Managerial Perceptions of the Cultural Distance Basis for Internationalization Decisions by Firms

Implications for 'Low-Tech' Industries

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Abstract

The role of managerial perceptions of cultural distance in the internationalization decisions of 'LOW-TECH' firms is explored in this thesis. A first empirical study examined managers' perceptions of dissimilarity in food culture in foreign markets (*food culture distance*), as an antecedent to adaptation of an export marketing strategy for food companies. A second empirical study examined the explanatory power of *food culture distance* in relation to choice of foreign markets by food exporters. The relationship between managers' perceptions of cultural and other business differences (psychic distance), organizational innovation, and the performance of 'LOW-TECH' firms was examined in a third study, while a fourth examined the congruence between mangers' perceptions of cultural distance and objective reality. Finally, the strategic role of inpatriates as sources of knowledge of cultural preferences in foreign markets was analyzed. The quantitative data used were obtained in two separate surveys that employed questionnaires as the data collection technique. The hypotheses were examined using three multivariate analysis techniques: structural equation modeling (SEM), regression analysis with a clustered robust standard errors approach, and bivariate correlation analysis. It was found that *food culture distance* influences an internationalizing firm's marketing strategies and choice of foreign market. Psychic distance was found to affect a firm's innovation strategies during the internationalization process. Perception of substantial differences in foreign markets may lead firms to adapt their marketing programs while conducting innovative strategies. The results indicated that perceived cultural distance not only entails challenges and difficulties for firms, but also provides business opportunities that make distant markets an attractive target for internationalizing firms. Managers' perceptions of cultural distance were found to be highly congruent with objective reality. Moreover, inpatriates proved to be important as sources of knowledge about, *inter alia*, cultural preferences in situations with a great cultural distance between the home country and the host country.

Keywords: Psychic Distance, Cultural Distance, Internationalization, Export, Innovation, Perception, 'LOW-TECH' sector, Food, Firm Performance, Inpatriates

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Dedication

To lovely *Mozhgan*, for her endless and unconditional support, encouragement and love.

To *Giv*, whose presence in my life motivates me to confront all difficulties.

Contents

List of Publications

This thesis is based on the work contained in the following papers, referred to by Roman numerals in the text:

I Azar, G. (2011). Food Culture Distance: An Antecedent to Export Marketing Strategy Adaptation - An Empirical Examination of Swedish and Finnish Food Processing Companies. *International Food and Agribusiness Management Review* 14(3), 17-44.

II Azar, G. Food Culture Distance as a Predictor of Foreign Market Selection: The Case of Swedish Food Exporters. Accepted for publication in *Journal of Food Products Marketing*.

III Azar, G. & Drogendijk, R. Psychic Distance, Organizational Innovation, and Firm Performance (To be submitted to *Journal of Product Innovation Management*).

IV Azar, G. How Congruent Are Managers' Perceptions of Cultural Distance with Objective Reality (To be submitted to *Cross Cultural Management-An International Journal*).

V Azar, G. (2012). Inpatriates and Expatriates: Sources of Strategic Human Capital for Multinational Food and Beverage Firms. *International Food and Agribusiness Management Review* 15A (Special issue), 73-79.

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1 Introduction

International business research is concerned with investigating:

> Firm-level business activity that crosses national boundaries or is conducted in a location other than the firm's home country… it is concerned in some way with the interrelationship between the operations of the business firm and international or foreign environments in which the firm operates (Wright & Ricks, 1994, p. 689).

During the past decade, the areas of business dynamics and strategy; culture, conflict, and cognition; marketing; and organization and management have been dominant themes in international business research (Griffith *et al.*, 2008). According to Griffith *et al.* (2008), the impact of standardization/adaptation on firm performance, determinants of success in global product development, contextual factors moderating the internationalization process, and the role of national culture in explaining international business phenomena will be among the highest priority future research questions in international business research.

According to the behavioral theory of the firm (Cyert & March, 1963), a business firm is an adaptively rational system constrained by the uncertainty of its environment, and has a limited capacity for assembling, storing, and utilizing information. Internationalization is the process of developing business opportunities outside the domestic market (Lu & Beamish, 2001), a process characterized by a high degree of uncertainty (Johanson & Vahlne, 2009; Miller, 1993). Uncertainty occurs since the firm perceives itself to lack sufficient market knowledge to accurately predict the challenges in the new foreign market (Yamin & Sinkovics, 2006; Penrose, 1959). The main source of the uncertainty in this case is the organization's external environment and therefore the uncertainty is environmental (Milliken, 1987). The degree of this environmental uncertainty depends not only on the absolute characteristics of the environment but also, and more importantly, on managerial perceptions of the environment, *i.e.*, subjective uncertainty (Penrose, 1959). Based on their perceptions of environmental uncertainty, managers formulate strategies for responding to the environmental demands (Giaglis & Fouskas, 2011; Beyer *et al.*, 1997; Robbins, 1996; Starbuck & Mezias, 1996; Anderson & Paine, 1975; Child, 1972).

Firms can internationalize to markets at varying psychic distances from the home market. Psychic distance is a perceptual distance between the firm's home market and a foreign market, and it results from the perception of both cultural and business differences between the home market and the foreign market (Evans & Mavondo, 2002). Accordingly, foreign markets at a greater psychic distance constitute more uncertain environments than markets at a smaller psychic distance (Evans & Mavondo, 2002; O'Grady & Lane, 1996).

Cultural differences between countries—hereafter referred to as cultural distance—are a major component of psychic distance[1] (Prime *et al.*, 2009; Evans & Mavondo, 2002; O'Grady & Lane, 1996). Research has shown cultural distance to be an important source of uncertainty for firms during their internationalization process (Ghemawat, 2001; Shenkar, 2001; Johanson & Vahlne, 1977). Although aggregated data from secondary sources have been the dominant measure used to determine the cultural distance between countries (Drogendijk & Slangen, 2006), several scholars suggest the use of perceptual data to assess cultural differences (Zhao *et al.*, 2004; Mezias *et al.*, 2002; Shenkar, 2001; O'Grady & Lane, 1996; Johanson & Vahlne, 1977). Strategic decisions and organizational behavior rely on managerial perceptions of the firm's environment (Giaglis & Fouskas, 2011; Beyer *et al.*, 1997; Robbins, 1996; Starbuck & Mezias, 1996; Anderson & Paine, 1975; Child, 1972). Accordingly, a number of studies have assessed the explanatory power of perceived cultural distance in a variety of internationalization decisions by firms, such as international marketing strategies and entry mode strategies (Evans *et al.*, 2008; Drogendijk & Slangen, 2006; Evans & Bridson, 2005; Evans & Mavondo, 2002; Luo *et al.*, 2001; Bello & Gilliland, 1997; Shoham, 1995; Kim & Hwang, 1992).

Previous research has concluded that the distinguishing characteristics of industries affect managers' perceptions of environmental uncertainty and also the strategies chosen to cope with such uncertainty (Hrebiniak & Snow, 1980). Accordingly, industry differences may affect preferences in international marketing strategies (Cavusgil & Zou, 1994; Cavusgil *et al.*, 1993), entry mode into international markets (Caves, 2007), and foreign market selection (Andersen & Buvik, 2002). Cavusgil *et al.* (1993) and Cavusgil & Zou (1994)

[1] Previous research has been criticized for using the concepts psychic distance and cultural distance interchangeably (Prime *et al.*, 2009).

noted that the extent of an industry's technology orientation influences the degree to which it adapts its export marketing strategy. According to Morosini *et al.* (1998), industry differences impact cross-border acquisition performance. Therefore, treating all products and industries as part of a whole internationalizing nation, *i.e.*, using a heterogeneous sample of managers from different industries, without controlling for industry, creates an 'industry type' bias in studies of organization and environment. This in turn results in the "methodological obfuscation of underlying results" (Hrebiniak & Snow, 1980, p. 752).

According to the OECD[2] (2005) classification of manufacturing industries, sectors with research and development (R&D) intensity below 0.9 per cent are classified as 'low-technology'—hereafter referred to as 'LOW-TECH'. On the basis of this categorization, the food industry, the paper, publishing and print industry, the wood and furniture industry, and the garment industry, *inter alia*, are regarded as 'LOW-TECH' (OECD, 2005).

Despite the low R&D expenditure, a significant share of total manufacturing exports, a high employment share, and also empirical evidence demonstrating the innovation ability of these industries emphasize the vital role of the 'LOW-TECH' sector specifically in the developed economies of the Western world (Hirsch-Kreinsen, 2008). However, 'LOW-TECH' industries remain an "unprivileged research topic" among scholars (Mendonca, 2009).

1.1 Aim and Intended Contributions

The overall aim of this thesis work is to contribute to international business research by investigating environmental factors underlying managerial decisions during the internationalization process of 'LOW-TECH' industries. A specific objective is to assess the effect of managerial perceptions of cultural distance on the internationalization decisions of 'LOW-TECH' firms. The focus is mainly on *exporting* as one of the most common means of entering international markets (Stöttinger & Schlegelmilch, 1998). In the following, the overall aim of the thesis is broken down into five sub-aims and the underlying problem for each sub-aim is described.

1.1.1 Sub-aim 1: Export Marketing Strategies

Achieving the economic or strategic objectives of an export venture requires the adoption of workable and effective long-term marketing strategies when exporting to international markets (Cavusgil *et al.*, 1993). According to Cavusgil & Zou (1994, p. 4), export marketing strategy is "the means by which

[2] Organization for Economic Co-operation and Development.

a firm responds to the interplay of internal and external factors to meet objectives of the export venture". Hence, from both the managerial and theoretical perspectives, it is important to understand the antecedents to the export marketing strategy (Zou & Stan, 1998). Previous research has found that cultural distance is a key external factor influencing a firm's export marketing strategy (Evans & Bridson, 2005; Calantone *et al.*, 2004). However, comparable research in the food sector, specifically examining the effect of managerial perceptions of differences in food culture among societies—hereafter referred to as *food culture distance*—on export marketing strategy is limited. According to Buisson (1995), due to the close integration of food with culture, it is difficult to promote the same food products in different markets. This thesis focused on export marketing strategy with regard to the product (product adaptation) rather than the other marketing "Ps" (*i.e.*, price, promotion, and place) since, according to Calantone *et al.* (2004), the product is a key component of the international marketing mix that manifests the characteristics of a firm in international markets. Specifically, in the food sector, without a physical product, there is nothing to trade in an exchange relationship (Grunert, 2006). Hence, the first objective of this thesis is to:

> Develop a model for operationalizing the construct *food culture distance* and examine its impact on the export marketing strategy of food companies.

1.1.2 Sub-aim 2: Foreign Market Selection

Foreign market selection is one of the most crucial strategic decisions in the firm's internationalization process (Root, 1998). Making the right decision regarding the choice of foreign markets is vitally important, since a wrong choice can place a firm in a critical strategic position, resulting in long-term consequences for the firm's future success (Malhotra *et al.*, 2009; Young, 1989). Knowledge of the predictors of foreign market selection would help in assessing the firm's choices of international markets. Previous research has revealed that cultural distance is one of the most influential factors in a firm's choice of foreign market (Buckley, 2007; Clark & Pugh, 2001; Ghemawat, 2001; Dow, 2000). However, research in market selection has mostly focused on general national culture (gauged using secondary data) rather than specific aspects of culture (gauged at the cognitive level of decision makers) that could be more relevant to a certain industrial sector. Andersen & Buvik (2002) and Papadopoulos *et al.* (2002) maintain that while a market may provide opportunities for certain products, it can be an unfavorable choice for other product categories from the same country. Hence, the second objective of this thesis is to:

Examine the impact of *food culture distance* on decisions by food companies regarding the choice of foreign markets.

1.1.3 Sub-aim 3: Innovation Strategies

Innovation is generally understood to be an important determinant of a firm's competitiveness and to enhance its organizational performance (Baregheh *et al.*, 2009; Kafouros *et al.*, 2008; Ghazalian & Furtan, 2007; Damanpour & Schneider, 2006; Fagerberg, 2005; Alfranca *et al.*, 2004; Hall & Mairesse, 1995). Previous research has shown that innovation has a particularly large effect on the performance of highly internationalized firms (Kafouros *et al.*, 2008). Operating in foreign markets will enrich a firm's sources of knowledge and other strategically relevant resources, and increase its learning capacity, all of which have key roles in the innovation process (Kafouros *et al.*, 2008; Kotabe *et al.*, 2002). Through internationalization, firms may access ideas and expertise from a greater number of new and different markets, which will improve their innovative capacities (Kafouros *et al.*, 2008; Hitt *et al.*, 1997). Internationalization enables the firm to acquire materials and inputs from the most reasonable sources around the globe (Kafouros *et al.*, 2008; Kotabe *et al.*, 2002). Kafouros *et al.* (2008) have therefore argued that greater internationalization can lead to greater returns from innovation. However, researchers have not investigated whether or how the psychic distance between the firm's home market and a foreign market affects the relationship between innovation and firm performance.

Entering psychically distant markets leads to high perceived levels of uncertainty (Evans & Mavondo, 2002; O'Grady & Lane, 1996), and the perception of uncertainty has been shown to stimulate a firm's propensity to innovate (Freel, 2005; Ozsomer *et al.*, 1997; Huber *et al.*, 1993; Ettlie, 1983; Hrebiniak & Snow, 1980; Pierce & Delbecq, 1977), which in turn enhances the firm's performance (Damanpour & Schneider, 2006; Fagerberg *et al.*, 2005). However, no previous study has investigated uncertainty as a result of the psychic distance between home and host markets in this context. This knowledge is especially valuable for the 'LOW-TECH' industries when formulating innovation strategies during their internationalization process. According to Mendonca (2009), in the year 2000 'LOW-TECH' industries accounted for about 48% of total measured manufacturing R&D for the whole OECD area. Hence, the third objective of this thesis is to:

Examine the effect of psychic distance on the innovation strategies of 'LOW-TECH' firms during their internationalization process.

1.1.4 Sub-aim 4: Perceived Cultural Distance and Objective Reality

Managers' perceptions of the firm's environment have a crucial role in formulating strategies (Giaglis & Fouskas, 2011; Beyer *et al.*, 1997; Robbins, 1996; Starbuck & Mezias, 1996; Anderson & Paine, 1975; Child, 1972). According to Garg *et al.* (2003), an organization performs better when the managerial perceptions of environmental characteristics match objective reality, *i.e.*, the actual environmental characteristics (Brunswik, 1952). The initial assumption is that managers have accurate perceptions of their organization's environment (Mezias & Starbuck, 2003). However, previous research has reported errors and biases in managers' perceptions of their organization's environment (Starbuck & Mezias, 1996; Lant *et al.*, 1992; Kiesler & Sproull, 1982; Payne & Pugh, 1976; Kahneman & Tversky, 1973). According to O'Grady & Lane (1996), inaccuracies in managers' perceptions of cultural differences and subsequent erroneous forecasts can lead to the wrong goals being pursued and business failure during the internationalization process. This emphasizes the importance of validity of perceptual data in both theoretical and practical domains (O'Grady & Lane, 1996; Starbuck & Mezias, 1996). Hence, the fourth objective of this thesis is to:

> Examine the extent to which managers' perceptions of cultural distance are congruent with objective reality.

1.1.5 Sub-aim 5: Knowledge of Cultural Preferences

Previous research has found that managers' direct experience of an export market leads to more accurate estimation of cultural differences and consequently business success in the export market (O'Grady & Lane, 1996). Inpatriate managers (inpatriates) are host-country personnel in the foreign subsidiaries of Multinational Enterprises (MNEs) whose knowledge of the local market, business practices, and cultural preferences makes them a significant source of international management talent for MNEs (Harzing, 2001). Previous research maintains that the greater the cultural distance between the home country and the host country, the greater the value of inpatriate expertise. Hence, the fifth objective of this thesis is to:

> Discuss the ways in which inpatriate knowledge about the local market can provide a competitive advantage for MNEs in the food industry.

1.2 A Summary of the Problem

Cultural distance is a main component of psychic distance and it has been documented as an essential source of uncertainty during the internationalization process of firms. Previous research has concluded that the distinguishing characteristics of industries affect managers' perceptions of uncertainty and also the strategies chosen to cope with them. Despite the importance and evident internationalized structure of 'LOW-TECH' industries in the developed economies of Western countries, research in this sector is rather limited. There is consequently a gap in previous research regarding how sector-relevant aspects of cultural distance affect a firm's marketing strategies and choices of foreign markets during the internationalization process. Furthermore, the impact of psychic distance on a firm's innovation strategies has not been fully researched. Although aggregated data from secondary sources have been predominantly used for assessing cultural distance between countries, scholars suggest measuring cultural differences at the cognitive level of decision-makers. This is due to the reliance of strategic decisions on managers' perceptions of the firm's environment. However, research validating perceptual data regarding cultural distance is very limited. On the other hand, direct experience of the export market or employing host country personnel may bring the company more relevant and accurate information for making decisions leading to business success.

This thesis consequently examines: 1) The effect of food culture distance on the export marketing strategy of food companies; 2) the effect of food culture distance on choice of foreign markets by food companies; 3) the effect of psychic distance on the innovation strategies of 'LOW-TECH' firms; and 4) the extent to which managers' perceptions of cultural distance are congruent with objective reality. Finally, 5) the ways in which inpatriate knowledge about the local market can provide a competitive advantage for MNEs in the food industry are examined.

1.3 Thesis Outline

The remainder of the thesis opens with a presentation of the theoretical background. An overview of the research design and a more detailed discussion regarding sampling and data analysis are then presented in the section 'Description of the Empirical Work'. This is followed by a summary of the results presented in Papers I-V, which fulfill specific objectives 1-5 respectively. Finally, the main conclusions that can be drawn from these results are presented, followed by a discussion of the business management implications and directions for future research.

2 Managerial Perceptions of the Environment Basis for Strategic Decisions by Firms

"Perception is the root of all organizational behavior" (Mullins, 1999, p. 377). Perception has been described as a critical process that helps people define their worlds and guide their behavior (Cook & Hunsaker, 2001). Perception is a highly subjective interpretation of data that is influenced by an individual's personal traits, characteristics of the perceived target, and the context in which the target is perceived (Swift, 1999; Beyer *et al.*, 1997; Robbins, 1996; Luthana, 1995). Much of the existing *perception* literature has originated from a model of perceptual process (lens model) presented by Brunswik (1952). This model posits that the relationship between individuals' perceptions and their environment is mediated by cognitive processes (Hammond *et al.*, 1980). Accordingly:

> Perception is a process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment (Robbins, 1996, p. 39).
>
> Perception is the selection, organization, and interpretation of sensory data (Cook & Hunsaker, 2001, p. 162).

2.1 Firm Environment

A firm's environment is defined as:

> The totality of physical and social factors that are taken directly into consideration in the decision-making behavior of individuals in the organization (Duncan, 1972, p. 314).

A firm's environment can be divided into its internal and external environment: the former refers to factors within firm boundaries, *i.e.*, organizational properties such as managerial skills, technological characteristics, organizational goals, and organizational culture, whereas the latter refers to factors outside firm boundaries, such as customers, suppliers, competitors, laws, and regulations (Duncan, 1972).

A firm's external environment contains a certain degree of uncertainty, *i.e.*, environmental uncertainty (Knight, 2007; Anderson & Paine, 1975). The degree of this environmental uncertainty depends not only on the absolute characteristics of the environment but also, and more importantly, on managerial perceptions of the environment, *i.e.*, subjective uncertainty (Penrose, 1959). Based on their perceptions of environmental uncertainty, managers formulate strategies for responding to environmental demands (Giaglis & Fouskas, 2011; Beyer *et al.*, 1997; Robbins, 1996; Starbuck & Mezias, 1996; Anderson & Paine, 1975; Child, 1972). To do this, managers match their firm's organizational properties to its external environment (Lawrence *et al.*, 1986; Miles *et al.*, 1974). Penrose (1959, p. 59) states that "obtaining as much as information as is practicable about the possible course of future events" is one of the most important ways of reducing subjective uncertainty. According to Dess & Beard (1984), Bourgeois (1985), and Garg *et al.* (2003), an organization performs better when managerial perceptions of environmental characteristics match objective reality.

2.2 Managerial Perceptions vs. Objective Reality

The initial assumption in many organizational theories and practices is that managers accurately perceive their organizations' internal and external environments (Mezias & Starbuck, 2003). However, previous research has reported errors and biases in managers' perceptions of their firms' external environment (Mezias & Starbuck, 2003; O'Grady & Lane, 1996; Starbuck & Mezias, 1996; Lant *et al.*, 1992; Kiesler & Sproull, 1982; Kahneman & Tversky, 1973) and organizational properties (Payne & Pugh, 1976). By empirically studying senior managers, Mezias & Starbuck (2003) found a prevalence of very large deviations between managers' perceptions of organizational and environmental properties and the corresponding objective data. In an empirical study of Canadian retail companies, O'Grady & Lane (1996) found inaccuracies in Canadian managers' perceptions of the US market as culturally similar to the Canadian market.

Deviations between managers' perceptions and objective reality can be explained by antecedents to managerial perceptions (Sutcliffe, 1994). These antecedents are generally categorized into organizational characteristics (e.g., organization information acquisition systems, organizational structure) (Sutcliffe, 1994) and the individual's psychological characteristics (cognitive style) (White *et al.*, 2003).

2.2.1 Organizational Characteristics

According to Sutcliffe (1994), limited information processing capabilities and the vast quantity and diversity of relevant and accessible information may cause managers to overlook certain aspects of their environment. Therefore, deviations between managers' perceptions of the firm's environment and objective reality can be explained by factors that impede or enhance organizational information processing (Sutcliffe, 1994; Miles *et al.*, 1974). The information acquisition systems used in an organization (Sutcliffe, 1994; Fredrickson & Iaquinto, 1989) and the organizational structure (Mezias *et al.*, 2001; Harris, 1996; Sutcliffe, 1994) exert an important influence on organizational information processing, and hence managerial perceptions.

Information Acquisition Systems

Organizational scanning and performance monitoring are systems by which managers acquire information on the firm's environment (Sutcliffe, 1994). Organizational scanning involves gathering information from the external environment, through which managers acquire relevant knowledge and communicate it to other members of the organization. Performance monitoring, on the other hand, involves gathering information from the internal environment and refers to constant acquisition of up-to-date information about the effectiveness of an organization's operations (Sutcliffe, 1994). According to Sutcliffe (1994), more intense and more frequent organizational scanning enhances the recognition of relevant environmental information, while high levels of performance monitoring facilitate the recognition of environmental problems and opportunities (Eisenhardt, 1989). Through an empirical study, Sutcliffe (1994) found that a high degree of organizational scanning enhances the congruence between managerial perceptions of the firm's environment and objective reality.

Structure

An organization's structure is suggested to influence how information is processed within the organization (Mezias *et al.*, 2001; Harris, 1996; Sutcliffe, 1994). Excluding lower-level members when making important decisions in highly centralized organizations may result in those ignored members failing to recognize important environmental signals or failing to communicate any signals that they do recognize to the top management team, possibly influencing the validity of managers' perceptions of their environment (Sutcliffe, 1994; Fredrickson & Iaquinto, 1989). Sutcliffe (1994) found that a low degree of centralization enhances the congruence between managerial perceptions of a firm's environment and objective reality.

2.2.2 Psychological Characteristics

Previous research suggests that individuals' psychological characteristics (cognitive style) may influence their managerial perceptions (White *et al.*, 2003, p. 64). Cognitive style refers to:

> The relatively stable mental structures or processes that people prefer when they perceive and evaluate information (White *et al.*, 2003, p. 64).

Extroverts are likely to be more proactive in seeking input from others and more adept at interacting with others when making decisions. Managers with a more judging-oriented cognitive style are more likely to believe that they have adequate information to make decisions, and hence perceive less risk and experience less uncertainty.[3] Being more adaptive, ambitious and tolerant of risk are characteristics of managers with a more intuiting and thinking cognitive style (White *et al.*, 2003; Jung, 1971). In an empirical study, White *et al*. (2003) found that managers' cognitive style significantly affected their perceptions of market situations. Those authors concluded that the more extrovert, judging, intuiting and thinking cognitive styles are associated with the extent to which market situations are perceived as controllable, while the more introvert, perceiving, sensing and feeling styles are associated with being more cautious and sensitive to threats when evaluating market situations.

[3] Note that uncertainty refers to managers' confidence in their estimates or expectations, whereas risk refers to the possible outcomes of action (Penrose, 1959).

3 Psychic Distance: A Perceived Distance

Psychic distance has been widely used to explain a firm's behavior during the internationalization process (Dikova, 2009). Since Beckerman (1956) first introduced the concept of psychic distance, a variety of definitions have been proposed. Johanson & Vahlne (1977, p. 24) defined psychic distance as "the sum of factors preventing the flow of information from and to the market". Examples of these preventive factors are differences in culture, language, education, business practices, and industrial development. Nordström & Vahlne (1994, p. 42) broaden this definition and include the term "learning". They define psychic distance as "factors preventing or disturbing firm's learning about and understanding a foreign environment". By inserting the notion "perception", Swift (1999, p. 182) views psychic distance as "a consequence of a number of interrelated factors, of which perception is a major determinant". Moreover, according to Sousa & Bradley (2005, p. 44), psychic distance refers to "individual's perception of the differences between the home country and the foreign country". In this thesis, the definition by Evans & Mavondo (2002) is adopted in which psychic distance is defined as:

> The distance between the [firm's] home market and a foreign market, resulting from the perception of both cultural and business differences (Evans & Mavondo, 2002, p. 517).

This definition is used because, first, it involves the notion of perception, which reflects the subjective nature of psychic distance (Prime *et al.*, 2009; Swift, 1999; Stöttinger & Schlegelmilch, 1998); second, the notion "distance" in this definition refers to similarity or difference between the home market and the host market, which is the most commonly used approach to measure (psychic) distance (Prime *et al.*, 2009); and third, it contains the most important constituent dimensions of psychic distance, *i.e.*, cultural and business distance[4] (Prime *et al.*, 2009; O'Grady & Lane, 1996).

3.1 Cultural Distance

Culture is defined as:

> The collective programming of mind that distinguishes the members of one group or category of people from another (Hofstede, 2001, p. 10).

According to Brown (1995, p. 8), "culture consists of basic human norms, ideas, values and beliefs". Therefore, how an individual behaves, communicates with others, or interprets information may be influenced by his or her culture (Carlson, 1974). Cultural distance accordingly refers to "the extent to which the shared norms [ideas, beliefs] and values in one country differ from those in another" (Drogendijk & Slangen, 2006, p. 362).

The concept of cultural distance is one of the most widely researched concepts in the field of international business (Shenkar, 2001). Aggregated data based on Hofstede's (1980) dimensions of national culture have been predominantly used to determine the cultural distance between countries in international business research (Drogendijk & Slangen, 2006). According to Hofstede (1980), national cultures differ substantially along four dimensions, *i.e.*, power distance, individualism, masculinity, and uncertainty avoidance (see Paper IV for a description of national culture dimensions). Based on a standardized factor analysis of questionnaires from more than 117,000 national employees in more than 40 overseas subsidiaries of IBM (1967-1973), Hofstede created ordinal scales for countries for each dimension.

Strategic decisions and organizational behavior, however, rely on managerial perceptions of the firm's environment (Giaglis & Fouskas, 2011; Beyer *et al.*, 1997; Robbins, 1996; Starbuck & Mezias, 1996; Anderson & Paine, 1975; Child, 1972). Therefore, several scholars suggest using perceptual data in assessing cultural differences (Håkanson & Ambos, 2010; Zhao *et al.*, 2004; Mezias *et al.*, 2002; Shenkar, 2001; O'Grady & Lane, 1996; Johanson & Vahlne, 1977). Consequently, a number of studies have examined the explanatory power of perceived cultural distance for a firm's internationalization decisions (Evans *et al.*, 2008; Drogendijk & Slangen, 2006; Evans & Bridson, 2005; Evans & Mavondo, 2002; Luo *et al.*, 2001;

[4] Business distance refers to differences in legal and political environment, economic environment, market structure, and business practices (Evans & Mavondo, 2002).

Bello & Gilliland, 1997; O'Grady & Lane, 1996; Shoham, 1995; Kim & Hwang, 1992).

3.2 Misperceptions of Cultural Distance

O'Grady & Lane (1996, p. 329) state that "perceived similarity can lead to carelessness and failure". In other words, underestimating the slight, but important, differences between the home market and a culturally close market may result in poor performance for a firm in those markets in relation to distant markets. Through studying the performance of Canadian retail companies that entered the United States market, O'Grady & Lane (1996) found that the inaccuracy of Canadian managers' perceptions of the US market as culturally similar to that of Canada was an underlying reason for their failure in that market. On the other hand, successful companies had managers with direct experience of the US market, or hired American managers who recognized cultural differences prior to entry to the US market and considered these in their entry decisions. This emphasizes the value of inpatriates as a source of knowledge of the local market (Harzing, 2001).

3.3 Inpatriates: Sources of Knowledge of Cultural Preferences

Inpatriates are host country personnel in the foreign subsidiaries of MNEs whose knowledge of the local market, business practices, and cultural preferences makes them a significant source of international management talent for MNEs. Expatriates, on the other hand, are home country personnel who hold key positions in the foreign subsidiaries of MNEs (Harzing, 2001), mainly to establish control in the foreign market (Farndale *et al.*, 2010).

Inpatriates interact directly with local employees and are familiar with local laws, rules, and practices. The role of inpatriates is especially relevant when knowledge about the host country is important to the manager's specific function. The greater the cultural distance between the home country and the host country, the greater the value of inpatriate expertise. Growing market opportunities in developing economies (e.g., China, India, Brazil) have led to MNEs offshoring their activities there (Buckley, 2009), but MNEs often face great social, cultural, and institutional gaps in these countries that can make market entry and management of local business activities difficult. Thus, their depth of knowledge about the local market makes inpatriates great candidates for managing these operations (Reiche, 2006; Harzing, 2001).

4 Perceived Cultural Distance as a Basis for Internationalization Decisions

Perceived cultural distance has been applied to explain a variety of managerial decisions during the firm's internationalization process, *inter alia*, international marketing strategies (Evans *et al.*, 2008; Evans & Bridson, 2005) and foreign entry mode choices (Drogendijk & Slangen, 2006; Taylor *et al.*, 1998; Kim & Hwang, 1992). Research in foreign market selection has, however, mostly focused on aggregated data from secondary sources to assess cultural distance rather than using data at the cognitive level of decision makers (Dow & Ferencikova, 2010; Dow & Karunaratha, 2006; Dow, 2000).

4.1 Cultural Distance and Export Marketing Strategies

Exporting is one of the most common means of entering international markets (Stöttinger & Schlegelmilch, 1998). Because of its low level of financial and management commitment and resource transfers, exporting is generally recognized as being the least-risk entry mode into international markets (Young, 1989). According to Cavusgil & Zou (1994), export marketing strategy is a means to respond to the firm's environment to meet the objectives of the export venture.

When applying an export marketing strategy, firms face a global–local dilemma (Johnson *et al.*, 2011), *i.e.*, whether they should standardize or adapt their export marketing strategy in order to meet the export venture objectives (Shoham, 1995). Levitt (1983), one of the most eminent advocates of standardization, argues that technology is a powerful force driving the world toward a converging commonality in which markets are homogenized and thus suited for standardized products. In contrast, proponents of the adaptation approach dispute this, claiming that the existence of significant dissimilarity in culture, legal, and political systems and customer values, *etc.*, between markets means that marketing programs must be adapted to the conditions of the target markets (Calantone *et al.*, 2004; Cavusgil & Zou, 1994; Cavusgil *et al.*, 1993). Calantone *et al.* (2004) argue that by adapting their marketing programs, firms may adapt the physical characteristics or attributes of products and their packages to the export market. Hence, by applying this strategy, exporting firms are trying to consider the major differences between nations and markets when making marketing decisions, in order to satisfy the needs of customers in each specific market. In contrast, when firms standardize their marketing programs, they are in fact ignoring the existence of dissimilarities between markets. Offering the same product in all markets may not satisfy all customers, so it is not always a feasible strategy (Calantone *et al.*, 2004).

Cultural distance is one of the forces that influence the extent of export marketing strategy adaptation (Evans *et al.*, 2008; Evans & Bridson, 2005; Calantone *et al.*, 2004; Cavusgil *et al.*, 1993). Evans & Bridson (2005) argue that significant cultural differences between the firm's home and export markets make the firm adapt its product to the target market. The rationale is that perceiving greater uncertainty in target markets that differ considerably from the firm's home market may lead it to conduct more extensive market research, which may suggest that certain product attributes should be adapted to the export market (Evans *et al.*, 2008; Evans & Bridson, 2005).

The adaptation of export marketing strategy by adapting the products is a more important issue in the 'LOW-TECH' industries (Cavusgil *et al.*, 1993). The argument is that products in 'LOW-TECH' industries are often more connected to customer tastes, habits, and customs, which differ from market to market (Rama, 2008; Cavusgil & Zou, 1994; Cavusgil *et al.*, 1993). Therefore, the extent of an industry's technology orientation negatively influences the degree to which it adapts its export marketing strategy.

4.1.1 Export Marketing Strategy and Export Performance

Previous research results are inconsistent as to the correlation between export marketing strategy adaptation and firm performance. Levitt (1983) concluded that standardizing their marketing programs allows firms to compete effectively in the global market. By standardizing their strategy and essentially exporting the same products to all markets, exporting firms achieve lower costs due to economies of scale, which positively influences firm performance. Moreover, Evans *et al.* (2008) argue that by adapting their products to export markets, firms may face difficulties competing against local players, *i.e.*, they "fail to capitalize on their uniqueness" (p. 53), which might result in poor performance. On the other hand, proponents of strategy adaptation claim that adapting the products will provide opportunities for differentiation to satisfy all customer requirements in an export market (Buckley & Ghauri, 2004; Cavusgil & Zou, 1994), which may enhance firm performance (Porter, 2004). Another group of scholars discards the linear relationship between the adaptation/standardization of export marketing strategy and firm performance. Johnson *et al.* (2011) argue that by adapting their export marketing strategy, firms are responding to customer requirements and may therefore enlarge their sales. However, in the long run, the cost of this strategy adaptation may exceed the benefits. Accordingly, Yip *et al.* (2006) suggest that export marketing strategy adaptation has a non-linear (inverted U-shaped) relationship with export performance, *i.e.*, a certain degree of export marketing strategy adaptation may improve firm performance, but exceeding that leads to declining performance. Hence, in terms of firm performance, whether to adapt or standardize the marketing strategy can be seen as a decision based on a tradeoff between the cost advantages of standardization and the revenue advantages of adaptation (Buckley & Ghauri, 2004).

4.2 Cultural Distance and Foreign Market Selection

A firm needs to answer at least two fundamental questions in its internationalization process: (i) where to internationalize (foreign market selection), and (ii) how to internationalize (entry mode selection)[5] (Johnson *et al.*, 2011). According to Papadopoulos & Jansen (1994), foreign market selection and entry mode selection are two different decisions, with foreign market selection coming first (Root, 1998). This thesis centers on the first question, the choice of foreign markets, and focuses on export as one of the most common means of entering international markets (Stöttinger & Schlegelmilch, 1998).

Firms internationalize to find and exploit business opportunities in overseas markets (Johanson & Vahlne, 2009). However, exploiting these opportunities entails costs for firms, including transportation and communication costs related to the geographical distance to the target market (O'Rourke & Williamson, 2002; Ghemawat, 2001; Beckerman, 1956) and costs related to cultural, economic, and administrative differences between the firm’s location and the target market (Ghemawat, 2001; Johanson & Vahlne, 1977). Hence, selecting a foreign market during internationalization can be seen as a decision based on a trade-off between the costs of expanding to a particular market and the expected returns. When the expected returns from expansion into a market exceed the costs, firms are likely to enter the market (Malhotra *et al.*, 2009).

[5] Examples of entry modes are exporting, selling via agent, sales subsidiary, and production subsidiary (Johanson & Vahlne, 1977).

Cultural and other differences, however, do not always only entail costs, but also provide business opportunities for firms that may be explained by the notion "psychic distance paradox" (Evans *et al.*, 2008; Evans & Mavondo, 2002; O'Grady & Lane, 1996), as discussed in Chapter 5.

5 The Psychic Distance Paradox

Scholars have applied the notion of psychic distance to explain firm performance when operating in international markets (Evans *et al.*, 2008; Slangen, 2006; Evans & Mavondo, 2002; O'Grady & Lane, 1996). However, the results of previous research have been paradoxical (Prime *et al.*, 2009).

5.1 The Internationalization Process Model

The internationalization process model focuses on:

> The gradual acquisition, integration and use of knowledge about foreign markets and operations, and on the incrementally increasing commitments to foreign markets (Johanson & Vahlne, 1977, p. 23).

The model originated from the behavioral theory of the firm (Cyert & March, 1963) and states that, firms initially internationalize to markets they perceive as psychically close, then gradually, by acquiring international experience, expand into distant markets. Cultural and other similarities with the firm's home market make the close markets attractive to firms with limited international experience (Johanson & Vahlne, 1977). Firms expect that because of these similarities, they can transfer their knowledge of their own market to the psychically close markets, resulting in potentially better performance than in more distant markets (Nordstrom & Vahlne, 1994; Kogut & Singh, 1988).

This proposition has been confirmed by a number of empirical studies (Chelariu *et al.*, 2006; Slangen, 2006; Luo & Peng, 1999). Another group of studies, on the other hand, under the title 'the psychic distance paradox' (O'Grady & Lane, 1996), has revealed that firms may achieve better performance in distant markets than in close markets which are most similar to the firm's home market (Hang & Godley, 2009; Evans *et al.*, 2008; Tihanyi *et al.*, 2005; Evans & Mavondo, 2002; Morosini *et al.*, 1998).

O'Grady & Lane (1996) argue that in psychically close markets, firms may encounter stronger competition from local firms due to difficulties in establishing a clear basis for differentiation. Evans *et al.* (2008) and Evans & Mavondo (2002) suggest that the unique opportunities available in terms of first-mover advantages and less direct competition in markets that are perceived as significantly different may encourage companies—especially those based in highly developed markets—to expand into distant markets. In a study of cross-border acquisitions, Morosini *et al.* (1998) found that acquiring firms in distant countries may provide companies with access to routines and repertories that enhance the (combined) performance of the firm. According to Evans *et al.* (2008) and Evans & Mavondo (2002), when entering a psychically distant market firms are likely to perceive a high level of uncertainty. To reduce this uncertainty, firms conduct more extensive market research and planning by which their strategic decision making, and hence performance, is likely to be improved.

A firm entering distant markets is likely to adapt its marketing strategies (e.g., products) to a greater extent than when entering psychically closer markets. This is because the perception of greater uncertainty in distant markets may lead it to conduct more extensive market research (Penrose, 1959), which may suggest that certain product attributes must be adapted to the export market (Evans *et al.*, 2008; Evans & Bridson, 2005). Moreover, firms may also undertake obligatory adaptation in response to requirements (differences) in the new market environment (Evans *et al.*, 2008). Adaptation of marketing strategies will provide opportunities for differentiation to satisfy all customer requirements in an export market (Buckley & Ghauri, 2004; Cavusgil & Zou, 1994), which may enhance firm performance (Porter, 2004). Perceiving greater uncertainty in distant markets may also lead firms adopting low-cost/low-control entry mode strategies (e.g., joint ventures, strategic alliances, and franchises) (Kogut & Singh, 1988) in particular to minimize the financial exposure in distant markets (Evans *et al.*, 2008; Brouthgers, 1995). Consequently, psychically distant markets may provide unique business opportunities to firms that may not be available in the psychically close markets most similar to their home market. These attributes make distant markets an attractive target for internationalizing firms.

Moreover, previous research has shown that perception of uncertainty makes firms undertake innovative strategies (Freel, 2005; Ozsomer *et al.*, 1997; Huber *et al.*, 1993; Ettlie, 1983; Hrebiniak & Snow, 1980; Pierce & Delbecq, 1977), which in turn enhances firm performance (Damanpour &

Schneider, 2006; Fagerberg *et al.*, 2005). Perceiving a high level of uncertainty when entering psychically distant markets promotes the adoption of innovative strategies, which in turn leads to improved firm performance.

5.2 Psychic Distance and Innovation Strategies

Organizational innovation is a multi-stage process encompassing generation, development, and implementation of an idea or behavior new to the adopting organization (Damanpour, 1996). Organizational innovation is generally perceived as one of the important determinants of a firm's competitiveness which enhances organizational performance (Baregheh *et al.*, 2009; Kafouros *et al.*, 2008; Ghazalian & Furtan, 2007; Damanpour & Schneider, 2006; Fagerberg *et al.*, 2005; Alfranca *et al.*, 2004; Hall & Mairesse, 1995). Investments in innovation may result in, *inter alia*, the development and licensing of new technologies, adoption of more efficient production techniques, and introduction of new products and processes (Kafouros *et al.*, 2008; Hall & Mairesse, 1995).

Previous research on innovation has mainly focused on technological innovations (*i.e.*, product and production process innovations) (Weerawardena, 2003b; Weerawardena, 2003a). However, according to Weerawardena (2003b; 2003a), firms undertake both technological and non-technological innovations (*i.e.*, managerial and marketing innovations), all of which can lead to competitive advantages. Organizational innovation is, accordingly, defined as:

> The application of ideas that are new to the firm, to create added value either directly for the enterprise or indirectly for its customers, whether the newness and added value are embodied in products, processes, services, or in work organization, management or marketing systems (Weerawardena, 2003b, p. 20).

Research has shown that innovation is a means of changing an organization by which the organization responds to changes in the external environment or influences the environment (Damanpour, 1996; Baldridge & Burnham, 1975). Environmental uncertainty creates conditions in which innovators may prosper, and therefore a high level of environmental uncertainty leads to the generation of more innovation (Freel, 2005; Ozsomer *et al.*, 1997; Huber *et al.*, 1993; Ettlie, 1983; Hrebiniak & Snow, 1980; Pierce & Delbecq, 1977), while a low level of environmental uncertainty results in decreased innovation activity (Damanpour, 1996). The underlying argument is that perceiving environmental uncertainty triggers the use of strategies for interaction and integration with the market environment, for example, the adoption and production of process, product, and service innovations in order to cope with the new environment (Ozsomer *et al.*, 1997; Russell & Russell, 1992; Ettlie, 1983; Pierce & Delbecq, 1977; Baldridge & Burnham, 1975).

5.2.1 Psychic Distance-Innovation-Firm Performance

Documented evidence shows that a firm's external environment affects the level of success it achieves through innovation (Zahra & Covin, 1995). Previous research has found that innovation has a particularly large effect on the performance of highly internationalized firms (Kafouros *et al.*, 2008; Kotabe *et al.*, 2002; Hitt *et al.*, 1997). The lack of sufficient information to predict challenges in a new foreign market increases the perception of uncertainty in those psychically distant markets (Yamin & Sinkovics, 2006; Penrose, 1959). The perception of a high degree of uncertainty when expanding into psychically distant markets stimulates innovation strategies to cope with the new environment (Ozsomer *et al.*, 1997; Russell & Russell, 1992; Ettlie, 1983; Pierce & Delbecq, 1977; Baldridge & Burnham, 1975). Innovations and their subsequent competitive advantages in turn lead to enhanced firm performance (Damanpour & Schneider, 2006; Fagerberg *et al.*, 2005; Zahra & Covin, 1995). According to Garg *et al.* (2003, p. 728), "firms that confront uncertainty where it exists, via innovation, typically outperform those that ignore its presence."

5.2.2 Innovation Strategies within the 'LOW-TECH' Sector

Hirsch-Kreinsen (2008) maintains that three typical innovation strategies can be distinguished in companies within the 'LOW-TECH' sector: product innovation, production process innovation, and marketing innovation. Product innovation in these industries is generally characterized as incremental, *i.e.,* improving the material, function, and quality of products without departure from the existing structure and technological principles (Damanpour, 1996). Production process innovation typically concerns industries with technologically mature products targeting relatively stable market segments (e.g., the food industry). Industries pursuing production process innovation are sectors with products manufactured on a high level of automation and using integrated process technologies mainly to optimize the process technologies (e.g., the food, forestry, and fishery industries). Marketing innovation aims to improve the market position and create new markets. This strategy concerns fashion-oriented design products which enable a rapid response to customer requirements (e.g., the garment and furniture industries) (Hirsch-Kreinsen, 2008; Damanpour, 1996).

6 Food Culture Distance

Food can be described as a manifestation of a nation's culture (Montanari, 2006; Rozin, 2006; Anderson, 2005; Fiddes, 1995; Lannon, 1986). According to Hofstede (2001), a nation's culture is visualized in symbols, rituals, and values. Fiddes (1995) claims that who we are is manifested in what we eat. Anderson (2005) points out that people consume food not only to meet their nutrient needs, but also to communicate, for comfort, or to "affirm religious faith". According to Anderson (2005), food is produced, prepared, and consumed inspired by human culture. Moreover, although humans are able to eat anything, they choose food based on their own preferences. Rozin (2006) describes food as a social marker that identifies one's group; food is an arena for making social contacts, expressing affection, and communicating.

Taste is cited as one of the main factors determining consumer choice of food (Raats *et al.*, 1995). Nonetheless, Montanari (2006) argues that despite the common perception that the tongue is the organ of taste, the mind—which is shaped by culture—in fact plays the most important role in tasting food. Rozin (2006) states that culture is the predominant factor influencing human food choice, a statement confirmed by empirical research (Schroeter *et al.*, 2007). Food culture is defined as:

> A culinary order whose traits are prevalent among a certain group of people (Askegaard & Madsen, 1998, p. 550).

According to Swift (1999), dissimilarity in food culture among societies is one of the most important aspects of cultural distance between different countries. *Food culture distance* in this thesis accordingly refers to managers' perceptions of similarity or difference in consumer food behavior between the home market and a foreign market.

6.1 Food Culture Distance and Internationalization Decisions

According to Buisson (1995), owing to the close integration of food with culture, it is difficult to promote the same food products in different markets, whereas other products can be promoted in different markets with only minor changes. Traill (1998) argues that the integration of food with culture remains a resistance factor against the pressures of globalization toward converging patterns of food consumption among nations. Boddewyn & Grosse (1995) claim that dissimilarity in customer tastes is a key external obstacle to standardizing marketing practices for consumer non-durable products such as food. Hence, food exporters can be expected to adapt their export marketing strategies to a considerable degree when exporting to markets that differ substantially in terms of food culture, largely in order to satisfy customer tastes and preferences in the export markets (Calantone *et al.*, 2004).

Distant markets in terms of food culture, on the other hand, may provide unique business opportunities for food companies that may not be available in the markets with the most similar food culture to their home market. In distant markets, food companies may face less direct competition and have more opportunity to differentiate (O'Grady & Lane, 1996). Furthermore, perceiving great differences in distant markets may also affect the strategic decisions by which a firm improves its performance (Evans *et al.*, 2008; Evans & Mavondo, 2002; Brouthgers, 1995; Cavusgil & Zou, 1994). Consequently, markets in which consumers have a substantially different food culture from the firm's home market are likely to be attractive specifically for the experienced food exporters to enter.

6.2 A Proposed Model for Measuring Food Culture Distance

Through analyzing the data from a 1989 lifestyle survey, Askegaard & Madsen (1998) introduced the following dimensions for measuring the construct *food culture*: fundamental food style, trends, preferences, nibbling habits, drinking habits, and diet willingness and behavior. The first dimension, *fundamental food style*, refers to questions concerning general patterns of food consumption and interest in food products. *Trends* covers aspects of trends in daily food consumption (e.g., convenience food and fast food). *Preferences* concerns the desire for a variety of food products and attributes (e.g., liquid substances and freshness). *Nibbling habits* refers to food consumption patterns between meals (e.g., consumption of fruits and candies). *Drinking habits* refers to drinking patterns. Finally, *diet willingness and behavior* covers matters of health consciousness, controlled eating programs, *etc.* (Askegaard & Madsen, 1998). The original survey—used by Askegaard & Madsen (1998)—was carried out by the Centre de Communication Avancé (CCA), a marketing research agency in Paris, in cooperation with the Europanel network of opinion research institutes in 15 European countries. The primary purpose of the survey was to generate a pan-European lifestyle typology drawing on approximately 20,000 respondents from those 15 European countries. Askegaard & Madsen (1998) focused only on the results of the 138 food-related questions that were part of the CCA survey and looked at the traits of homogeneity and heterogeneity in European food cultures.

Since the respondents in the present thesis consisted of managers, rather than consumers as in the original study, an adapted form of Askegaard & Madsen's (1998) dimensions and indicators was devised as a means to assess *food culture distance* between countries (see Table 1). Moreover, through consulting experts in marketing research, some dimensions and indicators were updated and modified for the present research context (Churchill, 1979).

Table 1. *Food culture distance dimensions and indicators (adapted from Askegaard & Madsen, 1998)*

Construct: Food culture distance	Indicators
Dimension 1: Fundamental food style	The speed at which meals are eaten on weekdays
	Number of small meals eaten
	Interest in food products
	Interest in cooking
	Interest in eating at home
Dimension 2: Trends	Concerns about health
	Convenience food in daily meals
	Fast food in daily meals
	Nibbling between meals
Dimension 3: Preferences	Preference for stimulating and challenging tastes
	Preference for tasting and feeling the food
	Preference for fresh fruit
	Preference for tasty, unhealthy food
	Preference for liquid substances
	Preference for creamy food
	Preference for something to cut up

Table 1. *Continued*

Dimension 4: Nibbling habits	Nibbling candies and pastries
	Nibbling fruits
	Nibbling ordinary chocolate bars
	Nibbling salty snacks
	Nibbling good quality mini-meals
	Nibbling convenient and unhealthy small meals
	Nibbling sophisticated chocolate bars
	Nibbling small delicious candies
Dimension 5: Drinking habits	Drinking red wine
	Drinking white wine
	Drinking strong alcohol
	Drinking something quick and convenient
	Drinking something healthy
	Drinking cola products
	Drinking beer
	Drinking something expensive and sophisticated
Dimension 6: Diet willingness and behavior	Health consciousness
	Watching the weight
	Asceticism
	Controlled eating program

7 Description of the Empirical Work

The empirical work in this thesis was based on quantitative data from two separate surveys, hereafter referred to as survey i and survey ii. Questionnaires were used as the data collection technique in both studies. This approach is appropriate when the research is explanatory, *i.e.*, its main purpose is to examine and explain the relationships between variables (Saunders *et al.*, 2009), as was the case in the present thesis. Moreover, a questionnaire is an efficient way of collecting responses from a large sample, since the researcher is able to ask the same questions of all respondents within the sample (Saunders *et al.*, 2009). The Dillman (1991) total design method for mail surveys was applied in this thesis. A stamped, addressed envelope was enclosed with each questionnaire to minimize the cost of replying on the part of the respondent. Furthermore, a summary of the results was promised as a reward to respondents who participated in the study. Finally, the university letterhead was used for both the cover letter and the questionnaire to help establish the creditability of the survey. It should be noted that all questions (measures) within the questionnaires were based on the extant literature, but were modified for the present research context (Churchill, 1979). In the following paragraphs, more detailed information about the empirical work is provided.

7.1 Survey i

Survey i generated the underlying data for Papers I and II. The purpose of the survey was to measure the construct *food culture distance*; the extent of export marketing strategy adaptation by firms; and firm performance in export markets.

7.1.1 Sampling and Data Collection

The sample for survey i consisted of the total population of Swedish and Finnish food processing companies, totaling 358 firms. Since 1998, Sweden's export value of food (including beverages) has increased by more than 130% (Statistics Sweden, 2011). The corresponding value for Finland is approximately 200% (Eurostat, 2010; Eurostat, 2008). This degree of growth calls for research specifically into internationalization issues within the food sectors in those countries.

Two registers of data on Swedish and Finnish food processing companies were acquired, from Statistics Sweden and Statistics Finland, respectively. These agencies were asked to provide the total population of food processing companies that satisfied the following criteria: (1) Exported food products; (2) to at least three foreign markets; (3) for at least three years (Evans *et al.*, 2008; Evans & Mavondo, 2002). These criteria ensured that the respondents had adequate international competence and were established in their target markets.

A formal structured questionnaire (see Appendix D in Paper I) was used to collect the data from the respondents during May-August 2010. In the case of Finnish companies, to reduce the risk of misinterpretation, questionnaires were professionally translated into Finnish (Saunders *et al.*, 2009). Following Evans & Mavondo (2002) and Evans *et al.* (2008), the respondents were initially asked to name two foreign markets to which their company had exported food products during the previous three years. They were then asked to specify which of these foreign markets they perceived as most similar to their home market (Sweden/Finland) in terms of culture and business practices and which they perceived as being different from Sweden/Finland. The respondents were asked to specify the extent to which food culture (see Table 1 for the measures) was perceived to differ in two pre-nominated export markets versus the company's home market (Sweden/Finland) using a seven-point Likert scale ranging from 1 = "totally the same" to 7 = "totally different". In the next step, respondents were asked to specify the extent to which they adapted their products when exporting to two pre-nominated markets using a seven-point Likert scale ranging from 1 = "no adaptation at all" to 7 = "total adaptation." Finally, respondents were asked to indicate the extent to which a number of financial performance indicators had changed over the previous three years in each pre-nominated export market, using a seven-point Likert scale ranging from 1 = "decrease of more than 20%" to 7 = "increase of more than 20%."

A usable sample of 63 was obtained, yielding a raw response rate of 18%. However, after removing the irrelevant cases from the original population (e.g., companies that exported animal feed, had gone bankrupt, or no longer exported), the effective rate was approximately 21% (*i.e.*, 63 of 305). This amounted to a sample of 126 export ventures corresponding to 30 export markets. This response rate was achieved because the respondents were asked to answer all questions twice, once with reference to an export venture in a psychically close market and once with reference to an export venture in a psychically distant market (Evans *et al.*, 2008; Evans & Mavondo, 2002). Consequently, the unit of analysis in Papers I and II was the individual export venture rather than the firm itself (Lages *et al.*, 2009; Lages *et al.*, 2007; Cavusgil & Zou, 1994).

7.1.2 Descriptive Statistics

In the following, a selection of descriptive statistics is presented to provide a general outline of the data collected in survey i.

In terms of their characteristics, as displayed in Table 2, the respondents came from a diverse range of business lines classified within the food processing industry, in which companies producing bakery and farinaceous products (23%), preserved meat and meat products (14%), and beverages (12%) were over-represented.

Table 2. *Respondent characteristics in terms of line of business.*

Lines of business covered by the study
Bakery and farinaceous products
Preserved meat and meat products
Beverages
Processed and preserved fish, crustaceans, and mollusks
Dairy products
Grain mill products, starches, and starch products
Processed and preserved fruit and vegetables
Vegetable and animal oils and fats
Other food products

The majority of international operations in the sample were based in Sweden (96) and the remainder in Finland (30). The sample covered export ventures into 30 countries (see Table 3).

Table 3. *Export markets covered by survey i.*

Export markets				
Australia	Dubai	Holland	Norway	Switzerland
Austria	El Salvador	Italy	Poland	Taiwan
Bangladesh	Estonia	Japan	Romania	USA
Belgium	Finland	Kuwait	Russia	Ukraine
China	France	Monaco	Saudi Arabia	Venezuela
Denmark	Germany	New Zealand	Sweden	Yemen

7.2 Survey ii

Survey ii[6] generated the underlying data for Papers III and IV. The purpose of the survey was to measure the constructs *cultural distance* and *business distance*; the innovation intensity of firms; and firm performance in export markets.

7.2.1 Sampling and Data Collection

The sample for survey ii consisted of randomly selected Swedish companies from the following industries: forestry, fishing, food products, beverages, garments, and furniture that satisfied the following criteria: (1) Having exported products during a period of at least 3 years; (2) to at least two foreign markets (Evans *et al.*, 2008; Evans & Mavondo, 2002). Sweden is well suited to the subject of the study because it is a developed country with a very small domestic market, so its economy is extremely dependent on exporting into international markets. According to the World Bank (2012) national accounts data, about 50% of Sweden's GDP comes from exports of goods and services to international markets. Furthermore, the industries included in the sample are well suited for study since although they can be considered 'LOW-TECH' (OECD, 2005), a trend toward a more internationalized structure has been observed specifically in those industries in Sweden during the past decade (Statistics Sweden, 2012).

Data collection for survey ii was conducted through TNS SIFO, a recognized marketing research agency in Sweden, during February-April 2012. A formal structured questionnaire (see Appendix C in Paper III) was used to collect the data from senior managers as key informants. The respondents were asked to nominate two foreign markets to which their company had exported products during the previous three years. They were asked to specify which of these foreign markets they perceived as not so different from their home

[6] Survey ii was funded by "Stiftelsen Olle Hakelius Stipendiefond".

market (Sweden) in terms of culture and business practices and which they perceived as different from Sweden (Evans *et al.*, 2008; Evans & Mavondo, 2002). In the next step, respondents were asked to indicate the degree of innovation intensity that the firm had undertaken in the previous three-year period in the foreign market on a seven-point scale ("1 = limited/incremental," and "7 = extensive/radical") (Weerawardena, 2003b; Weerawardena, 2003a). Finally, they were asked to indicate the degree to which several financial and strategic performance indicators had changed in the previous three-year period in the foreign market on a seven-point scale (1 = "decrease of more than 20%," and 7 = "increase of more than 20%") (Evans *et al.*, 2008; Evans & Mavondo, 2002).

In all, 158 responses were received from the total of 573 companies in the population (≈28%), potentially amounting to 316 export ventures. This response rate was achieved because the respondents were asked to answer all questions twice, once with reference to an export venture in a psychically close market and once with reference to an export venture in a psychically distant market (Evans *et al.*, 2008; Evans & Mavondo, 2002). After removing the incomplete questionnaires, the final responses corresponded to 186 export ventures into 23 countries. The non-response bias was tested by comparing early and late respondents (early respondents were defined as the first 75% to return questionnaires and late as the last 25%) for number of full-time employees, number of years of exporting, and number of export markets. The lack of significant differences between the early and late respondents suggests that response bias was not a significant problem in the survey (Armstrong & Overton, 1977). Consistent with previous research (Lages *et al.*, 2009; Lages *et al.*, 2007; Cavusgil & Zou, 1994), a single export venture was assumed as the unit of analysis in this study.

7.2.2 Descriptive Statistics

In the following, a selection of descriptive statistics is presented to provide a general outline of the collected data.

In terms of the characteristics of the key informants, the majority (60%) were CEOs and the remainder held other senior positions. With regard to the number of full-time employees, approximately 72% of the firms in the sample had less than 50 full-time employees. As shown in Table 4, the majority of firms in the sample had significant international experience. The number of years that firms had engaged in exporting operation averaged 20. The number of export markets per firm averaged 8.

Table 4. *Extent of international experience in the sample.*

Organizational characteristics	Mean	S.D.	Range
Number of years engaged in exporting	20	13.2	2-55
Number of export markets	8	7.4	1-37

Approximately 80% of the export ventures targeted other EU countries, and the remainder targeted non-EU countries. The leading countries in the sample were Norway, Denmark, Finland, Germany, UK, Russia, and the USA. Table 5 lists the export markets covered by the survey.

Table 5. *Export markets covered by survey ii.*

Export markets			
Belgium	France	Russia	South Korea
Bosnia	Germany	Lithuania	Spain
China	Ghana	Netherlands	UK
Denmark	Japan	Norway	USA
Estonia	Kuwait	Poland	Venezuela
Finland	Latvia	Qatar	

7.3 Method of Analysis

Three multivariate analysis techniques were used to examine the hypotheses in the thesis: Structural equation modeling (SEM), regression analysis with a clustered robust standard errors approach, and bivariate correlation analysis. Three statistical packages were used to process the data: LISREL version 8.80, IBM SPSS statistics version 19, and STATA version 10.1. Table 6 shows the analytical techniques and statistical packages used in each of Papers I-IV (Paper V is a discussion paper), while a short description of the methods applied is provided in the following paragraphs.

Table 6. *Analytical techniques and statistical packages used in Papers I-IV.*

Paper	Analytical technique	Statistical package
Paper I	SEM	LISREL 8.80
Paper II	Regression analysis	STATA 10.1, SPSS 19
Paper III	SEM, correlation analysis	LISREL 8.80, SPSS 19
Paper IV	SEM, correlation analysis	LISREL 8.80, SPSS 19

7.3.1 Structural Equation Modeling

According to Fornell & Larcker (1981), due to its flexibility and ability to unite psychometric and econometric theory, SEM is increasingly being applied in theory testing and empirical building in marketing research. SEM allows the researcher to explain the relationships between unobservable variables (constructs) that are represented by observable or measurable variables (indicators). Applying constructs allows theoretical concepts (e.g., cultural distance) to be better represented by using multiple measures of a concept to reduce the measurement error. Moreover, by accounting for the measurement error in the concepts, SEM improves the statistical estimation of the relationships between the concepts (Hair Jr. *et al.*, 2010). In Papers I, III, and IV of this thesis, a two-step SEM process was used (Anderson & Gerbing, 1988) in which the fit and construct validity of the proposed measurement models were assessed first, and then the structural theories were tested. LISREL Version 8.8 (Jöreskog & Sörbom, 2006) was used to estimate the measurement and structural models. Following the recommendation by Hair Jr. *et al.* (2010), the LISREL maximum likelihood procedure was used in the estimation.

7.3.2 Clustered Robust Standard Errors Approach

Obtaining data for a certain object through more than one respondent during the survey process may cause a bias in which residuals between the data are likely to be correlated (Thompson, 2011; Petersen, 2009). This is the case in Paper II, in which data for a certain market may have been obtained through more than one respondent. To correct this problem, a clustered robust standard errors approach was applied using STATA version 10.1. For this, a dummy variable associated with each market was created and included in the regression analyses. The function of this variable was to cluster the data so that all data related to a certain object (market) were treated as one cluster in the regression analyses (Thompson, 2011; Petersen, 2009).

7.3.3 Correlation Analysis

Correlation analysis is used to assess the strength and direction of the linear relationship between two variables (Hair Jr. *et al.*, 2010). The correlation coefficient, r, can have a value anywhere between -1 and +1. The larger the value of r (irrespective of sign), the stronger the correlation between the two variables. In other words, values close to $|1|$ indicate that one variable can be more accurately predicted from knowledge of the other variable (Hair Jr. *et al.*, 2010). According to Cohen (1988), a value greater than 0.50 is an indication of a strong correlation, 0.30-0.49 a moderate correlation, and less than 0.29 a weak correlation. This method was used in Papers III and IV to assess the strength and direction of the linear relationship between variables (e.g., perceived cultural distance vs. objective cultural distance).

7.4 Limitations

The methods and measures applied in this thesis were consistent with those in previous studies. However, there were several limitations that in turn can lead to further research. First of all, the composition of the samples in the studies may limit the generalizability of the findings. Survey i was restricted to Swedish and Finnish companies in the food processing industry, while survey ii was restricted to Swedish companies in the 'LOW-TECH' sector. Further research could repeat the studies in other regional and industrial contexts. Second, in this thesis, the perceptions and responses of a company's CEO were assumed to be representative of the whole company. However, it could be argued that depending on the respondent's position in an organization, different perceptions and responses might be obtained from respondents in different positions. Third, the construct *export marketing strategy adaptation* in survey i was measured using a single indicator: *extent of product adaptation*. It can be argued that including other measurement variables such as adaptation of brand name, packaging, signage, and care labels (Evans *et al.*, 2008; Ozsomer & Simonin, 2004) would better represent the theoretical concepts and improve the statistical estimation of the relationship between the concepts. Fourth, a cross-sectional method was applied in this thesis, an approach that cannot capture the dynamic aspects of strategy formulation in international markets (Bowen & Margarethe, 1999). Finally, in some parts of the thesis (Papers I and III), all variables used in the study were collected from the same respondent, and therefore procedural and statistical remedies suggested by Podsakoff *et al.* (2003) were used to check whether common method variance[7] (CMV) was a problem that threatened the findings (Fiske, 1982). The first procedural remedy was that paper and pencil administrated questionnaires were used instead of face-to-face interviews as the medium to gather data. The second was that respondent anonymity was protected to reduce evaluation apprehension, and the third that scale items were improved by defining terms used in the questionnaires and providing examples to clarify the concepts. In terms of statistical remedies, Harmen's one-factor model test (Podsakoff *et al.*, 2003) was used, in which a worse fit for the one-factor model indicates that CMV is not a serious problem. The rationale is that if CMV poses a serious threat to the analysis, a single latent factor can account for all manifest variables (Podsakoff

[7] CMV refers to the variance that is attributable to the measurement method rather than to the constructs the measures represent (Podsakoff *et al.*, 2003, p. 879).

et al., 2003). In both cases (Papers I and III), the fit statistics of the one-factor model indicated that this model did not fit the data, which suggests that CMV was not likely to be a problem threatening the findings.

8 Presentation of Papers I-V

Papers I-IV of this thesis all revolve around an overarching theme: the role of managerial perceptions of cultural distance in the internationalization decisions of 'LOW-TECH' firms. However, the individual papers focus on different properties relating to this topic, while Paper V is a discussion of inpatriate and expatriate managers as sources of strategic human capital in the food industry. The content of the individual papers is presented briefly in the following sections and is summarized in Table 7.

8.1 Paper I: Food Culture Distance: An Antecedent to Export Marketing Strategy Adaptation—An Examination of Swedish and Finnish Food Processing Companies

Paper I is published in the 2011 (3) issue of *International Food and Agribusiness Management Review*. A previous version of this paper was presented at the *International Food and Agribusiness Management Association* (IFAMA) Conference in Frankfurt in 2011.

Paper I empirically explores dissimilarity in food culture (*food culture distance*) as an antecedent to the adaptation of export marketing strategy for food companies. It also examines the impact of marketing program adaptation on export performance. The study focuses on the adaptation of export marketing strategy with regard to the product, being a key component of the international marketing mix. Building on previous research, the paper introduces a model for operationalizing the construct *food culture distance*. The data used in Paper I were gathered through survey i on Swedish and Finnish food exporters and analyzed using structural equation modeling. The results obtained indicate a significant correlation between *food culture distance* and the extent of product adaptation. However, product adaptation did not affect export performance, implying that other factors, along with marketing strategy, may influence export performance.

The findings presented in Paper I contribute to the literature on international business and marketing. First, the study builds on the work of Cavusgil *et al.* (1993) Cavusgil & Zou (1994), and Ozsomer & Simonin (2004) on the adaptation of export marketing strategy. Adapting ideas from Askegaard & Madsen (1998), the paper introduces the concept of *food culture distance*. In fact, to the best of my knowledge, this study is the first attempt to quantify the concept of food culture (distance) and empirically validate the explanatory power of *food culture distance* in relation to export marketing strategy adaptation. Second, consistent with previous research findings (Zhao *et al.*, 2004; Mezias *et al.*, 2002; Shenkar, 2001; O'Grady & Lane, 1996; Johanson & Vahlne, 1977), the study justifies the importance and relevance of measuring *distance* indicators at the cognitive level of decision-makers.

Table 7. *An overview of Papers I-V of this thesis.*

Paper	Independent variable(s)	Dependent variable(s)	Unit of analysis	Findings
Paper I	Food culture distance	Product adaptation/ financial performance	Venture	Food culture distance was found to have a positive effect on the extent of product adaptation, but product adaptation had no significant effect on performance.
Paper II	Food culture distance	Market attractiveness	Venture	Food culture distance was found to have a positive effect on attractiveness of a foreign market.
Paper III	Psychic distance	Innovation intensity/financial and strategic performance	Venture	Psychic distance was found to have a positive effect on firm innovation intensity. Innovation intensity, in turn, had a positive effect on performance. Organizational innovation had a mediating role in the relationship between psychic distance and firm performance.
Paper IV	Perceived cultural distance/"objective" cultural distance	N/A	Venture	Perceived cultural distance was found to have a significant positive correlation with "objective" cultural distance.
Paper V	N/A*	N/A	N/A	Inpatriate knowledge of the local market and cultural preferences makes inpatriates a significant source of international management talent for Food MNEs.

*Paper V is a discussion paper.

8.2 Paper II: Food Culture Distance as a Predictor of Foreign Market Selection: The Case of Swedish Food Exporters

Paper II is accepted for publication in *Journal of Food Products Marketing*.

Paper II examines the explanatory power of *food culture distance* in relation to the choice of foreign markets by food exporters. The sample for this study consisted of 96 export ventures by Swedish food companies in 27 international markets. Using the Kogut & Singh (1988) formula for cultural distance, a composite index of the construct *food culture distance* was calculated and used as a predictor of foreign market attractiveness for food exporters. The hypotheses were tested using regression analysis with a clustered robust standard errors approach. The findings in Paper II indicate that *food culture distance* positively impacts the attractiveness of a foreign market for food exporters, implying that the greater the perceived distance in terms of food culture, the more attractive the market for food exporters to enter.

These results suggest that although entering close markets may entail fewer difficulties for food companies, in the long run, by accumulating international experience, food companies would be better off targeting more distant markets. By using this strategy, food companies could not only avoid competition in close markets, but also discover unexploited business opportunities in distant markets that bring them competitive advantages. The findings of Paper II confirm the notion of the "psychic distance paradox" (O'Grady & Lane, 1996). Finally, as in Paper I, the importance of *food culture distance* as a sole or complementary measure of cultural distance in cross-cultural research was confirmed.

8.3 Paper III: Psychic Distance, Organizational Innovation, and Firm Performance

Paper III was co-authored with Associate Professor Rian Drogendijk of the Department of Business Studies at Uppsala University. An earlier version of Paper III was presented at the *Consortium of International Marketing Research* (CIMaR) in Taipei in 2012 and the *European International Business Academy* (EIBA) Conference in Sussex in 2012.

The overall objective of Paper III was to examine the relationship between psychic distance, organizational innovation, and firm performance. A conceptual model of the relationship between psychic distance (cultural and business distance), organizational innovation, and firm performance was then proposed. The hypotheses were tested with data on 186 export ventures by

Swedish companies into 23 international markets, using structural equation modeling. The findings presented in Paper III suggest that perceiving a high level of uncertainty when entering psychically distant markets stimulates the adoption of innovative strategies, which in turn leads to increased firm performance. This suggests that the link between psychic distance and firm performance is mediated by organizational innovation.

These findings enrich the literature on international business and innovation. First, building on the work of Evans & Mavondo (2002), Evans *et al.* (2008), and Weerawardena (2003b; 2003a), Paper III empirically validates the explanatory power of psychic distance in relation to organizational innovation and firm performance. Second, the study contributes to the debate on the link between psychic distance and firm performance. Third, the findings reveal that expanding into psychically distant markets demands both technological and non-technological innovative strategies. Finally, it was established that conditions of market and environmental uncertainty and distance trigger innovative behavior, which enhances firm performance. In other words, organizational innovation has a mediating role in the relationship between psychic distance and firm performance.

8.4 Paper IV: How Congruent Are Managers' Perceptions of Cultural Distance with Objective Reality?

Paper IV presents an exploratory study that examined the extent to which managers' perceptions of cultural distance are congruent with objective reality. By subjecting a sample of 242 export ventures to correlation and confirmatory factor analyses, managers' perceptions of the cultural distance (*i.e.*, perceived cultural distance) between 29 international markets and Sweden (the home market) were compared with "objective" cultural distance, gauged using the Hofstede (1980) scores for dimensions of national culture. The results of Paper IV indicate a statistically significant correlation between perceived and "objective" cultural distance. Deviations from perfect congruence between perceived and "objective" cultural distance are proposed to be explained by organizational and managers' psychological characteristics.

The findings of Paper IV enrich the literature on international business and organizational behavior. First, by applying correlation analysis and confirmatory factor analysis, the study empirically validates the congruence of perceptual data regarding cultural distance with "objective" cultural distance. Second, unlike previous studies that use a single indicator for measuring cultural distance (Drogendijk & Slangen, 2006), a multiple measure was used to assess the cultural differences between countries. Finally, Paper IV helps alleviate the scarcity of research analyzing the validity of perceptual data in organizational behavior studies.

8.5 Paper V: Inpatriates and Expatriates: Sources of Strategic Human Capital for Multinational Food and Beverage Firms

Paper V is published in the 2012 conference issue of the *International Food and Agribusiness Management Review*.

Paper V is a discussion of the strategic role and increased importance of human resource management (HRM) for global companies. The paper focuses specifically on inpatriates and expatriates as strategic sources of human capital in MNE, through which knowledge is developed, carried, and exchanged within the MNE's network. Paper V discusses the ways in which inpatriates and expatriates can provide competitive advantage for MNEs in the food and beverage industry. Furthermore, it discusses the systematic use of HRM activities and policies to manage these strategic resources in a competitive global market.

9 Concluding Remarks

The overall aim of this thesis was to contribute to international business research by investigating managerial perceptions of cultural distance as an underlying factor for internationalization decisions by 'LOW-TECH' firms. This emphasis on firms from the 'LOW-TECH' sector was because this is a highly important sector, with a significant share of exports, employment, and also innovation ability in the developed economies of the Western world, yet it is still an overlooked research topic among scholars.

The environment of a firm contains a certain degree of uncertainty, depending to a large extent on managerial perceptions of the environment. Based on their perception of environmental uncertainty, managers formulate strategies in order to respond to the environmental demands. Managerial perceptions in turn are influenced by individual and organizational characteristics. A firm may perform better when the managerial perceptions of the firm's environment match the actual characteristics of the environment.

Psychic distance is a perceptual distance, and it results from the perception of both cultural and business differences between the home market and the foreign market. Psychic distance has been widely used to explain a firm's behavior during the internationalization process. Cultural distance is a main component of psychic distance and important source of uncertainty during a firm's internationalization process that influences a variety of managerial decisions, e.g., adaptation of export marketing strategies and foreign market selection. Accurate estimation of cultural distance between countries may bring business opportunities for the firm, whereas misperceptions and subsequent erroneous forecasts could lead to the wrong goals being pursued and business failure, while overlooking opportunities.

This thesis empirically validated the crucial role of managers' perceptions of cultural distance in internationalization decisions by firms. It revealed that managerial perceptions of cultural distance influence an internationalizing firm's marketing strategies (Paper I) and choice of a foreign market (Paper II).

The findings show that psychic distance influences a firm's innovation strategies (Paper III). Perception of substantial differences may lead firms to adapt their marketing programs while conducting innovative strategies. The results indicate that perceived cultural distance not only entails challenges and difficulties for the firms, but also provides business opportunities, which makes distant markets attractive targets for internationalizing firms. The results also indicate that managers' perceptions of cultural distance are to a high extent congruent with objective reality (Paper IV), and that deviations from perfect congruence could be explained by differences in organizational and managers' psychological characteristics.

The findings presented in this thesis show how a firm's strategic decisions made based on managerial perceptions of cultural distance can impact firm performance. The results indicate that implementing a workable export marketing strategy, for example, by adapting the products, is a necessary, although not sufficient, condition for achieving the economic objectives of an export venture (Paper I). Conducting intensive and radical innovative activities (technological and non-technological innovations), on the other hand, appears to enhance firm performance (Paper III). The findings indicate that organizational innovation has a mediating role in the relationship between psychic distance and firm performance. Another finding concerned the important role of inpatriates as sources of knowledge about, *inter alia*, cultural preferences when there is a great cultural distance between the home country and the host country (Paper V).

This thesis introduced the notion of *food culture distance* and developed a model for operationalizing this concept. Moreover, the explanatory power of *food culture distance* in internationalization decisions by firms was empirically examined and validated (Papers I and II). The findings suggest that *food culture distance* can be used as a sole or complementary measure of cultural distance in cross-cultural research.

Overall, this thesis suggests that despite the globalization of markets, national borders still matter and that differences between national cultures, along with other differences such as political and economic dissimilarities, contribute to the distinctiveness of national markets. This distinctiveness in turn provides business opportunities/challenges for firms to exploit/confront.

9.1 Managerial Implications

The findings in this thesis have several implications for international marketing and export managers. They indicate that markets with substantially different cultures can provide business opportunities for exporters in terms of greater ability to differentiate. However, exploiting these opportunities requires appropriate strategies to be applied in order to reach the customers in those markets. Enhancing export venture performance, on the other hand, is suggested to require allocation of firm resources, such as assets, capabilities, organizational processes, firm attributes, information, and knowledge, all of which enable a firm to implement its strategies. The evidence presented in thesis suggests that although entering markets that are most similar to the home market appears to be an easy choice, it can be fraught with difficulties regarding e.g., encountering stronger competition from local firms and difficulties in establishing a clear basis for differentiation. In contrast, differences in psychically distant markets may bring business opportunities in terms of greater ability to differentiate and access to unexploited market environment. However, getting the benefit from those markets requires innovative strategies in order to overcome the uncertainty and cope with the new environment. The results from the thesis suggest that innovative strategies, not only technological innovations (product and process innovations), but also non-technological innovations (managerial and marketing innovations), are crucial for business success when entering psychically distant markets. In the specific case of food exporters, the results suggest that due to the integration of food with consumer culture, international marketing managers in those companies should pay close attention to dissimilarities in food culture when planning and executing their marketing strategies. This would enable food exporters to reach customers in overseas markets.

From the HRM perspective, the thesis suggests that an imbalance in the supply and demand for skilled human capital in the global market, the aging population in many developed economies, and a shortage of competent and motivated human capital have made inpatriates and expatriates scarce resources for MNEs. It will require strong commitment from senior managers to develop the innovative HRM activities and policies needed to attract, retain, and develop these strategic resources at the global level.

9.2 Future Research

The thesis was intended to shed light on research in internationalization of firms from the 'LOW-TECH' industries in developed countries. The high importance of such industries for the developed economies creates a need for more research into this particular sector. In future research, it would be interesting to study the sector from a "developing" country perspective, in order to examine e.g., how the home country's features and managers' perceptions of the markets placed in the developed economies affect the firm's strategies and its performance. It would also be interesting to take one step beyond the national culture and study the cultural differences at the regional level. This research would highly be relevant for 'LOW-TECH' industries where products are exceedingly connected to consumers' tastes, habits, and customs. National cultures tend to be extremely stable over time, but lack of domestic opportunities or forces for immigration make people move overseas, often to highly culturally different countries. This creates continual change in the host countries, despite their national cultures remaining stable over time. Future research into the effect of immigration of cultures on the strategies adopted by firms may bring further insights to international business research. Future research may also examine how the different organizational and psychological characteristics described in this thesis affect managerial perceptions of the cultural distance and subsequent internationalization decisions.

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