The microfoundations of distance: insights from psychology to expand the notion of psychic distance

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Abstract:
Many studies have focused on the impact of cultural differences between a host and a home environment on macro outcomes such as firms’ strategies and performance. However little attention has been paid towards the microprocesses underlying this relationship. How those differences translate into the minds of decision makers and then affect the way they perceive distances and thus the decisions they make accordingly remains vastly understudied. We suggest here to consider that cultural differences are an input of psychic distance, and to treat psychic distance as a dynamic, subjective, and cognitive process, occurring at the individual level.

This theoretical paper aims at contributing to the literature on distance and internationalization by providing insights from psychology, especially what affects impression formation and biases associated with decision-making. Cultural differences do not impact every decision maker in the same way: depending on their experience or personality, they will process and interpret information from the environment differently, thus affecting the distance they perceive towards a potential investment location. Here we investigate how biases and prisms – specific to each individual - affect psychic distances one hold towards locations; we provide different sets of propositions regarding whether and how come one holds perceptions towards a location or not, how to characterize these perceptions, and whether they can be modified (for instance through learning or framing).

We thus contribute to a better understanding of the microprocesses behind the relationship between cultural differences and firm strategy and performance by shedding light on the cognitive mechanisms underlying distance (how distance works in the mind of decision makers?). By considering that cultural differences are an antecedent of psychic distance, we hope to clarify the tension between cultural and psychic distance which has been hindering theoretical development in the IB literature. Finally, we aim at providing more realism to the IB literature by delving into what managers actually experience when making international investment decisions.
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INTRODUCTION

Firms engaging in international business activities need to overcome and manage the differences between their home and the host environment (e.g., Johanson & Vahlne, 1977; Pedersen & Petersen, 2004). As a result, distance has been one of the most investigated topics in the international business literature (Zaheer, Schomaker, & Nachum, 2012).

Why distance matters?

"Essentially, international management is management of distance." (Zaheer et al., 2012) Distance has been applied to both i) decisions to engage in cross border activities, and ii) the outcomes associated with such activities. Cultural distance has been related to decisions such as market selection (where to locate? e.g., Davidson, 1980), entry modes (degree of ownership of new overseas locations: e.g., Kogut & Singh, 1988), and exit strategies (e.g., Ting, 1988). Cultural distance has also been related to outcomes such as performance (e.g., Luo & Peng, 1999), survival rates (e.g., Barkema & Vermeulen, 1997; Makino & Beamish, 1998), and the ease of transmitting knowledge and information across borders (e.g., Anand & Delios, 1997; Makino & Neupert, 2000; Simonin, 1999). It is generally assumed that a larger cultural distance complicates international business, and is associated with greater risks. Cultural distance is thus an important part of the liability of foreignness that multinational firms suffer from (Zaheer, 1995). Despite the large number of cultural distance studies, empirical evidence on how cultural distance affects both international business decisions and outcomes remains mixed (Evans & Mavondo, 2002; Tihanyi, Griffith, & Russell, 2005).

Even though cultural distance has been applied to both decision and outcomes, theoretically these are different. Cultural distance being a macro level concept, it is only indirectly so (through the filters and prisms of the managers’ mind) with decisions. Cultural differences do
play a role in the decision-making process, but only as one of the many inputs at play in the mental mapping occurring in the managers’ minds. Hence, because cultural distance is a macro level concept predominantly conceptualized and measured at the country level, this conflicts with individual-level decision-making processes. Understanding how cultural diversity is perceived by managers, and how this process is specific to each individual due to their unique life and work experience and cognitive biases, is the main rationale for this study.

**What has been done so far and what we suggest instead**

In their 2012 paper, Zaheer, Schomaker & Nachum distinguished different types of problems associated with distance in the IB literature, one being that the subjective aspect is overlooked, and another being that the actual underlying mechanisms of how distance works did not receive much attention. Our study addresses these two issues. Following their call, we take into account the subjective aspect of distance. We aim at specifying how the actual underlying mechanisms of distance work in the minds of decision makers, i.e., the microfoundations of distance. We gather that psychic distance - being the perceptions an individual holds towards a location - should be used to study internationalization-related decision making (such as market selection), and suggest to treat cultural differences as an input (one among many others) of psychic distance.

Following organizational theorists (e.g., Daft & Weick, 1984), we consider that organizations do not make decisions; managers do. Their characteristics and how they come to form judgments are critical in understanding macro outcomes such as the firm's strategy or its performance (Bobbitt & Ford, 1980; Bourgeois, 1980). This is why we need to go beyond cultural distance (typically calculated at the country level) to understand the role played by distance and cultural differences in the decision making process, and ultimately how it affects
macro-level outcomes. We investigate how distance translates at the individual level, in the minds of decision-makers.

Contributions

Despite the large number of studies of distance in the management literature, some crucial points remain unknown. We still have a very crude understanding of the underlying mechanisms of distance. We know that managers make investment decisions, but we do not know how differences between the host and home environment are processed in the minds of decision makers. This study aims at providing insight on this matter.

We also do not know, or at least do not agree on, what "psychic distance" means. Despite a large array of studies and definitions, it is still not clear what psychic distance refers to exactly. Some (Dunning, Fujita, & Yakova, 2007; Gomes & Ramaswamy, 1999; Sethi, Guisinger, Phelan, & Berg, 2003; Simonin, 1999; Trabold, 2002; Yeniyurt, Townsend, Cavusgil, & Ghauri, 2009) refer to it as a mere synonym of cultural distance; others (Håkanson & Ambos, 2010; Stöttinger & Schlegelmilch, 1998) assess its individual-level specificity theoretically but then fail to incorporate this empirically. Along with Prime, Obadia, & Vida (2009) and Sousa & Bradley (2006, 2008), we concur that psychic distance refers to the perceptions an individual holds towards a location. However this definition is imprecise and thus may lack relevance for both theoretical and managerial considerations alike. We suggest that psychic distance is rather a multidimensional construct, much like institutional distance (Kostova, 1999) and cultural distance (Hofstede, 1980).

The fact that psychic distance can be appreciated in terms of small vs. large, positive vs. negative suggests that it is a multidimensional construct. Apprehending it in a linear fashion, ranging from "close" to "far" does not do justice to either the concept itself or how complex an individual's mind is. Besides small vs large and positive vs negative, psychic distance can
be appreciated along different dimensions, such as easy vs. difficult to understand, similar vs. different. Some overlap may exist between these dimensions, but each location will not get the same appreciation along these dimensions by any decision maker. An individual may judge a location similar and with rules easy to understand, but not positively, maybe due to animosity issues (Jung et al., 2002; Klein, 2002) arising from previous wars or colonial links. This is why several dimensions, rather than a close-far continuum, should be taken into account when considering psychic distance. It is very likely that some dimensions matter more for certain types of decisions and less so for other ones, and also that some people will be more sensitive to some dimensions than others (for example the case of a location considered as close, easy to understand, similar, but because of a negative personal experience in this location, the decision maker discards it; one dimension may offset the others). It is important to acknowledge 1) what psychic distance refers to, and 2) how each of its dimension matters. It can impact which markets are selected to do business with, the relationship with the people over there, and subsequently the performance associated with this venture.

In this paper we contribute to the existing body of literature in three ways. First, we provide the microfoundations of distance in decision making by theorizing on the cognitive mechanisms underlying distance. By delving into the black box between cultural differences and macro outcomes, we provide a plausible explanation of how distance actually works in the minds of decision makers. Second, we address the tension between cultural and psychic distance, a topic which continues to hinder the theory and measurement of distance (Dow & Karunaratna, 2006). By clearly stating which one impacts the other and how, we show that these should not be considered as synonyms and therefore interchangeable concepts unlike what has previously been done (Dunning et al., 2007; Gomes & Ramaswamy, 1999; Kogut & Singh, 1988; Sethi et al., 2003; Shoham & Albaum, 1995; Simonin, 1999; Yeniyurt et al.,
Third, our paper provides better insight on what managers actually experience when international investment decisions need to be made, hereby bringing more realism into the international business literature.

**LITERATURE REVIEW**

What has been done so far

First, it is generally assumed that a larger distance complicates international business. Distance is usually associated with risk (Banalieva & Dhanaraj, 2013; Contractor & Kundu, 1998; Nadkarni & Perez, 2007), uncertainty (Castellani, Jimenez, & Zanfei, 2013; Prashantham & Floyd, 2012; Townsend, Yeniyurt, & Talay, 2009), lower performance (Li & Guisinger, 1992) and lower survival rates (Barkema & Vermeulen, 1997; Makino & Beamish, 1998; Mudambi & Zahra, 2007); studies on the potential positive effects of distance have been very scarce (O’Grady & Lane, 1996; Reus & Lamont, 2009; Shane, 1995: creativity and complementarity advantages, psychic distance paradox). It is rarely acknowledged that a large distance can favor success because it is associated with larger learning opportunities (Eden, 2009; Kim, Lu, & Rhee, 2012; Reus & Lamont, 2009). A distance can be large (and thus associated with a high risk) when considering cultural distance (e.g., between the US and China), but much smaller when using psychic distance (e.g., an American manager who spent his childhood in Beijing). Therefore what is considered far when considering cultural distance only (like most IB articles do) can be considered much closer if psychic distance was used instead.

Second, the predominance of macro-level distances means a disregard of the individual level. Between 1990 and 2010, in the Journal of International Business Studies, the number of articles about cultural distance, geographic distance or institutional distance was four times as high as the ones about psychic distance (Em, 2011). This situation reflects large-scale
problems of confusion in the literature. Many authors consider now that cultural distance and psychic distance are synonyms and therefore interchangeable concepts (Dunning et al., 2007; Gomes & Ramaswamy, 1999; Kogut & Singh, 1988; Sethi et al., 2003; Shoham & Albaum, 1995; Simonin, 1999; Yeniyurt et al., 2009). The line between the two concepts is now so blurred that some define cultural distance in terms of perception (Rao & Schmidt, 1998; Simonin, 1999), and psychic distance is still often considered at the macro-level (Cuervo-Cazurra, 2006; Håkanson & Ambos, 2010). Cultural distance and psychic distance are also very often proxied by the Kogut & Singh (1988) index based on Hofstede's cultural dimensions (Sarkar, Cavusgil, & Aulakh, 1999; Townsend et al., 2009).

Using the macro-level notion of cultural distance to investigate individual decisions raises a problem of ecological fallacy. When doing this, researchers wrongly assume that an average score at the national level will impact to the same extent and in the same way all the individuals within this nation, regardless of their international experience, professional background, or personality for instance. Individuals from this group do not necessarily display the average characteristics of the population they belong to (Berry, Guillén, & Zhou, 2010). It follows that relationships which might be supported at the macro-level are not necessarily so at the individual level (Jargowsky, 2005). Individuals in any given country do not all have the same interpretation of cultural differences, nor are they impacted by them in the same way.

The confusion between these two concepts hinders theory development and thus the relevance of studies in this area. We reckon that cultural distance is a macro-level (typically country to country) and objective (based on cultural dimensions such as Hofstede’s, 1980) construct whereas psychic distance refers to the individual's perceptions towards a location; because it is a perception, in the mind of individuals and thus unique to each of them, it is a cognitive and subjective construct, but also a dynamic one since an individual's experiences in his/her personal and work lives will impact the impressions s/he holds towards a number of locations.
What we suggest instead

The large use of country-level data to study distance relies on the following assumption: cultural differences impact everyone within a nation equally (Håkanson & Ambos, 2010; Stöttinger & Schlegelmilch, 1998). Those national averages are problematic when considering psychic distance and market selection for several reasons. First, relying on averages and aggregated measures makes the study of variation impossible. We consider that since 1) psychic distance originates in each individual's mind, and 2) it depends on each individual's cognition and life and work experiences, new experiences (e.g., vacationing there, learning the language, attending a seminar on what it is actually like to do business there, ex ante vs. ex post impressions, etc.) will likely modify the perceptions an individual holds regarding a location, and thus the psychic distance associated with it. Such studies on how to modify psychic distances are of great relevance for a better understanding of the internationalization decision making process. Second, relying on averages and aggregated measures negates the unique features (cognitive biases, experiences) inherent to each individual. Individuals make the investment decisions (Bobbitt & Ford, 1980; Daft & Weick, 1984); therefore it is of critical importance to understand how they process the vast array of information available from the environment - including cultural differences - in order to make international investment decisions. It is at the individual level, in each decision maker's mind, that differences in culture translate into (psychic) distance.

Decisions are directly affected by the mental maps of decision makers (Bargh & Chartrand, 1999; Lamb, Sandberg, & Liesch, 2011; Wiedersheim-Paul, Olson, & Welch, 1978). Decision makers have preconceptions regarding certain locations and cultures stemming from their life and work experience, are more or less open to new experiences and have varying degrees of accepting uncertainty. How they see the world, and ultimately the decisions they make,
depends on their perceptions (Ellis, 2011; Tversky & Kahneman, 1981), cognition (Brand, Labudda, & Markowitsch, 2006; Duhaime & Schwenk, 1985; Simon, 1979), and preferences (Pfister & Böhm, 2008; Zajonc, 1980). Each of these is affected by biases intervening when decision makers interpret their environment and the cultural differences associated with it. It follows that all the managers are not sensible to cultural diversity neither in the same way nor to the same extent.

What we suggest here is to acknowledge and understand that differences among decision makers matter to assess psychic distance. Cultural differences do not have the same impact on everyone, because they are perceived through filters and prisms unique to each individual. These are related to cognitive biases (how the information is presented, selected, interpreted by each person) as well as life and work experiences. They shape how one sees the world, how one interprets it, and thus the decisions one makes accordingly.

We suggest in this paper to treat cultural differences as an input of psychic distance in the decision-making process leading to internationalization. As any input from the environment (actual information from the different locations), these information are selected (i.e., not all of the available information is taken into account by the decision maker: it is filtered due to cognitive laziness and information overload; s/he only selects fractions of it) and distorted (i.e., interpreted through the prisms of the individual’s cognition or mental map). These information, selected and distorted, in addition to what the manager (thinks s/he) knows about this location, are the building blocks of psychic distance, i.e., the perception a manager holds towards a location. More specifically, we develop propositions regarding how biases play a role in the process of selecting and distorting information and how this influences psychic distance and thus ultimately internationalization decisions.
PROPOSITIONS

The ease with which information is available today may create a false sense of objectivity and thoroughness. However one cannot collect nor process all this wealth of data because our cognitive abilities and resources (time- and budget-wise) are limited. Managers are in a situation of constant information overload (characterized by an increasing volume of noise, "piles of useless information surrounding the rare shreds of useful information", Myers, 2012), with only limited information processing skills and a biased cognitive system.

In this context, managers are often pressured to make quick but safe investment decisions. Despite these shortcomings, there is not much room for mistake, and they should get it right the first time. This is why their decisions are taken with little (bounded rationality: (Kahneman, 2003; Simon, 1957) to no (Ariely, 2008) rationality. Most of the time, decision makers work with inaccurate representations of foreign market environments. They still have to make good investment decisions. To overcome this limitation, individuals use techniques, such as mental shortcuts, to limit the amount of effort required to make a decision, thus displaying "cognitive laziness" (Shah & Oppenheimer, 2008). Individuals rely on shortcuts to change their perceptions of complexity, narrowing (unconsciously) their search processes while doing so (Bobbitt & Ford, 1980). In doing so, they select only a fraction of the available actual information.

Decisions are not based on actual knowledge, but 1) this actual knowledge is selected, processed, and interpreted differently by each individual, and 2) it is complemented by subjective feelings and assumptions each individual hold to be true (Tsang, 2004; Walsh, 1995). Only a fraction of the available information reaches the decision-maker, and these shreds of information are "processed, altered, and complemented by the observer's cognition" (Hotho, 2009, p. 32).
For internationalization issues, it means that it is not the actual cultural differences which should be taken into account, but rather how decision-makers perceive these differences and which beliefs they associate with them. Indeed the cultural differences between the home and the host environment are an input in the decision-making process, taken into account differently by each individual, but how each decision maker perceives the host location (may it be based on stereotypes, half-truths, false beliefs or assumptions, an irrational feeling of familiarity, etc.), in other words, psychic distance, is the true driver of decision-making for internationalization issues. What matters for decision-making is not so much what the environment is like, but how it is interpreted and understood. According to studies by Calof (1993) and Calof & Beamish (1995), 39% of decisions are made based on gut feelings and subjective beliefs, and 28% are the result of gut feeling associated to a rational decision making process. The focus has so far been on actual knowledge, and we know little about what guides gut feelings and subjective beliefs, even though it plays a key role in decisions ultimately taken.

We consider here that cultural differences are an antecedent (or input) of psychic distance, interpreted differently by each decision maker, through their own mental maps, cognition, and perceptual filters. Understanding what comes beyond objective information and data - that is, how decision makers process, interpret, and complement them, but also the assumptions and beliefs they hold to be true - will provide more realism to our current understanding of decision-making processes.

Antecedents of psychic distance (Håkanson & Ambos, 2010), or "psychic distance stimuli" (Dow & Karunaratna, 2006), have already been the object of some research and debate in the IB literature. They include differences in language, religions, industrial development, levels of education, and political systems. The rationale is that if differences on these dimensions are large, the resulting psychic distance is also large. While acknowledging and classifying these
stimuli is useful, they served to calculate psychic distances between country pairs, which is not consistent with the approach we developed here. They did not investigate their translation at the individual level, even though it would have been a useful venture since Håkanson & Ambos recognize that "how psychic distance perceptions are formed at the individual level" is an "underresearched problem" (Håkanson & Ambos, 2010, p. 207). This is what we suggest here: treating these stimuli as part of cultural differences which impact the formation of psychic distance in the minds of decision makers, through filters and prisms and subject to biases unique to each individual.

First, one cannot assume that each manager holds a perception towards each location worldwide. Psychic distance does not work like macro-level distances in this regard: cultural distances can be calculated between each country pair imaginable (provided scores are available for said locations). A manager holds views towards only a few locations, and completely ignores the other ones. So a first question to ask when assessing psychic distance at the individual level is whether the individual actually acknowledges the existence of this location. If not, s/he cannot hold any perception, and thus any psychic distance, small or large, towards it.

Second, if an individual does perceive a distance towards a location, how to characterize these perceptions? So far, psychic distance has been considered in a rather monolithic (and static) way: does an individual perceive a small or a large distance overall towards a location? The impressions characterizing this perception of distance can be broken down into several dimensions, which have not been specified so far. An individual can feel close (or far) to this location and its inhabitants, but also consider it/them positively (or negatively), find them easy to understand (or not), regards them as similar (or different) to him/her. The psychic distance stimuli, at the macro level, as well as cultural differences, are interpreted and
processed by individuals differently through filters, prisms, and biases, depending on their life and work experience and cognition.

This section is organized as follows. In the first part we will investigate what makes a location salient or ignored, in other words, whether a location is noticed or not. The second one deals with how the location is perceived; it relates to the different dimensions of psychic distance. The last part elaborates on the possible alterations of psychic distance. Each part contains theoretical propositions, whose dependent variable is either psychic distance itself or its effect on a common internationalization decision: market selection.

Salience vs. ignored

The first question relates to whether a location is perceived at all: what puts a location on a manager's radar (or not)? Some locations will be noticed favorably, others not, and most will go unnoticed. Independently of the characteristics of any location, due to cognitive and time constraints, a decision maker looking for his next international investment location will not look thoroughly into the different possible locations in all of the 200+ countries. Most will never be considered for investment, either favorably or not.

It depends on his/her own life and work experience. Personal, first-hand experience in a given location makes it more salient compared to the others. These few locations the manager has lived, worked, developed an interest in, are thus more noticeable than other ones, to which he remains mostly indifferent. This relates to a cognitive bias called selective perception (we only see what we want to see). Motivations are the main driver of this bias. This has been evidenced by Hastorf & Cantril (1954) in their seminal paper "They saw a game." In 1951 occurred a football game between Dartmouth and Princeton. It was a rough one (broken nose and leg, concussions, etc.), and many penalties were included, on both sides alike. Supporters from each university who had seen the game were asked to complete a survey in which they
were asked questions regarding how rough the game had been, and how dirty the other team had played. Every supporter attended the same event, but Princeton students witnessed twice as many infractions committed by Dartmouth players than Dartmouth students! Their values and loyalties were so embedded they saw the same event through these tainted glasses, unconsciously and irrationally favoring their college team. Even when they clearly saw infractions from their own team, they would rather ignore or dismiss them. This experiment showed that information is interpreted in accordance with our previously existing set of values and beliefs. This makes us more likely to notice locations for which we have some sort of emotional connection, positive or negative, favorable or not. One remembers feelings and emotions experienced in certain locations, may these be good or bad memories. Either way, locations associated to them are more salient. It follows that a manager will actually almost exclusively perceive locations to which he can attach memories, completely ignoring many others which would have made perfectly suitable investment venues.

Inattentional blindness also plays a role regarding whether a location is noticed or not by a manager. We perceive only what we expect to perceive, thus failing to notice what is unexpected (and may be of critical relevance). This can happen when one is too focused on one specific aspect of a task, making what is going on around this task invisible, possibly overlooking important aspects of the problem. Expectations are the main driver of this bias. This was the object of Simons and Chabris’ (2010, 1999) invisible gorilla test. They requested students to watch an eighty-second video of two teams of three play basketball to count how many times teammates passed the ball to each other. Half of the students were paying so much attention to the ball passes that they failed to notice one of the experimenters walking calmly among the basketball players in a gorilla suit, thumping his chest, and leaving. This experiment illustrates how easy it is to miss something obvious when it is unexpected.

Inattentional blindness can be caused by a situation of stimuli overload: there are just too
many things to pay attention to, so our mind only selects the few which it considers relevant. How this selection process operates is specific to each individual.

Finally, availability heuristics (if I come up with examples easily, it is true), recency illusion (I have found out recently about this, so it is a recent phenomenon), and the mere exposure effect (I prefer this because I am familiar with it) also impact which locations are noticed by decision makers and which remain in the dark. Availability heuristics and recency illusion explain what is on the mind of individuals. The first one refers to the fact that if occurrences of a phenomenon come easily to mind, this phenomenon is likely to be true and to repeat. In other words, if it is easy to find examples (for instance: American companies being successful in China), it is more likely to happen (for instance: our company will be successful in China too). The second one is the belief that what one has noticed recently is recent. The fact that a location has been prominently featured in the medias for the last few months, that it came up during informal discussions among colleagues or friends, that it was the topic of a conference/seminar one attended, or the place of one's last vacations, may have an effect on decision-makers. First, they may form an opinion (positive or negative) on a location which they did not know anything about; second, it may reinforce initial beliefs or attitudes decision-makers hold regarding this location. In any case, this will put this location on the map. It does not mean that this is the optimal location for the specific investment considered by the decision maker; however because it came to his/her attention recently, 1) s/he will consider this location for investment, which would not have been the case had it not come recently to his/her attention; 2) especially if presented in a positive light, it will appear as a better option than it really is for this specific investment (conversely, if presented in a negative light, it will appear as a worse option than it really is, which may lead to rule out a potentially valuable alternative). The relation between objective and perceived investor climate and the unwillingness to go there is absent in some countries which are never discussed; those
countries could be more favorable investment environment than often selected market locations, but because they are never discussed in the media, they are not present in the minds of the managers; when time comes to make a decision which market to select, only the few locations at the top of the mind of the decision maker will be envisaged (they never consider a thorough study of the 200+ countries in the world when making market decisions; it is based on the few on top of their minds).

The mere exposure effect (Bornstein, 1989; Zajonc, 2001) also helps explain why some locations will be more salient to a decision-maker than others. Sometimes referred to as the familiarity principle in social psychology, it states that people develop a preference (for a location for example) simply because they have been repeatedly exposed to it (like through personal experiences or the media), which makes it feel familiar. It follows that individuals tend to avoid the unknown. Therefore, their natural tendency will be to completely disregard (or at least not develop any preference or positive attitude towards) locations they do not know anything about. Only the few locations the decision maker has been exposed to (to various degrees) will be on his/her radar when time comes to make an international investment decision.

These biases make individuals ignore certain locations. Locations which may be less suited for the considered investment, but which are actually perceived by the decision maker, will be the only ones taken into account.

**P1: Some locations will never be considered for market selection in the decision making process, regardless their objective characteristics.**

**P2: Irrational primacy effect (our first impressions last stronger and longer) and confirmation bias (our initial beliefs are strengthened by the fact that one only looks for**
confirming evidence and interpret information in a way consistent with my beliefs) lead to overconfidence which leads to an underestimation of distances.

**Evaluation of psychic distances**

The second question arises once we know a location has been perceived (favorably or not) by the manager. What makes the psychic distance between this decision maker and this location large or small, or favorable or unfavorable, for instance?

It also depends on a manager's own life and work experiences. A significant, positive experience in a location increases the level of familiarity and decreases the overall psychic distance a manager feels towards it. On the contrary, if the experience there was rather unpleasant, the psychic distance associated with this location will be larger. Conversely, an individual who has not much international experience (few travels and little foreign media exposure, for instance) will perceive any foreign location with a large psychic distance.

The impressions and attitudes an individual holds towards a location can also be related to inattentional blindness. This can be linked to the tendency individuals have to exhibit a higher willingness to work on what one already knows rather than start from scratch in an area one is not familiar with. Because of the phenomena of cognitive laziness, and also in a risk-decreasing perspective, it is much easier to put oneself in a situation in which one knows what to expect.

Individuals may have a distorted perception of different locations and distances because of inattentional blindness and also because of selective perception. In the context of IB, the decisions managers make may follow their interests (they will perceive problems as less serious for locations they really want to go to, and if contrary evidence is presented to them, they will ignore or dismiss it). Two managers with diverging interests (one would like the firm’s next market to be location A, the other one location B) look at the same set of
information, and will find in them arguments to support their claim, consistent with their initial interests. They will only see and retrieve in actual information what they want to see, consistent with their initial beliefs, attitudes, values (e.g., location A is not a good option because people are lazy and corrupt over there). Because they will interpret information in a biased way, they are likely to ignore valuable alternatives and important details, which may turn detrimental to performance.

This relates to wishful thinking. For locations for which they have a strong interests, managers will do everything they can to go there, including unconsciously forming assumptions in accordance with the positive/favorable impression s/he holds towards this location, and aiming at passing on this vision to other decision makers. Their perceptions, and perhaps reasoning skills, are distorted.

P3: Managers will perceive a lower distance towards locations for which they have a strong interest.

First impressions matter more than the ones acquired later. According to the Gestalt theory, the general impression we form of something depends on many interrelated impressions, which are colored/influenced by our first impressions (which thus influence subsequent selection and interpretation of information, reinforcing our initial beliefs). There is a greater reliance on information which has been introduced to oneself early on, even though it is disproved later on (link with preserved representations in change blindness). This can have serious consequences in conjunction with confirmation bias (Kunda, 1999; Nickerson, 1998; Risen & Gilovich, 2007). We thus have a very strong tendency to look for information supporting our first impressions (completely ignoring information disproving them), and to interpret any given set of information as in favor of our initial values and beliefs. We attribute an excessive weight to information acquired first (the one which formed initial perceptions),
regardless the legitimacy of its source or whether it is proved false in later stages of the
decision making process. It follows that the actual information one searches when making an
international investment decision will be heavily tainted and influenced by their initial beliefs,
may they be stereotypical, partial, sugar-coated or false. Evaluation precedes judgment
(Tajfel, 1981). This is why perceived and actual distances differ.

**P4:** A manager will perceive a lower psychic distance towards locations his/her prior life and
work experience led him/her to believe were similar to the home country or positive.

The mere exposure effect relates to the fact that a few locations are much more prominent (in
the media, in professional conferences, etc.) than others. For instance, if a professional review
regularly publishes articles on the success of British firms in Russia, Russia will appear as not
as distant as previously thought. The fact that this location is discussed makes it seem more
familiar than it actually is. Because of this, managers are more likely to select it for
international investment, even though it may not be the best choice for them, and even though
their decision lies on a false sentiment of familiarity.

**P5:** The fact that a location is discussed prominently creates a feeling of increased familiarity
and understanding towards it, and thus the psychic distance associated to it is lower.

So far psychic distances have been considered in a close vs. far fashion. However we suggest
here that psychic distances, and evaluations of different locations at large, would be better
captured by a variety of dimensions. We consider that the human mind evaluates locations
and distances in a more complex way than close vs. far; this is the reason why we put forth a
few dimensions along which we evaluate and distinguish different location options: positively
vs negatively; easy vs difficult to understand; similar vs different. We do not mean to discard
the close vs far aspect, only to complement it. These different dimensions are worth
disentangling because they do not necessarily go in the same direction, and one dimension may unconsciously outweigh the others in the decision making process. One can feel close to a location yet find its institutional environment very difficult to understand, for example.

P6: A positive appreciation of a location has more effect than any other dimension to lower the perceived distance towards this location.

P7: A positive appreciation of a location means that a manager will put more effort into persuading that this market should be selected over another in a collective decision-making setting.

P8: Managers with little or no international experience are not able to consider different locations in terms of positive or negative appreciation; thus they will rely more on the perceived ease or difficulty to understand (how institutions there at large work) dimension to make a market selection decision.

Modification of psychic distance

Psychic distance has so far been treated almost exclusively as static. However, because it is subjective and at the individual level, the levels of distance someone associates with different locations are likely to change throughout his/her lifespan, depending on exposure, life and work experiences, for instance. Therefore the third question comes after the psychic distance between the decision maker and the location has been assessed; can this psychic distance be modified (larger or smaller, more favorable or more unfavorable than originally believed by the manager) and if so, to what extent?

In framing experiments, the subjects are divided in at least two groups, with different conditions presented to each group. For instance, in Bargh, Chen & Burrows' (1996) study, one group of subjects were primed with words related to the elderly (e.g., retirement); the other was a control group. It turns out that that the simple fact of having been primed with
old-age-related words made this group of the experiment walk slower than the control group at the end of the experiment. This experiment shows that different groups exposed to different framings exhibit different behavior. By the same token, depending on how information and data on a location are presented (for instance, focus on differences rather than similarities, focus on positive aspects rather than deterring ones), the impressions about this locations that people form in their minds will likely be different and then impact the decisions they make regarding international investment decisions.

**P9:** If a location is presented under a positive light, it will seem less distant than if the focus is on the negative aspects traditionally associated with distance.

**P10:** If the focus is on similarities rather than on differences, the distance perceived towards this specific location will be lower.

We suggested here that psychic distance can be manipulated. The amplitude of such modifications will depend on several cognitive biases. Because first impressions matter more (irrational primacy effect), even if the situation changes, even if learning is involved or framing, a person with a very negative perception of a location will still perceive a large distance towards it and disregard it as a valid investment opportunity. This process is called preserved representations in change blindness (Simons, Chabris, Schnur, & Levin, 2002): we do not perceive, and therefore take into account, the changes which disprove our first impressions, values, and beliefs. It follows that this person will be more resistant to framing than someone with a neutral opinion regarding this location (for the person with a positive perception about this location, the experiment will be taken into consideration as confirming evidence of his/her previous beliefs). This relates to the confirmation bias. Consciously or not, we tend to favor information in accordance with our existing beliefs and attitudes. It takes
place at different stages of the process: 1) the information search is biased; 2) so is its interpretation; and 3) memories associated with it.

Primacy effect (Shteingart, Neiman, & Loewenstein, 2013), preserved representation in change blindness (Simons et al., 2002), and confirmation bias (Kunda, 1999; Nickerson, 1998; Risen & Gilovich, 2007) can lead to an inability to revise judgment on a location, making the distance an individual perceives towards this location resistant to manipulation: this person will hold on to their first, primary strong opinion on this location. This process is called cognitive inertia: even in the face of new circumstances and information, the individual is unable (sometimes unwilling) to change their existing perception.

**P11**: A person with an extensive experience of or a strong towards one location will resist any framing intended to make his/her attitude towards this particular location change; in a framing experiment, this person will hold on to their opinion no matter what is presented at them.

**P12**: If a person has been presented with an initial negative (or positive) overview of a location, the attitudes this person will hold regarding this location will be strongly influenced with this initial overview (performed during the experiment).

**DISCUSSION**

Cultural differences do not have the same impact on everyone. They are perceived through filters and prisms unique to each individual, which are also subject to a number of cognitive biases. These create an initial mindset, which directly impacts whether and which impressions are formed regarding a location, and thus in turn the investment decisions they make. Acknowledging and understanding these biases will enable us to have a deeper understanding of how cultural differences are processed in the minds of decision makers, which will bring more realism to current models.
If we keep focusing on the macro level, that is considering that distances calculated between countries are relevant to study decision-making processes, and treating managers as necessarily well informed (unlimited and unbiased access to information), aware of alternatives and their associated chances of success, and as rational as possible when making international investment decisions, we will keep looking at the problem with the wrong lenses and thus fail to provide greater insight as to what really drives internationalization.

Throughout this paper, we made a point not to use the word "country" and favor the use of the words "location" and "environment" instead. Along with Kara & Peterson (2013) and Beugelsdijk & Mudambi (2013), we do not believe that the country is necessarily the appropriate level of analysis for market selection. Along those lines, the relaxation of the homogeneity/uniformity assumption (ICV studies, for instance Maseland, 2011) contributes to bringing more realism to distance studies. Also, because we focused on perceptions, it has to be pointed out that individuals do not necessarily divide the world into countries. The level at which they consider other locations depends on their level of familiarity (actual or perceived) with different regions; it can be hypothesized that the higher the feeling of familiarity, the lower the level of consideration and thus the more fine-grained the distinctions will be. This means that for areas for which a manager feels close, s/he will make distinctions at the city level (e.g., Beijing or Shanghai?), whereas for areas for which the manager is indifferent or does not know much, a much higher level will be considered (e.g., Asia).

Our study contributes to the IB field in at least two different domains: one is psychic distance per se, the other its impact on the internationalization process theory. First, we clearly establish psychic distance as a cognitive phenomenon, distinguishing it from macro-level distances, asserting its role in internationalization decisions. The tensions between cultural
and psychic distance have hindered theory development in the IB literature; treating cultural differences as an antecedent/input of psychic distance allows for a better understanding of each concept's definition, suitable operationalizations and applications. By showing the cognitive mechanisms underlying distance, we assess how distance actually works in the mind of decision makers. We bring more realism into the IB literature by having a closer look at what managers actually experience when making international investment decisions, a process far from rational and thorough, based on a partial and distorted vision of actual foreign environments. Our propositions also lay ground for further studies on the antecedents of psychic distance and also how to possibly reduce it (through learning and framing, for instance) for those managers who are more likely to review their assessment of a location. This has implications for firms to purposefully control circumstances and select and train employees dealing with international business situations in order to minimize the impact of cultural distance on their behavior, thus ultimately on the strategy and performance of the firms.

Second, the breaking down of the decision making process provides a better understanding of how international investment decisions are actually made. We show at which steps the manager's cognition, preconceptions and biases intervene, and lays ground for acknowledging the extent to which the decisions we make are not as methodical and rational as we may think. We raised awareness regarding the filters, biases and shortcuts which affect this process, so they can potentially be acted upon. It provides a more realistic explanation of what drives internationalization decisions, not only country differences but rather how they are perceived and processed by decision makers, not only actual information but rather intuition and beliefs held to be true. Overall this study contributes to an improved explanatory power and internal consistency of the internationalization process theory model.
Following this study, we call for empirical research to test our propositions, which would provide a greater understanding of the micro-processes underlying the relationship between macro-level distances and firms’ strategy and performance. We also hope that more studies will focus on how different perceptions of foreign environments impact decision-making, especially using experimental designs to further our knowledge of the individual antecedents of psychic distance, and whether, to what extent and how psychic distance can be manipulated.

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