

## The Use of Qualitative Methods in the Research on the Impact of Psychic Distance on Companies' Internationalization: Company X Case

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**Abstract:** The main objective of the article is to present the use of qualitative methods in research on the impact of psychic distance in the process of companies' internationalization. The article presents both theoretical and methodological problems connected with this phenomenon. There are presented sequential internationalization theories and remarks considering the operationalization of psychic distance in the article. The main consideration was dedicated to the description of qualitative methods, which are compared to quantitative methods. The author focused on ethnographic research, which is a very precious source of information of respondent's opinions about psychic distance stimuli. In the last part the article case study of company X is described. The case study presents the manager's perceptions of psychic distance among Poland and the foreign expansion markets of company X. It has been found that psychic distance exists and has impact on different decisions connected with internationalization.

**Key words:** psychic distance; internationalization process; qualitative methods; ethnographic research

**JEL codes:** M16, F23

### 1. Introduction

During recent years companies tend to internationalize their activity. Decision-making in regard to international market entry and expansion is now a crucial aspect of contemporary business policy.

Among the different constructs that have been studied in the international business literature, considerable attention has been given to decision makers' psychic distance. Psychic distance has been used as a key variable to explain the decision to export, market selection decisions—for both exporting and foreign direct investment, entry mode choices—concerning both the degree of control and the use of acquisitions versus green-field entries or the degree of adaptation in foreign markets.

The main presumption of undertaking the research on the role of Psychic Distance in Polish companies' internationalization is the fact, that theoretical and methodological aspects of this phenomenon are still the subject of discussion in international literature. There is no agreement among researchers about the dependencies between the Psychic Distance value and the different measures of companies' internationalization (directions of foreign expansion, types of entry modes, value of sales or value of capital investment). There is also a lack of adequacy of using the certain research methods and techniques in research on psychic distance. There is still the discussion in

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the literature about the measurement of Psychic Distance as well as conceptualization, operationalization and dimensions of this phenomenon. Although many researches on the role of decision maker's psychic distance in the process of companies' internationalization has been conducted, there are not many examples of the use of qualitative methods (especially ethnographic research) in this area of interest. The article will fulfil the methodological gap in this field.

The empirical examination of the importance of qualitative methods in measuring of psychic distance in the process of companies internationalization is the case of the company X. It presents the respondents' subjective opinions about the impact of different psychic distance stimuli on decisions connected with internationalization.

In order to solve this research problem, the following questions had to be answered: What is the impact of different psychic distance stimuli (differences in national cultures, differences in religions and languages, differences in economic, political and educational systems, differences in mentality) on the process of companies' internationalization? What is the impact of psychic distance on the following decisions connected with internationalization: the choice of directions of foreign expansion of the company, the choice of market entry strategies, the amount of countries subject to foreign expansion of the company, the pace of internationalization of the company, the value of sales of the company on foreign markets, the value capital engagement on foreign markets?

The first, theoretical part of the article starts with the characteristics of the process of companies' internationalization, followed by the description of the main theories describing internationalization (with special consideration given to sequential theories). It is also dedicated to the defining of psychic distance concept. The second, methodological part of the article focuses on the explanations of the use of qualitative methods in the process of companies' internationalization. The paper ends with a discussion of the results of empirical study, as well as their managerial implications followed by conclusions.

## **2. Theoretical Framework**

### **2.1 The Process of Companies Internationalization—Characteristics**

The process of companies' internationalization is a very complex and multidimensional phenomenon. Despite, the research on the companies' internationalization conducted for more than 50 years, there are still many research problems which should be solved.

In a broad sense, the notion of corporate internationalisation comprises a whole range of foreign operations, ranging from simple trade transactions to highly advanced forms of a company's participation in production activities. This is reflected by an increasing share of foreign operations in companies' overall business activities, a growing number of countries where companies expand to and the shift from relatively simple forms of internationalisation to the more complex ones (Cieřlik, 1987). Internationalisation may also be defined as a process of international business development in which a company becomes increasingly involved in international activities. In the literature, attention is drawn to three possible interpretations of this phenomenon—a dynamic one (as a process), a static one (companies' activities abroad are specified by means of various indicators and profiles, which should determine a company's degree of internationalisation) and a behavioural one (corporate internationalisation is perceived through the behaviour of a company' management) (Rymarczyk, 1996). Some authors divide the approaches to internationalisation into a positive (descriptive) approach and a normative one. In the positive approach, an internationalisation strategy means some regularities, a pattern of a company's behaviour

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in its business relations abroad. In the normative approach, internationalisation is a plan (a program) of a company's actions in relation to its foreign environment. Depending on the form of a company's foreign expansion or its relations with a foreign market, there are two types of internationalisation: active and passive. Active internationalisation is a company's foreign expansion in a number of possible ways, while passive internationalisation means entering all kinds of business relations with foreign partners, without starting the company's own business activities outside its country of residence (Gorynia, 2007).

A widely debated issue is a problem of motives behind corporate internationalization. They can be divided, for instance, into market, cost, sourcing and political ones. Other divisions of motives for internationalization are: a division into proactive and reactive motives, a division into offensive and defensive motives or into market, economic and strategic factors (Rymarczyk, 1996; Albaum, Strandskovv & Duerr, 2002; Shenkar & Luo, 2005).

The focus on the internationalization process has led to various presentations of the problem, proposed by a number of researchers who have constructed a variety of concepts, models and theories. Until the 1960s the economic literature on internationalisation had been dominated by the deliberations about relationships between national economies, i.e., the macroeconomic approach. During the last half century, when enterprises intensified their expansion in form of exports, became more directly involved in foreign markets and penetrated these markets in an increasing number of ways, many new theories appeared (Witek-Hajduk, 2010).

There are many theories and models of companies' internationalization. Their classification is presented in the Table 1.

**Table 1 Internationalization Theories and Models**

Group of theories		Theories	Representatives
The theories of international trade		Nanotechnologies theories (technological gap, The International Product Life-Cycle Theory	M. Posner (1961), R. Vernon (1966, 1971), S. Hirsch (1975), R. R. Shons (1976)
The theories of foreign direct investment	Monopoly nurt	The monopoly nurt	
	Effectiveness nurt	The internationalization theory	P. Buckley, M. Casson (1976; 1985) P. Buckley (1982, 1988)
		Transaction costs theory	O. E. Williamson (1985)
	Eclectic theory	The Eclectic Paradign	J. H. Dunning (1980 and later modifications)
Sequential theories of internationalization		The Uppsala Model of Internationalization	J. Johanson, F. Wiedersheim P. (1975) J. Johanson, J. E. Vahlne (1977)
		Innovative models of internationalization	W. J. Bilkey, G. Tesar (1977), S. T. Cavusgil (1980), S. D. Reid (1981), L. H. Wortzel, H. V. Wortzel (1981), M. R. Czinkota (1982), J. S. Lim, T. W. Sharkey, K. I. Kim (1991). R. Reid, T. R. Rao, G. M. Naldu (1992)
		"Finish models"	R. Luostarinen (1985), J. Larimo (1985), R. Luostarinen, H. Hellman (1993)
Network theories		Network Theory of Internationalization	J. Johanson, L. G. Matson (1988) H. Håkanson, J. Johanson
The theories of early internationalization		The International new ventures (Born Globals), Enter	P. P. McDougall, B. M. Oviatt (1994)
The alternatives models of internationalization		The strategic approach	S. Young (1989)
		The decision making process model	F. Root (1994), V. Kumar, V. Subramaniam (1997), Y. Pan, D. Tse (1999), T. Eicher, J. Kang (2002)
		The model of organizational possibilities	P. Aulakh, M. Kotabe (1997) A. Madhock (1998)

Sources: Own elaboration on the base of Buckley, Ghauri (1993), Witek Hajduk (2010).

The author is particularly interested in sequential internationalization theories, which describe the role of Psychic Distance in the process of companies internationalization.

For the author's research purposes, the most relevant theory is the sequential model (the Uppsala model), based on the concept of empirical knowledge. The Uppsala model was proposed by Johanson and Wiedersheim-Paul (1975), and Johanson and Vahlne (1977). It assumes that a company's behaviour in the process of internationalisation is determined by the practical knowledge it possesses. The most important thesis of the Uppsala model is a statement that the process of internationalisation is sequential, phase-based, step-by-step, evolutionary or gradual. Therefore, it is assumed that a company enters foreign markets gradually, as its knowledge about these markets improves, during a specified period of time. According to the Uppsala model, a company first develops its activities on a local market and then, gradually, enters foreign markets (the Uppsala model is believed to follow the behavioural theory of the firm) (Ghauri, 2000). The choice of foreign markets is determined by the phenomenon called "Psychic Distance". It is not, by assumption, connected with geographic distance but with difficulties faced when entering a foreign market, such as, for example, cultural and political differences, etc. When entering foreign markets, companies most frequently begin by carrying out export activities and only after some time they decide to take steps which require more commitment. A company's internationalisation is understood as a certain process evolving in time.

The Uppsala model distinguishes four stages of internationalisation:

- irregular export activity—occasional exports,
- export via independent representatives (agents),
- establishment of an overseas sales subsidiary,
- establishment of foreign manufacturing subsidiaries (Gorynia, Jankowska, 2007).

Every stage of internationalisation requires different resources and different knowledge of the expansion markets. Two types of knowledge are needed in order to expand: general knowledge, which may be transferred from one country to another and may be one of the reasons for geographical diversification, and market-specific knowledge, which may be acquired only by gaining experience on the given market.

The sequence of stages was described by the authors of the Uppsala model as so-called *establishment chain*, although they were aware that not all companies would go through all the stages in the suggested sequence. The process of internationalisation may run differently when companies possess enormous resources and the consequences of any possible failure would be negligible for them, when conditions on a given market are very stable and knowledge about this market may be acquired in a different way, instead of experience, when a company also has considerable experience in operating on a market which is very similar to the one they target, and in case of a small market a company may decide to bypass the stage of establishing their own manufacturing subsidiary in this market.

The original model of internationalisation, proposed by Johnson and Wiedersheim-Paul, was then further developed and, as a result, was given a dynamic character. In order to explain the incremental character of the process of internationalisation, Johanson and Vahlne formulated a dynamic model, in which an effect of one cycle of internationalisation activities makes a starting point for another cycle. In the basic mechanism of internationalisation, two aspects of internationalisation variables are distinguished: aspects of state (static ones) and aspects of change (dynamic ones). The aspects of state are a commitment on a given market (committed resources on a given foreign market) and knowledge of the foreign market and operations. The aspects of change are decisions about a commitment of resources and conducting day-to-day activities.

The Uppsala model inspired many other developments and continuations. A feature demonstrated by the concepts which refer to the sequential character of foreign expansion is the fact that they propose different stages of internationalisation. For example, Cavusgil (1980) distinguished three stages of internationalisation: experimental involvement, when a company's efforts are mainly limited to exports and its activities in foreign markets are marginal only; active involvement, when management pays more and more attention to a company's activities and spare production capacity is used for processing export orders; committed involvement, when a company starts to look for opportunities to do business everywhere, not only in the selected markets.

An important contribution to the work on the selection of foreign market entry modes was a transaction cost analysis model, designed by Anderson and Gatignon (1985). The model assumes that a company which needs to decide on how to expand into a foreign market should be guided by long-term efficiency that can be measured by means of a long-term return on investment, taking into consideration a risk related to the market entry decision, and the basic determinant of efficiency is the degree to which the company controls this undertaking. One of the hypotheses formulated by Anderson and Gatignon says that in case of a big Psychic Distance between a home country and a host country, low-control forms of entry are more effective than medium-control ones, high-control forms of entry are more effective than medium-control ones, but high-control forms of entry are more effective only when the given form of expansion brings important advantages.

Another concept of a sequential model was proposed by Bilkley and Tesar (1977). The internationalisation stages differentiated in this concept are based on the combinations of a few criteria: the length of export experience, the size of exports as a percentage of total sales, the number and type of countries—target markets. Under this concept, the internationalisation process consists of the following stages:

- a company's management is not interested in exports at all,
- a company processes unsolicited orders but does not do anything to use sales opportunities offered by a foreign market,
- a company takes advantage of sales opportunities abroad,
- a company experiments with regular exports to countries which are within a close Psychic Distance,
- a company is already an experienced exporter in countries which are within a close Psychic Distance and is able to adapt an optimal volume of exports to changing exchange rates, customs tariffs etc.,
- a company's management takes advantage of sales opportunities in countries which are more remote in terms of Psychic Distance.

Innovative-diffusive models party refer to the conventional concept of internationalisation. The similarity concerns, first of all, a certain sequence of stages in activities carried out by a company which enters foreign markets. A few variants of innovative-diffusive models have been created, including the one proposed by Lekvall and Wahlbin (1973).

A significant contribution into the development of the theory of step-by-step internationalization of companies was brought in by the Finnish researchers. From the point of view of the role played by Psychic Distance in the companies' internationalization process attention should be drawn to the studies conducted by Welch and Loustarinen (1993), who claim that the internationalisation process should be analysed throughout a number of dimensions:

- the subject of internationalisation, which may be tangible goods, services, know-how, systems,
- forms of participation in foreign markets,
- markets, taking into account psychic and physical distances between markets,

- a company's organisational structure,
- availability of financial resources for financing a company's international expansion,
- personnel, including their international experience, skills and training.

The conventional internationalisation models were met with strong criticism. This formed the basis for the construction of the unconventional internationalisation concept. The point was, first of all, to challenge the step-by-step and cumulative character of internationalisation. Non-conventional internationalisation means that a company does not necessarily direct its expansion towards the markets which are the closest, in terms of Psychic Distance, and that the internationalisation process does not go through a sequence of steps proposed in the Uppsala model. Hedlund and Kverneland (1984) were the first ones to highlight the fact that companies which internationalise their activities tend to take quick actions, which are incompatible with the thesis about the incremental character of internationalisation. In their opinion, decisions to initiate unconventional internationalisation are stimulated by: stabilisation of market conditions, clear trend towards market growth, a company's experience gained on the domestic market, as well as the knowledge acquired when internationalising activities in other markets. A more general opinion states that companies which expand internationally, in particular big transnational corporations often bypass some stages included in the Uppsala model. At the same time, they are inclined to penetrate distant (in terms of Psychic Distance) markets at earlier and earlier stages of internationalisation. The *born global* concept is another attempt to challenge the philosophy behind the sequential model (Luostarinen & Gabrielsson, 2002). According to the authors of the concept, internationalisation, or even globalisation, does not occur step-by-step, and some companies are already global at the moment they are founded. The *born global* companies start their business by exploring international markets. These companies demonstrate the following features:

- they start international operations before, or simultaneously with, domestic operations,
- from the very beginning, their visions and strategic missions are mainly based on global markets and customers,
- they plan their products, structures and systems, as well as finance, globally,
- they grow extraordinarily rapidly on global markets,
- in their visions, they plan to become market leaders,
- they use different product, operational and market strategies than traditional companies,
- They use other global marketing strategies.

In the literature we can also come across the notion of simultaneous internationalisation. In this model, attention is drawn to the global convergence of markets, the disappearance of national differences, the californisation of customer needs at a global scale, the facilitation of travel and communication. These circumstances should contribute to simultaneous expansion into a number of markets and bypassing of some stages included in the sequential model (Bridgewater, 2000).

The basic characteristic of the network approach is the perception of a company as part of a wider system consisting of many actors who affect one another. In this approach, relationships between a company and various entities in its surroundings are vital. It is assumed that the network of a company's connections is a key factor in its development and contributes to the fulfilment of its long-term objectives (Johanson, Mattsson, 2003). An important aspect in the network approach is the role of formal and informal contacts in the process of a company's internationalisation. The formality of such contacts varies on a country-by-country basis, which indicates their cultural context (Håkanson, Johanson, 1992; Fonfara, 2009).

As a result of the literature study it is accepted that the process of companies' internationalization has a sequential character and it is connected with the gradual changes of the engagement of the company abroad. The process of internationalization could consist of different amount of stages and it could include many possible paths of internationalization. It means, that in case of some companies we can observe the avoiding or reducing the individual paths of internationalization.

The special consideration of the Author is the process of internationalization of small and medium sized companies. The development of small and medium-sized companies can be viewed upon in terms of various market indicators, including the size of a market they serve, its scope, growth dynamics, profits and revenues, as well as geographical areas in which they operate, i.e., their marketplaces. Market expansion as a strategic development goal of small and medium-sized companies is a specific strategic option as even if special arrangements are made, in-depth preliminary research is conducted and marketing programs are implemented, a company entering a new foreign market faces numerous limitations and barriers, which also means new decision-making challenges and problems.

Operating on new geographical markets involves a number of difficulties, which may result in such phenomena as:

- longer distances to travel for people and products,
- meeting new people, getting to know their personalities, customs and behaviours,
- adjusting business activities to the characteristics of the international environment (both the macro-environment and the micro-environment),
- learning new principles, techniques and means of social communication,
- changing one's existing personal habits,
- establishing relations with business partners of different cultural backgrounds.

A decision-making process, in case of companies' involvement abroad, tends to be a complex and multi-step procedure, based on the analysis and evaluation of a variety of rational factors (including legal, financial, organisational and technical ones) and emotional factors which, in particular in case of small and medium-sized enterprises, often determine the final decisions taken. In every case, appropriate decisions are made by individuals—owners or managerial staff of companies which want to internationalize their operations. In many cases, small and medium-sized companies see the cooperation with foreign partners as a challenge, even if it comes in the simplest form and in the short run. Very often it is caused by psychic distance between the country of decision maker and foreign expansion markets of the company.

For empirical research the sequential model (the Uppsala model), based on the concept of empirical knowledge will be used.

## **2.2 Psychic Distance-concept and Operationalization**

In the insights into the reasons for various degrees of companies' foreign orientation references are often made to a manager's "psychic distance" to operating abroad. It reflects the manager's subjective impressions and emotions towards a foreign country. It also has an ultimate impact on whether a company opens up and decides to start its operations abroad or chooses to limit its market connections.

The Cultural Distance concept refers to the cultural level and not the individual level, as Psychic Distance does. The Cultural Distance concept is defined as the degree to which cultural values in one country are different from those in another country. Instead of assessing the individual's perceptions of differences, the Cultural Distance concept uses cultural values to assess the distance among countries and not individuals. Consequently,

the Cultural Distance concept should be applied at the country level, not the individual level.

Despite the argument that Psychic Distance and Cultural Distance are conceptually different from each other and that they should be assessed at a different level of analysis, a strong relationship between the two concepts is expected to exist. The greater the Cultural Distance of the foreign country from the home country, the less knowledge about the new environment is likely to be available. This means that it will be more difficult to understand and learn about the foreign country. This is further supported by Eriksson, Majkgard, and Sharma (2000), who point out that a large Cultural Distance between the home and the foreign country makes the task of identifying and interpreting incoming signals more difficult. On the other hand, individuals' personal values are expected to influence their assessment of Psychic Distance toward a foreign country.

The concept of psychic distance has attracted considerable research attention. It intrigues by being a relatively simple, yet outstanding discriminator—useful for various purposes.

It is based on the assumption that managers are less likely to initiate and/or pursue business relations with countries perceived to be dissimilar. Conversely, the lower the perceived psychic distance toward a market the more likely it is that business activities with this will be extended. Those, firms are advised to initiate cooperation with closed markets in terms of psychic distance (Bilkey & Tesar, 1977). This would also keep their learning needs down and accelerate their pace of globalization (Keegan, 1989). From a managerial perspective, the concept of psychic distance appears to offer a variety of applications. It could be use as discriminator between managers with high versus low psychic distance, thus allowing for a more effective targeting of recipients when allocating export activities. Psychic distance also guides the country selection decisions during the internationalization process (namely by addressing psychically close countries).

The attempts to operationalize psychic distance and test its relevance empirically remain remarkably limited. This applies both the number of empirical studies on psychic distance as well as to the sophistication of the measurement instruments which have been developed (Reid, 1986; Shohan & Albaum, 1995).

Concerns about the operationalization of psychic distance have resulted in many calls further work and concept. Stottinger and Schlegelmilch (1998, p. 368) state that “should it be possible to improve the measurement of the concept, it could be an important predictor of export behavior”. Evans, Treadgold and Mavondo (2000, p. 165.) endorse this conclusion. Despite their support for the Psychic Distance concept, Petersen and Pedersen (1996, p. 132) conclude that “twenty years after the emergence of the Uppsala internationalization model, many empirical studies and a lot of theoretical development still remain to be done”. O’Grady and Lane’s (1996, p. 311) discovery of a Psychic Distance paradox leads them to suggest that “the Psychic Distance” concept is more complex than is generally recognized in the literature and should be explored more fully.

To enhance the understanding of Psychic Distance, it is necessary to analyze in details the terms that constitute the concept “psychic” and “distance” (Evans, Treadgold, & Mavondo, 2000). “Psychic”, a word derived from the Greek word *psychikos*, which means the mind or soul (Simpson & Weiner 1989) refers to something in the mind of each individual. The distance exists in an individual’s mind and depends on how he or she perceives the world. Thus, it is the individual perception of the differences between the home country and the foreign country that shapes the Psychic Distance concept (Sousa & Bradley, 2005). Therefore, Psychic Distance cannot be measured with factual indicators, such as publicly available statistics on economic development, level of education, language, and so forth, as Vahlne and Wiedersheim Paul (1973) and Loustarinen (1980) do. For example, Vahlne and Wiedersheim Paul (1973), cited in Nordstrom and Vahlne (1992), used primarily factual indicators to measure psychic distance. These include: level of economic development, education, differences in



language, and the existing trading channels. Similarly in this study are Finish firms' international operations. Loustarinen (1980) measured psychic distance through economic development, language and level of education. Klein and Roth (1990) also focused on factual indicators when attempting to capture the construct with a 7-point rating scale, ranging from "very similar" to "very different". Five aspects were rated, namely: language of the country, accepted business practices, economic environment, legal system, and communication infrastructure.

To measure Psychic Distance, attention should be paid to the level of analysis at which the concept is assessed. Measurement of Psychic Distance at the national level may hide important variations (O'Grady & Lane, 1996). Thus, the problems in the literature appear to be that current indexes measure Psychic Distance at a very high level of analysis. The individual's perception is an interpretation of reality and therefore is highly subjective. This means that Psychic Distance cannot be considered as a construct that influences each person in a firm in the same way. Accordingly, the Psychic Distance concept should be applied at the individual level.<sup>1</sup>

Although researchers agree that a more meaningful understanding of Psychic Distance than "perceived differences" between countries is needed, they continue to rely on the "differences approach".

Another group of researchers stressed the cultural dimension of psychic distance when operationalising the construct (Benito & Gripsud, 1992; Kogut & Singh, 1988; Ronen & Shenkar, 1985). O'Grady and Lane (1996) on the other hand employed a number of well-established psychographic instruments to reflect differences in attitude/value orientation: the Jackson's personality research form (PRF) and personality index (IPI, Jackson, 1976; 1984), Lodahl and Klejner's job involvement scale (Cook at al., 1981), and Hofstede scales (Hofstede, 1980), as well as Blood's protestant work ethics scale (Cook et al., 1981).

On the one hand psychic distance should be based on the principles of cognitive mapping which assumes that people develop subjective mental maps of space and distance (which need not necessarily correspond to reality). The Gestalt psychology<sup>2</sup> interprets these discrepancies not as an incorrect reproduction of reality, but as valuable expression of individual motives and needs (Stottinger, Schlegelmilch, 2000). Based on the assumption of gestalt psychology, these discrepancies are not viewed as an incorrect reproduction of reality, but as a valuable expression of individual motives and needs (Muller, 1991). In the studies of managers from Japan, Finland and Germany, the researchers requested the respondents to position a number of countries in a space of 14 concentric circles, such that the distance to the centre (= home country) would represent the subjectively experienced foreignness towards these countries. Thus, countries perceived to be psychically further away are placed on more distant circles. The distance of all countries to the centre are summed up and used as a measure of psychic distance (Muller, 1991). The countries to be positioned were selected in advance by cluster analysis to capture all continents, as well as developed and developing countries (Sethi, 1971). Although this empirical approach to measuring the concept of psychic distance represents a considerable step forward, the findings turned out to be inconsistent (Muller, 1991).

Looking at the inconsistencies, Holzmutter and Kasper (1990, 1991) concluded that the measurement scale should be improved further. Consequently, the psychophysical measurement concept of magnitude scaling was

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<sup>1</sup> The Cultural Distance concept refers to the cultural level and not the individual level, as Psychic Distance does. The Cultural Distance concept is defined as the degree to which cultural values in one country are different from those in another country. Instead of assessing the individual's perceptions of differences, the Cultural Distance concept uses cultural values to assess the distance among countries and not individuals. Consequently, the Cultural Distance concept should be applied at the country level, not the individual level.

<sup>2</sup> Gestalt or gestaltism is a theory of mind of the Berlin School. The central principle of gestalt psychology is that the mind forms a global whole with self-organizing tendencies. This principle maintains that the human mind considers objects in their entirety before, or in parallel with, perception of their individual parts; suggesting *the whole is other than the sum of its parts*. In the domain of perception Gestalt psychologists stipulate that perceptions are the products of complex interactions among various stimuli.

applied to eliminate some of the measurement shortcomings. Magnitude scaling is based on the relational judgments by respondents who relate stimuli to a reference stimulus. It offers various advantages over conventional rating scales (Behrens, 1983). In contrast to the limited, pre-determined response categories of rating scales, magnitude scaling reduces the loss of information by providing finer distinction. In the context of psychic distance, magnitude scales are particularly useful, because of the ease with which they can be constructed. Moreover, respondents are able to make very fine distinctions between countries, without being predisposed by response categories which may or may not accurately reflect their mental picture of the world map (Tihanyi, Griffith, Russel, Craig, 2005).

Breuer (2007) proposes a Psychic Distance Index that is based on a range of formative indicators that affects the ease of information flows between the countries. This index (rather than a scale) is considered as appropriate vehicle for the operationalization of Psychic Distance, because it builds on the items that are directly responsible for the ease of information flows between a country and a firm. The elements of Psychic Distance proposed by him are following: commercial ties (bilateral trade, stock of foreign investment), political ties (trade agreements, value of aid programmes, trade representation offices), historical ties (colonial relationship, shared wars), geographic ties (geographic proximity), social ties (cultural similarities, sport preferences, language similarities), information ties (secondary information availability, immigration numbers), development (level of development of the foreign country, level of corruption of the foreign country). Using the above mentioned indicators, it was constructed the index that measures Psychic Distance between Australia and 25 other selected countries. The countries were selected on the basis that they provide wide geographic diversity, they consist of both major and minor trading partners for Australia, and relevant data are readily available for them.

The review of research on these phenomena shows that both concepts are poorly understood, and thus guidance to managers may be often confusing. For example, a large number of studies use the terms “cultural distance” and “psychic distance” interchangeably (Eriksson, Majkgard, & Sharma, 2000; Fletcher & Bohn, 1998; Peng, Hill, & Wang, 2000; Sethi, Phelan, & Berg, 2003; Shonan & Albaum, 1995; Trabold, 2002). However, using Cultural Distance and Psychic Distance synonymously is challenged by the findings of Norsdtröm and Vahlne (1994), who reported that the two concepts capture different phenomena.

The overall framework within which the 12 dimensions is located was informed by Ghemawat's (2001) “CAGE” classification of distance between two countries into cultural, administrative, geographic and economic factors. This classification is relatively comprehensive one. Thus cultural distance includes differences in language, social norms, religious beliefs and race. Administrative distance includes differences in political system, common currency, trade arrangements, government policies and institutions. Economic distance includes differences in income levels, infrastructure, human and other resources. Geographic distance includes the physical distance between the two countries, the size of the target country, access to waterways and the ocean, internal topography, and transportation and communications infrastructure. This framework can help to identify the ways in which potential markets may be distant from existing ones.

The types of distance influence different business in different ways. Geographic distance, for instance, affects the costs of transportation and communications, so it is of particular to companies that deal with heavy or bulky products, or whose operations require a high degree of coordination among highly dispersed people or activities. Cultural distance, by contrast affects consumers' products preferences.

Dow and Karunaratna (2006) also employ a relatively comprehensive multi-dimensional set of psychic distance stimuli, covering culture, language, education level, level of industrial development, political system, time zone.

Another classification of Psychic Distance stimuli was prepared by Sousa and Bradley (2006). According to these authors there is a general consensus in the literature that when firms decide to enter foreign markets, they must adjust to a foreign national culture and be prepared for challenges, such as differences in language, lifestyles, cultural standards, consumer preferences, and purchasing power. The following stimuli of Psychic Distance were distinguished: climatic conditions, purchasing power of customer, lifestyles, consumer preferences, cultural values, beliefs, attitudes, and traditions, language, level of literacy and education. The Psychic Distance and Cultural Distance have been used in the literature to bypass the complexities of assessing these differences among markets (Clark & Pugh, 2001; Eriksson, Majkgard, & Sharma, 2000; Evans & Mavondo, 2002; Grosse & Trevino, 1996).

The Author of the Article prepared own classification of Psychic Distance Stimuli. They are following: cultural differences (including norms and values, language, religion), economic differences ( including differences in income levels, infrastructure, the stability of financial institutions, the infrastructure development, the level of economic development, the situation in the labour market, human and other resources), political differences (differences in government policies, level of democracy, political stability, the quality of legal institutions and practices), differences in mentality (ways of thinking, believes, rules, attitudes, views and opinions). The geographic distance was not included into the stimuli of psychic distance<sup>3</sup>.

Psychic distance is a well-known phenomenon in psychological studies on human behaviour and it is associated with such notions as “strangeness” or “a feeling of trust”. In these studies “distance” is expressed as a degree of subjective acceptance (of an overseas partner, the country as a whole, its inhabitants, an economic and political system, cultural conditions, business practices) by a company’s owner or a manager responsible for foreign market operations (Szromnik, 2007).

The following factors which affect the size of psychic distance need to be identified:

- individual evaluation of “closeness” or “strangeness” of a given country, in the light of one’s own impressions or experiences,
- evaluation of positive and negative sides of the specific country among managers (professional and private environments),
- the picture of a country and its economy as presented in mass media,
- promotional and information activities carried out by this country internationally.

When analyzing a manager’s individual psychic distance to a foreign country, i.e., a specific person’s attitude to a specific foreign market, it may be seen that it depends both on objective and subjective features of a decision-maker. The objective features include: age and gender, education (level, field), knowledge of foreign languages (especially the language of a target country), how well a given person knows the reality of this country, whether they have stayed there on business or privately, whether they follow this country’s media coverage. The subjective features of decision-makers include: their eagerness to travel, tendency to change and discover new things, how much they are affected by opinions and “external” evaluations, whether they trust the information given in mass media, their social and political opinions and their decision-making courage.

The presented list of determinants from the “psychic distance” category indicates that the operationalization

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<sup>3</sup> For obvious reasons psychic distance is correlated with geographic distance. But exceptions are easy to find. Some countries are far apart geographically, e.g., England and Australia, but for different reasons they are near to each other in terms of psychic distance. The USA and Cuba are near to each other geographically, but, for political reasons, far apart with regard to psychic distance. As these examples indicate psychic distance is not constant. It changes because of the development of communication system, trade and other kinds of social exchange.

and appropriate measurement of its size are relatively challenging problems.

In surveys appropriate schemes of psychic distance evaluation scales have been used for specific pairs of countries. Only when the replies given by a bigger number of managers are generalized, the final summarized evaluation of “strangeness” or psychic “closeness” of a given country can be specified for the group of managers surveyed.

### **3. Research Background**

#### **3.1 The Use of Qualitative Methods to Measure the Psychic Distance in Companies Internationalization**

Considering that Psychic Distance is a very complex phenomenon, its impact on the process of internationalization should be identified with the use of many various methods (triangulation of methods). Triangulation refers to the combination of methodologies in the study of the same phenomenon (Ghauri, Gronhaug, pp. 221-222). According to this approach the researcher collects and analyses data and concludes using different methods. On the one side this increases opportunities for verification of information obtained as a result of the very method. On the other side this method frequently contributes to obtaining new diversified information. The above results are in generation of higher result accuracy (that results from convergence of research results obtained by means of different but often complementary research methods). The main advantage of triangulation is, that it can produce a more complete, holistic and contextual portrait of the object under study. In the case study method this is particularly important as you need to check and validate information you receive from various sources. Triangulation (or the use of multi method approach) on the same study object can be useful even if we don't get the same results. It can lead the researcher to better understanding of the problem or to new questions that can be answered by later research. It is useful in international business research to check out the method bias. Using multiple diverse methods to examine the same phenomenon and checking for consistencies enhances the confidence in the analysis and results. Convergence of results obtained through different methods will enhance the reliability and validity of results. It will also enable to compare results obtained through qualitative methods with statistical analysis.

Quantitative research and qualitative research need to be employed to evaluate psychic distance in the process of Polish companies' internationalization. The comparison between these two types of research is shown in the Table 2.

There are two ways of dividing research types in social sciences: quantitative and qualitative ones. According to the first division, quantitative research and qualitative research are basically not contradictory and may be combined when working on a problem, to the advantage of legitimacy and certainty of conclusions drawn from such research. According to the other division, these two types of research are contradictory due to their sources of general ontological, epistemological and methodological assumptions (Silverman, 2004). There is a difference between the opposition of these (quantitative and qualitative) techniques employed in social sciences and the opposition of paradigm perspectives behind these techniques. It is often believed that qualitative research techniques are “owned” by interpretative paradigm as they better reflect the social reality created by people. Quantitative research, in turn, is the domain of normative paradigm. One should remember, however, that “followers” of various paradigms live in various social worlds, which they perceive differently. In the normative paradigm, qualitative research is just an introduction to objective quantitative methods of measurement, while in

**The Use of Qualitative Methods in the Research on the Impact of Psychic Distance on  
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the interpretative paradigm this is a sufficient basis for a description of and explanations about the reality (Yates, 2004).

**Table 2 Comparison between Quantitative Research and Qualitative Research**

Criterion	Quantitative research	Qualitative research
Tasks, objectives	replies to the question “how much/how many”? looking for facts and occurrences of phenomena, without much interest in an individual’s subjective behaviour, focuses on verification, confirmative	replies to the question “why”? understanding an individual’s behaviour in accordance with their point of reference, focuses on discoveries, explorative
Approach	etic – positivistic, emphasis on figures logical – positivistic character objective approach results-oriented	emic – interpretative emphasis on interpretations of phenomena phenomenological character subjective approach process-oriented
Features	hard structured objective free from valuation testing hypotheses abstract	soft flexible subjective valuating speculative rooted in reality
Methods	quantitative: face-to-face interview telephone interview survey methods	qualitative: in-depth interview focus group interview observation experiment
Sample	big and representative	small and non-representative
Measurement	controlled and standardized	natural and non-standardised
Respondent’s role	passive, imitative	active, creative
Researcher’s role	lower expectations, lower risk of errors	required experience, interdisciplinary background and special abilities of a researcher
Research team	bigger, longer information channel, higher risk of information distortion	smaller, shorter information channel, lower risk of information distortion
Results	more data but superficial data, representative, generalized conclusions results presented in quantitative categories comparable data	less data but more accurate, deeper data, non-representative, non-generalized conclusions results presented in qualitative categories hardly comparable data

Source: Author’s own analysis based on: Yates (2004), Denzin, Lincoln (2000), Silvermann (2000).

There are two ways of dividing research types in social sciences: quantitative and qualitative ones. According to the first division, quantitative research and qualitative research are basically not contradictory and may be combined when working on a problem, to the advantage of legitimacy and certainty of conclusions drawn from such research. According to the other division, these two types of research are contradictory due to their sources of general ontological, epistemological and methodological assumptions (Silverman, 2004). There is a difference between the opposition of these (quantitative and qualitative) techniques employed in social sciences and the opposition of paradigm perspectives behind these techniques. It is often believed that qualitative research techniques are “owned” by interpretative paradigm as they better reflect the social reality created by people. Quantitative research, in turn, is the domain of normative paradigm. One should remember, however, that “followers” of various paradigms live in various social worlds, which they perceive differently. In the normative paradigm, qualitative research is just an introduction to objective quantitative methods of measurement, while in the interpretative paradigm this is a sufficient basis for a description of and explanations about the reality (Yates, 2004).

On the first stage of research on the impact psychic distance on companies’ internationalization qualitative

methods will be used, particularly ethnographic research. In simple terms, ethnographic research may be described as similar to interpretative research. Although these two notions cannot be treated as equivalents, ethnographic research may be included in the stream of interpretative research. This may seem reasonable due to the specific features of ethnographic research: its approach to reality and “work in field” imperative, i.e., a researcher’s involvement in collecting information, presentation of research findings in descriptive, expressive and context-related ways. All these characteristics are referred to as typical for ethnographic research, but also anthropological and interpretative studies. The ethnographic approach means qualitative studies based on the interpretative paradigm. Ethnographic studies are carried out using observation and in depth-interview techniques. The specificity of the ethnographic approach is manifested, first of all, in the way such research is conducted and in the role played by the researcher. In ethnographic studies:

- the main emphasis is placed on the exploration of social phenomena, instead of hypothesis testing,
- there is a tendency to work on unstructured data—which means data which has not been grouped, after collection, into pre-defined categories,
- only a small number of empirical cases is researched, sometimes just a single one,
- data analysis covers open interpretation of meanings and functions of human activity, while quantification and a statistical analysis play a subordinate role (Taylor, 2002).

When analysing the features of ethnographic research we can see that attempts are made here, just like in case of interpretative research, to explain and understand happenings and people. This approach may be used in in-depth research on companies, presentation of a decision-making process and its determinants, and operating styles. In ethnographic research problems are identified but hypotheses are not verified due to a small sample and the data which is deeply qualitative in its nature, therefore it is neither categorised nor structured. Ethnography differs from interpretative studies by its specific method of research material presentation. Its basis is “dense description”, which does not resemble any presentation from positivistic studies. It contains the description of research objects, observed situations and happenings, a wide context of factors which affect the research objects and subjects, interpretation and a researcher’s conclusions (Atkinson, Hammerslay, pp. 121-122).

The technique of depth interview can be employed in the research on the impact of Psychic Distance on the Polish companies’ internationalization. A typical individual in-depth interview is unstructured in its form and gives a respondent a complete freedom to express their views. The researcher’s task is to achieve the pre-defined objectives. The researcher uses interview instructions (Nikodemaska-Wołowik, 1999). The researcher’s role is to carefully follow the information given in replies and take notes or record their entire meaning. Contrary to a survey, a qualitative interview involves an interaction between an interviewer and a respondent. The interviewer has a general action plan but it is not a specific set of questions which should be asked using specific words and in a specific order. However, it is very important to make sure that the interviewer conducting a qualitative interview is well acquainted with the questions he or she may ask. The interview is basically a conversation which is generally driven by the interviewer who places emphasis on the issues raised by the respondent. An ideal situation is when the respondent’s replies account for the most of the conversation (according to E. Babbie, if you talk for more than 5% of the time, you probably talk too much) (Babbie, 2003). This author believes that one of the strengths offered by in-depth interviews is flexibility. In particular, the replies given to the first questions may affect the questions to follow. It is important not just to ask just the questions prepared beforehand but also to listen to the answers to your questions attentively, interpret their meaning for the research purposes and then formulate the following question which should be aimed at expanding on the answers given before or shifting the

respondent's attention to a more interesting area. Another essential thing for the researcher is not to try to be an interesting person for the respondent or make an impression on the respondent by what he or she says but to make the respondent an interesting person. This may be done by listening with attention. Konecki points out that during a depth interview a researcher has to stay open to the circumstances and information that have just occurred and been given. At a free-form interview, an interviewer may change the sequence of questions, as well as their form and content, to adjust them to a respondent (Konecki, 2000).

Based on the results of the in-depth interviews and the desk research a case study could be created to represent the impact of psychic distance on the process of Polish companies' internationalisation.

A case study is a basic research method in so-called interpretive studies. In the interpretive approach, a social (economic) reality is not objective in its nature (existing outside researchers), but is an inter-subjective creation of participants, people living in a social world which does not exist permanently and absolutely. The task of the science is to describe (interpret) how the created world works. The methodology of this stream, which assumes that no researched phenomenon appears again in the same form, places the emphasis on idiographic description, case studies or window studies (Yin, 2003).

### **3.2 Methods and Sample**

The results reported in the article are based on the study of Polish exporting company. From the European perspective, the fall of the iron curtain in 1989 was the change factor in modern history. This change has encompassed all areas of society and has led to a strong integration process of what was once known as a divided Europe. As a consequence, both trade and FDI flows between Poland and other countries have increased over the last two decades (UNCTAD, 2010). Therefore, the internationalisation of firms in the CEE region, also in Poland, represents a strong opportunity for research in international business.

The main contribution of solving the above mentioned research problem to the discipline of international business is to elaborate the own methodology of measurement Psychic Distance and the methodology of investigating the impact of Psychic Distance on the process of companies internationalization. It is of the highest importance to select appropriate methods and techniques that are used while measuring Psychic Distance, to determine measurement tools and to select appropriate methods of analyzing data obtained while conducting research.

This methodology could be used for investigating the impact of Psychic Distance on the process of companies' internationalization regardless of the country of origin. The research on the impact of Psychic Distance on Polish company's internationalization could be treated as contribution to initiating international comparisons presenting the role of Psychic Distance in the process of internationalization of companies from CEE markets or other regions of the world.

The research methodology could be also adopted for solving other research problems like, e.g., symmetry of Psychic Distance and conducting research in international scale.

The Author plans to conduct 6 depth interviews with managers of Polish companies.

The case presented in the article is treated as results of pilot research, which objective was to examine respondents' bias and ability to answer the questions (their knowledge and experience). It is formed on the base of ethnographic research (depth interview) conducted with the export director of company X and the internal data of the company.

The subject of the research was to identify the perceived psychic distance between Poland and markets of Polish companies' foreign expansion (subjective opinions of managers about the differences among Poland and

foreign markets of Polish companies' expansion-differences in culture, language, religion, level of education, business practices, differences in political systems and economic development levels and mentality). The interview was conducted on the 16th of May on the territory of Poland.

In the research on the importance of psychic distance in the process of companies internationalization the purposive sample was chosen. The company chosen to the research had to be qualified to the small and medium sized, with 100% Polish capital (it had to be culturally homogenous) and having experience in international activity (time of activity on the foreign markets should exceed 10 years, the number of expansion markets should exceed 10, the value of foreign sales should exceed 15% of total sales).

#### **4. Results—The Impact of Psychic Distance on Polish Companies Internationalization—The Company X Case<sup>4</sup>**

The company X was established in the year 1973 by private entrepreneur. This is a representative of medium and small companies, operating in the furniture industry (which is typical for Polish export). This is a leader in producing exclusive furniture in Poland and on the CEE markets.

The process of the company's internationalization started in the year 1999, when the management of the company began to sell their products on the Czech market. In the years to follow the company has entered such foreign markets as Hungary, Croatia, Denmark, Spain, the Netherlands, Latvia, Lithuania, Canada, France, Russia and Romania.

Products made by company X are well-known in most European countries and the United States, Moldavia, Kazakhstan, Israel and Japan. The key motives behind the company's internationalization include: looking for new clients and increasing the value of sales on the foreign markets.

Company X has mainly internationalized by export, and exports account for about 15% of the company's total sales. It is calculated, that every third product of the company is being sold abroad. The process of internationalization of company X started from spontaneous orders from abroad. At the moment, the management of company X actively develop foreign expansion.

The company's turnover in 2012 has amounted to approx. PLN 121,383,000, and in the year 2011 of PLN 101 109 000. The value of export in the year 2012 was PLN 19,054,000, and in the year 2011 PLN 15,660,000. The Czech, Russian, Ukrainian and Belarusian markets have had the biggest participation in this sales figure.

The main objective of the depth interview was identifying the respondent's opinions about the perceptions of psychic distance among Poland and the expansion markets of company X.

According to the respondent—the manager of company X, psychic distance exists and has great impact on his decisions connected with internationalization.

The first question was about the differences in national cultures between Poland and the foreign expansion markets of company X. The manager described his experience connected with establishing a company in the Czech Republic. Even though this country is very close to Poland (geographic distance doesn't exist), he perceived the Czech Republic as 'a different world' and he experienced a culture shock living in that country. In case of the Czech Republic it could be said that this is the country with almost the same language and almost the same culture as Poland. But this "almost" makes a big difference in business practices of these countries'

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<sup>4</sup> The case study has been prepared on the base of ethnographic research: the depth interview with the export director of the company and the secondary data made available by the company management.



representatives. The biggest difference between the two countries lies in totally different working styles. This results from different dominant religions in Poland and in the Czech Republic. In Poland the dominant religion is Catholicism and in the Czech Republic Protestantism. According to the respondent, the Czech “live to work”, their jobs are of key importance for them, they often stay after working hours and work during weekends. Another example of the impact of religion on business life are Arab countries, where the inferior role of women in business could be seen. It has the impact on designing promotion campaigns for the needs of these countries.

There was the necessity to employ local staff to work for the Polish subsidiary of the company in Czech Republic. The main reason for that was the fact that the Polish mentality does not stack up there. In the respondent's view, it is difficult to act on the foreign market against the local culture. Therefore, he employed two local managers, who were acquainted with the local culture and business practices. The respondent noticed that the differences should not be distinguished between countries only but also between different regions of the countries. The examples are three regions of the Czech Republic: the historical territories of Bohemia and Moravia, a small part of Silesia, the differentiation of regions in Russia (for example “modern” Moscow and very ceremonial and traditional Siberia) or Arab countries (modern Beirut and traditional poorer Arabic cities).

The respondent was asked to enumerate countries in which he noticed the biggest differences in national cultures. As it was mentioned before, he saw differences also between Poland and CEE countries, even if geographic distance between these countries is not big.

The respondent agreed with the statement that differences in cultures had impact on his decisions connected with internationalization. First of all, it is the choice of directions of foreign expansion of the company managed by him. Firstly, the management board decided to enter the markets perceived as “culturally” close: the Czech Republic and Hungary, Russia, Latvia, Lithuania, Romania and Croatia. After some time of operating in these countries, it appeared that the cultural differences are bigger than the management anticipated.

Secondly, the management of the company decided to enter the other European markets: Denmark, Spain and France, and later Canada, the United States and Japan. It was caused by the fact, that the cultural differences between these countries are perceived as bigger.

Differences in national cultures are also one of the factors having impact on the choice of market entry mode by company X. The company is present on foreign markets mainly by export which does not need huge capital investment. The risk of choosing this form of foreign expansion is also not big. The reason of such decision is the fact that the differences between countries are still perceived as big and are still treated as a barrier to internationalization.

Perceived differences in national cultures had also the impact on the number of countries of foreign expansion of company X. One of the main criteria for choosing the company's target markets was the wealth of the society. That's why the company decided to diversify into foreign markets but to concentrate only on these markets, where it could gain clients for their luxury products.

Perceived differences in national cultures make the pace of internationalization slow and the company didn't decide to choose any more advanced forms of foreign entry than export. It generates a high volume of sales on the foreign markets, while there is still no capital engagement. One of the reasons for such a situation is a lack of experience of Polish managers in operating on foreign markets.

The differences in national cultures had impact on initiating business practices with foreign partners. Because it was difficult to initiate business relations with foreign partners without the knowledge of local customs and practices it was necessary to employ in the company the staff who know the conditions of foreign markets.

The respondent classified differences in language and religion as a part of cultural differences. The differences in religion have impact on the rules which are specific for the certain society. This imposes also the specific behaviour in business activity.

The religion having the biggest impact on company's X international business activity is Islam. The biggest differences in religion were observed in case of Arab countries. They have the impact on the role of woman in business and society, which causes the necessity of the choice of representatives for doing business in these countries.

The respondent admitted that differences in religion have the impact on decisions connected with internationalisation. The company is cautious of entering some foreign markets because of the possibility of conflicts on the grounds of religion. These concerns are caused by an unstable situation in a foreign country and a higher risk of foreign operations. That is why the management board avoids entering foreign markets where there is a danger of religious conflicts and wars. It also affects the choice of a market entry strategy. According to the respondent's declaration, in case of countries with an unstable situation the company will choose export (which is connected with a low level of risk and control of foreign operations). Existing differences in religion reduce also the number of foreign expansion markets of the company (the company X doesn't decide to enter foreign markets with unstable situation resulting from religious conflicts). According to respondent's answer differences in religion do not have too big impact the pace of company internationalization as well as the value of sales and capital engagement abroad.

According to the respondent's answers, differences in languages also have impact on the process of internationalisation of Polish companies. They are still big barriers of internationalisation. The differences in languages are connected both with the lack of knowledge of foreign languages by the foreign partners of company X and lack of knowledge of foreign languages by the sales representatives of company X. The management of company decided to employ staff speaking the language of the client to avoid misunderstandings and reduce the language barrier. It enabled the management to feel "closer" to the client. It was necessary, especially on the Eastern markets, where the level of knowledge of English is still not sufficient to communicate during negotiations. There were also some problems with non-verbal communication—for example with the proper recognition of a "visual signal" and spatial distance in Japan.

The respondent noticed, that besides the verbal communication we can observe also differences in non verbal communication. They have huge impact on the process of negotiations, which is according to him the condition of successful transaction on foreign markets. The improper interpretation of the body language of the partner could cause many misunderstandings and finally spoil good relations with foreign partners. According to the respondent differences in languages have impact not only on establishing relations with foreign partners, but also on leading business with him as well as removal activity from the foreign markets (because of misunderstandings).

According to the respondent, differences in languages are the psychic distance stimuli which are the easiest to reduce.

The respondent emphasized, that there are not too big differences in economic systems between Poland and CEE countries like the Czech Republic and Hungary. There are bigger differences between Poland and more developed European countries like France and Germany and, e.g., Japan and the United States. The most important differences are connected with the level of economic development of these countries, unemployment rate, inflation rate, the wealth of the society.

The differences in economic systems had huge impact on decisions connected with internationalisation and

they are still treated as a barrier of this process. The fact that Poland is still less developed than other European countries has an impact on the country of origin effect of Polish products. Polish goods are still perceived as of lower quality and it is difficult to find purchasers for Polish goods which are positioned as luxury ones.

The differences in economic systems influence the decisions connected with the choice of direction of the company internationalization. The company is afraid of entering the countries of low economic development—because of the risk of delays of payments from their business partners. For example the company has not entered Slovakia (even though the geographic distance between these countries is very small), because there the society is not perceived as wealthy. The company focuses on the countries and regions inhabited by well-educated rich class, it will assure proper demand on its products. At the present, differences in economic systems do not have impact on the choice of form of internationalization (company X focuses on export). But in future, the company plans to choose more advanced forms of internationalization in countries, where the economic situation is stable, the infrastructure is good and where is the high level of public safety.

Differences in economic systems have impact on initiating relations with foreign partners. According to the respondent answer, it is easier to establish and maintain relations with partners from countries characterised by the same level of economic development as Poland.

The respondent perceives also differences in political systems between Poland and foreign expansion markets of Polish companies. They are connected with democratic systems, the role of the government in the country, political stability and the quality of legal institutions and practices.

The biggest political differences are perceived in case of such countries as Belarus and the Ukraine. It is caused by a lack of democracy in these countries, a lack of political stability, the role of the government in the country and the quality of legal institutions.

The differences in political systems had impact on decisions connected with internationalisation, especially on the choice of the directions of foreign expansion and the choice of market entry strategies. Because of a higher risk in countries like Belarus, the Ukraine and some regions of Russia company X does not expect to change its market entry mode into a more advanced one. A political risk also reduces the number of target countries for company X. The company is afraid of entering countries characterized by political situation.

One of the stimuli of psychic distance is mentality of managers. According to the respondent one of the biggest differences in mentality is the level of “openness” of managers to foreign partners and operations. He has met some managers, who were very open. This made easier to initiate and lead operations on foreign markets. Unfortunately, there were also some representatives of foreign businessmen having huge “distance” to Polish companies and products. The factor, which has big impact in foreign operations is the way of thinking of Polish and foreign managers. This is connected with the trust to partners, which results, e.g., in the way of perceiving contracts and establishing relations with foreigners. According to the respondent one of the most important issues while establishing relations on the foreign environment is foreign orientation of managers.<sup>5</sup> The fact, that the manager recognizes the superiority of his country or the country of partner/client also will influence the decisions connected with internationalization. The biggest differences in mentality were observed in case of such countries like Japan and the United States. The differences in mentality have big impact on decisions connected with internationalization. The respondent declared that sometimes he is afraid of entering new markets because he is afraid of some misunderstandings. The differences in mentality have impact on decisions connected with the

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<sup>5</sup> The foreign orientations are classified as: ethnocentric, polycentric and geocentric.

directions of internationalization of the company and the amount of countries of foreign expansion. The company enters the countries perceived as “mentally closed”. On the present stage of internationalization, the differences in mentality do not have the impact on the choice of market entry strategies. The respondent declared that in future for the more advanced forms of internationalization also “mentally closer” countries would be chosen. According to the respondent, the differences in mentality have smaller impact on the value of sales and capital engagement on foreign markets as well as pace and amount of internationalization.

Next factor being taken into consideration while entering foreign markets is geographic distance. It is not treated as one of the psychic distance stimuli. According to the respondent's answer, geographic distance has a big impact on the choice of directions of company's X internationalisation. It is caused by the specific features of company X products, which are very fragile for transportation and storage. Consequently, it is very costly for the company to sell products to very distant countries. This makes the impact on the amount of foreign directions markets, the pace of internationalizations and the value of sales abroad. He admitted that geographic distance has the biggest impact on internationalization in case of durable goods.

## **5. Conclusions**

### **5.1 Research Insights**

The concept of psychic distance is well-known in international business and psychological studies on human behaviour and it is associated with such notions as “strangeness” or “a feeling of trust”. In these studies “distance” is expressed as a degree of subjective acceptance (of an overseas partner, the country as a whole, its inhabitants, an economic and political system, cultural conditions, business practices) by a company's owner or a manager responsible for foreign market operations. When analyzing a manager's individual psychic distance to a foreign country, i.e., a specific person's attitude to a specific foreign market, it may be seen that it depends both on objective and subjective features of a decision-maker. It should be noticed, that both quantitative and qualitative methods should be used to investigate managers' psychic distance to foreign markets.

The article concentrates on qualitative methods (especially ethnographic research). This method, through describing natural, authentic features of respondents, enables deeper analysis of psychic distance. The main way in which the attempts to solve the above mentioned research problem can contribute to the discipline of international business is by investigating the role of psychic distance in the decision-making process of Polish companies with respect to internationalisation. A contribution into the development of the discipline will also be given by the attempts to elaborate the own methodology of psychic distance measurement and the methodology of investigating the impact of psychic distance on the process of companies' internationalisation. It is of the highest importance to select appropriate methods and techniques that are used while measuring Psychic Distance, to determine measurement tools and to select appropriate methods of analysing data obtained while conducting research.

This methodology could be used for investigating the impact of psychic distance on the process of companies' internationalisation, regardless of the country of origin. The research on the impact of psychic distance on Polish companies' internationalisation could be treated as a contribution to initiating international comparisons presenting the role of psychic distance in the process of internationalisation of companies from CEE markets or other regions of the world.

Three main conclusions stand out from the findings. First of all according to the manager's answer the psychic distance exists and it plays the important role in the decision process connected with internationalization. Secondly,

the different psychic distance stimuli have differentiated impact on different decisions connected with internationalization. We can observe the biggest impact of psychic distance stimuli on the decisions connected with the choice of market entry directions and forms of internationalization. Finally, it was stated that the factors having impact on internationalization of companies are not only connected with the differences in national cultures, but also with differences in regional cultures with one country.

### **5.2 Managerial Implications**

The results of this research entail several implications for international business managers. The research results could be treated as a hint for managers how to increase the engagement on the foreign markets despite the cultural differences and the differences in the socio-economic systems between the home and the host country of the company. The research results could also equip the managers with knowledge about the different psychic distance stimuli and the ways of their conquering.

### **5.3 Limitations and Future Research**

Since the research represents an initial attempt to examine the impact of psychic distance on companies' internationalization, it faces limitations that can potentially offer directions for further examination. The single-industry and single-country study is of qualitative nature and its findings cannot be generalized.

The future qualitative research will be conducted on the sample of 5 companies. The main aim of the qualitative research is to collect more in-depth and detailed respondents' answers about perceived Psychic Distance between Poland and countries which are targets for Polish companies' expansion. There are also planned the quantitative research on the sample of 200 companies. The quantitative research will be conducted by means of face-to-face interviews on the sample of 200 Polish companies which are undergoing the process of internationalisation. The main objective of quantitative research will be the identification of the importance of cultural and systemic (economic and political) differences between Poland and foreign markets into which Polish companies expand. Respondents will be asked to indicate, on a 7-point Likert scale, the extent to which the country entered by their firm differs from their firm's country, on each of GLOBE dimensions of national culture.

The main objective of the future research is to identify the impact of Psychic Distance on managers' decisions connected with the process of Polish companies' internationalisation. It is of crucial importance to investigate the impact of Psychic Distance dimensions on forms and directions of foreign expansion of Polish companies, as well as the value of sales and foreign capital engagement of these entities, and pace of internationalization and amount of foreign markets of expansion. A hypothesis has been established that the Psychic Distance between Poland and foreign markets of Polish companies' expansion is an important determinant for the decision-making process related to Polish companies' internationalisation. It determines the choice of directions and the level of Polish companies' involvement in foreign operations, as well as the value of sales and capital engagement of such companies on foreign markets, the pace at which they internationalise and the number of foreign markets into which they expand.

In theoretical and methodological layer the effect of research will be the preparation of the own methodology of the measurement of psychic distance and the methodology of research on the impact of psychic distance on the process of Polish companies internationalization.

In cognitive layer the effect of conducted research will be the model presenting the impact of chosen dimensions of Psychic Distance on the process of internationalization of Polish companies.

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