	20	8	29	40	0	56	53
TUR	78	78	53	43	76	74	57	78	54	61	65	62	52	60	49	63	48	67	50	63	59	36	58	0	80
USA	36	29	47	43	29	6	37	44	30	30	42	37	28	44	49	24	22	15	33	31	40	54	31	50	0

to other countries are expected to increase with the size of the home country.

Difference in international reputation. Data on countries' international reputation were sourced from the [Reputation Institute \(2014\)](#), a private consulting firm, based on ratings from individuals in representative samples in terms of age, gender and region from the (then) G8 countries (Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States). Collected through more than 26,000 online interviews undertaken from January and February 2014, reputation is measured on a scale from 0 to 100, based on items measuring three dimensions: 'advanced economy', 'appealing environment', and 'effective government' (Table 2). Each country was rated by about 90 respondents from each of the eight countries of origin; on average, therefore each country score has been calculated on the basis of around 700 responses.

Individuals of course differ in respect of their reputational judgments of other countries, and it appears likely that many of their attitudes are related in a systematic way to their countries of origin. Clearly, the reputational scores employed in the operationalization cannot be assumed to represent the assessments of any one individual country. However, it seems reasonable to assume that the calculated reputational scores represent acceptable approximations of the 'global reputation' of countries, i.e. the general perception the world over of their qualities along the dimensions measured.

Differences in international reputation are calculated as the score obtained in 2011 by the target subtracted by the score of the home country. According to the hypothesis, we expect a U-shaped relationship between reputational distance and psychic distance perceptions.

4.4. Control variables

As demonstrated by [Håkanson and Ambos \(2010\)](#), psychic distance perceptions are to a considerable extent affected also by symmetrical stimuli, including most prominently *geographical distance*, *cultural distance*, *linguistic distance* and *institutional distance*. An additional factor suggested in their analysis is the role of 'post-war bloc membership', a variable reflecting present and historical military and political rivalry. To avoid misspecification, these factors were included as controls in the form of symmetric measures for:

Geographical distance. Pair-wise country distance measures (in kilometers) were sourced from the Paris based *Centre d'études*

Table 2
Dimensions and attributes of country international reputation.

<i>Advanced economy</i>
•Produces high quality goods and services
•Has many well-known brands
•Important contributor to global culture
•Technologically advanced
•Well-educated and reliable workforce
•Values education
<i>Appealing environment</i>
•Beautiful country
•Enjoyable country
•Offers an appealing lifestyle
•The people are friendly and welcoming
<i>Effective government</i>
•Offers a favorable environment for doing business
•Run by an effective government
•Has adopted progressive social and economic policies
•Responsible participants in the global community
•Is a safe place
•Operates efficiently
•Ethical country

Source: [Reputation Institute \(2014\)](#).

prospectives et d'informations internationales. Distance measures are available as the great circle distances between countries' major cities (in most cases the capitals) and as a weighted average between major population centers ([CEPII, 2007](#)). The results reported below are based on the natural logarithm of the former. In the regression analyses, both gave near identical results.

Cultural distance. We followed conventional practice and measured cultural differences by the cultural distance index created by [Kogut and Singh \(1988\)](#). It calculates the average of the differences in [Hofstede's \(1980\)](#) country scores, adjusted by the variance of the corresponding dimension. In recent literature, the measure has been massively discredited; it is included here primarily because in the statistical analysis presented in [Håkanson and Ambos \(2010\)](#) it appeared, if only marginally, to influence psychic distance perceptions.

Linguistic distance. For linguistic distance ([Dow & Karunaratna, 2006](#); [Shomaker & Zaheer, 2014](#)), we employed the measures calculated by [Dow \(2014\)](#). It quantifies the difference between the major languages of 120 countries on a five-point scale, based on [Gordon's \(2005\)](#) hierarchical classification of languages and language families.

Institutional distance. To measure institutional distance ([Kostova, 1997](#); [Kostova & Zaheer, 1999](#)), we calculated for each country pair the absolute differences between the average of the six 'Worldwide Governance Indicators' for the year 2000 collected by the World Bank: (1) voice and accountability, (2) political stability and absence of violence, (3) government effectiveness, (4) regulatory quality, (5) rule of law, and (6) control of corruption ([Kaufmann, Kraay, & Mastruzzi, 2008](#)). The six indicators are highly correlated, and, with a Cronbach's alpha of .98, the construct can be taken as a reliable index for the regulative component of institutional distance.

Post-war bloc membership. Following [Håkanson and Ambos \(2010\)](#), the sample was divided into countries belonging to the former communist bloc (China, Russia and Poland) and the rest, all of which can be classified as western market economies. The role of political and military rivalry was captured by a dummy variable, taking the value '1' for country pairs belonging to different blocs, and '0' otherwise.

Two control variables with expected asymmetric effects were also included:

Economic development. As noted already in the Uppsala school's early treatment of the topic and as confirmed by [Håkanson and Ambos \(2010\)](#), the volume and quality of information available about a foreign country, and hence the psychic distance to it, is related to the level of its economic development ([Vahlne & Wiedersheim-Paul, 1973](#)). Wealthier countries devote more resources to the collection and analysis of economic and other relevant statistical data, for example, and their workforce tends to be better educated, resulting in a higher quality of the information collected and disseminated ([Ghemawat, 2001](#)). To control for this effect – which may generate asymmetries in psychic distance perceptions between country pairs – the economic development of target countries was included in the regressions. As measured by their gross domestic product per capita in 2007 – in current U.S. dollars, it was obtained from the World Bank's *World Development Indicators* ([World Bank, 2008](#)).

Target country size. In alignment with the exposure effects analyzed in the present paper, [Håkanson and Ambos \(2010\)](#) tested and found support for the assumption that psychic distance perceptions are negatively related to the economic, political and cultural influence of target countries. To control for this asymmetric influence, the size of target countries, as measured by their GDP in 2007 (in current U.S. dollars), was included among the control variables ([World Bank, 2008](#)).

5. Findings and discussion

5.1. Descriptive statistics

The hypotheses were tested by means of hierarchical linear regression. Prior to running the models, data were verified to comply with the requirements of regression analysis, i.e. linearity, equality of variance and normality. Standardized residuals were plotted against the predicted values, each of the independent variables and those of a standard normal distribution, showing no major violations of the assumptions. With only one exception, none of the correlations between the independent variables were higher than .6; examination of the independent measures for undesirable collinearity indicated that multiple regression was appropriate. The variance inflation factors were all smaller than 5, well below the recommended value of 10. Descriptive statistics are reported in Table 3.

5.2. Testing the hypotheses

The results of the analysis are summarized in Table 4. Regression 1 constitutes the base model, including only the control variables. In Regression 2, we add our four predictor variables relating to proposed exposure effects (Hypotheses 1a–d). Finally, in Regressions 3 and 4, we test Hypothesis 2 concerning social comparison effects.

In Regression 1, the control variables except with a combined adjusted R^2 of .79 account for a very significant proportion of the variance in psychic distance perceptions between country pairs, indicating that symmetrical national differences and the size and level of development of target countries are very important. In light of persisting concerns about its validity and reliability (Berry et al., 2010; Shenkar, 2012; Zaheer et al., 2012), the insignificant result for the Kogut and Singh index of ‘cultural distance’ is perhaps not surprising and underpins recent calls for alternative measures (Ambos & Håkanson, 2014).

Regression 2 provides partial support to the hypothesis that migration between countries reduces psychic distance perceptions between them. While the results confirm such a relationship for emigrants (Hypothesis 1b) – individuals from the focal country that now live in the target country – the effect of immigrants (Hypothesis 1a) – individuals from the target country that now live in the focal country – is statistically significant but in the opposite direction than hypothesized.

Although a somewhat blunt proxy for trade in cultural services, the regression indicates that per capita imports of newspapers and journals tend to reduce psychic distances, thereby supporting Hypothesis 1c, if only obliquely so.

As expected, the psychic distance perceptions of managers vary systematically with the size of their countries of origin. Hypothesis 1d is strongly and consistently supported. In larger countries, average psychic distances to foreign countries are higher than in smaller ones. It appears that managers in smaller countries obtain more information about the outside world than do those in large countries, where domestic actors and events are relatively more important than in countries more dependent on foreign partners and international exchanges.

The hypothesized social comparison effects are tested in Regressions 3 and 4. In a preliminary exploration of this hypothesis, we plotted the country differences in reputation against the perceived psychic distance to the target country (Fig. 1). The fitted trend line has a minimum where the target country reputation score exceeds that of the home country by about seven or eight points (on a scale from 0 to 100). It provides initial support for the hypothesized curve-linear relationship. The deviation of the minimum from zero – where the reputation of home and target countries is equal – makes the variable contribute to observed asymmetries. However, the introduction of quadratic terms into regressions is always problematic. To safeguard against a possibly spurious relationship, the statistical test of the hypothesis was undertaken in two steps.

Table 3
 Descriptive statistics (n = 416).

Variable name	Mean	S.D.	VIF Regression 4
1 Mean psychic distance	43.47	18.60	2.084
2 Geographic distance (log)	8.19	1.13	1.962
3 Cultural distance (Kogut/Singh)	2.04	1.43	1.492
4 Linguistic distance	-.19	.98	3.164
5 Institutional distance	.92	.74	1.340
6 Post-war bloc membership (dummy: 0 = same; 1 = different)	-3.31	3.22	4.159
7 GDP/capita in target country (log)	10.13	.9595	3.195
8 GDP in target country (log)	27.60	.94	1.926
9 Immigrants from target country (log)	9.36	1.97	3.419
10 Emigrants to target country (log)	9.37	1.95	3.931
11 Per capita imports of newspapers and journals from target country (log)	14.15	3.03	2.064
12 GDP in origin country (log)	27.60	.94	2.482
13 Difference in international reputation	.00	17.11	2.507

Correlation matrix													
	1	2	3	4	5	6	7	8	9	10	11	12	
1	-												
2	.718*	-											
3	.247*	.015	-										
4	.307*	-.047	.357*	-									
5	.517*	.257*	.535*	.261*	-								
6	.160*	-.085*	.109*	.222*	.273*	-							
7	-.530*	-.272*	-.004	-.077	-.318*	-.250*	-						
8	-.098*	.142*	-.051	-.115*	.016	.010	-.011	-					
9	-.205*	-.172*	-.221*	-.308*	-.116*	-.029	-.203*	.264*	-				
10	-.490*	-.167*	-.228*	-.308*	-.118*	-.043	.379*	.443*	.412*	-			
11	-.673*	-.526*	-.094*	-.320*	-.354*	-.129*	.281*	.380*	.548*	.449*	-		
12	.140*	.148*	-.053	-.114*	.015	-.059	-.101	-.013	.438*	.258*	-.039	-	
13	-.196*	.007	-.006	.004	-.002	-.037	.536*	-.164*	.386*	.369*	-.185*	.162*	-

* Correlation is significant at the .05 level (two-tailed).

Table 4
 Determinants of average perceived psychic distance (n=416).

Regression no.	1	2	3	4
Geographic distance (log)	.637*** (25.868)	.516*** (17.849)	.519*** (18.226)	.514*** (18.140)
Cultural distance (Kogut/Singh)	.053 (1.873)	.024 (.857)	.016 (.579)	.002 (.090)
Linguistic distance	.224*** (9.094)	.154*** (6.324)	.153*** (6.399)	.161*** (6.733)
Institutional distance	.169*** (5.649)	.195*** (6.741)	.206*** (7.194)	.152*** (4.358)
Post-war bloc membership (dummy)	.046 (1.857)	.058** (2.613)	.064** (2.895)	.047* (2.089)
GDP/capita in target country (log)	-.275*** (-10.970)	-.122*** (-4.132)	-.084** (-2.749)	-.098** (-3.178)
GDP in target country (log)	-.166*** (-7.304)	.001 (.042)	-.030 (-1.049)	-.027 (-.955)
Immigrants from target country (log)		.100** (2.877)	.022 (.537)	.020 (.504)
Emigrants to target country (log)		-.268*** (-8.565)	-.195*** (-5.349)	-.191*** (5.249)
Per capita imports of newspapers and journals from target country (log)		-.171*** (-4.304)	-.177*** (-4.509)	-.177*** (-4.542)
GDP in origin country (log)		.089*** (3.468)	.128*** (4.675)	.128*** (4.714)
Difference in international reputation			-.130*** (-3.688)	-.125*** (-3.571)
Difference in international reputation (squared)				.082** (2.644)
Adjusted R ²	.793	.833	.838	.840
R ² change		.041***	.005***	.003**
Standard error	8.464	7.612	7.496	7.441
F-value	228.149***	188.612***	179.420***	168.619***

Standardized regression coefficients, t-values in parenthesis, two-tailed tests.

- * p < .05.
- ** p < .01.
- *** p < .001.

In Regression 3, the linear effect of differences in reputation is negative and strongly significant. Comparisons with countries with higher reputational status tend to be associated with lower perceptions of psychic distance, as hypothesized. The introduction of the quadratic term in Regression 4 improves the overall fit of the regression, providing strong support for the hypothesized

U-formed relationship between differences in reputation and perceived psychic distance. Controlling for all other influences, the estimated unstandardized coefficients indicate a minimum of the relationship at a point where the reputational status of the target country is about 14 units (on the scale from 1 to 100 employed) higher than that of the home country. The results thereby provide

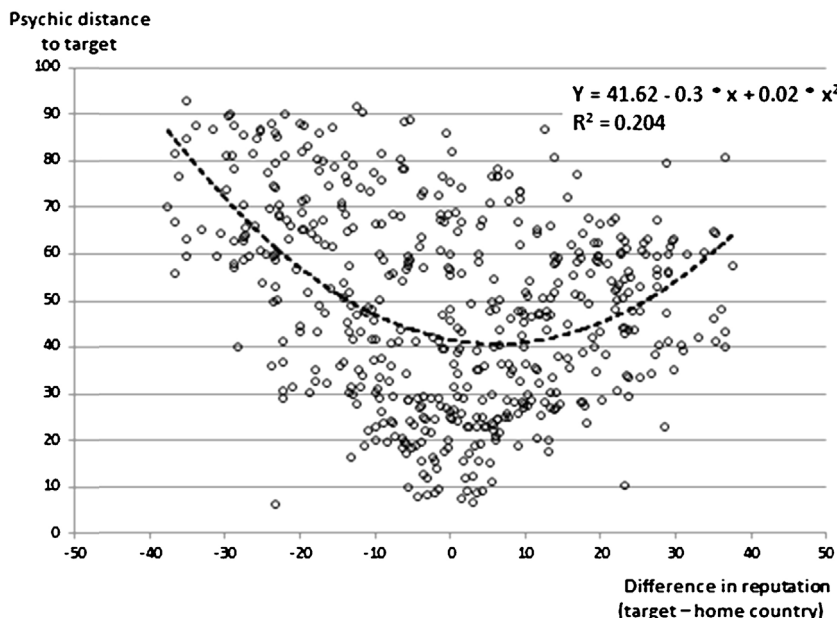


Fig. 1. Scatter plot of country reputation difference against psychic distance. Fitted trend line.

support for the hypothesized tendency of people to identify with somewhat more attractive other countries and for the asymmetric effect of this tendency.

6. Discussion and implications

Psychic distance perceptions are influenced by country specific conditions that lead to cognitive asymmetries that in some circumstances can become quite large. The results confirm the role of both exposure and social comparison effects for the emergence and preservation of such asymmetries – in spite of the leveling effects of the Internet and other modern means of communication and information exchange.

Given the definition of psychic distance employed – “sum of factors (cultural or language differences, geographical distance, etc.) that affect the flow and interpretation of information to and from a foreign country (Håkanson & Ambos, 2010: 201)” – the observed role of ‘exposure effects’ is not surprising. These are reflected, perhaps most prominently, in the influence on perceptions through imports of cultural goods and services. Although the operationalization employed here leaves something to be desired, it seems impossible to neglect – on intuitive grounds alone – the role, for example, of U.S. movies, television series and other cultural expressions for the observed asymmetries between the perceptions of the U.S. from abroad and the perceptions of Americans of foreign countries other than Mexico, Canada and the United Kingdom.

The inclusion of this variable helps explain why the size of the target country – as measured by its GDP – is not a significant influence in Regressions 2–4. However, the results strongly support the idea that smaller countries are usually more exposed to information about their larger neighbors and to international news generally than are large countries, and that these differences affect average psychic distance perceptions in small as compared to large countries.

Whereas exposure effects associated with migration appear to be strong and significant in the case of emigration, the results regarding immigration are less clear, calling for further analyses. In regression 2, immigration is a statistically significant influence at the one per cent level – but in the opposite direction than the one expected. A large number of immigrants appear to *increase* the psychic distance to their countries of origin. With the introduction of variables measuring differences in countries overall reputation (Regressions 3 and 4), the immigration variable becomes non-significant. Overall, these results are puzzling and invite a range of questions in regard to the possibly negative effects of immigrants on the image of their home countries arising from real or perceived competition for scarce material resources (Coenders, Gijsberts, Hagendoorn, & Scheepers, 2004), but this is a topic outside the scope of the present study.

At first sight, the strong and highly significant effect of emigration is encouraging. It appears likely that, as hypothesized, countries to which many compatriots have emigrated will appear psychically closer. Personal communications of various sorts are likely to convey a sense of understanding of the countries where friends and relatives have found new homes. However, the direction of causality is not straightforward. Although the two effects are perhaps mutually enforcing, it also appears probable that a priori perceived psychic distances to foreign countries is a factor affecting the choice of destination for emigrants. The precise nature of the causalities involved is complex, indicating that the statistical results regarding migration should be interpreted with care.

The observed non-linear and asymmetric effects of ‘reputation’ on psychic distance lend further support to the application of models from psychology and sociology to better understand the

formation and determinants of such perceptions. However, it also raises a whole new set of questions. Although the general mechanism proposed and tested seems robust, the question as to what constitutes ‘country attractiveness’ needs to be better addressed. The index employed here is a rather crude one, and doubts could be raised as to its validity and reliability outside the countries where it was measured. While our results provide a rather convincing indication that the concept of ‘country reputation’ is relevant and important, further research is needed to ascertain how and what types of country characteristics determine the underlying evaluations.

Moreover, the analysis presented is focused on social comparison processes and mere-exposure effects and gives no attention to other types of cognitive processes that may be relevant. Information on foreign environments may often be ambiguous or inconsistent, for example, perhaps generating distortions in the attempt to reduce cognitive dissonance (Goethals, 1986). Such psychological processes also seem worthy of attention.

Equally important, or perhaps more so, than the causes of asymmetric perceptions, as addressed in this paper, are their potential effects on a range of important international business phenomena. As demonstrated elsewhere (Håkanson, 2014), in certain industries they seem, for example, to have quite considerable effects on international trade patterns. But the same would seem likely to be true in other areas, such as the functioning of international teams (Greve, Nielsen, & Ruigrok, 2009), the management of post-merger integration in international M&As (Yildiz, 2014) and many other types of interactions across cultures and international borders. The possible effects of mutually asymmetric perceptions would seem to warrant more research attention than has historically been the case.

7. Conclusion

The findings of this study confirm and provide an initial explanation for observed asymmetries in psychic distance perceptions between countries. Earlier studies have pointed out the possibility of such asymmetries (Shenkar, 2001), and several have provided empirical observations confirming their existence (Brock, Shenkar, Shoham, & Siscovick, 2008; Dichtl et al., 1990; Dow, 2000; Ellis, 2008; Håkanson & Ambos, 2010). The present paper provides the first, theoretically grounded explanation for why they exist, employing insights from psychology and sociology regarding individual cognition and the formation of social identities. The ultimate objective is to develop a better understanding of the process by which psychic distance perceptions are formed (Baack, Dow, & Parente, 2011; Nebus & Chai, 2014; Parente, Baack, & Almeida, 2008).

As is often the case, the findings raise more questions than they answer. While they demonstrate the importance of exposure effects for psychic distance perceptions, the analysis clearly suggests that different modes of exposure have different effects. While some of those differences may be obvious – positive information is likely to have a different impact of perceptions than has negative information – the relative and combined roles of different sources of exposure present a promising area for future research, as are the cognitive processes by which conflicting messages are processed. Similarly, our findings regarding the role of reputation and country attractiveness raise new and interesting questions regarding the dimensions of country characteristics on which such judgments are formed. The issues are important for the understanding not only of how psychic distance perceptions are formed, but also of how and to what degree they can be purposely manipulated for political or commercial purposes.

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