

The Concept of Distance in International Business Research: A Review and Research Agenda

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This paper reviews the literature on the effects of distance arising from country differences on outcomes at the firm and subsidiary level. It provides some clarity on what has been learned so far about distance by answering four questions: Which distance? Why does distance matter? What outcomes are affected by distance? and What aggravates or alleviates the effects of distance? Based on the review of the literature, a set of future research suggestions are developed, intended to direct attention to research questions that the authors believe are among the most pressing questions in distance research and that may have the potential to advance the field substantially.

Introduction

Have researchers conducting distance-related research lost direction? There is no doubt that distance-related research is one of the most important streams within international business (IB) (Zaheer *et al.* 2012). As such, the concept of distance is certainly among those that dictate the priorities and concerns, and the theoretical advancement of the field. However, some scholars have argued that we are on the wrong track (Shenkar 2012; Zaheer *et al.* 2012).

In the IB context, distance typically refers to the extent of differences between country pairs. The underlying assumption of distance-related research is that these differences prevent or disturb the flows of information between the firm and the market (Johanson and Wiedersheim-Paul 1975, p. 308). As such, distance introduces friction (Shenkar *et al.* 2008) and complexity (Vermeulen and Barkema 2002) to

cross-border activities, increasing the challenges of achieving and sustaining successful cross-border activities. Indeed, the IB literature has investigated and uncovered distinct effects of distance on a variety of IB-related issues such as firms' market selection, firms' entry mode choice decisions, international performance, headquarter–subsidiary relations, or intra-organizational knowledge exchange (Kirkman *et al.* 2006; Tihanyi *et al.* 2005).

Given that the concept of distance is of paramount importance in IB, and in light of concern over the state of distance-related research, it is striking that there is no in-depth survey of that body of research. We address this shortcoming with a review of the work that has been done. While reviews dedicated to a single dimension of distance, such as cultural distance, or meta-analysis focusing on a limited set of much researched relationships do exist (e.g. Kirkman *et al.* 2006; Tihanyi *et al.* 2005), the intended contribution of this review is the holistic approach to distance, which pursues two main goals: First, to present a systematic evaluation of literature of various dimensions of distance and, second, to provide an agenda for future research that is based on that broader understanding of distance.

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The remainder of the paper is organized as follows. In the next section, we define the domain of this review and describe the approach we take to identify the relevant literature. In the following sections, we review past distance-related research by addressing four crucial questions, namely: (1) Which distance? (2) Why does distance matter? (3) What outcomes are affected by distance? and (4) What aggravates or alleviates the effect of distance? Finally, we provide an agenda for future research based on what we believe to be the most pressing issues in distance-related research.

Domain of the review and methodology

The domain of this review is research exploring the effects of distance arising from country differences on outcomes at firm and subsidiary level. We limited this review to articles published in 23 top-tier peer-reviewed academic journals (Podsakoff *et al.* 2005; Tahai and Meyer 1999), as the work that appears in them represents validated knowledge and has the most impact. Table 1 lists the journals and indicates the respective number of articles in the final sample.

Our computerized keyword search in article abstracts and titles using the Business Source Complete Database encompassed the period between 1977 and December 2014. We chose 1977 as Johnson and Vahlne's (1977) seminal article published that year essentially broke ground for distance-related IB research (Child *et al.* 2009).

This search yielded 996 potentially relevant articles. In the first round, we read the abstracts and eliminated 661 articles that did not fall within the above-defined domain. These were articles that deal, for instance, with distance between individuals or within a group of individuals. In the second round, we examined the theory and method sections of the remaining 335 articles to make sure that these articles fall into the domain of this review. This inspection led us to eliminate another 119 articles. The final sample consists of 216 articles, made up of 160 large-scale quantitative studies, 25 qualitative ones, and 31 that advance theory. We provide more detailed information on the sample in the Supporting Information.

Which distance?

Given four decades of distance-related research one would expect a consensus on the conceptualiza-

tion of distance would have been reached. And yet, there is still ambiguity (Ambos and Håkanson 2014; Håkanson and Ambos 2010; Sousa and Bradley 2008). In fact, there is especially a lack of clarity with regard to a) the dimensions of distance and b) the measurement of distance.

Dimensions of distance

Building on the work of Johanson and Vahlne (1977), Ghemawat (2001) reasoned that distance may originate from differences along cultural, administrative, geographic and economic dimensions. Others have taken a less holistic perspective, focusing on only one specific dimension, most commonly on culture (Hutzschenreuter and Voll 2008). However, persuasive critique by Shenkar (2001) and the lack of consensus concerning the use of intrinsic characteristics to proxy specific cultural distance dimensions (Hofstede 2006, 2010; Tung and Verbeke 2010) undermine the exclusive focus on cultural distance.

We reviewed the literature using Ghemawat's (2001) framework to get a more holistic view on how the concept of distance was used in prior studies. However, it is important to note at this point that prior studies are not easily put into these four categories. While the majority of articles focus on cultural distance, the bulk of the remaining articles analyzes several dimensions of distance, mostly under the umbrella term psychic distance. Thus, in the following we group the articles along the following six distance dimension, namely cultural, institutional, geographic, economic, psychic and other distances.

Cultural distance. The four cultural attributes proposed by Hofstede (1980) are used predominantly in the literature (Sivakumar and Nakata 2001; Tung and Verbeke 2010), although different conceptualizations of culture are available (e.g. House *et al.* 2004; Schwartz 1994) and some, such as the GLOBE project provide a current, thus arguably a more accurate or refined approach to proxy culture (e.g. Hofstede and Bond 1988; Tang and Koveos 2008).

Notwithstanding the critique by Shenkar (2001), most authors employ the Kogut and Singh (KS) (1988) index to transform Hofstede's four cultural values into cultural scores and to determine cultural distance. Zaheer *et al.* (2012, p. 19) even point to an increasing number of citations of the KS article and see that as an indication of the continued application of the KS index. They speculate that 'while this evidence may simply indicate that the warning has gone

Table 1. Results of the abstract keyword search

Journal	Keyword hits	Relevant hits after first round	Relevant hits after second round
<i>Academy of Management Journal</i>	21	8	8
<i>Academy of Management Review</i>	13	3	3
<i>Administrative Science Quarterly</i>	11	2	2
<i>European Journal of Marketing</i>	56	6	3
<i>International Business Review</i>	90	52	36
<i>International Marketing Review</i>	101	23	12
<i>International Studies of Management and Organization</i>	27	5	2
<i>Journal of Global Marketing</i>	21	5	3
<i>Journal of International Business Studies</i>	193	74	56
<i>Journal of International Management</i>	42	25	16
<i>Journal of International Marketing</i>	56	17	12
<i>Journal of Management</i>	18	5	3
<i>Journal of Management Studies</i>	39	13	8
<i>Journal of Marketing</i>	11	0	0
<i>Journal of Marketing Management</i>	14	7	6
<i>Journal of Organizational Behavior</i>	14	3	1
<i>Journal of World Business</i>	58	29	13
<i>Management International Review</i>	91	24	19
<i>Management Science</i>	26	2	2
<i>Multinational Business Review</i>	11	8	3
<i>Organization Science</i>	23	6	2
<i>Organizational Behavior and Human Decision Processes</i>	5	0	0
<i>Strategic Management Journal</i>	55	18	6
Total	996	335	216

Note: The search term was (Distance OR proximity OR difference OR similarity OR dissimilarity OR relatedness OR unrelatedness) AND (interna* OR multina*). (*) was used as a variable allowing any ending like international, internationalization, or internationality. Time period was January 1977–December 2014.

unheeded, we believe that many researchers are cognizant of the limitations of distance constructs, yet are unwilling to let them go because their usefulness is so great'.

Not all authors use country-level variables. Instead, some base their assessment on survey responses. However, there is no commonly agreed procedure for doing so, and the number and types of items used to capture perceptions of cultural distance vary greatly. Some authors have developed their own items (e.g. Driscoll and Paliwoda 1997; Luo 2002; Solberg 2008), while others rely on previously published ones, such as those of Simonin (1999), Mjoen and Tallman (1997) and Boyacigiller (1990). However, this makes it difficult to compare different studies and draw conclusions from them.

Institutional distance. Institutional distance was introduced to the literature relatively late. This may explain why there are few articles in our sample explicitly based on institutional theory. The core argument here is that cultural distance does not entirely capture the complexity associated with cross-border

activities. Institutional distance encompasses differences in the regulatory, normative and cognitive pillars of institutions (DiMaggio and Powell 1983; Scott 1995). The cultural dimension is captured to some extent within the normative and cognitive pillars, or what some researchers see as informal and formal institutions (e.g. Dikova *et al.* 2010; Schwens *et al.* 2011), with the informal part usually captured by culture.

Across the articles, the number, the type and the operationalizations of intrinsic characteristics used to proxy institutional distance differ greatly. For instance, regarding the measurement, some use the World Bank's governance indicators (Gallego and Casillas 2014), others draw on the Economic Freedom Index (De Beule *et al.* 2014), yet others develop their own items (Chiao *et al.* 2010). Moreover, different authors have used identical measures for conceptually different intrinsic characteristics. This may be a reflection of a lack of agreement on the conceptualization of institutional distance. For example, Dikova (2009) uses the term 'formal institutional distance' to refer to differences in a country's regulatory systems, Malhotra *et al.* (2009) use instead 'administrative

distance', and Pogrebnyakov and Maitland (2011) 'regulatory quality', and yet these authors all employ the World Bank's Governance Indicators (Kaufmann *et al.* 2009). The concepts may not actually be different, but inconsistency in labeling constructs and their respective measurements makes it difficult to compare studies.

Geographic distance. The concept of geographic distance dates back more than half a century (Beckerman 1956), and is well established in the international trade literature; yet few articles in our sample adopt it, and those that do often look at it in combination with other dimensions of distance (e.g. Makino and Tsang 2011). Geographic distance is also included in the measure developed by Dow and Karunaratna (2006) and Brewer (2007). Beckerman (1956, pp. 32–33) details a number of approaches to measure geographic distance. Our analysis shows that the one based on a great circle distance formula between capitals or major cities has become the most prominent (e.g. Campbell *et al.* 2012).

Economic distance. Few researchers rely on the concept of economic distance. However, economic factors are often incorporated in multidimensional measures (e.g. Dow and Karunaratna 2006). A reasonable explanation for not studying economic distance in isolation is that its effects are more ambiguous than those of other distances, making it hard to derive theoretically and test empirically a distinct effect. When economic distance is used, it is usually captured as differences in per capita GDP (e.g. Malhotra *et al.* 2009; Tsang and Yip 2007). However, other factors have also been used to assess economic distance. Brewer (2007), for instance, used the outward and inward FDI stock to measure the economic ties a given country has to the home country, and the United Nations Human Development Index to estimate the differences in the economic development. Berry *et al.* (2010) complement GDP per capita with imports and exports as well as inflation to determine economic distance. Fang *et al.* (2013) use the Economic Competitiveness Indices from the World Economic Forum.

Psychic distance. Psychic distance is affected by several of the aforementioned dimensions. Johanson and Wiedersheim-Paul (1975, p. 308) originally defined it as 'factors preventing or disturbing the flow of information between firms and the market. Examples of such are differences in language, culture, political system, level of education, level of indus-

trial development, etc.' However, to date there is still no consensus on the number and the type of dimensions to use in order to assess psychic distance. In two recent articles, Dow and Karunaratna (2006) and Brewer (2007) develop measures of psychic distance based on a comprehensive set of country-level dimensions and intrinsic characteristics. It is too early to say how widely such a measure of psychic distance will be adopted. However, Dow and colleagues as well as some other researchers have taken an important step in that direction in using it in subsequent articles (e.g. Dow and Ferencikova 2010; Dow and Larimo 2009; Griffith *et al.* 2014). We believe that this is an important development and encourage researchers to rely on such validated measures of psychic distance to account for the multidimensionality of psychic distance in future studies.

Finally, there are some unconventional, other distances: Kourula (2010), introduced 'civil society distance', Chen (2003) 'network distance', Estrin *et al.* (2009) 'human resource distance' and West and Graham (2004) 'linguistic distance'. This pluralism highlights the difficulty of capturing the effects of distance and shows how far we are from a common understanding of distance – including what aspects of distance matter most in IB.

Measurement of distance

Level of analysis. Strong disagreement exists regarding the appropriate level of analysis. Some argue that distance should be captured at the country level, based on objective differences in country characteristics (e.g. Berry *et al.* 2010; Kogut and Singh 1988). Though the majority of studies rely on objective country-level differences, some researchers forcefully argue that distance should be captured on an individual level as perceptions of differences in country characteristics (e.g. Sousa and Bradley 2008; Swift 1999). Proponents of the latter approach contend that, as individuals are ultimately responsible for key decisions, their perceptions of distance have greater explanatory power than objective country differences (e.g. Child *et al.* 2002; Sullivan and Bauer-schmidt 1990). Indeed, the case research by O'Grady and Lane (1996), for example, provides some initial empirical support for the assumption that perceptions of distance may differ from an objective assessment.

Though theoretical arguments favoring an individual-level approach are persuasive, such an approach to assessing distance may be difficult, if not impossible. Perceptions are neither stable nor

necessarily homogeneously held within the firm, and even less across multiple firms and countries (Ellis 2008; Stöttinger and Schlegelmilch 1998). Hence, conceptualization and measurement of perceived distance must be captured from the ‘right’ managers, i.e. the ones directly involved in a given IB-related decision, and also at the ‘right’ point in time: for instance, shortly before a decision is made, otherwise it is unclear ‘whether the “perceptions” influenced the “decision” or whether the “post-decision experience” influenced the “perceptions”’ (Dow and Karunaratna 2006, p. 580). The difficulty of ‘getting both right’ may explain why the individual-level approach has been used in only 32 of the 160 large-scale quantitative articles in our sample. Of these 32 studies, 30 studies used a post hoc measure of distance, whereas two used perceptions of an independent panel (Ellis 2008; Håkanson and Ambos 2010). However no study used an *a priori* measure.

An important step towards bridging the two different points of view has been made by Dow and Karunaratna (2006). Essentially, they suggest a fundamental modification to the concept of distance by distinguishing between psychic distance stimuli (PDS) and perceived psychic distance (PPD). Psychic distance stimuli are objective differences in country characteristics that are related – but distinct from – PPD. Dow and colleagues (Dow and Karunaratna 2006; Dow and Larimo 2009) argue that PPD can be seen as a function of PDS. Thus, PDS – such as differences in culture – can be regarded as antecedents of PPD (Håkanson and Ambos 2010). The underlying powerful idea is that the difficulty of accurately capturing perceptions may be mitigated if it is possible to identify and measure the antecedents of such perceptions.

Given the novelty of this idea, research on the PDS–PPD relationship is still rare. However, the studies of Sousa and Bradley (2006) and Håkanson and Ambos (2010) are noteworthy in their treatment of country-level PDS. Both found a positive relationship between PDS and PPD. Related research has argued that PPD may have organizational and individual antecedents. However, organizational antecedents, such as centralization of decision-making or international scope, have not been found to be associated with PPD (Evans *et al.* 2008; Sullivan and Bauerschmidt 1990). Similarly, Fletcher and Bohn (1998) proposed demographic characteristics of managers to have an influence on PPD. However, they found no significant relationships.

Reference point. Concepts of distance require at least two entities (Deza and Deza 2006), otherwise no assessment of distance can be made. Though trivial, in an IB context it is not clear what these entities are. Certainly, they can be countries. But the question is which countries to choose as the reference point to assess distance. The articles in our sample have addressed this in different ways. Moreover, we see a further distinction: reference point for the firm versus reference point for a new investment.

In almost every article, the home country is the reference point. The distance the firm faces in conducting cross-border activities is equated with the difference between the home country and the focal foreign country. In some circumstances (e.g. dominant headquarters, centralized decision-making and early stages of firm internationalization), this may indeed be the appropriate reference point, but in others the neglect of idiosyncratic firm characteristics that goes along with the home reference point may seem to be an oversimplification (Tung and Verbeke 2010). Is it likely that the distance faced by two firms from the same home country and entering the same foreign country will always be identical? Some authors express severe doubts and propose alternative reference points. Chao and Kumar (2005), Lavie and Miller (2008) and Madsen (2009) all suggest that distance should not only be assessed in relation to a firm’s home country, but relative to all other countries in which the firm is active. Clark and Pugh (2001), Gleason and Wiggenhorn (2007) and Yamin and Golesorkhi (2010) assess distance in relation to the home region or cluster. However, Baaij and Slangen (2013) argue that firms have increasingly disaggregated headquarters and, therefore, not a single distance to the home country, but rather multiple distances to the countries in which the different headquarters are located needs to be taken into consideration when studying the headquarter–subsidiary relationship. Hutzschenreuter and Voll (2008) introduce the closest neighbor approach, which takes into account a firm’s entire portfolio of countries. They argue that the relevant distance is the one between the focal country and the closest neighbor country within the firm’s portfolio.

By starting a discussion on reference point selection, these authors have taken the first step in bringing about a more appropriate conceptualization and assessment of distance. Researchers should be strongly encouraged to think further on this issue.

Usually, the country in which an investment takes place is used as one of the two countries from which to assess distance. Building on Barkema *et al.* (1996), Hanvanich *et al.* (2003, p. 6) have reasoned that there are times, such as when entering an international joint venture (IJV), that firms face 'double-layered acculturation, which is defined as a structure of IJV in which there are both partner and location cultural differences'. In such cases, there are possibly two distances to be taken into account: one from the investor's home country to the country where the IJV is located, and one from there to the country of the foreign partner if based in yet another country. Most research to date does not account for this possibility, usually considering the distance to the foreign market in which the IJV is established. There are a few studies, however, that do focus on the distance between IJV partners (Hsieh *et al.* 2010; Ng *et al.* 2007).

Evaluation of findings

This review of the literature reveals that, for decades, IB researchers have continued to innovate on two fronts, on the dimensions of distance and on the measurement of distance. Without a doubt, the primary focus has been, and remains, the cultural dimension of distance (Tung and Verbeke 2010), and yet increasingly, complementary dimensions of distance are being explored (e.g. Dikova 2009; Estrin *et al.* 2009; Malhotra *et al.* 2009). This is encouraging, as it is important that multiple dimensions are being considered. Approaching distance from different perspectives will surely provide far more insight into the distance phenomenon than focusing on a single dimension such as culture. Perhaps even more importantly, the field of distance research has not only been characterized by novel empirical contributions, but also conceptual contributions. We laud the efforts of Shenkar and colleagues (e.g. Luo and Shenkar 2011; Shenkar *et al.* 2008), who in a series of articles have re-conceptualized distance by switching to a friction approach to cultural differences, introducing a completely new way of thinking. Also noteworthy is the conceptual distinction between PDS and PPD proposed by Dow and colleagues (Dow and Karunaratna 2006; Dow and Larimo 2009), which sheds new light on the concept of distance and paves the way for future research. Contributions like these guarantee the development of the concept of distance.

This review of the literature has also revealed ongoing intense disagreement over a number of issues (Håkanson and Ambos 2010; Harzing 2003; Shenkar

2001). Some may argue that this is a sign of a lack of direction. We see it in a more positive light, a clear sign of intellectual involvement in further developing the concept of distance. After all, scholarly discussion has always been the foundation on which theoretical advances are built. However, we acknowledge that, in reviewing the articles in our sample, we came across several important issues that could indicate that the concept of distance may indeed be without direction.

Most striking of all is that, after 40 years of distance-related research, there is no consensus on the definition of the distance concept. Core elements of the concept, such as the level of analysis and definitive reference points are still unresolved and, moreover, with the exception of some notable contributions, theories that might move us closer to resolving such important issues remain scarce. No theoretical contributions are missing, but a clear-cut answer to the question: Which distance? Given that this essential question remains unanswered, it is understandable that some scholars claim that the concept of distance is without direction (Shenkar 2012; Zaheer *et al.* 2012).

Why does distance matter?

After almost four decades of research, empirical results broadly highlight the negative effects of distance. Though some articles have found positive effects of distance, it seems that the case for the negatives is much stronger than the case for the positives.

Drawbacks of distance

The association of distance with drawbacks may have its roots in the works of Hymer (1976) and Kindelberger (1969). Both stress the costs of foreign direct investments and the liabilities of foreignness. Other scholars, including Buckley and Casson (1976), Rugman (1980) and Hennart (1982), advanced the theory of internalization, focusing on transaction costs in an international context. Subsequent research has often adopted a transaction cost perspective to explore theoretically the drawbacks of distance.

Essentially, transaction cost theory suggests that firms weigh the costs of market transactions against the costs of internalization (Coase 1937; Williamson 1979). Distance increases the costs of transportation, communication, coordination, integration and monitoring (Tan and Mahoney 2006). Several researchers have argued that, as distance increases, the increased complexity of managing a dispersed

network will ultimately lead to higher management costs (e.g. Hutzschenreuter and Voll 2008; Johanson and Vahlne 2009). There are two important points here. First, given the rational analytical approach underlying transaction cost reasoning, it is striking that the potential benefits of distance are largely neglected. Second, while it is plausible that distance may increase costs, the relationship does not need to be linear. Indeed, in the case of communication, coordination and monitoring, such an assumption seems untenable.

Articles relying on behavioral theory also concentrate on the potential drawbacks of distance (Aharoni 1966; Cyert and March 1963). They argue that differences between countries interfere with the flow of information and limit the ability of managers to learn about foreign countries (Johanson and Vahlne 1977; Johanson and Wiedersheim-Paul 1975). Hence, their ability to identify opportunities and threats decreases as distance increases (Johanson and Vahlne 1990). Behavioral theorists conclude, first and foremost, that distance creates uncertainty (Makino and Tsang 2011) and, as managers are often risk averse, this is not desirable.

For proponents of the knowledge-based view of the firm (Ghoshal 1987; Grant 1996), distance impedes the capacity to absorb new knowledge and, even more importantly, to impede application of already existing knowledge (Szulanski 1996). Our sample includes articles in which it is argued that distance complicates the transferability of organizational practices (Kostova 1999), competencies and capabilities (Li and Guisinger 1992), innovation (Dellestrand and Kappen 2012) and technology (Cui *et al.* 2006). As Madhok (1997, p. 47) put it, a firm's knowledge is likely to 'suffer erosion of rent-generating properties, and consequent value, due to weak transferability and imperfect replicability in a new context [...], thus weakening its competitive advantage'.

Benefits of distance

We find one legitimate benefit of distance in our sample, namely better decision-making. The argument in favor of distance relates to the relationship between distance and the quality of IB decisions. O'Grady and Lane (1996) found evidence of what they label 'psychic distance paradox'. They found that managers who consider a foreign country to be similar to their home country may be unobservant or inattentive to crucial differences in country contexts. Thus, a lack of distance, i.e. closeness, may entail problems

(Fenwick *et al.* 2003), simply because similarities between close countries are subject to overestimation (Pedersen and Petersen 2004), and small but pivotal differences tend to be ignored (Evans *et al.* 2008). Building on this insight, Evans and Mavondo (2002) argue that, when managers are responsible for an IB decision involving very distant countries, they make more of an effort to understand the foreign country. This dovetails with previous work showing that greater distance encourages managers to learn and adopt new routines (Ghoshal 1987; Morosini *et al.* 1998). Other articles show that greater distance increases the comprehensiveness of market research and planning (Evans and Mavondo 2002) and, in turn, establishes a reliable basis for IB decisions involving distant countries (Dikova 2009).

Evaluation of findings

Overall, this review of the literature reveals that there is one compelling answer to the basic question of 'Why does distance matter?' Notwithstanding the different theoretical perspectives researchers have taken over the last 40 years, the unifying conclusion is that distance matters because it is associated with substantial drawbacks, be it, for example, the increase in costs of communication, coordination and integration, the creation of uncertainty, or the complication of intra-firm practices, competencies and capabilities. However, while we found the basic reasoning that distance is associated with various drawbacks to be generally well developed, we also noticed that an in-depth theoretical exploration of the causal mechanisms that underlie the different dimensions of distance is yet to be done (Zaheer *et al.* 2012). We will return to this issue in more detail in our suggestions for future research.

It is also noteworthy that we sporadically encountered articles arguing for different benefits of distance. However, we believe that, on closer inspection, there is only one legitimate benefit of distance in our sample, namely better decision-making. Other arguments that have been put forth in the literature regarding the benefits of distance, such as less competition or more diversity, eventually refer to market characteristics rather than to distance per se. However, less competition and more diversity may be found in more distant markets as well as in less distant markets.¹

¹We are grateful to two anonymous reviewers for pointing this out.

What outcomes are affected by distance?

Four main types of outcomes are affected by distance: market selection; entry mode; performance; and knowledge transfer and interorganizational relationships. We give an overview of the articles by category in the Supporting Information, Appendices S2, S3A, S3B, S4 and S5.

Market selection

Notwithstanding a few exceptions, the consistent finding of studies in our sample is that – in accordance with the Uppsala model – distance is negatively associated with the probability of market selection (e.g. Berry *et al.* 2010) and the amount of FDI in the respective country (e.g. Li and Guisinger 1992). While there is some evidence for such an effect for different dimensions of distance (cultural, institutional, geographic, economic and psychic), the majority of studies provide support for a negative effect of cultural distance. Among all dimensions of distance, cultural distance may be considered as one of the greatest sources of risk and uncertainty in the IB context, owing to its tacit nature (Håkanson and Ambos 2010). As a result, firms may have less power to control or take appropriate measures to offset the negative effects of differences in values, norms and beliefs compared with geographic or economic distance. However, despite the number of studies demonstrating a negative effect of cultural distance on market selection, there is no study available simultaneously comparing the direction and strength of different dimensions of distance on market selection. The study by Malhotra *et al.* (2009), however, takes a first step forward in this direction, finding the direction of the effect of distance on market selection to differ, depending on the dimension of distance under investigation.

Differences regarding the effect of distance on market selection may, however, not only exist among different dimensions, but also within a particular dimension. For example, institutional distance consists of several sub-dimensions, each of which may have a differing effect on market selection. Pogrebnjakov and Maitland (2011) predict a negative effect of cognitive, regulative and normative distance on market selection. While they found support for cognitive distance, they also found that normative distance was positively associated with market selection and that regulatory distance had no effect. These results high-

light the need for future studies to differentiate between both various dimensions, but also different attributes within a single distance dimension.

The vast majority of studies in our sample relies on a cross-sectional approach and investigates an expansion step in isolation. This is all the more surprising, given that each individual expansion step is part of the firm's internationalization process. However, as Welch and Paavilainen-Mäntymäki (2014) in their recent review and critique of existing research on the internationalization process of the firm have argued, a process approach to internationalization research requires the combination of process data with process theorizing. History matters (Sydow *et al.* 2009) and prior market entry decisions may well have an effect on the latter. At the same time, a process approach to market selection would enable researchers to shed light on the speed of internationalization – a topic that deserves significantly more research attention (for an excellent review of the relevant literature, see Casillas and Acedo 2013). A noteworthy study in this context taking both a process approach and a speed perspective is the study by Hutzschenreuter *et al.* (2011) showing that higher levels of accumulated distance per time period slow down the expansion rate in subsequent periods.

Entry mode

Studies in this research stream can be divided into studies concerned with the effect of distance on (a) the degree of equity, i.e. wholly owned vs joint venture, high vs low equity, and equity vs non-equity investments and (b) the choice of the establishment, i.e. greenfield versus acquisition.

The vast majority of articles shows that, as cultural distance increases, firms favor low-commitment over high-commitment entry modes. More specifically, as cultural distance increases firms tend to favor non-equity modes over equity modes (e.g. Arora and Fosfuri 2000; Driscoll and Paliwoda 1997), joint ventures over wholly owned subsidiaries (e.g. Dow and Ferencikova 2010; Hennart and Larimo 1998), and low-equity modes over high-equity modes (Magnusson *et al.* 2008; Yamin and Golesorkhi 2010).

In spite of the vast majority of studies finding a negative relationship, it is also noteworthy that some studies found a positive one (e.g. Cho and Padmanabhan 2005; Gooris and Peeters 2014), an inverted U-shaped one (Wang and Schaan 2008) and no relationship between cultural distance and degree of

equity (e.g. Demirbag *et al.* 2009; Slangen and van Tulder 2009).

Relatively few studies focus on institutional or psychic distance, and their results are not clear-cut. Rather, for example regarding institutional distance, studies found a negative effect (e.g. Castellani *et al.* 2013; Xu *et al.* 2004) and others found a positive relationship (e.g. Contractor *et al.* 2014; Schwens *et al.* 2011). Finally, only two studies are concerned with the effect of geographic distance (Fladmoe-Lindquist and Jacque 1995; Quer *et al.* 2007) – both finding a negative relationship – but none regarding the impact of economic distance on the degree of equity. In sum, while there is broad support for the negative effect of cultural distance on the degree of equity, definitely more research is needed before we may be able to draw conclusions on their distinct effect.

Concerning the choice of the establishment, no clear conclusion can be drawn based on the results from the articles in our sample. However, an interesting study is the one by Arslan and Larimo (2011) in which the authors found that formal institutional distance is negatively related, whereas informal institutional distance is positively related to greenfield investments. Again, this result indicates that different dimensions of distance may have different effects. As with market selection, to date there is a lack of research not only regarding studies investigating the different effects of dimensions other than cultural distance, but also regarding studies examining the drivers of the different effects, that is, the individual attributes of a particular distance on entry mode choice.

Performance

Articles in our sample focus predominantly on either the performance of IJVs (e.g. Barkema and Vermeulen 1997; Pothukuchi *et al.* 2002) or overall firm performance (e.g. Chao and Kumar 2010; Gómez-Mejia and Palich 1997). A limited number of articles also explore performance at the subsidiary level (e.g. Dikova 2009; Vachani 2005).

Again, culture is the most-researched distance dimension, and most of the studies find a negative relationship between cultural distance and performance (e.g. Datta and Puia 1995; Meschi and Riccio 2008). While there is a broad consensus on the negative effect of cultural distance on IJVs indicating that, when sharing power, distance may act disruptively, there are somewhat less clear results regarding implications for subsidiary and multinational enterprise (MNE) performance. Here, studies found the effect to be positive

(e.g. Morosini *et al.* 1998), inverted U-shaped (Wang and Schaan 2008) or non-existent (e.g. Tihanyi *et al.* 2005). Only a few studies examine the performance effects of alternative dimensions of distance. More research is needed to shed light on the differences in the effect of various distance dimensions on performance. In this context, a recent article by Hutzschenreuter *et al.* (2014), which is among the first to examine the performance effects of several dimensions of distance, is noteworthy. The authors find that not only cultural, but also governance and geographic distances are negatively related to MNE performance. Their results also suggest that distances that are less predictable – such as governance or cultural distance – may explain the greatest part of variation in MNE performance.

Knowledge transfer and interorganizational relationships

One research stream focuses on the role of distance in knowledge transfer or more broadly on its role in interorganizational relationships. Studies have explored the effect of distance on reciprocity and trust in alliances (Kashlak *et al.* 1998; Luo 2002), cross-border acquisition implementation (Reus 2012), acquisition and joint venture integration processes (Brock 2005; Hsieh *et al.* 2010; Uhlenbruck 2004) and decentralization (Williams and van Triest 2009).

Results on the effect of distance on knowledge transfer and interorganizational relationships have, by and large, highlighted the negative effects of distance (e.g. Dinur *et al.* 2009; Reus and Rottig 2009). Indeed, only two studies found that cultural distance had a positive effect either on knowledge transfer (Sarala and Vaara 2010) or on the interorganizational relationship (Reus and Lamont 2009). Sartor and Beamish (2014) found both positive and negative relationships between different institutional distance dimensions and organizational control. Finally, some studies found no effect of cultural distance (e.g. Cui *et al.* 2006; Park *et al.* 2012). Thus, it seems that, similar to research addressing market selection, a clear pattern emerges for the negative effect of distance – in particular cultural distance – on knowledge transfer and interorganizational relationships.

Again, the majority of studies focused on cultural distance at the expense of other distance dimensions. Therefore, there is great need for more research exploring the effects of various distance dimensions on knowledge transfer and interorganizational relationships.

Evaluation of findings

Overall, research has provided strong evidence that distance has a significant effect on firm- and subsidiary-level outcomes, such as market selection, entry mode, performance, and knowledge transfer and interorganizational relationships. Notwithstanding, the broad consensus of the negative effect of distance on the aforementioned outcomes, this review also revealed that, depending on the specific outcome under investigation and/or the dimension of distance under investigation, the results may at times not be that clear-cut.

As we have acknowledged above, we believe that it is important to consider multiple dimensions of distance. Indeed, we see no other way of reaching a more holistic understanding of distance. It is evident that different dimensions of distance are likely to have different effects on outcome variables and that different distance dimensions are likely to interact in different ways with contingency factors. However, to date, such a differentiated perspective – which would, without doubt, yield interesting and important insights – is rarely taken. As a result, we have so far foregone the possibility to obtain a fine-grained understanding of the effect of distance and have settled on a rather undifferentiated and cultural-distance-driven perspective on the distance phenomenon.

Finally, we have lauded the intensive scholarly discussion over the concept of distance above, but at the same time we need to acknowledge that there is a difference between uncovering flaws in the current concepts of distance and proposing potential solutions to them, and in seeking to apply the distance concept empirically. In reaction to Shenkar's (2001) critique of the KS-index, Harzing (2003, p. 102) writes, 'it is clear that this index should never have achieved the almost mythical and unassailable status it seems to have'. In looking back at Shenkar (2001), Shenkar (2012, p. 13) bemoans the disconnect between critique and empirical application: 'Worse, in quite a few instances, authors referenced the article Shenkar (2001) to acknowledge that dealing with cultural differences was challenging, promptly proceeding to use the same measure I had argued against.' Clearly, scholars must be cognizant of the limitations of the concept of culture, and other concepts as well, and they must be willing to draw the appropriate conclusions – otherwise, it is likely that the gap between conceptual development and empirical application will not close.

What aggravates or alleviates the effect of distance?

Exploring moderation effects and thereby adopting a more differentiated approach may yield a better understanding of the overall effect of different dimensions of distance, because it would make it possible to examine the impact of a specific distance dimension under a number of conditions and in a variety of circumstances. Depending on the moderator, one distance dimension may have an effect different from another dimension. Subsequently, we review studies that focus on moderation effects. Although, from a methodological standpoint it does not make any difference whether distance is the moderator or the relationship between distance and an outcome is moderated by another phenomenon, the underlying theoretical argumentations differ. Therefore, we divide the subsequent section into (a) studies dealing with contingency factors affecting the relationship between distance and outcomes (20 studies) and (b) studies employing distance as a moderator variable (22 studies) (see Supporting Information, Appendices S6 and S7).

Factors moderating the distance–organizational outcome relationship

Firm characteristics. Dikova (2009, p. 47) makes a particularly convincing case for using firm characteristics as potential moderators, and cautions that 'when the effects of psychic distance stimuli on performance are examined it is of utmost importance to account for managerial or firm sensitivity to psychic distance stimuli rather than examine direct effects of psychic distance stimuli on performance'. Given the focal role of experience and knowledge in the Uppsala model (Johanson and Vahlne 1977), it is not surprising that firm experience is the key contingency variable (for an excellent treatment of the conceptualization of international experience, see Clarke *et al.* 2013). Authors explore different kinds of experience influencing the effect of distance, but, by and large, do not differentiate between the various dimensions of distance. Cho and Padmanabhan (2005) distinguish three experience types: general international experience; host-country-specific experience; and decision-specific experience. They found that, while all three types of experience attenuate negative effects of cultural distance, the impact varies. Other studies show

that firms' local experiences (Dikova and Rao Sahib 2013; Estrin *et al.* 2009), their cluster or regional experiences (Dow and Larimo 2009) or their multinationality (Agarwal 1994) can influence the effect of distance on outcomes at the firm and subsidiary levels. Dikova *et al.* (2010) found that acquisition experience influences the impact of institutional distance, and Lavie and Miller (2008) found that foreign partnering experience influences the impact of the overall distance on various dimensions. Hutzschenreuter and Horstkotte (2013) found that international experience as well as shared team-specific experience of the top management team attenuates the negative effect of cultural distance on firm performance.

Together, these findings suggest that 'distance may pose a strong impediment to an inexperienced home country firm in a host country, but not to an experienced home country firm in the same country' (Cho and Padmanabhan 2005, p. 308). The results suggest that it is cultural and institutional distance, in particular, that may cause disruption for inexperienced firms. However, more studies focusing on different distance dimensions are clearly needed before a clear pattern of the effect of experience may emerge.

The duration of operations – which is closely related to the experience concept – is used in several articles. Meschi and Riccio (2008) found that joint venture longevity positively moderates the relationship between cultural distance and joint venture performance. Other studies focusing on the moderating effect of time found similar effects (Dow and Larimo 2009; Robson *et al.* 2012). Though some researchers do not explicitly examine the time–distance interaction effect, they use dummy variables to show that the effect of distance diminishes over time (e.g. Barkema and Vermeulen 1997).

Market characteristics. The two market characteristics that have been explored have yielded mixed results. Some found that market potential tends to mitigate the effects of distance, for example, for market selection (Malhotra *et al.* 2009; Rothaermel *et al.* 2006). Furthermore, Malhotra *et al.* (2009) found not only differences in the relationship between various distance dimensions and market entry, but also differences in the impact of market potential on these relationships. However, Agarwal's (1994) study does not reveal any moderating effect of market potential. A similar pattern emerges concerning country risk. While some studies found a moderating effect of country risk, (Brouthers and Brouthers 2001; Rothaermel *et al.* 2006), others fail to do so (Agar-

wal 1994; Dow and Larimo 2009; Meschi and Riccio 2008).

Distance as contingency factor

Distance has been used as a moderator of a number of different relationships, including that between experience and subsidiary performance (Luo 1999), experience and proprietary know-how (Schwens *et al.* 2011) and firm-specific resources and dynamic capabilities (Brouthers *et al.* 2008). Others investigate the moderating effect of distance on the relationship between complementary assets (Chiao *et al.* 2010) and entry mode choices. In all these studies, distance was indeed found to be a significant moderator of the main relationship. In some articles, the authors explore the interaction of distance and relationship characteristics, such as communication and understandability (Reus and Lamont 2009), trust (Luo 2002) and buyer adaptation (Leonidou *et al.* 2011). Again, distance is shown to be an important moderator to be considered in IB research.

Evaluation of findings

In sum, this review reveals that there is value in focusing on interaction effects, either with contingency factors affecting the relationship between distance and outcomes or studies employing distance as a moderator variable. After all, such a contingency perspective is likely to yield a much finer grained and differentiated picture, acknowledging that, for example, differences in firm and market characteristics have a distinct effect on the relationship between distance and some firm- or subsidiary-level outcome.

Notwithstanding that we have seen some research exploring how contingency factors affect the relationship between distance and outcomes, we believe that there is a dire need for more research taking a differentiated approach, examining contingencies on different dimensions of distance. Only in doing so, may we be able to account for the fact that the effect of contingencies may vary with the distance dimension under investigation.

Similarly, we find that, despite its potential value, there is only limited research on the moderating effect of distance and – if available at all – it focuses mostly on cultural distance. Hardly any research is available employing institutional, geographic or economic distance as moderator. However, we believe that it is important that future research explores whether and if so, how, the moderation effect of a particular relationship varies with the various dimensions of distance,

keeping in mind that distance is a multidimensional phenomenon.

Suggestions for future research

Subsequently, we develop suggestions for future research. The intention of these suggestions for future research is to direct attention to research questions that we believe are among the most pressing questions in distance research and may have the potential to advance the field further, thereby providing distinct novel insights. A core aspect of the future research suggestions is the reintegration of managers – the persons ultimately responsible for IB decisions – into distance research.

Exploiting the PDS–PPD distinction

Studies linking PDS to outcomes at firm and/or subsidiary level exhibit – almost by definition – a mediated design. Differences in PDS do not directly affect IB decisions and outcomes, but influence PPD. Accordingly, it is imperative for the theoretical advancement of the distance concept that additional research be done on the link between PDS and PPD.

Influences on the PDS–PPD relationship. Following the Carnegie School (March and Simon 1958) and subsequent work on managerial and organizational cognition (Daft and Weick 1984; Hambrick and Mason 1984), a manager's perceived distance may be influenced by that manager's givens (Sousa and Bradley 2006). Though there are many aspects to be explored against this backdrop, we believe that a promising one is global mindset.

According to Levy *et al.* (2007, p. 244), global mindset may be defined as givens 'characterized by an openness to and articulation of multiple cultural and strategic realities on both global and local events, and the cognitive ability to mediate and integrate across this multiplicity'. This openness indicates a non-prejudicial and non-judgmental perception and evaluation of information (Levy *et al.* 2007). This may help to reduce ambiguity and uncertainty in processing information related to foreign countries. A global mindset also indicates a willingness to look outward, to be involved in the global environment (Levy 2005). Managers who are more open-minded in this way are more likely to be tolerant of differences across countries (Sousa and Bradley 2006). Based on the preceding insights, we call for research explor-

ing the effects of managers' givens on the PDS–PPD relationship. Promising research questions include: How do managers' idiosyncratic givens moderate the relationship between PDS and PPD? To what extent do givens that foster a global mindset make managers more tolerant of objective differences across countries?

Asymmetry in perceived distance. Until recently, the symmetry issue was challenged using theoretical arguments (Shenkar 2001). Though some research has provided initial empirical evidence for asymmetry in perceived distance (e.g. O'Grady and Lane 1996), the study of Håkanson and Ambos (2010) is the first to provide extensive data on the asymmetry issue. The data reveal a pattern according to which the perceived distance from managers located in developed countries to developing countries was larger than vice versa (Håkanson and Ambos 2010, Table 2). Accordingly, one may argue that manager's perception of distance may be driven by the relative development of the home country and the foreign country (Cuervo-Cazurra and Genc 2011; Drogendijk and Holm 2012). More prosperous countries may be considered stable and relatively easy to understand. Accordingly, managers accustomed to working in such a context may feel uncertain about their ability to deal with contexts characterized by low economic development and relatively poor quality institutions. Their counterparts in less developed countries, however, may not share such reservations. Given the limited empirical data on this issue, we can at the moment only speculate about the sources of the asymmetry. However, based on the preceding insights, we propose future research to address questions such as: Can the extent in socio-economic differences be linked directly to the extent of asymmetry in PPD? What factors of socio-economic development are most important in explaining this asymmetry?

The PDS–PPD relationship across distance dimensions. Håkanson and Ambos (2010) showed that the PDS–PPD relationship varies across distance dimensions. Their data reveal that geographic distance accounts for the largest share of the explained variance in PPD, while cultural distance and relative governance quality are poor predictors of PPD. As managers can easily assess geographic distance, they may be particularly receptive to that distance dimension. Conversely, cultural distance and institutional distance are more fuzzy, and managers may not be aware of such differences. However, this does not

diminish the importance of those distances in IB decisions.

Managers use their cognitive map to cope with the ambiguous, complex and munificent information contexts in which they operate (Walsh 1995). Since the cognitive map is built largely on past experiences (Kiesler and Sproull 1982), geographic distance will be more salient for managers than cultural or institutional distance. This is important, as no action takes place without being preceded by the allocation of attention and interpretation of information (Daft and Weick 1984). Based on these insights, we suggest the following research questions to be addressed in the future: (How) does managerial awareness of, and familiarity with, differences across PDS vary? (To what extent) does managerial awareness of, and familiarity, with differences across PDS affect IB-related decisions?

Substantiating the concept of distance

It is important that future research theoretically explores the causal mechanisms underlying the concept of different dimensions of distance (Zaheer *et al.* 2012). To date, the reasoning concerning causal mechanisms has not been specific enough regarding the dimensions of distance and the mechanisms that influence distance. However, this may benefit distance research in at least two important ways: One, it could lead, as Zaheer *et al.* (2012, p. 24) say, 'toward greater precision in theorizing about and measuring distance'. Second, the door to new research possibilities may open. We might, for example, be able to identify mechanisms theoretically distinct from each other, then include them in studies considering multiple distance factors simultaneously.

To date, distance research has typically addressed one distance dimension at a time. However, differences exist across multiple dimensions of distance simultaneously and, as such, may jointly affect IB decisions. The complexity perspective taken by some scholars (e.g. Hutzschenreuter and Voll 2008) provides a good example: Essentially, this perspective recognizes that distance increases the complexity of managing an MNE, but that each distinct dimension of distance makes its contribution to the increase in complexity. Complexity originates from the interaction of multiple distance dimensions. Thus, focusing on a single dimension alone is likely to underestimate the true complexity of what is being faced. Moreover, we concur with Peng and Pleggenkuhle-Miles (2009, p. 55) that, given the existence of mul-

tiply distance dimensions, we need to explore further which dimension has more explanatory power in what context. Therefore, we believe that there is value for future research exploring issues such as: (To what extent) are the underlying mechanisms of different distance dimensions distinct? How do the effects of various distance dimensions interact and what dimension is most meaningful in what context?

Moving beyond the home country reference point

Recently, theoretical and empirical studies have argued for and applied reference points other than the MNE's home country (Tung and Verbeke 2010; Zaheer *et al.* 2012). In fact, it seems that the reference point may be an issue of measurement but, even more importantly, a theoretical issue, and one that could potentially substantially advance the conceptualization of distance.

According to the resource-based view (RBV) in strategy, firms are unique in that they possess firm-specific idiosyncratic resources (Wernerfelt 1984). One could argue that MNEs possess idiosyncratic resources that help them deal with distance. This notion has two important implications, neither of which is applicable in the case of a home-country reference point: first, the idiosyncratic resources of a firm change over time; and second, the endowment of resources differs across MNEs.

Petersen *et al.* (2008) proposed that distance in general might take the form of a knowledge gap between an MNE's stock of knowledge and the knowledge needed in the foreign market. Such knowledge perspective implies that several MNE characteristics may be seen as resources to be used in dealing with distance: characteristics such as having years of IB experience and business activities in multiple countries, and a diversity of foreign markets in the firm portfolio (Piscitello 2011; Zaheer and Hernandez 2011). What is important is that they be at the same time idiosyncratic to the respective MNE and time-variant.

We are not suggesting that IB research adopt the RBV *per se*. Nor do we suggest that it is wrong to rely on the home-country reference point. Rather, what seems to be important is that research accounts for the fact that MNEs are not homogeneous in their ability to deal with distance in general and the individual dimensions of distance, in particular; either across each other or over time. Clearly, the answer to the question of what reference point is able best to depict this is subject to further theoretical and empirical

work. However, in addressing some of the aforementioned issues, future research may address questions such as: What resources do MNEs possess that can help them in dealing with distance, in general, and different dimensions of distance, in particular? How can a reference point adequately consider an MNE's resources that help dealing with distance?

Considering limitations and cognitive biases

The pivotal role played by managers has long been recognized in distance-related research. Yet, managers' limitations and cognitive biases have been by and large neglected. Nonetheless, we believe that it is imperative that both be included in future research.

International business decisions tend to recur over time. Behavioral learning theory has shown that antecedent conditions affect decision-making. When individuals perceive antecedent conditions to be similar to prior decisions, they tend to generalize at the expense of a careful analysis of the situation, even though the similarity may only be superficial (Novick 1988). Such an inappropriate generalization, however, is likely to lead to negative outcomes (Haleblian and Finkelstein 1999; Novick 1988).

Moreover, behavioral learning theory also suggests that the consequences of past behavior affect current behavior (Ariely and Norton 2007). In essence, it is argued that there is a tendency to persist in behavior that leads to a positive outcome, whereas, when behavior leads to a negative outcome, engaging in that behavior diminishes. Accordingly, the outcome of a specific IB decision alters the probability of that decision being applied again (Skinner 1950). A like decision that also results in a positive outcome builds momentum (Nevin and Grace 2000), and managers become increasingly resistant to making a change in similar situations (Weiss and Ilgen 1985). Considering managers' limitations and cognitive biases, future research may therefore address the following research questions: (How) does the similarity of countries with which the manager is familiar affect the manager's assessment of distance? How can managers safeguard themselves to generalize in making IB-related decisions? How do the outcome of past IB decisions and similarity between the focal country and past countries interact?

This review suggests that distance-related research is at a crossroads. We have seen substantial progress over the past 40 years, but still a lot of open questions

regarding important conceptual issues in distance-related research remain. We hope that our holistic approach to reviewing the literature and our suggestions for future research will lead to a more thorough analysis of distance and help to overcome the challenges that distance research currently faces.

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Supporting Information

Additional Supporting Information may be found in the online version of this article at the publisher's website:

Appendix S1. Overview of reviewed articles.

Appendix S2. Overview of articles concerned with market selection and expansion patterns.

Appendix S3A. Overview of articles concerned with entry mode choice – Degree of equity.

Appendix S3B. Overview of articles concerned with entry mode choice – Establishment choice.

Appendix S4. Overview of articles concerned with performance.

Appendix S5. Overview of articles concerned with knowledge transfer and interorganizational relationships.

Appendix S6. Overview of articles concerned with factors moderating the effect of distance.

Appendix S7. Overview of articles concerned with distance as moderating factor.