HOW DOES PSYCHIC DISTANCE IMPACT EXPORT MARKETING STRATEGY AND ITS PERFORMANCE: CONCEPTUAL INSIGHTS

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Abstract

Recent empirical findings indicate that psychic distance is positively associated with export marketing strategy adaptation. Also it is assumed that psychic distance may have a greater impact on the SME because such firms probably lack internal resources to reduce psychic distance in terms of obtaining relevant information. The review of the literature indicates that adaptation requires a higher degree of resources and that there is a strong link between the level of international competence and the degree of adaptation. However, smaller sized firms are usually associated with a smaller amount of available resources. Thus, the impact of psychic distance on the choice of export marketing strategy and its performance outcomes is likely to be contingent on the internal resources and international experience.

The aim of the article is to develop a conceptual framework depicting the relationship between psychic distance, export marketing strategy and performance outcomes in the case of SME.

The type of the article: Theoretical article.

Keywords: psychic distance, export marketing strategy, standardization, adaptation, export performance, international experience, firm resources, SME.

JEL Classification: M31, M16, M21.

1. Introduction

In the case of small and medium sized firms, export is considered to be an attractive method of entrance into foreign markets and of development there due to a smaller risk and relatively smaller costs. In the face of more complex economic conditions, export development has become more of a necessity of survival than business development for many firms. The appropriateness of export marketing strategies and their impact on performance outcomes remain an important object of scientific research as the degree of internationalization of small and medium firms increases (Leonidou et al., 2010).

Attitudes are prevalent in the recent scientific literature that certain export marketing strategy (degree of standardization/adaptation) will enhance export performance, if strategic co-alignment is reached between the particular export marketing strategy (its degree of standardization/adaptation) and the environment, where this strategy is deployed. These attitudes are substantiated by the paradigm of strategic fit and are based on the assumption of the theory of industrial organization economics that a higher degree of co-alignment between the environment of the firm and its strategy is the determinant of superior performance (Cavusgil, Zou, 1994; Katsikeas et al., 2006). Nevertheless Schmid and Kotulla (2011, p. 499) state that aside from the research of recent years (Katsikeas et al., 2006; Xu et al., 2006; Shilke et al., 2009; Hultman et al., 2009), the impact of strategic co-alignment of an export marketing strategy (standardization/adaptation) and the specific context where it is implemented on performance outcomes has not been sufficiently researched.

With regard to this, lately the concept of psychic distance has been invoked when analysing strategic decisions of export marketing strategy standardization/adaptation and their performance consequences (Evans et al., 2008; Sousa, Lengler, 2009; Sousa, Lages, 2011). Results of empirical research reveal that a greater psychic distance is related to a higher degree of export marketing...
strategy adaptation. Also, assumptions are made that psychic distance in case of small and medium sized firms may have a bigger impact on their export marketing strategy, because smaller firms usually do not have sufficient resources of acquiring the necessary information about the market and for decreasing psychic distance (Sousa, Lages, 2011). Whereas analysis of scientific literature also reveals that marketing strategy adaptation usually is related to the need for bigger resources, and that there exists a strong relationship between the level of international competence of the firm and the degree of product adaptation (Cavusgil, Zou, 1994; Chung, 2010). Meanwhile, a smaller amount of accessible resources is characteristic of small and medium sized firms. Therefore, the impact of psychic distance on the choice of export marketing strategy and its performance outcomes is likely to be contingent on firm resources and international experience.

With regard to contradictory results of scientific research this article seeks to analyse the impact of psychic distance on the degree of export marketing strategy standardization/adaptation and on the outcomes of these decisions in the case of small and medium sized firms.

Based on the above argumentation the scientific problem of this article is formulated as the following question – under the influence of what factors the impact of psychic distance on export marketing strategy determine better performance results?

The aim of the article is to develop a conceptual framework of the impact of psychic distance on export marketing strategy and performance outcomes. Research methods: this research has been performed using the methods of systematic and comparative analysis of scientific literature.

The importance of firm level factors

When analysing the relationship between export marketing strategy and performance lately the importance of internal factors is being emphasized. The literature suggest that superior performance results from co-alignment of an export marketing strategy with the external environment as well as the co-alignment of the strategy with internal factors of the firm. Scientific research that emphasizes the importance of internal factors is founded on the resource based view (RBV) (Hultman et al., 2009). From this perspective superior performance of some firms (when compared with other firms, active in the same market) are determined by their ability to acquire and suitably use unique firm resources (Ruzo et al., 2011). The main determinant of firm’s strategic direction is a unique combination of tangible and intangible assets, capabilities, and disposable knowledge (Morgan et al., 2004). Doyle (2009, p. 169) also adopt a similar position underlining the importance of firm related factors and noting that a firm’s competitive advantage has a bigger impact on the firm’s value than the nature of the market the company is active in. Correspondingly fluctuations of profitability inside an industry are higher than between different industries. Based on this perspective namely the heterogeneity of resources of separate firms explains different performance outcomes in the same markets or industries.

Competitive strategies of exporting firms are treated as planned models of spread (arrangement) of resources and capabilities, used as the basis for strategic company choices. But only during recent years researchers started using the RBV theory as a foundation to explain firm’s export performance (Lages et al., 2009; Morgan et al., 2004; 2006).

In export marketing a firm’s assets and its capabilities are reflected by firm size advantages, international experience, level of involvement in international business, and resources, available for export development (Cavusgil, Zou, 1994). The disposition of these assets and capabilities enables exporters to identify differences of export markets, to form appropriate export marketing strategies, and to implement them effectively. Therefore, the firm’s peculiarities influence its export marketing strategy and performance outcomes.

2. International experience

International experience is a firm’s level factor that probably has an impact on the standardization/adaptation degree of export marketing strategy and its performance.
The conception of international experience. Usually several dimensions of international experience are distinguished in scientific literature. Some scientists divide international experience into longitudinal and inter-sectorial experiences (Papadopoulos, Martin, 2010). Other authors attribute export scope experience and experience in a certain foreign market (named as export activity duration) to international experience (Hultman et al., 2009). Scientific literature defines export scope experience as the number of foreign markets a firm is active in regularly (Cavusgil, Zou, 1994).

International experience and export marketing strategy. Scientific literature acknowledges that international experience of executives may influence an export marketing strategy, but the nature of experience influence is assessed ambiguously.

International business experience and marketing and technical insights are considered to be related to a more appropriate product modification (Calantone et al., 2004), whereas the lack of relevant experience may be a big setback for making the right export marketing strategy adaptation decisions. As firms pass from primary experimental stages of internationalization to more advanced ones they are more inclined to adapt their marketing strategies (Cavusgil, 1984). Research of other authors also reveals that a positive association exists between managerial experience and the level of marketing strategy adaptation (O’Cass, Julian, 2003). A conclusion is made that firms are more inclined to standardize their products when there is a lack of managerial international experience (Cavusgil et al., 1993). In summary it is possible to state that most researchers agree on the attitude that firms with more international business experience are more inclined to apply the adaptation strategy (Chung, 2003; Okazaki et al., 2006; Chung, 2010).

According to other authors (Cateora, 1996) more experienced managers tend to standardize marketing strategies more. Research results of Hultman et al. (2009, p.16) revealed that there existed a negative relationship between export scope experience and product adaptation, and the relationship between experience, related to export duration, and product adaptation was positive. The research of Calantone et al (2004, pp.193-194) showed that greater international business experience and product design capabilities determined a higher product adaptation degree only in the case of US firms. Whereas in the case of firms of South Korea smaller experience of international business and new product development was related to a higher product adaptation degree. Assumptions of Chung (2010, pp. 1656) that firms that accumulated more international experience would be more inclined to execute more adapted marketing strategies (in the case of the cross-market scenario) were not confirmed empirically. Results of other empirical research also found that firms were inclined to adapt product, price, place (distribution), and promotion with regard to the needs of the international market when they had less experience in their sector (Ruzo et al., 2011).

So results of scientific research that analyse the nature of the impact of international experience on an export marketing strategy (its standardization/adaptation degree) are ambiguous. It is likely that equivocal results may have been conditioned by different conceptualisation of international experience and a generalized approach to a firm’s international experience. It may be considered that when analysing the influence of international experience on export marketing strategy it is purposeful to assess the influence of separate dimensions of international experience. Analysis of scientific literature allows making a premise that longitudinal experience or experience related with export duration in a certain foreign country allows identifying differences among foreign markets that appear to be similar at first glance. Evolution is characteristic of international strategic choices, as when more knowledge is acquired and peculiarities of the foreign market are understood better with time, export marketing strategy may be adapted correspondingly. Meanwhile export scope experience enables companies to discover similarities (to identify similar market segments) between different foreign markets.

International experience and performance outcomes. Scientific research confirms that a positive relationship exists between a firm’s experience and its success in international markets (Katsikeas et al., 1996; O’Cass, Julian, 2003). Evans et al. (2008, p.53) determined that international experience had a significant positive direct impact on financial performance.
Papadopoulos et al. (2010, p.396) note that experience determined by intensity as well as by variety has a positive influence on performance.

The degree of internationalization reflects export intensity and the number of serviced export markets. So a higher degree of internationalization may be linked with a greater international experience. According to Papadopoulos et al. (2010, pp.393-394) results of recent scientific research show that the relationship between firm’s level of internationalization and performance is not linear but has an inverted U shape. However, Papadopoulos et al. (2010, pp.393-394) also highlight that many of these studies were more oriented towards overall firm performance and not towards export performance, researching mostly very big companies in the context of foreign direct investments. Whereas according to the opinion of the above-mentioned authors scientific research, related to export activities, enables to make an assumption that the mentioned link is linear.

Firm resources

A firm’s size is traditionally considered to be the indicator of the scope of resources, available for an organization, which determines the firm’s competitive position in a market (Ruzo et al., 2011). The firm’s size also is named as one of the factors of a firm’s level, which has an impact on the standardization/adaptation of marketing strategy (Chung, 2010). Previous scientific studies determined that larger firms are more inclined to adapt their strategies. Correspondingly more adapted decisions require more resources, which usually are more accessible to larger firms. Results of empirical research show that the impact of standardization on performance depends on a firm size (Shilke et al., 2009). The impact of standardization on performance in a large firm will be higher when compared with a small firm (Chandra et al., 2002).

Many other scientific studies treat firm size as one of the main determinants of export performance (Singh, 2009; Sousa et al., 2008). Sousa et al. (2008, p.315) found that export performance of larger firms were relatively higher. According to the authors causes of better export performance results are possibly related with scale economics, manufacturing capacities, and investments into R&D and may be linked with the possibility and willingness to take on a greater risk.

3. Conceptual framework of the impact of psychic distance on export marketing strategy and performance outcomes

Traditionally psychic distance is defined as “the sum of factors preventing the flow of information to and from the market” (Johanson, Vahlne, 1977), subsequently this concept was broadened stating that it is “factors preventing or disturbing firm’s learning about and understanding a foreign environment” (Nordstrom, Vahlne, 1994). The factors, mentioned most often, that influence psychic distance are differences in languages, culture, education and industrial development levels (O’Grady, Lane, 1996). Although many various definitions of psychic distance exist, usually they are criticized because they ignore perception aspects of psychic distance (Evans, Mavondo, 2002). In the recent scientific literature psychic distance is associated with individual perception of differences among home and foreign countries (Sousa, Bradley, 2006).

Empirical research results of Sousa and Lages (2011, p. 216) confirmed that similarities (differences), perceived by managers, with regard to “country” characteristics as well as “people” characteristics, stimulated to apply standardized (adapted) marketing strategies correspondingly. The same authors make an assumption that smaller companies (when compared with large ones) may be more influenced by psychic distance. The research of Evans and Mavondo (2008, pp. 52-53) also confirmed that when there was a greater psychic distance firms were inclined to adapt their strategies more, but these more adapted decisions had a negative impact on financial export results. It is likely that due to a higher degree of uncertainty the situation of foreign markets was not assessed adequately. Therefore, the applied strategy could have been adapted too much.

According to the authors of this article small and medium sized firms are likely to apply more standardized export marketing strategies in cases of small as well as large psychic distance in the
initial stage of internationalization, because in the case of larger perceived psychic distance firms face a higher risk, therefore, when the market is not well-known, firms, avoiding possible failures, possibly are not inclined to choose strategies that require bigger investments and seek for similar market segments and, with regard to the current situation, apply a less risky standardization strategy. Such situation may be characteristic of firms, seeking for possibilities to use existing production capabilities, when the domestic market shrinks. Without specific market knowledge and experience and when the likelihood to interpret information related to a foreign market wrongly is bigger, standardization strategy would possibly be a more rational choice. As more specific experience on the foreign market is acquired and the level of uncertainty decreases when information about foreign market specificity becomes accessible to the firm and when obstacles that prevent adequate perception of the peculiarities of the foreign market disappear, it is easier for decision makers to identify and take advantage of new opportunities. Therefore, it should be considered that specific foreign market experience decreases the likelihood of a perception error or perception bias. Correspondingly when there is a large psychic distance and with a greater experience – hence an ability to assess peculiarities of a foreign market more adequately – it is likely that firms will be inclined to contemplate adaptation possibilities. But in the case of small and medium sized firms an available resources may limit the degree of export marketing strategy adaptation or restrict the feasibility of this strategy. An adaptation strategy may be desirable but difficult to implement due to lack of resources.

Nevertheless it is reasonable to assume that firm's international experience should be positively related to firm's available resources. If it is accepted that the relationship between international experience and firm’s performance is positive, then the accumulated experience and consequently enhanced performance should lead to the growth of the firm, in turn devoting more resources to the development of export business with more adapted export marketing decisions.

With a greater specific market experience the perceived psychic distance is close to the real psychic distance between countries, it is possible to assess the existing cultural and business differences between countries more adequately. Therefore, it is likely that export marketing decisions, influenced by these factors, are more rational, hence they might determine better performance results. Evans et al. (2008, pp. 37-38) state that there is a lack of research that analyse the relationship between international experience and psychic distance. Although the above-mentioned authors hypothesized that experience of activities in foreign markets, accumulated by firm, should impact the perception of similarities and differences among foreign markets, empirical results did not confirm these propositions. Sousa and Bradley (2008, pp. 469-470), based on the research performed by da Rocha et al. (2007), also sustains the opinion that psychic distance is a stable and long-term phenomenon. Psychic distance that hasn’t changed in almost three decades invites to question the fact of cultural convergence and the decrease of the explanatory power of psychic distance (Sousa and Bradley, 2008). Therefore, a conceptual framework, presented in Figure 1, reveals that psychic distance causes export strategy standardization/adaptation decisions that in turn result in better performance outcomes, only at the presence of the great amount of accumulated foreign market specific experience. However this particular performance enhancing fit is contingent on firm resources - in the case of small and medium sized firms, scarce resources may limit firms’ possibilities to pursue adaptation strategy. Nevertheless in accordance with the conventional logic, the greater firm experience should be positively related to firm resources. Therefore, the greater specific foreign market experience is accumulated, the higher is export performance, in turn leading to the greater amount of firm resources, facilitating the application of higher degree of export marketing strategy adaptation.
The perceived psychic distance under the presence of sufficient specific foreign market experience corresponds to the real psychic distance more (it reflects adequate perception of existing differences). In this situation it is less likely that export marketing strategy standardization/adaptation decisions will be based on subjective assessment of market differences, i.e. a higher degree of strategic fit that determines better performance results will be reached.

Based on the above argumentation in the case of small and medium sized firms the following hypotheses may be raised:

H1: In case of high psychic distance and greater specific export market experience a more adapted export marketing strategy will have a positive impact on performance.

H2: In case of a high psychic distance and smaller specific experience of an export market firms will be inclined to standardize their export marketing strategies more.

In this case thanks to standardization the decreased risk of inadequate perception of the situation outweighs the benefit of adaptation. Without knowing what to adapt and how, a bigger probability of failure does exists.

H3: In case of a small psychic distance and greater specific experience of an export market a more standardized export marketing strategy will have a positive impact on performance.

The above hypothesis is based on the assumption that if firm’s performance in home market is successful, due to similarities of the home and host markets the firm’s success in the export market can be reasonably be based on the same competitive advantage.

H4: In case of a small psychic distance and smaller specific experience of an export market firms will be inclined to standardize their export marketing strategies more.

In this case a probability remains to make wrong interpretations of the possible similarities or differences between home and host market. Therefore, a standardization strategy enables to elude costs related to possible unnecessary adaptation.

H5: The greater is specific foreign market’s experience of the firm, the higher is its export performance.

H6: The higher is firm's export performance, the greater amount of resources is at firm disposal and in turn firm is more inclined to adapt export marketing strategy.

4. Discussion

The conceptual framework shows that the impact of the psychic distance of smaller sized companies on export marketing strategy lead to enhanced performance when the greater amount of market specific experience is accumulated. With a greater market specific experience the perceived
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psychic distance is close to the real psychic distance between countries, so it is possible to assess the existing cultural and business differences between countries more adequately. Therefore, it is likely that export marketing decisions, influenced by these factors, are more rational, hence they enhance performance. The perceived psychic distance under the presence of specific foreign market experience corresponds to the real psychic distance more (it reflects adequate perception of existing differences). In this situation it is less likely that export marketing strategy standardization/adaptation decisions will be based on subjective assessment of market differences, i.e. a higher degree of strategic fit that determines better performance will be reached.

In the case of small and medium sized firms the available resources may limit the possibilities to apply the respective degree of export marketing strategy adaptation or impede the feasibility of this strategy. An adaptation strategy may be desirable but difficult to implement due to lack of resources. However conventional logic suggests that the greater foreign market experience lead to the higher export performance that in turn increase resources and the propensity to adopt higher degree of adaptation.

Further research could verify empirically the proposed conceptual framework and derived hypothesis. Though conceptual framework is based on the empirically supported assumption that international experience does not have any impact on psychic distance (Evans et al. 2008), the assessment of implicitly predictable impact of different dimensions of international experience on perceived psychic distance might provide further important insights. Recent scientific literature emphasizes the perceptual nature of psychic distance integrating the national level exogenous differences (factors driving perceptions or psychic distance stimuli) and individual level perceptions of the differences (Daw and Larimo, 2009). Thus, the perceptual approach of the psychic distance enables the inclusion of individual-level subtleties, which are likely influenced by individual factors, such as a personal experience.

References


