When Distance is Good:

An Upper-Echelons Perspective on the Role of Distance in Internationalization

Dorota Piaskowska

University College Dublin, Ireland

UCD Michael Smurfit Graduate Business School

Carysfort Avenue, Blackrock, co. Dublin, Ireland

Email: dorota.piaskowska@ucd.ie

Tel: +353 1 716 8820

Accepted for publication in *Progress in International Business Research* vol. 12 (2017)

When Distance is Good:

An Upper-Echelons Perspective on the Role of Distance in Internationalization

Abstract

Prior research has tended to view cross-country distance as an obstacle. Yet, differences across countries are a key reason for firms to internationalize. To address this discrepancy, this paper puts forward a unifying framework which (1) synthesizes and delineates the different types of cross-country distance, (2) provides a logic for analyzing cross-level influences of distance on internationalization decisions, and (3) highlights the opportunities brought about by distance. The paper argues that firms are more likely to be able to realize these opportunities when they have internationally experienced managers and diverse, well-functioning top management teams at the helm. The paper also highlights the complex influences of distance, calling for the use of cognitive and behavioral research methodologies to further our understanding of the role of distance in internationalization. An illustrative example of Vodafone Group PLC is included.

Distance is a central concept in international business research. Its use can be traced back to the influential works of Uppsala scholars on the internationalization of Swedish multinationals (e.g., Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). Hundreds of studies have since employed the concept of distance as an intuitive metaphor for various differences across countries (Ghemawat, 2001; Hutzschenreuter, Kleindienst, & Lange, 2016; Shenkar, 2012; Zaheer, Schomaker, & Nachum, 2012) to explain why, when, where, and how firms internationalize, as well as how well they manage in their foreign markets (e.g. Barkema, Bell, & Pennings, 1996; Johanson & Vahlne, 1977; Malhotra, Sivakumar, & Zhu, 2009; Vermeulen & Barkema, 2002).

The existence of differences across countries is one of the key, long-established reasons for firms to internationalize. Cross-country differences enable firms to benefit from arbitrage opportunities, access to new markets and resources, and improved efficiency (Ambos & Håkanson, 2014; Dunning & Lundan, 2008; Zaheer et al., 2012). In spite of these benefits, research into the role of cross-country differences in internationalization has tended to take a negative view on them (Berry, Guillen, & Zhou, 2010; Stahl, Tung, Kostova, & Zellmer-Bruhn, 2016). In this literature, firms are typically seen as suffering from liabilities of foreignness and perceived, “psychic” distance due to their lack of understanding of foreign markets and lack of local networks (Johanson & Vahlne, 1977; Johanson & Vahlne, 2009; Zaheer, 1995). These challenges arise due to the cultural, administrative, political, economic, and geographic differences between countries (Delios & Henisz, 2003; Ghemawat, 2001; Kogut & Singh, 1988), and are seen as a source of risk, uncertainty, friction, and complexity (e.g., Cuypers & Martin, 2010; Shenkar, Luo, & Yeheskel, 2008; Vermeulen & Barkema, 2002).

Hence, an important question in prior research has been how to mitigate the challenges associated with cross-country distance in internationalization. A common advice has been for firms to expand incrementally without adding excessive complexity, identify knowledgeable partners with whom to share risks, and learn from experience in the process (e.g., Johanson and Vahlne, 1977; Barkema et al., 1996; Vermeulen & Barkema, 2002). At the core of these arguments has been the idea that a firm's experiential knowledge about foreign countries, the process of internationalization, and expansion modes (Dow & Larimo, 2009) is the antidote to the challenges of cross-country distance.

While the step-wise and risk-sharing approaches to internationalization have clear advantages, they are time-consuming and may lead firms to forego attractive investment opportunities. At the same time, firms which possess the necessary internationalization knowledge and abilities may become trapped in their competencies (cf. Levitt & March, 1988; Zeng, Shenkar, Lee, & Song, 2013), underestimate the challenges of distant markets (Ghemawat, 2001), and be outpaced by other players in their markets. This leads to a key question: what sets apart the companies which can capitalize on opportunities in variously distant locations from those which cannot?

To address this question, this paper zooms in on the locus of internationalization decisions in firms: the top management. Top management research has long argued that executives are the key decision makers as well as the key learners in strategic decisions (Hambrick & Mason, 1984; Nadolska & Barkema, 2007; Nielsen & Nielsen, 2011; Piaskowska & Trojanowski, 2014). Hence, top managers can be seen as the locus of knowledge and abilities required when taking and executing internationalization decisions, including in otherwise inexperienced multinationals (Maitland & Sammartino, 2015a). Furthermore, top managers' cognitions and backgrounds play a role in their decision making, including in how managers perceive and handle cross-country differences (Dow & Karunaratna, 2006; Nebus & Chai, 2014; Piaskowska & Trojanowski, 2014). In spite of this, top managers are rarely considered in distance-related research in international business.

This paper aims to fill this gap by combining insights from literature on the role of distance in international business and the upper echelons literature. The key insight is that managerial cognitions and values are central to how institutional distance stimuli are received and interpreted to form managerial perceptions, i.e. psychic distance. Hence, having the right individuals at their helms enables firms to realize the investment and learning opportunities associated with distance.

These insights are illustrated with the example of UK's Vodafone Group PLC. Under the leadership of Arun Sarin between 2003 and 2008, Vodafone embarked on a major expansion drive in emerging markets, which were distant from the firm's portfolio and experience at the time. The success of these expansions has been possible in part due to Mr. Sarin's background and experience in emerging markets combined with his understanding of the developed markets.

The paper offers two contributions to prior research. One, it proposes a framework to analyze the multifaceted and cross-level influences of distance on internationalization, thereby helping to address some of the issues highlighted in prior distance research (Zaheer et al., 2012). Two, by synthesizing and systematizing prior distance-related research, the paper aims to start refocusing it on firms' abilities to realize the benefits of distance. Suggestions for future research are also discussed.

BACKGROUND LITERATURE

Distance-related research in the field of international business has produced hundreds of studies over the past four decades (Hutzschenreuter et al., 2016). While a range of conceptual and empirical inconsistencies and disagreements persist (Ambos & Håkanson, 2014; Zaheer et al., 2012), the literature is in broad agreement on three points. One, cross-country distance encompasses differences along multiple, often related dimensions (Berry et al., 2010; Dow & Karunaratna, 2006). Two, the literature is nearly uniform in its negative view of the different dimensions of cross-country distance as sources of challenges for companies, affecting their internationalization trajectories and outcomes (Ambos & Håkanson, 2014; Hutzschenreuter et al., 2016). Three, there is a broad acceptance in the literature of the idea that, at least to an extent, distance is endogenous to the perceiver (Dow & Karunaratna, 2006; Zaheer et al., 2012). The following sections expand on these points.

Dimensions of cross-country distance

Past research has identified a multitude of dimensions of cross-country distance (e.g., Berry et al., 2010; Brewer, 2007; Dow & Karunaratna, 2006; Ghemawat, 2001; Hutzschenreuter et al., 2016). These dimensions can be grouped into five categories: cultural, administrative, political, economic, and geographic distance.

The first and most frequently studied category is *cultural distance*, encompassing differences in attitudes to authority, work, groups, time orientation, and associated business practices, among others (Drogendijk & Slangen, 2006; Hutzschenreuter et al., 2016; Tihanyi, Griffith, & Russell, 2005; Tung & Verbeke, 2010). Despite much criticism (Shenkar, 2001), cultural distance is typically conceptualized using four of Hofstede's (2001) cultural dimensions (power distance, individualism vs. collectivism, masculinity vs. femininity, and uncertainty avoidance) and measured using Kogut and Singh's (1988) index.

The second category is *administrative distance*. It encompasses colonial ties and legal system differences (Berry et al., 2010; Ghemawat, 2001), and relates closely to the third category, namely *political distance.* Political distance encompasses differences in the political systems and the systems' stability (Berry et al., 2010). The stability of political systems in typically captured using political hazards measure developed by Henisz (2000).

Next is *economic distance*, which includes cross-country differences in economic and financial development, macroeconomic characteristics, and commercial ties among countries (Anderson & Gatignon, 1986; Berry et al., 2010; Brewer, 2007; Ghemawat, 2001). Administrative, political, and economic distances are typically operationalized using publicly available data from sources such as the World Bank and World Trade Organization.

The fifth and final category is *geographic distance*, which refers to physical separation between countries. It is perhaps the most straightforward type of distance to measure, for example as the great circle distance between geographic centers of countries (Berry et al., 2010). Geographic distance may also include climate differences and the existence of a common border (Ghemawat, 2001).[1]

The above five categories of distance are not mutually exclusive and different scholars have used different groupings of dimensions for conceptual and measurement purposes. For example, Berry and colleagues (2010) have used linguistic and religious commonalities as part of their administrative distance measure, whereas Ghemawat (2001) has viewed linguistic and religious differences as elements of cultural distance instead. At the same time, Ghemawat has included aspects of political systems, specifically political hostility and government policies, in his administrative distance concept. For Berry and colleagues, political distance has been a separate category.

[1] Another interesting though less studied aspect of geographic distance is the "hassle factor", i.e. how troublesome it is for managers from one country to travel to or live in another country (Schotter & Beamish, 2013).

Overarching concepts of distance

Beyond the above five distance categories, there are two overarching concepts commonly used in the distance-related literature to encapsulate multiple types of distance under a single umbrella. These terms are institutional distance (Berry et al., 2010; Kostova, 1999; Xu & Shenkar, 2002) and psychic distance (Dow & Karunaratna, 2006; Johanson & Vahlne, 1977; O'Grady & Lane, 1996).

The notion of *institutional distance* is grounded in institutional theory and based on the formal (regulative) and informal (normative and cognitive) pillars of the institutional environment (Gaur & Lu, 2007; Kostova, 1999). As such, institutional distance encompasses a wide range of factors. Berry and colleagues (2010) have proposed one of the most comprehensive approaches to institutional distance. Their measures covered the five categories of distance listed above and included several less commonly studied dimensions, such as differences in scientific and touristic activities across countries. Other studies have tended to account for a smaller range of factors. In particular, cultural distance is often excluded from studies of institutional distance, or it is treated as a separate concept (e.g., Ang, Benischke, & Doh, 2015; Gaur & Lu, 2007), although there are also studies which equate cultural distance with the informal aspects of institutional distance (e.g., Dikova, 2009; Müller, Hendriks, & Slangen, 2016).

The second of the overarching concepts is *psychic distance*. Its roots trace back to Beckerman (1956), who noted the importance of an individual's knowledge and relationships in effectuating international trade transactions. The concept of psychic distance has been revived by scholars within the Uppsala school, who defined it as the collective of factors hindering information flows between the firm and its markets (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). Subsequent research has included a plethora of such factors under the psychic distance umbrella, from cultural differences to political, linguistic, religious as well as economic ones. In terms of measurement, similar and oftentimes the same measures have been used to operationalize psychic distance as for institutional distance (e.g., Brewer, 2007; Dikova, 2009; Dow & Karunaratna, 2006).

One reason for this apparent empirical and conceptual overlap between psychic distance and institutional distance is the convergence in the level of analysis and the reference points at which the two concepts operate. Institutional distance focuses on differences between country pairs. It operates at the country dyad level, in practice referring to a firm's home country's distance to its host country. Unlike institutional distance, psychic distance has been conceived originally as an individual-level concept, and elevated through anthropomorphism to the firm level by the early Uppsala works. In practice, this has led to psychic distance being operationalized at the home-host country dyad level, too. It is only more recently that scholars have started putting the "psychic" aspect back in its place (Nebus & Chai, 2014; Zaheer et al., 2012). Still, empirical work remains scant and the country-dyad measures remain in use as the so-called psychic distance stimuli received by managers (e.g., Dikova, 2009; Dow & Karunaratna, 2006). Thus, at least empirically, the two overarching concepts of institutional distance and psychic distance continue to overlap. This lack of conceptual and empirical clarity coincides with divergent empirical findings in distance-related literature, as discussed next.

Is distance good or bad for internationalizing firms?

Prior research has tended to take a negative view on the role of cross-country distance in firm internationalization. Distance has been seen as a liability to overcome, a barrier to be surmounted, uncertainty to be resolved, or risk to be mitigated (Ambos & Håkanson, 2014; Johanson & Vahlne, 1977; Makino & Tsang, 2011; Zaheer, 1995). Looking at cultural distance alone, Stahl and colleagues (2016) have found a 17:1 ratio of studies that made negative rather than positive assumptions about it. Distance has been argued to increase the transactional and managerial costs of doing business, complicate learning and knowledge transfer, and increase organizational complexity following international expansion (e.g., Barkema et al., 1996; Demirbag, Glaister, & Tatoglu, 2007; Simonin, 1999; Vermeulen & Barkema, 2002).

However, empirical findings are not unequivocal. Many studies have found positive, insignificant, or non-linear effects of various dimensions of distance on the choice of international markets, entry mode selection, as well as firm and subsidiary performance (see appendices to Hutzschenreuter et al., 2016, for a recent collection). This is not surprising if one considers that, fundamentally, firms internationalize in order to exploit the cross-country differences for commercial reasons. Yet, only very recently have scholars begun to argue for a more positive view of distance (e.g., Ambos & Håkanson, 2014; Klitmøller & Lauring, 2016; Stahl et al., 2016). In this respect, prior research suggests two types of benefits of distance for internationalizing firms; learning benefits and differentiation benefits.

Regarding the *learning benefits*, O'Grady and Lane (1996) have been among the first to identify what they termed the "psychic distance paradox"; a situation when perceived or assumed similarities between the home and host countries can leave decision-makers complacent, unlikely to seek insight, and unable to learn about the new countries. Hence, larger distance should lead to more learning and better internationalization outcomes.

In a similar vein, Evans and Mavondo (2002) have observed that in order to reduce uncertainty, firms are more likely to undertake extensive research, learning, and planning when expanding into distant markets as compared to more proximate or similar ones. Thanks to the more extensive preparation, the resulting internationalization decisions are likely to be more comprehensive and ultimately lead to better performance when distance is higher.

Another learning benefit from distance is associated with the breadth of knowledge. Distance can enhance learning and performance of internationalizing firms by broadening a firm's knowledge base through access to new routines and repertoires embedded in other cultures and organizations (Morosini, Shane, & Singh, 1998). Larger distance may also increase knowledge transfer potential, for example in international acquisitions (Sarala & Vaara, 2010). Furthermore, a more diverse knowledge base is likely to increase a firm's awareness of potential differences across countries, making firm less likely to misapply prior experience, and better able to recombine prior knowledge to generate new solutions to problems encountered in new markets (Piaskowska, 2005). Diverse knowledge base can also help firms develop new capabilities and overcome inertial forces (Vermeulen & Barkema, 2001). Thus, exposure to higher distances is associated with learning benefits, leading to better decisions, improved problem-solving, greater adaptability, and ultimately higher performance (Piaskowska, 2005; Reus & Lamont, 2009; Stahl et al., 2016).

Apart from the learning benefits, prior research has also pointed to *differentiation benefits* associated with higher cross-country distances, over and beyond the long-recognized benefits of international expansion associated with access to new markets, resources, and improved efficiency (Dunning & Lundan, 2008). Being different in a distant market opens new opportunities for a firm and may shield it from local competition (Evans & Mavondo, 2002), in particular when coupled with a positive perception of the firm and its products or services due to country-of-origin effects (Insch & Miller, 2005). Similarly, for some firms, being foreign in a distant market may bring reputational and signaling benefits, for example when the foreign firms adopt high sustainability and corporate social responsibility standards beyond regulatory requirements in their host markets (Doh, Littell, & Quigley, 2015).

Summary

Cross-country distance comprises cultural, administrative, political, economic, and geographic differences. Two overarching concepts encompassing some and all of these categories are institutional distance and psychic distance. While institutional distance is normally seen as a set of environmental factors, psychic distance is more appropriately conceptualized as perceptions of the environmental stimuli. Despite this conceptual distinction, both institutional distance and psychic distance have been measured at the country dyad level,[2] often with the use of the same or similar empirical indicators.

Irrespectively of the type of distance, its predominant effect on firm internationalization is seen as negative. Yet, empirical findings do not support this view uniformly and two types of benefits of distance can be seen in prior literature: differentiation benefits and learning benefits. Differentiation benefits are associated with firm origin and country-of-origin effects. Learning benefits are endogenous and depend on the firm’s and its decision-makers’ perceptions and assumptions about its environments.

In what follows, we employ the upper echelons perspective (Carpenter, Geletkanycz, & Sanders, 2004; Hambrick & Mason, 1984; Piaskowska & Trojanowski, 2014) as a unifying framework to analyze the multifaceted influences of distance on internationalization, and to provide a logic for when cross-country distance is beneficial to internationalizing firms.

UPPER ECHELONS PERSPECTIVE ON CROSS-COUNTRY DISTANCE

Upper echelons theory has been proposed first by Hambrick and Mason (1984). It stipulates that top managers have a profound impact on strategic decisions of firms, including decisions concerning internationalization (Carpenter et al., 2004; Hambrick, 2007; Hambrick & Mason, 1984; Maitland & Sammartino, 2015b). This is because managers rely on their own values, personalities, biases, cognitions, and experiences when faced with ambiguity and uncertainty

[2] There are a few notable exceptions to this. They include recent studies into the so-called “added” or “marginal” distance, which considered firm country portfolios instead of firms’ home countries as the relevant reference points (e.g., Hutzschenreuter & Voll, 2008; Hutzschenreuter, Voll, & Verbeke, 2011; Popli & Kumar, 2016).

normally associated with strategic decisions. Managerial cognitions and values influence which contextual stimuli are seen and received, and how they are interpreted. The resulting managerial perceptions become reflected in strategic decisions and outcomes (Carpenter, Pollock, & Leary, 2003; Hambrick, 2007; Li & Tang, 2010; Nadkarni & Herrmann, 2010).

Of particular relevance to internationalization decisions are managerial perceptions of distance and attitudes to risk. Prior research has shown that perceptions and attitudes to distance and risk depend on the managers' family and cultural backgrounds and experiences (e.g., Dohmen et al., 2011; Piaskowska & Trojanowski, 2014; Tse, Lee, Vertinsky, & Wehrung, 1988), and affect their expectations regarding the likelihood of success or failure (Carpenter et al., 2003). These influences are particularly pronounced in situations which allow managers significant discretion, for example due to a country's governance regulations (Crossland & Hambrick, 2007; Crossland & Hambrick, 2011; Finkelstein & Hambrick, 1990).

Considering the importance of top managers in internationalization decisions, prior research has adopted upper echelons theory to study foreign entry mode choices (e.g., Herrmann & Datta, 2006; Nielsen & Nielsen, 2011), expansions into new geographic areas (e.g., Barkema & Shvyrkov, 2007), the extent of firm internationalization (e.g., Tihanyi, Ellstrand, Daily, & Dalton, 2000), and firm performance (e.g., Hutzschenreuter & Horstkotte, 2013; Nielsen & Nielsen, 2013). For the most part, this research has linked demographic characteristics of CEOs or top management teams directly to internationalization decisions and outcomes. Less research has considered how decision-makers may perceive distance-related stimuli, and how their perceptions may influence firm internationalization (cf. Maitland & Sammartino, 2015b; Piaskowska & Trojanowski, 2014; Williams & Grégoire, 2015).

Based on the distance-related research reviewed earlier, we argue that the exogenous, contextual stimuli received and interpreted when making internationalization decisions pertain to institutional distance (Figure 1). Institutional distance stimuli arise from political, economic, administrative, cultural as well as geographic differences between the host country and the firm. Such differences can be seen and interpreted from different reference points, including in comparison to the firm's home country or other countries in the firm's portfolios, and in comparison to countries with which top management are familiar.

----Insert Figure 1 about here----

Thus, distance-related stimuli may operate at several levels and from different reference points (cf. Hutzschenreuter et al., 2016). Once interpreted, with some simplification and potential errors, the stimuli become the subjective perceptions. In this way institutional distance translates into psychic distance. Because these processes take place across different levels, team diversity and team processes also matter for how distance stimuli are received and interpreted (Carpenter et al., 2004; Nielsen & Nielsen, 2013; Piaskowska & Trojanowski, 2014).

The above logic allows us to delineate the institutional and psychic distance concepts and suggests that psychic distance is a complex, cross-level phenomenon dependent on individual managerial cognitions, the top team characteristics and processes, and the organizational contexts, with multiple reference points possible simultaneously (cf. Maitland & Sammartino, 2015a; Maitland & Sammartino, 2015b; Stahl, Miska, Lee, & De Luque, 2017). Thus, there can be no simple answer to the question of whether cross-country distance is generally good or bad for internationalizing firms.

When distance is good

Beyond the earlier-discussed benefits of distance, the framework proposed in this paper suggests that distance is good when managers have a wide "field of vision" and are able to receive and accurately interpret multiple stimuli from the environment. Wider fields of vision and more accurate interpretations of distance stimuli are more likely when managers have international experience (Herrmann & Datta, 2006; Levy, Beechler, Taylor, & Boyacigiller, 2007; Sambharya, 1996; Tihanyi et al., 2000). Both deep and broad experience of different institutional contexts is needed, as it helps managers avoid undue confidence and interpret the institutional stimuli more accurately (Piaskowska, 2005). The breadth of experience can be achieved by including managers with diverse backgrounds in the top team. Nationally diverse top management teams tend to consider a larger variety of perspectives (Nielsen & Nielsen, 2011) and are likely to receive and process more distance stimuli as compared to single-nationality teams, ultimately leading to higher performance (Nielsen & Nielsen, 2013). Furthermore, bicultural top managers, or managers who are able to bridge across various cultural schema, may be particularly well positioned to help their (diverse) teams process distance stimuli (Brannen & Doz, 2010; Piaskowska & Trojanowski, 2014), ultimatly helping their firms to benefit from distance.

Thus, distance is good for companies whose executives possess relevant (international) knowledge, abilities, and attitudes, and whose top teams have a level of diversity they can capitalize on (cf. Stahl, Mäkelä, Zander, & Maznevski, 2010), even when their companies lack relevant organizational experience (Maitland & Sammartino, 2015a). This insight adds to prior research which has long recognized organizational experience as an antidote to the challenges of distance in internationalization (Barkema et al., 1996; Johanson & Vahlne, 1977).

The case of Vodafone Group PLC

Vodafone is an illustrative example of a company which was successful expanding into institutionally distant markets while having only a limited experience in such markets at the organizational level. The company is one of the largest mobile phone and fixed network operators in the world. Headquartered in the UK, Vodafone owns or part-owns operations in 26 other countries on five continents, including such institutionally distant locations as Turkey, India, Ghana, and Lesotho, and has partnership agreements in further 49 countries (Vodafone.com). Despite these achievements, Vodafone's road to global presence has been bumpy.

The company emerged as an independent business in 1991, when it separated from Racal Electronics and became listed on London and New York stock exchanges (Vodafone.com). Its initial strategy was that of organic growth. This has changed under the leadership of Christopher Gent, who took over as the CEO in 1997 and embarked on what business press described as aggressive empire building (The Economist, 2008). Sir Gent, a British-born and raised businessman with a career in British multinationals (Bloomberg.com), had focused Vodafone's expansions on the developed markets. By the time he was replaced by Arun Sarin in 2003, Vodafone had ownership interests and partnerships in 28 countries, of which the most significant were in Europe (Vodafone.com). Outside of Europe, Vodafone was struggling with its American and Japanese operations, and needed to integrate the global collection of mobile-phone operators assembled by Sir Gent.

Mr. Sarin has been described as "the archetypal international executive" (The Economist, 2003) who "is equally at home with both cricket and baseball analogies, as you might expect from someone born and brought up in India, and now an American citizen", married to a fellow Indian he met while studying at University of California at Berkley (The Economist, 2004). It is no wonder then that Mr. Sarin's international experience – both the formative, childhood influences, and his later life, career experiences – have been seen as an asset for Vodafone at the time when it needed to integrate the various units acquired under the leadership of his predecessor. As The Economist (2003) remarked, "to put another Brit into the top job might have bred resentment."

Despite the initial positive reception of Mr. Sarin’s leadership, soon “it became clear that quietly fitting the pieces together would not be enough” (The Economist, 2008). Thus, in mid-2005, Mr. Sarin begun shifting Vodafone’s strategy towards emerging markets. Step by step, Vodafone moved to take control of operators in Central Europe and then outbid a number of rivals to acquire Turkey’s Telsim for $4.5 billion in December 2005 (The Economic Times, 2007). This strategic shift towards emerging markets was crowned by the $11.1-billion acquisition of Hutchison Essar, an Indian operator, in February 2007 (The Economist, 2007).

In retrospect, The Economist (2008) remarked that “Mr. Sarin's Indian roots were an asset during the fight for Hutchison Essar” and “having an Indian-American running Vodafone was exactly the right choice for a company that is now trying to bridge mature and developing markets.”. In 2008 the group reported strong financial results and revealed that it had more customers outside of Western Europe than within it.

Vodafone’s example illustrates that expanding and integrating operations across multiple institutionally distant markets has been a major opportunity the company was able to notice and capitalize on at the right time, despite relatively limited organizational-level experience. Strikingly, the success has come under the leadership of an internationally-experienced CEO who had an in-depth understanding of both the developed and the emerging markets thanks to his personal experience. He also surrounded himself by other internationally experienced directors. By 2004, his six-person executive director team counted three non-British members, with further internationally minded senior managers included in the company’s Executive Committee (Vodafone.com). For Vodafone, distance has been an opportunity, and the top management have been central to turning expansions into distant markets into a success.

DISCUSSION

In their recent study into the role of managerial cognitions in internationalization, Maitland and Sammarino (2015b, p. 753) observed that international business researchers have "a tendency to fall back on easy-to-access data and variables." Our review of distance-related studies has shown a similar tendency; the same or similar measures have been repeatedly used to operationalize conceptually distinct types of distance, in particular the two overarching concepts of institutional and psychic distance, with limited regard to the mechanisms, levels of analysis, and reference points (Hutzschenreuter et al., 2016; Zaheer et al., 2012). We have also observed that scholars have typically viewed distance as a negative factor in firm internationalization, despite distance being the very reason for firms to try to gain an arbitrage of doing business in foreign markets (Ambos & Håkanson, 2014). It is no wonder then that empirical results regarding the effect of cross-country distance on internationalization have been far from uniform (Hutzschenreuter et al., 2016).

This paper sought to provide a unifying framework which would (1) synthesize and delineate the different types of cross-country distance conceptually, (2) provide a logic for analyzing cross-level influences of distance in internationalization, and (3) address the inconsistency between the predominantly negative view of distance in prior research and distance being the very reason for firms to internationalize. We proposed that combining insights from prior distance-related research with upper echelons theory provides such a framework.

The combined framework indicates that distance influences internationalization at multiple levels and across levels, of which the organizational, managerial, and top management team levels are the most apparent. Most prior research has focused on the organizational level. At this level, distance is associated with differences between a host country and a firm's home country or portfolio of countries (e.g., Hutzschenreuter et al., 2011). However, this level of analysis is not consistent with conceptualization of distance as a perception. By focusing on the decision makers, upper echelons theory provides a framework for putting the "psychic" back into the concept of distance (Dikova, 2009; Nebus & Chai, 2014) and can help resolve some of the inconsistencies in distance research (Zaheer et al., 2012).

This paper focused on one such inconsistency to clarify when distance is a negative factor in internationalization, and when firms can capitalize on the opportunities distance brings. While prior research has long argued that organizational experience helps firms mitigate the negative influence of distance (e.g., Barkema et al., 1996; Johanson & Vahlne, 1977), the framework and example shown in this paper indicate that managerial cognitions, experiences, and values can enable firms to benefit from distance even in the absence of firm-level experience (cf. Maitland & Sammartino, 2015a). Indeed, distance itself opens opportunities for new learning, further contributing to a firm's ability to internationalize successfully.

FUTURE RESEARCH AVENUES

The relationships between exogenous and perceived distances and their influence on internationalization are complex and multiple mechanisms can be at play simultaneously. For example, in the case of Vodafone, Arun Sarin's plan to integrate the units acquired under the leadership of his predecessor involved some sell-offs. His efforts in this respect were slowed down by counteracting forces due to prior decisions taken by Vodafone. Thus, it is possible that managerial experience may not turn distance into an opportunity and the learning benefits associated with distance may not realize if organizational context is unfavorable. It is also possible that managers may become overconfident, especially those with some but limited experience (cf. Menkhoff, Schmeling, & Schmidt, 2013), and overestimate their ability to capitalize on opportunities in distant markets, leading to increased risk-taking (Li & Tang, 2010). While the framework proposed in this paper offers a logic for analyzing such multifaceted influences, future theorizing would benefit from in-depth studies aiming to disentangle these influences. Specifically, cognitive mapping approaches (e.g., Calori, Johnson, & Sarnin, 1994; Maitland & Sammartino, 2015b) and experimental designs (e.g., Kraus, Ambos, Eggers, & Cesinger, 2015; Menkhoff et al., 2013) may be particularly useful. At a minimum, future research would benefit from recognizing the cross-level and (partly) endogenous nature of distance through the use of appropriate methodologies, to better capture the complex relationships and to advance our theorizing.

The concept of distance has been widely used within various theoretical perspectives to explain firm internationalization, from transaction cost economics (Anderson & Gatignon, 1986), to the Uppsala internationalization process model (Barkema et al., 1996) and institutional theory (Gaur & Lu, 2007), to name a few. There is a potential in these theories to account for the managerial role in internationalization by integrating insights from upper echelons literature and the broader cognitive and behavioral research. Such extensions may help advance our understanding of the microfoundations of internationalization (Foss & Pedersen, 2016; Gavetti, 2012), and allow for a more precise modelling of the heterogeneity in internationalization approaches and outcomes among firm.

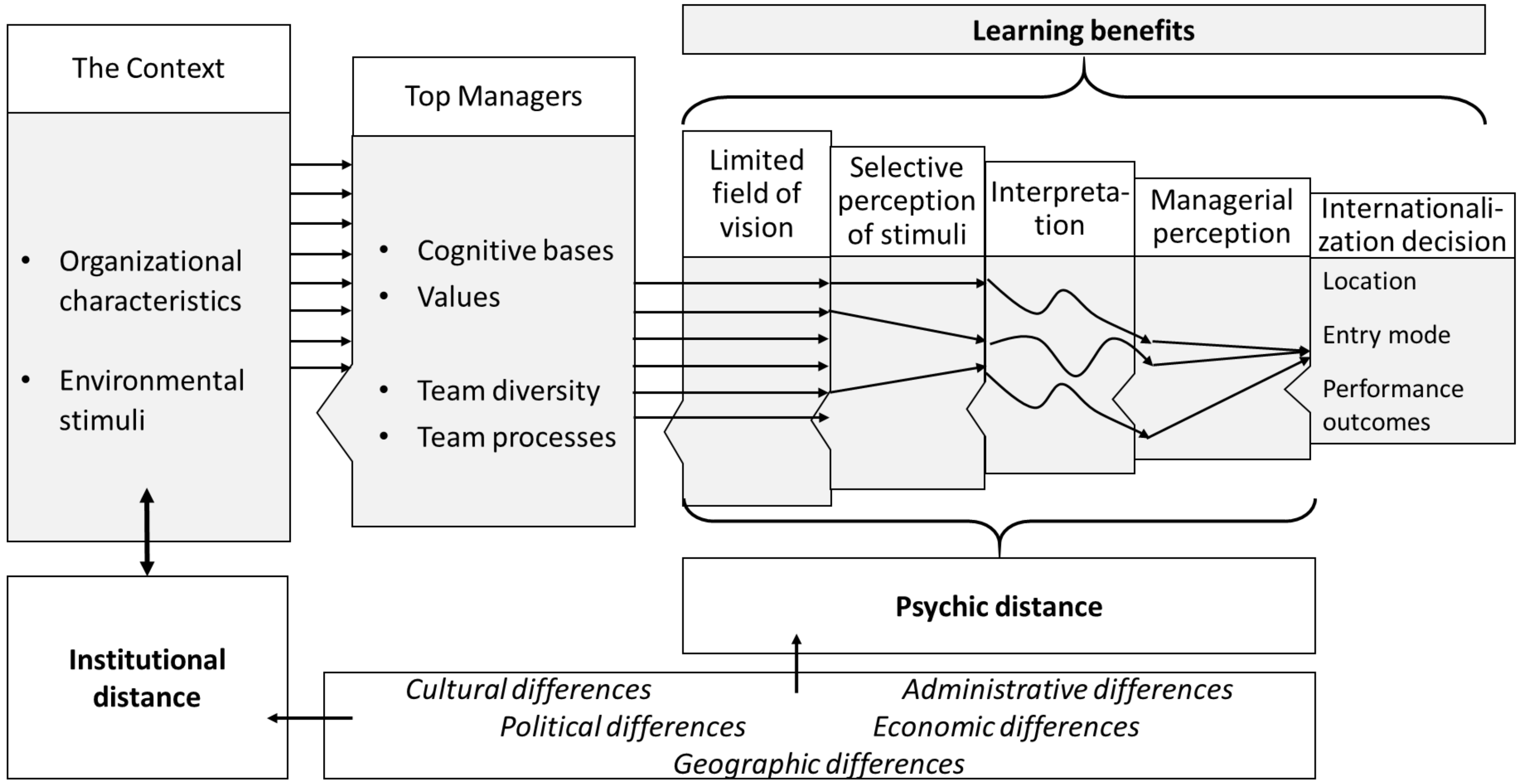
There is also an opportunity for future research to study distance-related phenomena in contexts other than traditional multinationals. For example, the past few years have witnessed the emergence of new breeds of globally present companies such as i-businesses (Brouthers, Geisser, & Rothlauf, 2016). Such companies often internationalize fast and early, despite their inexperience, newness, and sometimes even smallness. It is not clear to what extent distance may matter, either positively or negatively, for such firms, nor is it clear what matters in their internationalization more broadly (Brouthers et al., 2016).

Finally, future research may develop new, practical insights regarding top management team composition and talent development for firms to benefits from distance. Opportunities to do so would exist by bridging into the areas of global talent management research (Cerdin & Brewster, 2014; Puck, Kittler, & Wright, 2008), cultural intelligence (Earley & Ang, 2003), biculturals (Brannen & Doz, 2010), and diversity (Stahl et al., 2010), to name a few.

CONCLUSION

Cross-country distance can be good for internationalizing firms. It presents opportunities in terms of access to markets, resources, improved efficiency, differentiation, and learning. For these opportunities to materialize, firms need the right individuals at their helms, as managerial cognitions and values influence how distance stimuli are received and interpreted when internationalization decisions are being made and implemented. Internationally experienced managers and diverse, well-functioning top management teams are a step in the right direction. By considering *who* perceives and interprets institutional distance stimuli, the framework proposed in this paper offers a logic for analyzing the multifaceted and cross-level influences of distance on internationalization, highlighting the possibility for future research to refocus on how firms can benefit from opportunities brought about by cross-country distance.

Figure 1. Upper Echelons Framework for the Influence of Cross-Country Distance on Internationalization Decisions



Source: Adapted based on Hambrick and Mason (1984, p. 195) and Carpenter et al. (2004, p. 760).

References

Ambos, B., & Håkanson, L. (2014). The concept of distance in international management research. *Journal of International Management, 20*(1), 1-7.

Anderson, E., & Gatignon, H. (1986). Modes of foregin entry: A transaction cost analysis and propositions. *Journal of International Business Studies, 17*(3), 1-26.

Ang, S. H., Benischke, M. H., & Doh, J. P. (2015). The interactions of institutions on foreign market entry mode. *Strategic Management Journal, 36*(10), 1536-1553.

Barkema, H. G., Bell, J. H. J., & Pennings, J. M. (1996). Foreign entry, cultural barriers, and learning. *Strategic Management Journal, 17*(2), 151-166.

Barkema, H. G., & Shvyrkov, O. (2007). Does top management team diversity promote or hamper foreign expansion? *Strategic Management Journal, 28*(7), 663-680.

Beckerman, W. (1956). Distance and the pattern of intra-European trade. *The Review of Economics and Statistics, 38*(1), 31-40.

Berry, H., Guillen, M. F., & Zhou, N. (2010). An institutional approach to cross-national distance. *Journal of International Business Studies, 41*(9), 1460-1480.

Brannen, M. Y., & Doz, Y. L. (2010). From a distance and detached to up close and personal: Bridging strategic and cross-cultural perspectives in international management research and practice. *Scandinavian Journal of Management, 26*(3), 236-247.

Brewer, P. A. (2007). Operationalizing psychic distance: A revised approach. *Journal of International Marketing, 15*(1), 44-66.

Brouthers, K. D., Geisser, K. D., & Rothlauf, F. (2016). Explaining the internationalization of ibusiness firms. *Journal of International Business Studies, 47*(5), 513-534.

Calori, R., Johnson, G., & Sarnin, P. (1994). CEOs' cognitive maps and the scope of the organization. *Strategic Management Journal, 15*(6), 437-457.

Carpenter, M. A., Geletkanycz, M. A., & Sanders, W. G. (2004). Upper echelons research revisited: Antecedents, elements, and consequences of top management team composition. *Journal of Management, 30*(6), 749-778.

Carpenter, M. A., Pollock, T. G., & Leary, M. M. (2003). Testing a model of reasoned risk-taking: Governance, the experience of principals and agents, and global strategy in high-technology IPO firms. *Strategic Management Journal, 24*(9), 803-820.

Cerdin, J.-L., & Brewster, C. (2014). Talent management and expatriation: Bridging two streams of research and practice. *Journal of World Business, 49*(2), 245-252.

Crossland, C., & Hambrick, D. C. (2007). How national systems differ in their constraints on corporate executives: A study of CEO effects in three countries. *Strategic Management Journal, 28*(8), 767-789.

Crossland, C., & Hambrick, D. C. (2011). Differences in managerial discretion across countries: How nation-level institutions affect the degree to which CEOs matter. *Strategic Management Journal, 32*(8), 797-819.

Cuypers, I. R. P., & Martin, X. (2010). What makes and what does not make a real option? A study of equity shares in international joint ventures. *Journal of International Business Studies, 41*(1), 47-69.

Delios, A., & Henisz, W. J. (2003). Political hazards, experience, and sequential entry strategies: The international expansion of Japanese firms, 1980-1998. *Strategic Management Journal, 24*(11), 1153-1164.

Demirbag, M., Glaister, K. W., & Tatoglu, E. (2007). Institutional and transaction cost influences on MNEs' ownership strategies of their affiliates: Evidence from an emerging market. *Journal of World Business, 42*(4), 418-434.

Dikova, D. (2009). Performance of foreign subsidiaries: Does psychic distance matter? *International Business Review, 18*(1), 38-49.

Doh, J. P., Littell, B., & Quigley, N. R. (2015). CSR and sustainability in emerging markets: Societal, institutional, and organizational influences. *Organizational Dynamics, 44*(2), 112-120.
Dohmen, T., Huffman, D., Schupp, J., Falk, A., Sunde, U., & Wagner, G. G. (2011). Individual risk attitudes: Measurement, determinants, and behavioral consequences. *Journal of the European Economic Association, 9*(3), 522-550.
Dow, D., & Karunaratna, A. (2006). Developing a multidimensional instrument to measure psychic distance stimuli. *Journal of International Business Studies, 37*(5), 578-602.
Dow, D., & Larimo, J. (2009). Challenging the conceptualization and measurement of distance and international experience in entry mode choice research. *Journal of International Marketing, 17*(2), 74-98.
Drogendijk, R., & Slangen, A. (2006). Hofstede, Schwartz, or managerial perceptions? The effects of different cultural distance measures on establishment mode choices by multinational enterprises. *International Business Review, 15*(4), 361-380.
Dunning, J. H., & Lundan, S. M. (2008). *Multinational Enterprises and the Global Economy* (2nd ed.). Cheltenham, UK: Edward Elgar.
Earley, P. C., & Ang, S. (2003). *Cultural Intelligence: Individual Interactions across Cultures*. Stanford, CA: Stanford University Press.
Evans, J., & Mavondo, F. T. (2002). Psychic distance and organizational performance: An empirical examination of international retailing operations. *Journal of International Business Studies, 33*(3), 515-532.
Finkelstein, S., & Hambrick, D. C. (1990). Top management team tenure and organizational outcomes: The moderating role of managerial discretion. *Administrative Science Quarterly, 35*(3), 484-503.
Foss, N. J., & Pedersen, T. (2016). Microfoundations in strategy research. *Strategic Management Journal, 37*(13), E22-E34.
Gaur, A. S., & Lu, J. W. (2007). Ownership strategies and survival of foreign subsidiaries: Impacts of institutional distance and experience. *Journal of Management, 33*(1), 84-
Gavetti, G. (2012). Toward a behavioral theory of strategy. *Organization Science, 23*(1), 267.
Ghemawat, P. (2001). Distance still matters: The hard reality of global expansion. *Harvard Business Review, 79*(8), 137-147.
Hambrick, D. C. (2007). Upper echelons theory: An update. *Academy of Management Review, 32*(2), 334-343.
Hambrick, D. C., & Mason, P. A. (1984). Upper echelons: The organization as a reflection of its top managers. *Academy of Management Review, 9*(2), 193-206.
Henisz, W. J. (2000). The institutional environment for economic growth. *Economics & Politics, 12*(1), 1-31.
Herrmann, P., & Datta, D. K. (2006). CEO experiences: Effects on the choice of FDI entry mode. *Journal of Management Studies, 43*(4), 755-778.
Hofstede, G. (2001). *Culture's consequences: Comparing values, behaviors, institutions, and organizations across nations* (2 ed.). Beverly Hills, CA: Sage.
Hutzschenreuter, T., & Horstkotte, J. (2013). Performance effects of international expansion processes: The moderating role of top management team experiences. *International Business Review, 22*(1), 259-277.
Hutzschenreuter, T., Kleindienst, I., & Lange, S. (2016). The concept of distance in international business research: A review and research agenda. *International Journal of Management Reviews, 18*(2), 160-179.
Hutzschenreuter, T., & Voll, J. C. (2008). Performance effects of "added cultural distance" in the path of international expansion: the case of German multinational enterprises. *Journal of International Business Studies, 39*(1), 53.

Hutzschenreuter, T., Voll, J. C., & Verbeke, A. (2011). The impact of added cultural distance and cultural diversity on international expansion patterns: A Penrosean perspective. *Journal of Management Studies, 48*(2), 305-329.

Insch, G. S., & Miller, S. R. (2005). Perception of foreignness: Benefit or liability? *Journal of Managerial Issues, 17*(4), 423-438.

Johanson, J., & Vahlne, J.-E. (1977). The internationalization process of the firm: A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies, 8*, 23-32.

Johanson, J., & Vahlne, J. E. (2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies, 40*(9), 1411-1431.

Johanson, J., & Wiedersheim-Paul, F. (1975). The internationalizaiton of the firm: Four Swedish cases. *Journal of Management Studies, 12*(3), 305-323.

Klitmøller, A., & Lauring, J. (2016). When distance is good: A construal level perspective on perceptions of inclusive international language use. *International Business Review, 25*(1), 276-285. d

Kogut, B., & Singh, H. (1988). The effect of national culture on the choice of entry mode. *Journal of International Business Studies, 19*(3), 411-432.

Kostova, T. (1999). Transnational transfer of strategic organizational practices: A contextual perspective. *Academy of Management Review, 24*(2), 308-324.

Kraus, S., Ambos, T., Eggers, F., & Cesinger, B. (2015). Distance and perceptions of risk in internationalization decisions. *Journal of Business Research, 68*(7), 1501-1505.

Levitt, B., & March, J. G. (1988). Organizational learning. *Annual Review of Sociology, 14*(1), 319-340.

Levy, O., Beechler, S., Taylor, S., & Boyacigiller, N. A. (2007). What we talk about when we talk about "global mindset": Managerial cognition in multinational corporations. *Journal of International Business Studies, 38*(2), 231-258.

Li, J. T., & Tang, Y. (2010). CEO hubris and firm risk taking in China: The moderating role of managerial discretion *Academy of Management Journal, 53*(1), 45-68.

Maitland, E., & Sammartino, A. (2015). Decision making and uncertainty: The role of heuristics and experience in assessing a politically hazardous environment. *Strategic Management Journal, 36*(10), 1554-1578.

Maitland, E., & Sammartino, A. (2015). Managerial cognition and internationalization. *Journal of International Business Studies, 46*(7), 733-760.

Makino, S., & Tsang, E. W. K. (2011). Historical ties and foreign direct investment: An exploratory study. *Journal of International Business Studies, 42*(4), 545-557.

Malhotra, S., Sivakumar, K., & Zhu, P. (2009). Distance factors and target market selection: The moderating effect of market potential. *International Marketing Review, 26*(6), 651-673.

Menkhoff, L., Schmeling, M., & Schmidt, U. (2013). Overconfidence, experience, and professionalism: An experimental study. *Journal of Economic Behavior & Organization, 86*, 92-101.

Morosini, P., Shane, S., & Singh, H. (1998). National cultural distance and cross-border acquisition performance. *Journal of International Business Studies, 29*(1), 137-158.

Müller, M., Hendriks, G., & Slangen, A. (2016). *Institutional distance and emerging market multinationals' establishment mode choices: The importance of context, direction, and interaction*. Paper presented at the European International Business Academy, Vienna, Austria.

Nadkarni, S., & Herrmann, P. (2010). CEO personality, strategic flexibility, and firm performance: The case of the Indian business process outsourcing industry. *Academy of Management Journal, 53*(5), 1050-1073.
Nadolska, A., & Barkema, H. G. (2007). Learning to internationalize: The pace and success of foreign acquisitions. *Journal of International Business Studies, 38*(7), 1170-1186.
Nebus, J., & Chai, K. H. (2014). Putting the "psychic" back in psychic distance: Awareness, perceptions, and understanding as dimensions of psychic distance. *Journal of International Management, 20*(1), 8-24.
Nielsen, B. B., & Nielsen, S. (2011). The role of top management team international orientation in international strategic decision-making: The choice of foreign entry mode. *Journal of World Business, 46*(2), 185-193.
Nielsen, B. B., & Nielsen, S. (2013). Top management team nationality diversity and firm performance: A multilevel study. *Strategic Management Journal, 34*(3), 373-382.
O'Grady, S., & Lane, H. W. (1996). The psychic distance paradox. *Journal of International Business Studies, 27*(2), 309-333.
Piaskowska, D. (2005). *Essays on Firm Growth and Value Creation*. Tilburg: Tilburg University.
Piaskowska, D., & Trojanowski, G. (2014). Twice as smart? The importance of managers' formative-years' international experience for their international orientation and foreign acquisition decisions. *British Journal of Management, 25*(1), 40–57.
Popli, M., & Kumar, V. (2016). Jumping from springboard? The role of marginal cultural distance in cross-border M&A deal completion. *Thunderbird International Business Review, 58*(6), 527-536.
Puck, J. F., Kittler, M. G., & Wright, C. (2008). Does it really work? Re-assessing the impact of pre-departure cross-cultural training on expatriate adjustment. *International Journal of Human Resource Management, 19*(12), 2182-2197.
Reus, T. H., & Lamont, B. T. (2009). The double-edged sword of cultural distance in international acquisitions. *Journal of International Business Studies, 40*(8), 1298-1316.
Sambharya, R. B. (1996). Foreign experience of top management teams and international diversification strategies of U.S. multinational corporations. *Strategic Management Journal, 17*(9), 739-746.
Sarala, R. M., & Vaara, E. (2010). Cultural differences, convergence, and crossvergence as explanations of knowledge transfer in international acquisitions. *Journal of International Business Studies, 41*(8), 1365-1390.
Schotter, A., & Beamish, P. W. (2013). The hassle factor: An explanation for managerial location shunning. *Journal of International Business Studies, 44*(5), 521-544.
Shenkar, O. (2001). Cultural distance revisited: Towards a more rigorous conceptualization and measurement of cultural differences. *Journal of International Business Studies, 32*(3), 519-535.
Shenkar, O. (2012). Beyond cultural distance: Switching to a friction lens in the study of cultural differences. *Journal of International Business Studies, 43*(1), 12-17.
Shenkar, O., Luo, Y., & Yeheskel, O. (2008). From "distance" to "friction": Substituting metaphors and redirecting intercultural research. *Academy of Management Review, 33*(4), 905-923.
Simonin, B. L. (1999). Ambiguity and the process of knowledge transfer in strategic alliances. *Strategic Management Journal, 20*(7), 595-623.
Stahl, G. K., Mäkelä, K., Zander, L., & Maznevski, M. L. (2010). A look at the bright side of multicultural team diversity. *Scandinavian Journal of Management, 26*(4), 439-447.

Stahl, G. K., Miska, C., Lee, H.-J., & De Luque, M. S. (2017). The upside of cultural differences: Towards a more balanced treatment of culture in cross-cultural management research. *Cross Cultural & Strategic Management, 24*(1), 2-12.
Stahl, G. K., Tung, R. L., Kostova, T., & Zellmer-Bruhn, M. (2016). Widening the lens: Rethinking distance, diversity, and foreignness in international business research through positive organizational scholarship. *Journal of International Business Studies, 47*(6), 621-630.
The Economic Times (2007). Vodafone digests its prey in three stages globally. economictimes.indiatimes.com.
The Economist (2003). A new voice at Vodafone. www.economist.com/node/1956966.
The Economist (2004). Foundation and empire. www.economist.com/node/3423126.
The Economist (2007). Business this week. www.economist.com/node/8717698.
The Economist (2008). Ringing off. www.economist.com/node/11452433.
Tihanyi, L., Ellstrand, A. E., Daily, C. M., & Dalton, D. R. (2000). Composition of the top management team and firm international diversification. *Journal of Management, 26*(6), 1157-1177.
Tihanyi, L., Griffith, D. A., & Russell, C. J. (2005). The effect of cultural distance on entry mode choice, international diversification, and MNE performance: A meta-analysis. *Journal of International Business Studies, 36*(3), 270-283.
Tse, D. K., Lee, K.-h., Vertinsky, I., & Wehrung, D. A. (1988). Does culture matter? A cross-cultural study of executives' choice, decisiveness, and risk adjustment in international marketing. *Journal of Marketing, 52*(4), 81-95.
Tung, R. L. (1987). Expatriate assignments: Enhancing success and minimizing failure. *Academy of Management Executive, 1*(2), 117-125.
Tung, R. L., & Verbeke, A. (2010). Beyond Hofstede and GLOBE: Improving the quality of cross-cultural research. *Journal of International Business Studies, 41*(8), 1259-1274.
Vermeulen, F., & Barkema, H. G. (2001). Learning through acquisitions. *Academy of Management Journal, 44*(3), 457-476.
Vermeulen, F., & Barkema, H. G. (2002). Pace, rhythm, and scope: Process dependence in building a profitable multinational corporation. *Strategic Management Journal, 23*(7), 637-654.
Williams, D. W., & Grégoire, D. A. (2015). Seeking commonalities or avoiding differences? Re-conceptualizing distance and its effects on internationalization decisions. *Journal of International Business Studies, 46*(3), 253-284.
www.bloomberg.com
www.vodafone.com, Annual Reports
Xu, D., & Shenkar, O. (2002). Institutional distance and the multinational enterprise. *Academy of Management Review, 27*(4), 608-618.
Zaheer, S. (1995). Overcoming the liability of foreignness *Academy of Management Journal, 38*(2), 341-363.
Zaheer, S., Schomaker, M. S., & Nachum, L. (2012). Distance without direction: Restoring credibility to a much-loved construct. *Journal of International Business Studies, 43*(1), 18-27.
Zeng, Y., Shenkar, O., Lee, S.-h., & Song, S. (2013). Cultural differences, MNE learning abilities, and the effect of experience on subsidiary mortality in a dissimilar culture: Evidence from Korean MNEs. *Journal of International Business Studies, 44*(1), 42-65.