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International expansion patterns: new explanations needed

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Abstract

This paper aims at refining and suggesting new leads in the research on international expansion patterns. The model developed by Uppsala scholars (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1972) fails to account for patterns observed empirically. However their reasoning in terms of increasing psychic distance is appealing and makes sense logically: managers being risk averse, they will favor locations they feel familiar with in order to reduce the uncertainty associated with doing business abroad. Therefore we suggest new approaches to be explored: the first one is a new operationalization of the concept of distance, since the currently dominant one, the Kogut & Singh (1988) index is flawed; a second one discusses the potential of adding the notion of ambidexterity, from the exploration/exploitation paradigm, into the picture; a last one confronts neoinstitutionalism and game theory to predict competitors moves and their influence on the location choices of the firm. We hope to contribute to the international business literature in two ways: first, validating and completing the learning perspective of internationalization; second, bringing evidence that the operationalization of distance needs to be modified to be useful.

This article is interested in the rationale underlying firms' international expansion. A brief literature review enlightens that many explanations have been provided, such as the product life cycle, whether competitors are present on the market or not, the level of tariff protection, the political situation (Vernon, 1966), the size of the considered market (Walker & Etzel, 1973), transaction costs (Hennart, 1982), the degree of entrepreneurship (Buckley & Casson, 1996), the flexibility of the host government (Buckley & Casson, 1998), practical aspects of decision making (information gathering, procrastination, commitment) (Buckley, Casson & Gulamhussen, 2002) to name a few. Yet currently prevailing theories fail to explain patterns observed in practice. A first set of explanations which have traditionally been provided is based on the attractiveness of the market. By attractiveness we refer to the commercial, legal, and fiscal characteristics of markets (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998; Roy & Oliver, 2009).

This family of explanations looks only at the characteristics of the market and disregards the characteristics of the firms. So doing, it fails to explain why all firms do not target the same areas; for instance Zara and Mango, two global companies with the same origin and industry, should find the same markets attractive (and thus expand in these), yet they do not have the same pattern of international expansion (they choose to settle in different markets). There is a need to go beyond market attractiveness. It is not enough, on its own, to explain internationalization patterns. Therefore, we assume that elements other than the attractiveness of the market should be taken into account, more specifically that the attractiveness of an area also depends on firms' characteristics, namely the experience of its decision makers.

It is not just the attractiveness which drives expansion: it is more likely it is a complex mix between distance and attractiveness. If it was attractiveness alone, all the firms would be present in the same markets. However not all the managers consider the same markets to be attractive: we suggest it may depend on personal preferences and experience. Besides, some markets may seem attractive but are not accessible (for example, targeting China as a first market). We suggest an attractive market is where the firm is likely to succeed, not necessarily where there are lots of customers (the two may not overlap).

Thus, we reckon that attractiveness is an important determinant of market selection, but on its own cannot explain firms' internationalization patterns; the role distance plays needs to be appreciated.

This is precisely what the model developed by scholars from Uppsala (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1972) claims by introducing the notion of distance between a firm and a targeted market. This internationalization process model relies on learning to explain international expansion patterns: a firm would start with locations which require apparently little learning and which seem less uncertain, that is, in similar (often neighboring) countries, avoiding countries considered distant (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1972; Welch & Luostarinen, 1988). Now observed patterns of expansion do not systematically fit with what this theory predicts. For instance, let's consider patterns of expansion of Zara and Mango: their first international move was Portugal, which is consistent with the internationalization process model, yet their second one was the United States for the former and Mexico for the latter, which contradicts the U-model, and Zara's third move was France. What explains such conflicting observations and departure from the Scandinavian school model? Is there any logic behind this apparently erratic pattern? Is this an operational or a theoretical issue? The research question we are interested in is the following: *Why do managers choose to invest in markets which seem distant to them, given that distance is associated with uncertainty?*

There are thus several possibilities as to why learning-related theories fail to account for international expansion patterns: (1) the operationalization of distance is not appropriate; (2) the theory has unspecified boundary conditions; (3) the theory is incomplete; and (4) the theory is wrong (i.e. learning is irrelevant). We assume that learning *is* relevant. We focus on complementing and specifying the learning perspective and operationalizing distance.

(1) *The operationalization of distance is not appropriate*. The current way distances are proxied provides mixed and inconclusive results. One way to look at it is to suggest that what seems distant is actually closer than we think, that is, should the decision makers use the K&S score to evaluate the riskiness of a venture, the score may be higher than if it were calculate otherwise. This does not mean that an approach in terms of distance does not make sense; just that it needs a more fine-grained appreciation to provide accurate results. The limitations of the dominant index and suggestions on how to improve the measures of distance are detailed later on in this paper.

(2) *The theory has unspecified boundary conditions*. The fact that it makes more sense to enter only close markets when the firm lacks international experience is not empirically verifiable. The theory did not clearly state its boundary conditions. It does not hold if the product sold is not culturally charged (e.g. USB keys can be sold virtually anywhere, whereas champagne cannot) or if the choice of the location is dictated by the presence of raw materials. This is especially true for certain industries, in which asset specificity is high and cannot be moved at will (e.g. oil).

(3) *The theory is incomplete*. In the learning perspective, distance is not enough to account for international expansion patterns: ambidexterity should be added into the picture (He & Wong, 2004). The exploration/exploitation paradigm states that a long-jump search provides more learning opportunities (March, 1991). Therefore, a distant location is a source of more learning opportunities than neighboring, similar markets.

(4) *The theory is wrong*. Should the previous approaches not provide satisfactory results, one can consider that location choice has nothing to do with learning approaches: all that matters is the location

(present or expected) of competitors and to adapt to it. A firm may choose to settle where competitors are present (neoinstitutionalism approach: mimetic behavior; DiMaggio & Powell, 1983). The presence of competitors sends a signal to the firm that this market may have potential. Therefore a firm is likely to go where its competitors are. Conversely a firm may choose to avoid competition and choose location where its competitors are absent, consistent with game theory. A confrontation of these two perspectives (neoinstitutionalism and game theory) regarding location choice should provide interesting results.

Insert Table 1 about here

Now that we have suggested why current learning approaches do not explain accurately expansion patterns, we consider at least three approaches can be taken to explain them:

1) What seems distant is actually closer than we think. This approach calls for a new operationalization of distance, which is detailed hereafter;
2) A long-jump search provides more learning opportunities than a similar market. This approach draws on the concept of ambidexterity from the literature on exploration and exploitation (He & Wong, 2004);
3) Location choice depends on where the competitors are. A neoinstitutionalist approach will predict that a firm will expand its international activities to the *same* area than its competitors, having a mimetic behavior (DiMaggio & Powell, 1983). Conversely, a game theoretic approach will predict that a firm will expand its international activities to a *different* area than its competitors.

The potential contribution of each approach will be discussed later on in the paper.

Assumptions. It is important to note that this work has on several underlying assumptions. First, some are related to decision-making considerations:

1) Following organizational theorists (Daft & Weick, 1984), we assume that organizations do not make decisions; managers do (Walker & Etzel, 1973);

2) Managers learn from experience (Cohen, J. March, & Olsen, 1972);

3) Experience is necessary to access tacit knowledge;

4) Merely gathering information is not enough: the ability to understand, process, and use them matters (O'Grady & Lane, 1996)[1].

Then, others are related to measurement considerations:

1) We consider that distance can be translated into ratio scales (as did Kogut & Singh, 1988);

2) Cultures are commensurable, i.e. they can be compared along the same traits (as did Hofstede, 1980).

DISENTANGLING THE CONCEPTS OF CULTURAL, PSYCHIC, INSTITUTIONAL, COGNITIVE, AND GEOGRAPHIC DISTANCE

Confusion in IB Literature

The very first step to be undertaken is to have a thorough understanding of what these types of distance refer to and how they potentially overlap. Many different types of distance exist throughout the literature: cultural, psychic, cognitive, institutional, and geographic. What is unclear, however, is what

[1] "Managers must not simply accumulate information, but must learn to interpret it correctly in order to generate an understanding of the market and adapt to it"

these concepts refer to. For example, Kogut & Singh (1988) and Shoham & Albaum (1995) consider that psychic distance and cultural distance are synonyms, whereas others consider that cultural distance is a determinant of psychic distance (Håkanson & Ambos, 2008). A clear definition of each distance concept needs to be provided, as it is necessary to move further to know which one(s) should be preferably used to account for internationalization patterns.

Why Distance Matters? And Which Type?

Distance matters (Verbeke, 2010). Several key issues organizations face depend on it, like the ease to establish legitimacy in the host country (Kostova & Zaheer, 1999; Xu & Shenkar, 2002). Ignoring it, underestimating it, or relying on stereotypes is likely to cause failure (O'Grady & Lane, 1996; Pedersen & Petersen, 2004; Sirota & Greenwood, 1971; Walker & Etzel, 1973). Distance is a determinant of the level of uncertainty, which in turn influences the decision to enter a market and its associated level of resource commitment (Hosseini, 2008).

Many papers have studied distance but it does not mean that it was correctly defined, operationalized or that it was applied to the internationalization of firms. After lexicographic and content analyses of all the publications in the *Journal of International Business Studies* of the last 20 years (1990-2010) to retrieve paragraphs mentioning the different types of distance, we suggest the following definitions of the various concepts of distance. The *cultural distance* refers to the extent to which the home differs from the host along cultural dimensions (Hofstede, 1980; Hofstede & Bond, 1988; Inglehart, 1997; etc.), business practices, and history-related factors (language, religion, colonial ties). The *geographic distance* is the physical distance between two points in a space. *Institutional distance* represents the extent to which normative, regulative, and cognitive aspects of an economy are different and possibly conflicting. *Psychic distance* is the distance managers and decision-makers perceive towards a geographic location; it is positively correlated to the other types of distance (cultural, cognitive, geographic, and institutional) and comprises them all as well as other differences (e.g., religion, language,

education, business practices) likely to hamper the transfer of information and knowledge. Finally, the concept of *cognitive distance* is used to describe to what extent individuals are different in what they know, what they perceive, how they interpret exterior stimuli, i.e., in their modes of thinking and reasoning.

Appreciating Distance

Distance is an important variable when it comes to market selection (Tihanyi, Griffith, & Russell, 2005). As expressed in the Uppsala model, a close market is associated with familiarity and a reduced amount of the uncertainty associated with doing business abroad. Therefore they are favored over more distant ones when firms expand internationally. Because investors need to ascertain, when considering two markets, which one is closer, the distance between the home and the targeted market needs to be measured. This is what was done by Kogut and Singh in their 1988 article. It is extensively used in the IB literature. It presents several advantages. It is a very simple and convenient index. Data are available for many countries, and the calculation one has to compute to have the score from the point of view of one country is basic. Thus using the index is very tempting: research is difficult, and sometimes one has to rely on not-so-accurate-but-convenient proxies to investigate a research question. Besides, it has been widely used, which enhances its legitimacy. Scholars are therefore highly tempted to use it, i.e. to trade validity for practicality (Mangin, 2009). Even if fully aware of its limitations, resorting to this index may be justified for researchers: because it has been extensively used in many studies, it allows comparisons between studies. Therefore it is understandable why this index is the dominant indicator.

However it appears that the K&S index has been increasingly criticized over the last decade (Shenkar, 2001). Indeed scholars need to be aware of the limitations of the dominant index. They fall into two categories: it relies on data based on Hodstede's (1980) study, widely criticized itself; it entails a good number of hidden assumptions which need to be accounted for. This will be commented later on in this paper.

1ST PROJECT: INTERNATIONALIZATION IN A LEARNING PERSPECTIVE – A NEW OPERATIONALIZATION OF DISTANCE

To address my research question - *Why do managers choose to invest in markets which seem distant to them, given that distance is associated with uncertainty?* – We consider an explanation which observes the links between a firm and a market in a learning perspective. It takes the form of a new operationalization of distance applied to the Uppsala process model, addressing the following question: *Do firms attempt to reduce psychic distance when expanding?*

Reminder of Uppsala

According to a particular interpretation of internationalization focusing on learning difficulties, rather than learning opportunities (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1972), a firm will begin its international expansion path with geographically and psychically close countries. Johanson and Vahlne (1977) observed that Swedish firms expanded gradually from the domestic market to psychically more distant countries. This incremental expansion from the home, both in terms of distance and commitment, is known as the Uppsala process model, or Scandinavian school (Engwall, 1984; Johanson & Wiedersheim-Paul, 1972; Luostarinen, 1980; Welch & Luostarinen, 1988). That is, a Spanish firm is more likely to develop its activities in France before going to the United States. Firms are expected to start with local searches, as opposed to long-jump searches (He & Wong, 2004; Levinthal, 1997; Raisch & Birkinshaw, 2008) which entail more uncertainty and means to be mobilized.

Appeal vs flaws of the internationalization process model. This reasoning is logically appealing: starting in market similar to the domestic one reduces the amount of learning and adaptation required to understand

the foreign market (i.e. if a firm is successful at home, there is no reason why it would not succeed in a similar context); besides, learning logics are crucial in understanding expansion patterns (P. Buckley & Casson, 2007); and thus the uncertainty associated with doing business abroad (Håkanson & Ambos, 2008; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1972; Kogut & Singh, 1988; O'Grady & Lane, 1996; Pedersen & Petersen, 2004; Shenkar, 2001). Close countries generally share a common culture (H. G. Barkema & Drogendijk, 2007; Hofstede, 1980), and therefore are considered easier to understand (Kogut & Singh, 1988). Familiarity with a country's culture decreases the risk to do business with it (Håkanson & Ambos, 2008)[2]: no major investments in learning, in marketing, customs, ways of doing business, etc. seem necessary, because they are similar to the culture of the domestic market (H. G. Barkema & Drogendijk, 2007; Hofstede, 1980; Johanson & Vahlne, 1977). Such strategy enables to consolidate and exploit the knowledge acquired over time (March, 1991). Due to difficulties to determine the optimal level of commitment in a country, it may be wise to start small, and then increase the commitment once the investment has proven successful (Johanson & Vahlne, 1977). As the firm gains experience in similar markets, it will gradually expand to more distant ones. This incremental process of international expansion is supposed to be safe and predictable.

However the incremental strategy is not without drawbacks and does not accurately describe international expansion patterns. According to Shenkar (Shenkar, 2001), "Support for the Scandinavian thesis has been limited (Engwall & Wallenstal, 1988; Thurnbull, 1987). Both Benito and Gripsrud (Benito & Gripsrud, 1992) and Sullivan and Bauerschmidt (Sullivan & Bauerschmidt, 1990) failed to find CD [cultural distance] to be a predictor of FDI sequence per the Johanson and Vahlne thesis".

Besides, failure can happen in countries very similar to the home country, as it has been proven to be the case for Canadian firms expanding in the United States (O'Grady & Lane, 1996); it is known as the psychic distance paradox. Neighboring markets are supposed to be easier to understand than psychically

[2] "The more different a foreign environment is as compared to that of a firm's (or an individual's) country of origin, the more difficult it will be to collect, analyze and correctly interpret information about it, and the higher are there the uncertainties and difficulties – both expected and actual – of doing business there"

distant ones (Kogut & Singh, 1988), which reduces the level of uncertainty associated with operating in a new market (Johanson & Vahlne, 1992). The firm is blinded by the fact that the market looks similar, therefore fails to invest in learning the differences between the countries and just assume they are roughly the same. Not paying attention to the details, or differences not easily observable, can lead to failure, even though markets are similar. It proves that contrary to what is generally hold, the more distance does not mean the higher the risk of failure. A close market is assumed to be culturally similar, and therefore fewer learning efforts are made to understand it than if it were a distant market, which incurs failure.

One possible reason the Uppsala model fails to describe accurately patterns of international expansion may be that the concept of psychic distance needs to be more explicit and operationalized in a new light, not as a synonym of cultural distance. A first step is to stop using the Kogut & Singh (1988) index since it relies on Hofstede's data (in themselves problematic) and relies on incorrect assumptions.

Limitations of the Dominant Index

The index is currently the dominant indicator, more than Hofstede's dimensions themselves, even though it suffers from several limitations. The Kogut & Singh (1988) index is calculated with scores attributed by Hofstede (1980) in his large-scale study of cultural differences, which has been widely criticized. Therefore it comes as no surprise that an index computed with Hofstede's data suffers several limitations.

4 dimensions out of 5. The index is only based on four dimensions (masculinity/feminity, power distance, uncertainty avoidance, individualism/collectivism), whereas a fifth was added (long term orientation, also called Confucian dynamism, (Hofstede & Bond, 1988)). Most studies over the last 20 years of publications in JIBS do not update the K&S index with this fifth dimension.

Single-company as a proxy for national culture, considered static. Besides, Hofstede's study has been criticized because it relies on single-company data (Schwartz & Bilsky, 1990) as a proxy for national culture; and is considered essentially static whereas interactions with other cultures and economic development make it evolve (Inglehart & Baker, 2000).

Dated data. Indeed, data were collected in 1968 and 1972 but remain the basis of the calculation of the K&S index for articles in the 2000s, even though more recent data are available thanks to the GLOBE project (House et al., 2004).

A weak explanatory power. Hofstede's study was not meant to calculate distances but simply to account for cultural differences. Should we consider explanations in terms of distance (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1972), we realize that their explanatory power is weak (Xu & Shenkar, 2002), especially for the studies relying upon the Kogut & Singh index (Kogut & Singh, 1988).

The role of Hofstede's values in Dow (2000) and the need for other cultural dimensions. Though this model dominates IB literature, it is doubtful that it is adequate: a study by Dow (Dow, 2000) revealed that Hofstede's values did not make any statistically significant contribution to predict market selection; psychic and geographic distances were much stronger predictors. A solution would be to include cultural dimensions from other scholars (Sethi, Trompenaars & Hampden-Turner, Triandis, for example).

The K&S index has several hidden assumptions one should be aware of. They are detailed in this section and alternatives are suggested on occasion.

Same coefficient for all the dimensions. All dimensions have the same weight, which is an assumption which can be rejected as some dimensions may matter to a greater extent than others when it comes to internationalization (Yan & Zeng, 1999). They showed that uncertainty avoidance and long-term orientation have a negative impact on IJV survival, whereas the other dimensions (power distance,

individualism, and masculinity) have no influence. The K&S index does not allow such a fine-grained analysis since 1) it includes 4 out of the 5 dimensions, and 2) all the dimensions are blended in a single score, thereby assuming they each matter equally.

Aggregated score. An index is convenient but may not be the most appropriate tool to measure distances. Distance is a multidimensional construct, which can be either aggregated in an index or taken separately (Edwards, 2001). Which one is the best, the parsimonious index or the analytic disaggregation, remains an empirical question and should be dealt with in a subsequent study.

Distances are supposed symmetrical – but they may not be (Hakanson & Ambos, 2008). The K&S index attributes a score of distance between two countries, that is it is the same between country A and country B and between country B and country A. However, perceived distance towards a society depends on its exposure in the media, its reputation, and the experiences (professional and personal alike) of the manager(s) there. Therefore, if country A is more present in the news and in fiction material for instance, and country B virtually absent of the international stage, it follows that inhabitants of country B will perceive country A as closer to them than the other way around. Thus the distance to A from the point of view of B is lower than the other way around. Therefore one should not consider that distances are symmetrical (Håkanson & Ambos, 2008).

National cultures are supposed uniform; a country is not a homogenous market. Previous researches had a coarse vision of markets: in most of them, a country is one homogeneous market while we can consider that a country is heterogeneous, made up of several distinct markets. The BRIC countries (Brazil, Russia, India, China) but also the United States for instance are so vast they encompass in themselves several markets: we observe differences in economic development, legislation regarding exports and the settlement of foreign firms, dominant religions, etc. All these issues are of particular relevance when it comes to IB. Therefore we suggest modifying the level of analysis: studies relying on the K&S index

calculate distances between two countries; it would be more appropriate to consider the distance a manager perceives towards a market.

Distances are supposed static whereas they can be viewed dynamically (Shenkar, 2001). Hofstede collected data in 1968 and 1972, but over the last four decades cultures have been increasingly interacting thereby influencing one another (Webber, 1969; Nisbett, 2003). For instance, young Indians studying in North America learn the expressions, habits and ways of behaving of local students, thereby reducing the distance they feel towards this other cultural area. This does not mean that the local students' distance towards India is reduced (at least not to a similar extent) – as we mentioned, distances are not necessarily symmetrical – but can to some extent contribute to prove wrong a few stereotypes.

Besides, the impact of economic development on cultural changes should not be discarded. As Inglehart and Baker (2000) wrote, thanks to the economic development a society shifts from an agricultural state to an industrial one, which changes its dominant values. It thus becomes closer to other industrial societies than it used to. Therefore distances need to be reassessed periodically (Finkelstein, 1992; Huber & Power, 1985).

The relationship between distance and performance is not linear. IB literature mostly assumes that the more distant the market, the riskiest it is to do business there. If chances of success are supposed higher in psychically close countries, consistent with the Uppsala model (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1972), the relation between psychic distance and performance is not clear cut (Evans & Mavondo, 2002). Psychic distance increases diverse costs associated with internationalization, i.e. information-seeking, training, adaptation (Meyer, 2001), and coordination (Saudagaran & Biddle, 1995). These costs are likely to reduce the performance of the firm abroad. It is also more difficult to build new relationships with customers and partners in psychically distant areas (Johanson & Vahlne, 2009). This can be to such an extent that information asymmetry (Gomez-mejia & Palich, 1997) as well as

opportunism behaviors (Verbeke & Greidanus, 2009) arise, thus decreasing the likelihood of success. Therefore psychic distance should be negatively associated with performance.

However an alternative approach can be taken. One can consider that a distant culture is not always a liability, and may very well be a source of complementarity (Shenkar, 2001) – for instance, an MNE can choose to locate some functions in a society rating high in masculinity and others in a more "feminine" society. Besides, a distant culture can be viewed as a learning opportunity (March, 1991), bound to provide knowledge other firms do not dare invest to get due to a reputed higher uncertainty level in distant markets, thereby providing said firm a competitive advantage (first-mover advantage, new knowledge which can be acquired in other domains, etc.) over its competitors.

Besides one has to be aware of the fact that a similar culture does not guarantee success (Fenwick, Edwards & Buckley, 2003). There is such a thing as the psychic distance paradox (O'Grady & Lane, 1996). A close market may seem so similar to decision-makers that the amount of learning it requires will be forgone. Only 22 percent of the Canadian firms they investigated were successful in the United States, and these were the ones which knew that there were significant differences between the two countries to be accounted for, even though they are considered culturally very close by many studies (Hofstede, 1980; Rokeach, 1973; Lipset, 1963, 1989; Ronen and Shenkar, 1985; cited in O'Grady & Lane, 1996).

This shows that the relationship between success and distance is not linear. A study by (Pedersen & Petersen, 2004) seems to suggest that it may be J-shaped. They showed that managers can experience a low level of familiarity after a significant amount of time spent in the foreign market: at first they learn fast about the differences, but the more they learn the more they realize what is yet to be understood and known about and therefore report a low level of familiarity years after their arrival. With the help of locals, curiosity and time, their level of familiarity should increase.

To sum up, the model proposed by the Scandinavian school (Engwall, 1984; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1972; Welch & Luostarinen, 1988), a process characterized by an

incremental commitment and distance relative to the home market, fail to account accurately of the patterns of international expansion. As the example of the international development of Zara showed, the Uppsala process model does not describe, and thus cannot predict, all internationalization patterns.

Propositions - The Role of Managers and Information-Processing Skills

One of the purposes of this study is to address the question: is the fact that the internationalization process model does not explain accurately expansion patterns related to the limitations of previous academic studies or to new forms of internationalization? In this paper we assume that it is due to the indicator, and more generally the approach taken by scholars on internationalization, who neglected the role of decision makers. Even though this idea is evoked in Johanson & Wiedersheim-Paul (1972)[3], to the best of our knowledge it was never studied by IB researchers.

Managers have limited information processing skills, both about distance and chances of success. Yet they have to make decisions beyond their level of competence in a complex and uncertain environment (Hosseini, 2008). What they decide to do will depend on what information they look at, select, and how they process it. Their attention will be guided towards what looks familiar and/or what is consistent with their assumptions. This depends on their experience and their level of exposure vis-à-vis a market: whether it is much talked about in the media, time spent there, personal interest for the region, etc.

Hence:

P1: The experience of the manager relative to a market influences his level of familiarity to this market, and therefore the distance he perceives to this market

[3] "The founder of Sandvik, G. F. Göransson, had earlier been general manager in a trading firm, with extensive connection abroad" and "Two of the firms – Sandvik and Volvo – had export in mind when they were established. It is interesting to note that the founders of both these firms – Göransson and Galbrielsson – had long experience of selling abroad"

P2: The level of exposure of the manager relative to a market influences his level of familiarity to this market, and therefore the distance he perceives to this market

Managers are risk averse. They will try to minimize the risks associated with a new venture in order to increase its likelihood to succeed. The level of uncertainty associated with a market depends on the distance managers perceive towards it. This distance is affected by the managers' experience (Harzing, 2003). Perceived distance and objective distance are poorly correlated (Barkema, Bell, & Pennings, 1996). Hence:

P3: Managers will favor locations towards which they perceive a small distance, that is closest to their former experiences

A new operationalization of distance is necessary for two reasons. First, as previously mentioned, the notion of distance is poorly defined in the literature, as various types of distance (cultural, psychic, institutional, cognitive, geographic) are often mixed up. Second, the dominant operationalization of cultural distance (Kogut & Singh, 1988 based on Hofstede, 1980) suffers many limitations. Therefore a new indicator of distance is required.

To address this, we suggest focusing on *psychic* distance instead of *cultural* distance. It is to be appreciated from the point of view of the decision makers, not an aggregated score between two countries. Scholars like Dow (2000) suggested the use of Likert scales and self-reported data in assessing distance towards another market. It is definitely an improvement from the K&S index; a look at perceptual measures of distance should provide very interesting and surprising results. However we consider it should be completed with objective data in order to be able to estimate distances without mobilizing decision makers. we suggest one should have a look at both their personal and professional background. At the personal level, the origin of his/her spouse and friends and his/her vacation location can be strong

indicators of which areas s/he feels closer to. In the same manner, his/her educational background is important: which languages s/he speaks and where s/he studied outside his/her country of origin determine his/her being attracted to certain locations. The professional background also matters: whether s/he is/has been an expatriate, or developed a business expertise via frequent business trips may also indicate a preference for a location over others. Finally, the level of exposure of an area may impact location choices: should a location be present in fictional material (films, TV shows) and in the press, people will perceive a greater familiarity with this location, which may in turn be considered more favorably than other potential markets.

2ND PROJECT: INTERNATIONALIZATION AS A LEARNING PROCESS – EXPLORATION, EXPLOITATION, AND AMBIDEXTERITY

The second project aims at addressing points 2 (the theory has unspecified boundary conditions) and 3 (the theory is incomplete). It is intended to apply to the new operationalization of distance the notion of ambidexterity (He & Wong, 2004; Raisch & Birkinshaw, 2008), in a portfolio perspective. Do firms try to equilibrate (i.e., balance between local searches and long-jump searches investments) their international portfolio when expanding?

One can consider that the learning theory has unspecified boundary conditions, and/or that the theory is incomplete. Therefore, a second project would be related to ambidexterity with the new operationalization of distance. Long-jump searches provide learning opportunities (March, 1991), to a greater extent than a similar market can. Markets with high distance should not be seen only as threats or a guarantee of failure, but also as an opportunity to learn competitors may not dare try. Hence:

Proposition 1: Managers will favor locations significantly different from where the firm already is present to enhance learning opportunities.

The number of potential consumers and the number of competitors in the considered market are likely to act as moderating effects. The literature on exploration and exploitation assumes that the advantages of the former compensate the drawbacks of the latter (and vice-versa) (He & Wong, 2004; Raisch & Birkinshaw, 2008). In a portfolio perspective, the firms try to balance their international portfolio when internationalizing in different locations at different points in time. Hence:

Proposition 2: Chosen locations alternate local searches and long-jump searches.

The theory can be considered not complete. The learning perspective on internationalization assumes that ventures requiring the most learning are the riskiest. It is rational to attempt to reduce risks and uncertainty, and therefore to select locations which do not require a considerable amount of learning, i.e. ones similar to the domestic market. However, this has been disproved by the psychic distance paradox (O'Grady & Lane, 1996): as previously seen, a close market may seem so similar to decision-makers that the amount of learning it requires will be forgone.

Besides, the literature on exploration and exploitation (March, 1991; for an application in internationalization, see Barkema & Drogendijk, 2007) states that exploration (i.e., investment requiring a significant amount of learning and characterized by a higher uncertainty than exploitation) is not to be seen solely as a threat, but should be considered as an opportunity to learn and secure long-term performance.

3RD PROJECT: ADDING COMPETITORS INTO THE EQUATION – CONTRIBUTIONS FROM NEOINSTITUTIONALISM AND GAME THEORY

The theory can be seen as wrong: learning is irrelevant. The weak explanatory power of the learning school in internationalization may be due to the fact that when it comes to questions of international expansion, learning-related explanations are not sufficient. If learning is irrelevant to internationalization decisions, or has a weak impact, alternative and possibly complementary explanations must be provided. we suggest one on the sociological side, using institutional logics (*Do mimetic behaviors explain the patterns of expansion?*) and another on the economic side, using game theory (*Do cooperative and noncooperative responses to competitors' moves explain the patterns of expansion?*).

GAPS AND CONTRIBUTIONS

This study attempts to address a theoretical gap. It will provide a better knowledge of mechanisms explaining internationalization via four alternative and possibly complementary possibilities: two learning-related explanations (the Uppsala model and ambidexterity, with a new operationalization of cultural distance), one sociological explanation (neoinstitutionalism), and one economic explanation (game theory).

This study also aims at addressing the following empirical gap. Research on internationalization in a learning perspective makes logical sense, but empirical observations remain inconclusive (Shenkar, 2001). One reason may be that cultural distance is not adequately operationalized (e.g., Kogut & Singh, 1988). Current studies consider the national level (Hofstede, 1980; Kogut & Singh, 1988), not the international experience of the management involved in the decision process. A new operationalization of cultural

distance should provide better results. Other reasons include the incompleteness or the inappropriateness of this learning perspective.

We hope to contribute to the international business literature in two ways: first, validating and completing the learning perspective of internationalization; second, bringing evidence that the operationalization of distance needs to be modified in order to be useful. The new indicator could prove useful to account for relocations, rate of failure of IJVs and alliances, and literature on conflict.

APPENDIX

	Why current learning approach does not work	Suggesting new/different approaches
1	The operationalization of distance is not appropriate	What seems distant is actually closer than we think --> new operationalization of distance
2	The theory has unspecified boundary conditions	Concept of ambidexterity, from the literature on exploration and exploitation
3	The theory is incomplete	
4	The theory is wrong	Learning is irrelevant --> role of competitors (neoinstitutionalism and game theory)

Table 1

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