

PSYCHIC DISTANCE, ITS BUSINESS IMPACT AND MODES OF COPING: A STUDY OF INTERNATIONALIZING BRITISH AND INDIAN PARTNER SMES

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ABSTRACT

This paper examines the perceptions of psychic distance held by the decision makers of internationalizing British and Indian SMEs, and their views on its business impact and methods of coping with it. It reports one of the first studies to examine whether psychic distance is reciprocated between transacting partners in different countries. This paper contributes to knowledge on psychic distance in three main ways: (1) It analyzes psychic distance from the point of view of the both business partners; (2) it investigates two neglected aspects: the impact of psychic distance on doing business in a foreign country, and ways of coping with any difficulties that arise because of that impact and (3) it demonstrates the role of social capital as a way of coping with perceived differences between countries. The methodology employed combines a qualitative approach and quantitative measurement. The sample comprised the leading managers of 30 British SMEs and their partners in India, giving a total sample of 60 companies. The findings reveal contrasting patterns of response as between Indian and British SME decision makers. The multidimensionality of psychic distance is confirmed. The results question the linking of psychic distance with cultural distance and its measurement through national-level indicators. They confirm that the level of psychic distance does not necessarily predict its level of business impact. The results reveal that understanding and learning about a foreign market is one of the key techniques to enter and survive in that market. The first coping strategy, the absorption coping mode, is identified based on the way firms learn about a foreign market. The second mode, the contingent mode, considers inter-partner dependence. The third coping mode is the pragmatic one consisting of *ad hoc* adjustments. This study also highlights the role of social capital in helping to cope with the impact of psychic distance where it occurs. The findings also indicate that psychic-distance dimensions are socially or institutionally embedded. They reveal that the socially embedded psychic distance dimensions have less impact and are easier to cope than the institutionally embedded dimensions. Dimensions such as logistics, regulations, and political systems are institutionally embedded, and in some cases the decision makers were unable to cope with them. By contrast, socially rooted dimensions, such as culture, language, business practice, and ethics are more easily manageable through the SMEs' social capital. We conclude that psychic distance remains a valid and valuable concept in international business theory. This paper begins with a review of the psychic distance concept, its impact, and coping modes that have been addressed by studies published in the fields of international business and international marketing. It then describes the scope and method of the research. Its findings are then presented, followed by a discussion of their implications. A conclusion summarizes the contributions of the research as well as directions for future research.

INTRODUCTION

The nature and role of psychic distance is one of the most widely discussed topics on the internationalization of firms (Child, Ng & Wong, 2002, Dow, 2000, Johanson & Vahlne, 1977, Johanson & Wiedersheim, 1975, Nordström & Vahlne, 1994, O'Grady & Lane, 1996, Stottinger & Schlegelmilch, 1998). At the same time, its conceptualization and measurement remain problematic (Child, Rodrigues & Frynas, 2009, Dow & Karunaratna, 2006, Prime, Obadia & Vida, 2009). Psychic distance concerns the perceived difference between a home-country business

environment and a foreign one. The general expectation is that a greater psychic distance generates uncertainties that may discourage a firm's entry to that market.

Most psychic-distance studies have failed to explore the perceptual aspect of psychic distance despite its fundamentally cognitive nature (Stottinger & Schlegelmilch, 2000). Another deficiency in psychic-distance research concerns the sources used for an empirical evaluation of the concept. Previous studies have analysed the perceptions of decision-makers from only one country to explore the role of psychic distance in internationalisation between two countries. There is a strong case for assessing the perceptions of decision makers from both countries in order to assess the degree of their mutual correspondence. This paper adopts a perceptual perspective on psychic distance and reports one of the first investigations to analyze inter-partner perceptions concerning the role of psychic distance between two countries. Its empirical focus is British and Indian SMEs engaged in business with each other's country.

Although recent contributors have highlighted the multidimensional nature of psychic distance (Child *et al.*, 2009, Dow & Karunaratana, 2006, Evans & Mavondo, 2002, Sousa & Bradley, 2006), there has been less investigation into whether some dimensions of psychic-distance are perceived to be more consequential for business than others. Similarly, little or no attention has been given to how business people cope with any difficulties associated with psychic distance. This paper further contributes by investigating these two neglected aspects: the impact of psychic distance on doing business in a foreign country, and ways of coping with any difficulties that arise because of that impact.

This paper begins with a review of the psychic distance concept, its impact, and coping modes that have been addressed by studies published in the fields of international business and international marketing. It then describes the scope and method of the research. Its findings are then presented, followed by a discussion of their implications. A conclusion summarizes the contributions of the research as well as its limitations and directions for future research.

REVIEW OF PREVIOUS STUDIES

The study of Nordic multinationals is widely considered to be the starting point of psychic-distance studies in international business and international marketing (e.g. Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975), although Beckerman (1956) was the first to use the term psychic distance when analyzing trade flows between countries within Europe. Johanson and Wiedersheim-Paul defined psychic distance as “the sum of factors preventing or disturbing the flow of information between the organization and the foreign market (1975: 308)”. The factors they suggested include differences in language, culture, political systems, level of education, and level of industrial development. The Uppsala internationalization model of Johanson and Vahlne (1977) also pointed out that firms select international markets based on “psychic proximity” and added difference in business practices to the list. Nordström and Vahlne (1994) developed the concept further by emphasizing learning and understanding rather than merely accessing information about the foreign market. O'Grady and Lane (1996) redefined the concept again by incorporating the uncertainty that arises from the difficulties of learning about a new market.

These definitions refer to information or learning about a foreign market and the uncertainties of a foreign market. They focus on a decision-maker's level of awareness about a market. However, they have been criticized for not analyzing sufficiently closely the psychic and distance aspects of the concept (e.g. Evans & Mavondo, 2002; Prime *et al.*, 2009). The Latin word “*distāntia*”, which

means standing apart, is the basis of the distance concept (Simpson & Weiner, 1989). However, the word “psychic” is derived from the Latin word “psychicus” which means the mind or soul (Simpson & Weiner, 1989). It refers to the cognitive and moral capabilities of the mind and it indicates how the distance and consequence are perceived and interpreted (Prime *et al.*, 2009). Despite its inherent cognitive nature, relatively few studies have explored the perceptual feature of psychic distance concept (e.g. Chetty & Campbell-Hunt, 2004, Child *et al.*, 2002, Child *et al.*, 2009, Lee, 1998, Prime *et al.*, 2009, Stottinger & Schlegelmilch, 1998). This remains open to further research in psychic distance.

Some psychic distance researchers adopted a perceptual perspective in the late 1990s. However, in so doing they treated cultural distance as a synonym of psychic distance (e.g. Benito & Gripsrud, 1992; Engwall & Wallenstal, 1988, Kogut & Singh, 1988, Lee, 1998). Kogut and Singh (1988) developed a national cultural distance index to measure the cultural distance between countries using data originally provided by Hofstede (1980). Many studies have subsequently used Kogut and Singh's index of cultural distance in their studies. The adequacy of this uni-dimensional operationalization of psychic distance is open to question. Dow (2000) argued that Hofstede's scale alone is a weaker analytical tool compared with more comprehensive measures of psychic distance. There is a growing consensus that cultural distance cannot be considered as a proxy for psychic distance (O'Grady & Lane, 1996) because uni-dimensional measurement is insufficient to capture the complexities and details of the concept (Child *et al.*, 2009). Moreover, Sousa and Bradley (2006, 2008) point out that unlike psychic distance, which evaluates an individual's personal perceptions about the differences between home and a foreign country, cultural distance is assessed at national level and is not affected by individual's perceptions.

O' Grady and Lane (1996) and Evans and Mavondo (2002) observed a psychic distance paradox. They found that due to similarities between various markets, managers often ignore some weak but important differences. Consequently, they found a negative relationship between export performance and psychic distance. However, Evans, Treadgold and Mavondo (2000), found a positive association between psychic distance and the scope of international retail operations of firms. The study by Child *et al.*, (2009) on British SMEs exporting to Brazil reveals that some dimensions of psychic distance often create serious problems for foreign SMEs while others do not. One reason for this variation appears to be in the possibilities for coping behavior by business people. Some recent studies have attempted to explore how companies overcome the impact of psychic distance in internationalization through such behavior (e.g. Child *et al.*, 2002, Child *et al.*, 2009, Ojala, 2008). Coping with the effects of psychic distance is another area deserving further research.

This review of previous studies has uncovered several limitations in research on psychic distance and its role in internationalization. Moreover, these studies examined interpretations of decision makers from only one country to assess the perceived psychic distance between two countries. This assumes that there is symmetry in the perceptions of people from different countries, which may not prove to be the case. There has been criticism of the uni-dimensional measurement of psychic distance, in terms of its inability to capture the complexities and details of the phenomenon. Only very few studies have made a comprehensive analysis of perceived psychic distance, giving attention not only to difference, but also to its business impact and coping methods. The study reported here of British and Indian SMEs aims to address these limitations and in so doing provide a more adequate approach to examining the role of psychic distance.

METHOD

This study adopts the “mirror” and “mixed” methods to address the methodological weakness of psychic distance research. The mirror method involved collecting perceptions held by small firm partners from two different countries. The mixed method combines an examination of qualitative interpretations with quantitative measurement applied to the same respondent. This study applies a quantitative psychic distance assessment developed by Child *et al.*, (2009), in their study on British companies exporting to Brazil. The sample comprised the leading managers of 30 British SMEs and their partners in India, from 60 companies in total. There was one respondent from each company. The respondents were the chairmen, founders or CEOs of the companies. The British and Indian samples included both manufacturing and service sectors. Interviews were conducted in English, and lasted between 60 to 90 minutes.

Psychic distance was assessed by asking the respondents to rate perceived differences between two countries, their impact on the business, and methods of coping for each of 12 dimensions using 5-point Likert scales (see Table 1). Respondents were at the same time asked to explain and elaborate on the reasons for their assessments, in particular, the impact in their business and how they coped with problems which emerged for each of the 12 categories. Each interview was tape-recorded in order to obtain a complete and accurate record of respondents’ emerging narratives.

The coding of responses was conducted in consultation with two other researchers who examined the information, in order to improve the validity and reliability of the outcomes. The study’s objectives also informed the categories for coding. Following an iterative and subjective coding process, the similarity and differences between the responses were identified.

FINDINGS

Perceptual differences

An independent sample t-test reveals significant differences in the responses from Britain and India (Table 1).

“Table 1 goes about here”

The p-values of 10 dimensions are below 0.05, which reveals that there are differences between the British and Indian responses. The descriptive statistics disclose that the cultural difference dimension represents the highest mean value for both the British (4.37) and Indian (3.83) data. However, the ways in which each side perceives culture are different as we illustrate below: A British textile distributor, who rated 5 [the highest score] for cultural difference, said:

“[India] is a very different culture. When somebody says I will turn up at 5.30, they actually turn up at 7.00. I find that difficult...it is a different way of understanding time”

The founder of a British IT company, who also gave a score of 5 to cultural difference, said:

“They are too polite always...if you ask them about some work they say, “Yes, I can”, even if they cannot...everything is very slow there. Response is always very delayed.”

On the other hand, most Indian respondents scored cultural difference as either 3 or 4. A respondent from the legal services company in India, who rated cultural difference as 3, said:

“There are differences...Most of them [British partners] wanted to know about our culture. When they come here they are very eager to know more about us. They never push their culture on us”.

The country director of an IT firm, who rated “4” for the cultural differences, said:

“There are differences. They are very strict about the time. If you have committed about something they wanted to get it on time even if we have some issues here... this has created a lot of trouble in the beginning...Our employees were not aware of it and they did not understand about it”.

Similarly, the geographic distance dimension also produced a higher mean value (4.10) for the British response, than for the Indian data (2.97). The following were typical comments from the British respondents:

“It is a big problem...they are too far for us so meeting face to face is not possible every time”.

“It is one of the major issues...the time difference is a problem for us. We can’t meet them regularly...traveling is difficult. It affects our communication as well”.

The Indian ICT companies, which are providing service support to British companies, find it as a major issue for their business. However, the other companies do not perceive it as much of a problem. The general manager of an IT company, who scored 4, said:

“They are too far. So we have issues with time difference...we do lots of support service in the UK...I think it is one of the main issues”.

The economic development dimension had the lowest mean value (1.73) among the British responses. This is mainly because respondents see considerable similarities in the level of economic development between the two countries, mainly in microeconomic policies, government intervention and central-banking systems. They see India as an exceptionally attractive and rapidly growing economy. However, among the Indian responses the mean value of economic development falls above the midpoint (2.60). It also recorded a high standard deviation (SD) (1.30); mainly due to mixed responses within the Indian sample. Only the respondents from the manufacturing sector, specifically textile industry, and some of the new entrants from the information communication technology (ICT) and financial services sector said there are differences in the economic developments. They highlight the current economic crisis in the British market as a real problem. The owner of a textile company in India gave the score of 5, said:

“Their economy is worse than ours now...this economic slump in their market is a big concern for us. Our sales come down to 40%. It is a big concern”.

A financial services company manager, who rated 3, commented the following:

“UK is a developed economy but India is only in the growing stage now...another thing I noticed is that Indian middle class is growing faster than the European middle class. We [Indian middle class] can afford anything but they [Europeans] can't”.

The mean values for half of the twelve psychic distance dimensions are above the mid-point in the British data. In addition to culture and geographic distance, logistics, political systems, legal systems and regulation shows relatively higher mean values. The mean value of the logistics distance dimension for the British data is 3.07. The managing director of a small software firm, who gave a score of 5 to logistics, said:

“Power [electricity] is one of the major issues...also transportation is a nightmare. Driving is very dangerous...but it varies among different states/cities...certain cities are better...Developments are slow...it is improving but not adequate”.

Similarly, the owner of a textile firm said:

“Distribution of product is a big problem...time delay is another issue. It is getting better but still difficult...there are some problems with the telephone lines as well”.

On the other hand, the mean value of the logistics dimension for the Indian responses is lower than the British ones but is higher than the mid value (2.53). This is mainly because the Indian data display discordant responses from different sectors reflected in the high SD (1.04). The service sector companies, who enjoy better support from the Indian government do not face any problems with logistics. However, some of the manufacturing companies are concerned about the state of Indian infrastructure and logistics---they put the blame on poor governmental involvement in infrastructure development and ancillary support services. Typical comments from Indian textile respondents were:

“There are big differences. It is the major problem in India...we don't have any problem with the UK. Here in India we are relatively far from major ports...the roads are really bad here”

The UK is no problem at all. It has improved a lot in India. It is now in a satisfactory level...Our shipping itself is faster than before...it is not a big problem as before.

The political systems dimension represents third highest mean value in the British data (3.40). The director of a British asset management firm, rated “4”, said:

“At the national level, certain people are very competent and strategic...But some are corrupt...it is more corrupt at the state level....”

The results in Table 1 reveal that the Indian mean value for political systems differences (3.60) compliments the British value. However, the qualitative analysis of Indian findings reveals that the responses of service and manufacturing sector companies are different in some instances. It is mainly managers from manufacturing companies and new service sector companies who perceive that the political systems between both countries are different. They have raised some concerns about the Indian political system. Typical comments were:

“There are differences. Britain is more friendly to industry...the political environment in India is very bad. The approaches of the political parties are not supporting development”.

“No problem with the UK. “Harthal” [strike] is a major issue here...it affects everything. I don’t think [state’s name] is a business friendly place. I am sure the next generation would not be interested to do business here”.

The British respondents produced contrasting responses about the legal systems in India, which represents the mean value of 3.33. They perceive that India’s legal systems have got British traditions and similar laws and legislations. However, the slowness of the Indian legal system is considered as a major problem for their business.

Regulations show a high SD (1.12) for the British data, which has a mean value higher than the midpoint. The wide variation of responses for this dimension is due to the regulatory restrictions in sectors such as legal services and real estate. The managing director of a real estate company, who gave a score of “5”, said:

“Restrictions on FDI are a major problem...we can’t make direct investment. If that was possible our business would be substantially more...now we have to depend on the Indian developers”.

The chief executive of an ICT company in Britain, who rated difference in regulations as “3”, said:

“When I first started business in India, the regulations were a means of bribing the inspector. Now that has been tightened up to some extent. So it is not quite as bad as it was but still it is an issue”.

By contrast, regulations (2.07) elicited the lowest mean value among Indian respondents mainly because they perceive considerable similarities between both countries’ regulations. However, some respondents observe differences. Two illustrative comments are:

“No big difference. The visa regulations have to be simplified...if we want to send somebody to the UK very urgently; getting travelling visa is very difficult”.

“I think there are some differences...some regulations are not practically implementable in India. That is good for our bureaucrats...if you are ready to bribe you won’t have problem”.

Impact of psychic distance dimensions

The next objective of this research is to investigate the perceived impact of various psychic-distance dimensions on internationalization of SMEs as between Britain and India. The descriptive statistics (Table. 1) reveal that the impact of psychic distance dimensions are relatively less compared with the perceived difference between countries. The comparison of the British and Indian scores using an independent sample t-test (table. 1) shows no great difference for most dimensions of psychic distance regarding their impact. The p-value of only 3 psychic distance dimensions—education,

economic development, and political systems --is less than the 95% level of statistical significance. The decision-makers' perceptions about the impact of all the other psychic distance dimensions are relatively similar for both countries.

The impact of level of education (1.83) perceived by the UK respondents tends to be slightly less when compared with the Indian responses (2.20) but both averages are positioned below the midpoint. This reveals that the level of education does not have a great impact for the UK and Indian firm's internationalization. However, the responses about the impact of economic development from the UK and India are much more distinct. This dimension represents the highest mean value for India (2.57), whereas it is recorded as the lowest value for the UK data. There are relatively high SD values for the impact of economic development in the Indian responses compared to the UK ones mainly because of the difference between the service and the manufacturing sectors. Differences in economic development are not seen to have much impact for the service sector companies in India, such as ICT, financial and legal sector companies. However, they do have considerable impact on the manufacturing sector companies.

An Indian textile exporter, who gave a score of "5" to impact of differences in economic development, said:

"Our sales come down to 50%. It is a big concern for us now. The domestic market is least affected but taking the product to the domestic market is a total dilemma...we will have to invest a lot for that, from brand building to product development".

Similarly, another respondent said:

"We never had any problem in the UK market...our business was growing every year. That is one of the main reasons we concentrated more in the UK...but the present crisis affected us a lot".

Contrast to this, the respondents from the service sector companies said:

"Their economy is far better than us. We are growing but still have a long way to go. It has only positive impact on our business".

"I think we are growing but will take some more time to level. But it does not make any impact in our business".

The impact of political systems also produced conflicting responses between the UK and India. The mean value for the UK data (3.00) is above the midpoint whereas it lies somewhat below the midpoint for Indian data (2.43). The decision-makers of the UK companies linked the impact of political systems and logistics with the bureaucracy in India. They perceive that these factors pose a lot of difficulties for doing business in India. A manager of an IT company, who started business in India 15 years ago, rated "3" for the impact of political systems and said:

"When I first started business in India, corruption was the main issue...bureaucracy was very corrupt...it is not quite as bad as it was. No big problem for me. I know about it and my partner in India helps...it is normally difficult".

Chairman of a real estate company in the UK, who has properties in different states and gave a score of “4” for the impact of political systems, said:

“The political landscape varies in different states...it is not stable at the state level whereas it is better at the central. But most of the time we have to deal with the state bureaucracy”.

However, the responses for the impact of political systems in Indian firms reveal a clear distinction between the service and manufacturing-sector companies. The decision makers from textile firms highlight that the domestic political systems has some impact on their business and they perceive that the “lower home government support” for the manufacturing sector compared with service-sector companies is the main cause of these issues. The CEO of a textile company in India, who gave a score of “3” for impact of political system differences, commented:

“Government support is very important...we are not getting any support such as tax benefits and relaxation of duties...whereas most of the service sector companies are getting all these benefits. ICT companies are considered as essential services so political strike or any other issues won’t affect them”.

“Domestic political systems have some impact on our business. [State’s name] has too many political strikes but [the neighboring state’s name] provides better support to the companies. These political strikes won’t affect any business there. We are thinking about shifting our business to that state”.

The descriptive statistics reveal that the mean values of impact of perceived logistics and infrastructure differences for both the UK (2.93) and India (2.53) are above the midpoint. The UK decision makers tend to associate logistics problems in India with corruption in the bureaucracy. The chairman of a UK financial services company, which has offices in different cities in India, gave a score of “3” and said:

“It varies...it is improving but not adequate...it depends mainly on the government and the bureaucracy in different states. Developments are slow...I know about it. I have people there. So, no big impact”.

A respondent from a UK textile company, said:

“It has some impact on our business. Sometimes the shipping on right time will not be possible due the transportation issues...ports are far from my partners place... the roads are not in good condition. It is developing but still a long way to go. Some cities are better....”

However, the Indian data reveals that there are differences in the perceptions of the manufacturing and the service sector companies about the impact of logistics and infrastructure. The textile companies from India perceive that the logistics and infrastructure in India always had some impact on their company’s internationalization to the UK. When asked about it, the decision makers highlighted that similar to the political systems, the logistics and infrastructure also varies in different cities and states, and they link it to the bureaucracy.

“Government support is very critical. Government is not encouraging exports or providing infrastructure support to the textile companies in this area”.

“The [state’s name] government is providing better infrastructure facilities for the companies. They have better connectivity...they have better road facilities it is well connected with the seaport and the airport. This has positive impact on their cost and pricing as well”.

Table 1 shows that the standard deviation of regulations for UK data is very high (1.10) because of the mixed responses. Most respondents from the legal services and real estate companies perceive that regulations have a great impact on their business because the Indian market is not fully open in every sector. It reflected in the mean value as well, which is slightly above the midpoint (2.57). Managing director of a real estate company, who gave a score of ‘5’, said:

“It has a big impact on our business...we are too much dependent on the Indian developers...we can’t do anything else. It is probably the biggest factor affecting our business”.

However, some respondents said they are able overcome these issues. The managing partner of a British law firm, which is owned by a British-Indian, commented:

“There is regulation in the legal sector; it is not open for the foreign companies. But I am Indian living in the UK. So there’s no problem for us with these regulatory issues...”

Coping with Psychic distance

The results of the study reveal that the impact of psychic distance on internationalization between the UK and Indian SMEs is much less compared with the high level of perceived differences between the two business environments. This raises the questions of how well decision-makers in these SMEs are able to cope with issues related to psychic distance.

Based on the results obtained from the conversations with the decision makers from both countries, coping methods were classified into four different categories, which includes non-coping as well. The results reveal that understanding and learning about a foreign market is one of the key techniques to enter and survive in that market. The first coping strategy, the absorption coping mode, is identified based on the way firms learn about a foreign market. The second mode, the contingent mode, considers inter-partner dependence. The third coping mode is the pragmatic one consisting of *ad hoc* adjustments.

Absorption mode. This is the process of acquiring information and learning about a host market and getting accustomed to that market. The firm identifies the sources of key information needed for their business in the foreign country. This is achieved through a manager’s experience or network, building partnerships with foreign companies or hiring experienced professionals or local employees. Modern information and communication technology also enhances the relationship and information flow by facilitating frequent communication between the partners.

Contingent mode. The interviews reveal that there are instances when SMEs could not overcome issues of psychic distance just by learning and understanding about the host country. In such cases, SMEs depend upon their partner in the foreign market or a local employee for operational activities as well; they share their difficulties with them.

Pragmatic mode. There are instances when companies could not cope with some psychic-distance dimensions through either of the above-mentioned methods. In such situations firms adopt some practical *ad hoc* ways to overcome the problems. These include accepting letters of credit, applying home country laws, adopting alternate legal procedures such as arbitration, and even infringing regulations.

Non-Coping. The findings reveal that institutionally embedded dimensions (i.e. logistics and infrastructure, political systems, legal systems and regulations) are more difficult to cope with when compared with socially/culturally embedded dimensions (i.e. cultural differences, language, business practice and business ethics). Nonetheless, firms are able to cope with some institutional issues associated with psychic distance through their networks and experience. The aspects with which the SMEs are not able to cope vary across companies and industry segments. For example, six of the British firms mentioned that they had problems coping with Indian logistics and infrastructure. Three real estate firms and two software firms outsourcing to India, have problems coping with Indian regulatory restrictions. As mentioned earlier, seven Indian textile companies emphasized that their company found it difficult to cope with the present economic downturn in the UK.

DISCUSSION

The findings reveal a mixture of similar and disparate responses from the leaders of SMEs in the two countries. Moreover, there were diversified results for some dimensions both within the same country and even the same sector. This supports the view that the perception of psychic distance between two countries can vary considerably among business people (Stottinger & Schlegelmilch, 1998, Ellis, 2000, Ellis, 2008). For example, due to regulatory restrictions in sectors such as real estate and legal services a quarter of the UK respondents view the difference in Indian regulations as the main challenge for their business. Overall, there was less variation among the Indian respondents. Both the quantitative and qualitative data reveal that they consider the regulatory environment in both countries to be more or less the same and, in general supportive to their business.

The results also question the appropriateness of assessing psychic distance at the national level (e.g. Eriksson, Johanson, Majkgard & Sharma, 2000, Fletcher & Bohn, 1998; Kogut & Singh, 1988, Sethi, Guisinger, Phelan & Berg, 2003, Shoham & Albaum, 1995). The respondents from both countries observed that dimensions such as logistics and political systems in India vary between different states and are linked to the level of bureaucratic corruption at the state level. This supports Child *et al.*'s view that the logistics and political systems dimension are institutionally embedded (2009). These findings also support O'Grady and Lane's (1996: 313) view that "measuring distance at the national level may overlook regional differences within the countries; cultural and structural differences that may exist by industry; and individual differences and experiences". It appears that the decision-makers' experience (individual or firm level) and the institutional difference between different states in India (regional level) are key components in determining the impact of psychic distance on SMEs internationalization.

The findings also confirm that perceived difference does not necessarily predict the impact of psychic distance in the internationalization of SMEs. Both the UK and Indian data reveal that the perceived differences of geographic distance and culture between the UK and India are high, whereas their impact on SMEs business is considerably less. It was only the decision makers from young companies who observed that geographic distance reduces face-to-face communication with their partners/ clients and affects their network building. This supports the liability of newness thesis (Cafferata, Abatecola & Poggesi, 2010). The decision makers in younger Indian service companies stated that they had some issues with the UK's economic downturn, while the older Indian service sector companies said these economic issues have not affected their business.

In addition, the study offers an insight into how SMEs cope with the impact of psychic distance. Social capital, through networking, figures out prominently in their coping behavior. Both international experience and network contacts are important ingredients to access a new foreign market. Both British and Indian SMEs tend to cope with psychic distance dimensions such as culture, logistics and political systems, in which considerable difference is perceived, through relying on partners, agents or local employees. The study also reveals that the contingency method of coping is always associated with the institutionally embedded dimensions. There are several ways in which social capital is accessed to assist coping with the challenges of psychic distance. These include establishing trustworthy partnerships, employing local people, employing experienced executives from the host country in the head office, using the experience and networking capabilities of top managers, hiring an agent, and developing communication, understanding and learning about each other. These findings are consistent with Arenius's (2005) view that social capital helps to overcome the barriers posed by the liability of newness and the impact of psychic distance in internationalization.

The study also indicates that psychic-distance dimensions are socially or institutionally embedded. They reveal that the socially embedded psychic distance dimensions have less impact and are easier to cope than the institutionally embedded dimensions. Dimensions such as logistics, regulations, and political systems are institutionally embedded, and in some cases the decision makers were unable to cope with them. By contrast, socially rooted dimensions, such as culture, language, business practice, and ethics are more easily manageable through the SMEs' social capital. Consequently, these dimensions also exhibit a relatively lower impact, despite the highly perceived differences. These considerations suggest that the impact of psychic distance on doing business in a foreign country is moderated by the firm's ability to cope. Systematic testing of the proposition that the impact of psychic distance is moderated by the ability of the firm to cope is a promising topic for further research.

Furthermore, the SMEs' decision-makers tended to emphasize the role of information and communication technology (ICT) in reducing psychic distance. They believe that ICT ensures regular communication between companies, which enhances trust between them. It reduces the gap between countries through the aid of the latest technologies such as videoconferencing, the Internet, mobile and other telecommunications that facilitate easy communication with anyone almost anywhere in the world. It also reduces traveling expenses and guarantees an immediate response between companies besides facilitating product transaction and payment. However, some of the respondents criticized the domination of ICT and blamed it for reducing personal relationships and trust between parties. This is another prospective field for further investigation.

CONCLUSION

The mirror and mixed methods approaches offer fresh insights into the cognitive side of the psychic-distance concept. Conversations with decision-makers from both the UK and India provide a far more comprehensive picture about various dimensions of psychic distance. Results obtained from a mix of quantitative and qualitative methods attest to the validity of a multidimensional approach to the concept.

Overall, this study supports the view that psychic distance remains a valid and valuable concept in international business theory. Uncertainty over its relevance appears to be mainly due to problems in its definition and measurement, not least previous attempts to over-simplify the concept. The study reveals that, in the main, psychic distance does not influence a firm's decision to internationalize. However, a multidimensional assessment reveals that some psychic distance dimensions are more consequential than others for SMEs in both the UK and India. These dimensions could affect an SME's entry into a new market and its performance there if due attention is not paid to them. Our findings indicate that SME decision makers' ability to cope with aspects of difference reduces their impact, and this is consistent with the conclusions Child *et al.*, (2009) drew from their study of British SMEs internationalization to Brazil. We conclude therefore that psychic distance is a moderating factor (Ellis, 2008) for an SME's decision to internationalize and its choice of foreign market rather than providing the underlying rationale.

This research is subject to a number of limitations. It relies on samples from a restricted number of industries and the sample size varied across industries. The results reveal clear differences between manufacturing and service sector companies. A larger sample of companies from both manufacturing and service sectors should provide more definitive conclusions on sector and industry differences. Furthermore, this study analysed the perceptions of the SME leaders and their partners just across two countries. A study of decision makers from a wider range of countries would help to generalise the role of psychic distance in the internationalization of smaller companies.

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Table: 1. Means, standard deviations (SD) and independent sample t-tests for the perceived difference, impact and coping methods in the British and Indian responses. Total sample size (N=60).

PD Dimensions	Difference						Impact					
	Mean		SD		T value	P-value	Mean		SD		T value	P-value
	British	Indian	British	Indian			British	Indian	British	Indian		
Geographic Distance	4.10	2.97	0.54	0.96	5.60(45.95)	0.00	2.17	2.50	0.79	0.94	-1.48(58)	0.14
Cultural difference	4.37	3.83	0.49	0.79	3.14(58)	0.00	2.07	2.30	0.74	0.79	-1.18(58)	0.24
Language	2.20	2.53	0.89	1.04	-1.34(58)	0.19	2.10	2.43	0.71	0.97	-1.52(53.20)	0.14
Education	1.87	2.57	0.51	0.63	-4.76(55.60)	0.00	1.83	2.20	0.75	0.55	-2.16(58)	0.04
Technical Development	2.20	2.97	0.66	0.89	-3.78(53.70)	0.00	2.20	2.30	0.76	0.84	-0.48(58)	0.63
Economic Development	1.73	2.60	0.45	1.30	-3.45(35.80)	0.00	1.73	2.57	0.45	1.07	-3.92(38.90)	0.00
Logistics and Infrastructure	3.07	2.53	0.83	1.04	2.20(58)	0.03	2.93	2.53	0.87	0.94	1.72(58)	0.09
Political systems	3.40	3.60	0.77	0.81	-0.98(58)	0.33	3.00	2.43	0.79	0.86	2.66(58)	0.01
Legal Systems	3.33	2.47	0.76	0.78	4.38(58)	0.00	2.63	2.37	0.77	0.72	1.39(58)	0.17
Regulations	2.67	2.07	1.12	0.64	2.54(45.99)	0.02	2.57	2.13	1.10	0.43	2.00(37.76)	0.53
Business Practices	2.17	3.07	0.70	0.91	-4.30(54.5)	0.00	2.37	2.37	0.72	0.81	0.00(58)	1.00
Business Ethics	2.10	2.63	0.61	0.85	-2.80(52.5)	0.01	2.13	2.13	0.57	0.51	0.00(58)	1.00

Degrees of freedom values are in parenthesis.