Factors underlying cultural and psychic distance in cross-national activities of export managers: Qualitative insights from a CEE country*

*Mateja Bodlaj, Irena Vida***

In light of the currently limited understanding of the role of cultural issues that may hamper firm success in cross-border activities, particularly in the context of Central and Eastern European (CEE) countries, the purpose of this paper is to examine how export managers experience and perceive cross-national differences, frequently referred to as 'psychic' or 'cultural distance' in the literature. We offer empirical insights from a small and open CEE country, in which exports are recognized as a driving force for economic growth. We conducted a series of systematic in-depth interviews on the sample of Slovenian exporting companies of different sizes, industries, and experiences in cross-border activities. Based on a grounded theory approach, we identified three sets of factors underlying psychic distance and their six related components from the exporters' perspective: cultural differences and the language (i.e., patterns of thinking, behaviours, language), perceived differences in relational business practices (i.e., relationships with business people, business practices), and differences in the macro environment.

Keywords: psychic distance, export, grounded theory, Slovenia
JEL: M16, M31

1. Introduction

Cross-national differences have always been at the centre of interest for managers who make decisions on their cross-border operations, as well as for researchers who examine the drivers of success in firms' international business involvement. Despite the process of globalisation, developments in information and communications technology (ICT), and technological advances in logistics infrastructure, countries remain different in a number of characteristics which comprise a country's cultural, social, economic, political, and historical settings (Drogendijk/Martín 2015). Due to cultural and other differences between domestic and foreign markets, doing business across national borders is much more complex, challenging, and riskier than locally. A failure to recognize and address these differences appropriately may hamper companies' success in their cross-border activities. Contemporary academic literature provides empirical support that cultural differences can adversely affect various international activities such as cross-border organizational learning, the choice of foreign entry

* Received: 08.03.2016, accepted: 06.05.2017, 2 revisions

** *Mateja Bodlaj*, Ph.D., Assistant Professor, University of Ljubljana, Faculty of Economics, Slovenia, E-mail: mateja.bodlaj@ef.uni-lj.si. Main research areas: market orientation, innovation, small business marketing, cross-cultural marketing.
Irena Vida, Ph.D., Full Professor, University of Ljubljana, Faculty of Economics, Slovenia. Main research areas: strategic issues in international marketing, business-to-business relationships, cross-cultural marketing, sales and consumer behaviour.

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mode and perceived ability to manage foreign operations, the longevity of global strategic alliances, cross-cultural adjustment of expatriates (Stahl/Tung 2015), and cross-border relationship quality (Leonidou/Samiee/Aykol/Talias 2014). In comparison to other barriers to cross-border cooperation, barriers associated with cultural differences are more persistent (Leick 2011).

Although cultural issues have been extensively examined in international business, marketing and management fields over the past decades, much of the research has been conducted in the developed Western markets (Lages/Pfajfar/Shoham 2015). Our understanding of the role of cultural issues in the context of CEE countries is quite limited, particularly in the exporting context. In addition, the vast majority of the existing studies use quantitative approaches (Stahl/Tung 2015), whereby researchers *a priori* determine a broad range of cross-national differences, frequently referred to as psychic or cultural distance. The problem with such an approach typically results in a low predictive power of psychic distance construct on the dependent variables examined and inconsistent findings across empirical studies yielding less than unequivocal managerial implications (Shenkar 2012; Nebus/Chai 2014; Harzing/Pudelko 2016). The objective of our study is to fill these gaps in the literature and to examine how exporting managers perceive cross-national differences by adopting grounded theory-based qualitative research.

Our study focuses on Slovenia, the country that offers an interesting research setting. Due to its small domestic market, the Slovenian economy is highly open towards international trade. In 2015, exports generated 77.8% of Slovenian GDP, which significantly exceeded the EU-28 average (43.6%; Eurostat 2016). The exports to other EU-member states accounted 76.9% of the total exports (Statistical Office of the Republic of Slovenia 2016). Consequently, Slovenian exporters are quite vulnerable to changes in economic trends in the EU markets. To mitigate this vulnerability, an increase of exports to non-EU markets has been set as one of the country’s key strategic objectives. In order to meet this objective, exporters will have to expand their international activities to more cross-culturally diversified and distant international markets.

In the remaining sections of this paper, we first provide a brief literature review on psychic distance, afterwards we explain the methodology, provide results, and conclude with a summary of the findings and a discussion.

2. Literature review on psychic distance and its underlying factors

While researchers use various concepts and terminology to study and capture cross-national differences in the context of international business, two concepts prevail: (a) a cultural distance, and (b) a psychic distance. In the literature, the concept of cultural distance is typically related to the objectively measured cross-national cultural differences, most often using a Kogut-Singh index based

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on Hofstede's four dimensions of national culture: power distance, individualism, masculinity, uncertainty avoidance (e.g., Shenkar 2001). In contrast, the concept of psychic distance typically reflects subjectively perceived differences between markets on an individual level (e.g., Baack/Dow/Parente/Bacon 2015). This paper focuses on the concept of psychic distance.

The term 'psychic distance' was first used by Beckerman (1956) who assumed that psychic distance may importantly affect the selection of a business partner in a foreign market. Nevertheless, psychic distance attracted research interest only two decades later, when researchers from the University of Uppsala in 1970 s established the first definition of this concept, carried out the first serious attempt to measure it, and used this concept for the development of theory of gradual internationalization process (Dow/Karunaratna 2006). The Uppsala researchers defined psychic distance as "the sum of factors preventing the flow of information to and from the market" (Johanson/Vahlne 1977: 24). The liability of foreignness increases with an increase of psychic distance, therefore experiential knowledge about foreign markets is crucial for internationalization (Johanson/Vahlne 2009). In the subsequent years, researchers have revised the definition several times. For example, Nordström and Vahlne (1994: 24) defined psychic distance as "factors preventing or disturbing a firm's learning about and understanding of a foreign environment."

Evans and Mavondo (2002) contended that an individual's perceptions are a critical aspect of the psychic distance. They defined psychic distance as "the distance between the home market and a foreign market, resulting from the perception of both cultural and business differences" (Evans/Mavondo 2002: 517). Later, Dow and Karunaratna (2006) recommended differentiating psychic distance from its underlying factors (i.e., stimuli). They defined psychic distance as a manager's perception of factors that influence the manager's perception of psychic distance. More recently, some authors have introduced the concepts of added distance and added psychic distance stimuli to emphasize the distance between the newly entered host country and the host country, where the company already has substantial experience (Hutzschenreuter/Kleindienst/Lange 2014).

While some authors in their earlier studies used the terms psychic distance and cultural distance as synonyms (e.g., Shoham/Albaum 1995; Simonin 1999; Luo/Shenkar/Nyaw 2001), the prevalent view holds that cultural distance is a narrower concept (Shenkar 2001; Dow/Karunaratna 2006; Drogendijk/Martín 2015). As indicated earlier, some authors (e.g., Zhang/Cavusgil/Roath 2003; Dow/Karunaratna 2006; Nes/Solberg/Silkoset 2007; Dow/Ferencikova 2010; Hutzschenreuter et al. 2014) still adopt objective measures of cultural distance using Kogut-Singh index. Shenkar (2001) criticizes this approach because it does not reflect managers' subjectively perceived reality that in fact guides managerial decision-making and business actions. Håkanson and Ambos (2010)

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demonstrated that despite the fact that a higher [objective] cultural distance between two countries generally contributes to a higher perceived psychic distance, the overall correlation between both constructs is weak. Stahl and Tung (2015) further contend that “universal” dimensions of culture do not account for the uniqueness and complexity of culture. The authors recommend that future research on culture in international business research pay more attention to the context, conduct rich qualitative research taking an emic perspective on culture and learn from the practice.

In addition to cultural differences, several researchers consider many other differences that create psychic distance. Table 1 reveals a great variety of factors underlying psychic distance studied in previous research. For example, Evans and Mavondo (2002) consider 10 differences which are classified in two main categories: cultural and business distance. Sousa and Lages (2011) consider 13 differences which refer to the country characteristics distance and people characteristics distance. Since factors underlying psychic distance are context-specific, some differences in Table 1 may not be relevant to all exporter activities (e.g., climate conditions, colonial links). The great majority of these studies were conducted in the United States and Western European countries.

Table 1: Examples of different factors underlying psychic distance in the literature

Researchers	Research setting	Factors underlying psychic distance examined
Shoham/Albaum (1995)	Danish exporters	Differences in culture, economic climate, legal climate
Bello/Gilliland (1997)	US exporters	Differences in customs and values, culture, language
Simonin (1999)	US companies	Differences in national culture and language
Evans/Mavondo (2002); Griffith et al. (2014)	International retailers based in the US, UK, Western Europe, Asia Pacific region; US exporters	Cultural distance: power distance, individualism, masculinity, uncertainty avoidance, long-term orientation; Business distance: political/legal environment, economic environment, market structure, business practices, language
Bello et al. (2003)	US exporters	Differences in culture, language, customs and values, business practices
Zhang et al. (2003); Nes et al. (2007)	US exporters; Norwegian exporters	Differences in power distance, individualism, masculinity, uncertainty avoidance
Sousa/Bradley (2005)	Portuguese exporters	Differences in climate conditions, purchasing power of customers, lifestyles, consumer preferences, cultural values and beliefs, language, literacy and education levels

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Researchers	Research setting	Factors underlying psychic distance examined
Dow/Karunaratna (2006)	38 countries	Differences in national culture, language, education levels, industrial development, political systems, religions, time zones, colonial links
Katsikea et al. (2007); Skarmes et al. (2008); Katsikeas et al. (2009)	British exporters; British importers; US importers	Differences in culture (traditions, values, language etc.), business practice, economic environment, legal system, communication infrastructure
Zanger et al. (2008)	Saxon and Czech entrepreneurs	Perception of country-related characteristics: political conditions, legal conditions, mind-set of the population, language barriers, geographical distance, historical development; Perception of products and companies; Stereotypes (country-related, product and company-related)
Dow/Ferencikova (2010)	Companies with FDI ventures in Slovakia	Differences in national culture, language, religion, industrial development, education, degree of democracy
Sousa/Lages (2011)	Portuguese exporters	Country characteristics distance: level of economic and industrial development, communication infrastructure, marketing infrastructure, technical requirements, market competitiveness and legal regulations; People characteristics distance: per capita income, purchasing power of customers, lifestyles, consumer preferences, level of literacy and education, language; cultural values, beliefs, attitudes and traditions
Johnston et al. (2012)	Taiwanese importers	Differences in culture (tradition, values, language), business practices, economic environment, legal system
Sachdev/Bello (2014)	US exporters	Differences in language, customs and values of the people, ways of living and working
Hutzschenreuter et al. (2014)	German MNEs	Added cultural distance, added governance distance, added geographical distance, added economic distance

However, one of the key issues in the existing literature lies in the fact that the factors underlying psychic distance (see examples listed in Table 1) were developed *a priori* by the researchers rather than by practicing managers (e.g., Palmero/Durán Herrera/de la Fuente Sabaté 2013; Nebus/Chai 2014). Since it is the managers who face difficulties arising from the perceived differences across markets, the factors underlying psychic distance should be examined from their own perspective rather than pre-determined by researchers. The only exception

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in Table 1 is the study conducted by Zanger et al. (2008) who identified explanatory variables of psychic distance based on qualitative interviews with the entrepreneurs.

Researchers also implicitly assume that differences reduce the congruity between partners. However, not all differences are critical for success and some differences may be complementary and may positively affect investment and performance (Shenkar 2001, 2012). Foreign cultural and business environment, although different, can stimulate business operations even more than the domestic environment (Smith/Dowling/Rose 2011; Stahl/Tung 2015). For example, a businessman from a less developed country with an authoritarian political system can find it easier to undertake business operations in a developed country with the educated population, a well administrated legal system and business-friendly government, than in the home country (Smith et al. 2011). In addition, differences between cultures do not automatically translate into problems; they become meaningful only when different cultures are brought into contact with one another (Shenkar 2001; Thomas 2010; Luo/Shenkar 2011). Therefore, it is important to identify differences that actually cause difficulties and friction for practicing international managers (Shenkar 2001, 2012).

3. Methodology

To meet the objectives of this research and examine factors underlying psychic distance as perceived by practicing export managers in the selected CEE country, we conducted qualitative research. More specifically, we applied a grounded theory approach which enabled us to learn from practice and gain deep insights into the investigated phenomenon and its connections with the context (Corley 2015; Stahl/Tung 2015). In grounded theory, concepts are derived from empirical data, linked and, when necessary, modified through constant comparison with other data (Geiger/Turley 2003). This method can yield highly relevant findings when investigating complex phenomena such as human relationships, particularly in the context of international business which often focuses on exploration of phenomena with "complex and unclear behavioural dimensions" (Gligor/Esmark/Goelgeci 2016: 93). Our research process consisted of five steps in line with the guidelines from the literature (Geiger/Turley 2003; Corbin/Strauss 2014): (1) sampling procedure, (2) data collection, (3) selection of relevant data, (4) open coding, and (5) axial coding.

Sampling procedure: A database of Slovenian exporters was used as a sampling frame and sample units were selected using four criteria: (1) the companies had to export to at least three foreign markets, (2) operate in foreign markets at least three years, (3) generate at least 10% of total sales with exporting, and (4) employ at least 10 employees. These criteria enabled us not only to avoid inexperienced respondents, but also to maximize the diversity of respondents (in terms

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of company size, industry, and export experience) in order to obtain a broader insight into the potential factors underlying psychic distance phenomenon. The sampling procedure ended when theoretical saturation was reached and further data collection did not contribute to a better understanding of phenomena under study (Corbin/Strauss 2014; Gligor et al. 2016).

Our sample consisted of 11 Slovenian exporters. Table 2 shows the main sample characteristics. Our respondents worked for eight companies that operated in various manufacturing industries, two companies in wholesale trade, and one company in a tourism industry. The sample included five small companies (10–49 employees), three medium-size companies (50–249 employees), and three large companies (250 employees or more). On average, companies generated 47% of their sales with exporting and operated in 12 foreign markets. No general pattern in the number of exporting markets and share of exports in total sales can be identified in our sample relative to the company size. In addition, a higher number of exporting markets does not necessarily translate into a higher share of exports or vice versa. At one extreme, a large company (respondent K) generated only 10% of its total sales by exporting to 15 foreign markets, whereas a small company (respondent D) generated over 90% of its total sales by exporting to three foreign markets only.

Within the companies, we carefully selected the respondents who were directly responsible for exporting and were willing to share their experiences for this study. On average, the respondents had 15 years of experience in exporting, but not necessarily in their current companies. Eight respondents were top managers (general manager or executive manager, member of the board, managers), while the remaining three were exporting representatives. Although all respondents were highly qualified, they differed significantly in the length of experience with exporting. In order to uncover possible differences in their responses, we classified respondents as relatively less experienced (i.e., fewer than 10 years of experience in exporting) and more experienced (i.e., 10 or more years of experience).

Our respondents emphasized they interacted regularly with their foreign partners, most often via email or phone, i.e., on a daily or weekly basis, depending on the intensity of cooperation with their counterparts abroad. The respondents knew the majority of their business partners personally, particularly the strategic ones. They reported that face-to-face interactions with importers typically take place at least once a year in the form of personal visits, annual meetings with partners or meetings at the trade fairs.

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Table 2: Sample characteristics

Respon-dent	Respondent's function	Experience with exporting in number of years	Company's industry (Number of employees)	Company's % of exports in total sales	Number of exporting markets
A	Sales Area Manager	10	Chemical and rubber industry (290)	21	14
B	Exporting Representative	26	Manufacture of wooden products (180)	60	16
C	Marketing Manager	6	Manufacture of metal products (125)	86	32
D	General Manager	10	Machine manufacture (43)	92	3
E	Sales Manager	25	Manufacture of metal products (474)	63	23
F	Exporting Manager	19	Energetics (42)	35	23
G	Sales Assistant	11	Distribution of electronic components (14)	12	3
H	Strategic Program Manager	3	Chemical industry (60)	40	6
I	Executive Manager	25	Casting of metals (20)	50	4
J	Member of the board	15	Sales of metallurgical products (171)	50	14
K	Sales Representative	12	Tourism (346)	10	15

Data collection: We conducted face-to-face interviews in the Slovenian language (all the informants in this study were native Slovenians). The average length of the interviews was 60 minutes. Our interview guide consisted of two main parts. The first part was related to the company's and respondent's characteristics, whereas the second part was related to their cross-border activities and operations. We asked our respondents to describe the major issues and difficulties they face when operating in foreign markets, to explain which countries and partners they most like to work with, and whether there are countries and/or partners they feel are difficult to work with and why. We also asked them how they go about solving potential problems, what role trust and longevity play in their dealings with business partners in other countries. These questions enabled us to identify factors underlying psychic distance in the exporters' own words. All interviews were audiotaped and transcribed.

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Selection of relevant data: Each researcher initially examined the transcripts individually and identified statements related to difficulties in understanding and operating in foreign markets and managing relationships with foreign partners. The datasets of the two researchers were then compared and inconsistencies in interpretations were consensually resolved based on mutually understanding of the context in which statements were made.

Open coding: Statements were coded based on a constant comparative method. We performed manual coding to retain substance and attention to complexity of data and the surrounding contexts (Saldaña 2016). Each statement was first analysed individually and then compared to previously analysed statements in order to identify categories that embraced both similarities and differences between statements (Corbin/Strauss 2014). Similar statements were then classified under the same code reflecting the same aspect of phenomena. We employed In Vivo coding, which uses the respondents' own short word or phrases (Saldaña 2016). For example, statements about problems stemming from different culture received a code "different culture". Coded data were then categorized based on thematic or conceptual similarities. For example, In Vivo codes such as "different mind sets" and "we both know what we have in mind" share a common theme pertaining to patterns of thinking. Following this procedure, we identified six categories which were, in line with the grounded theory guidelines, derived from the analysis of each statement (Geiger/Turley 2003).

Axial coding: Finally, we focused on identifying higher-order connections between the categories (Geiger/Turley 2003). For example, patterns of thinking, common patterns of behaviours and the language relate to various aspects of culture and were therefore categorized into a higher-order dimension "culture and the language". Following this procedure, we identified three key dimensions of factors that create managers' perception of psychic distance. We assessed the reliability of our results through triangulation, retrospection and replication (Corbin/Strauss 2014). More specifically, in search of validation and verification, we applied various types of triangulation to gain diverse perspectives on specific issues using different investigative means (Berg 2001), including: a) *investigator triangulation* by using multiple observers of the same subject (two researchers were involved in all the stages of the research design and implementation; two researchers first independently analysed the data and then mutually resolved the inconsistencies); b) *methodological triangulation* whereby we used notes of our observations during the interviews, interview transcripts, feedback from the participants on the transcripts and our final report, as well as follow up conversations with some of them when seeking clarifications, and c) *theory triangulation* by using more than a single theoretical scheme in the interpretation of the phenomenon.

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Prior to moving on with the presentation of our results, clarification is needed with respect to the unit of analysis used in our study[1], particularly as the existing literature offers limited theoretical guidance. While there is a school of thought that defends the use of meso (firm) level analysis when investigating the impact of culture/psychic distance on performance outcomes (venture level or firm level) (e.g., Mezias et al. 2002; Luo/Shenkar 2011), another school of thought maintains the individual should be the appropriate unit of analysis for empirical research in this area (e.g., Smith et al. 2011; Nebus/Chai 2014; Baack et al. 2015). Since any macro phenomenon is caused by micro-level mechanisms (Felin/Foss 2005; Gligor et al. 2016), in this study we apply individual unit of analysis while examining macro and meso phenomena (i.e., country, cultural differences affecting firms and individuals) from the perspective of export managers involved in exporting activities.

4. Analysis and results

Based on our analysis, we identified three key dimensions of factors underlying psychic distance and their related components. The first key dimension refers to cultural differences and the language (i.e., patterns of thinking, patterns of behaviours, and language). The second key dimension refers to the differences in relational business practices (i.e., relationships with business people, business practices). The third key dimension refers to the differences in the macro environment (i.e., various aspects of political-legal and economic environment).

4.1. Cultural differences and the language

Culture is a multi-dimensional, multi-level and context-dependent concept, covering a wide range of values, attitudes and behaviours (Drogendijk/Zander 2010). It is manifested in a system of orientation and corresponding cultural standards which reflect a generally accepted mode of behaviour in a given country (Thomas 2010). In radically different cultures, human interaction develops according to entirely different rules of conduct. A lack of knowledge on these rules or cultural standards, inevitably leads to misunderstandings. In our study, cultural differences were identified as one of the major source of difficulties, particularly in the initial stage of cross-border operations in distant foreign markets. A high cultural dissimilarity created problems not only to less experienced exporters but also to respondents with many years of experience with exporting. Hence, rich experience with the existing foreign markets does not seem to eliminate risk and difficulties when entering new markets with a radically different culture.

Differences in patterns of thinking: Several respondents in our study explicitly or implicitly mentioned commonly accepted patterns of thinking of their foreign

1 We thank the anonymous reviewer for pointing out this important issue.

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partners as one of the sources of difficulties they face in their cross-border activities: *"The easiest way is to work with countries that are culturally similar to us. If I go to England, the conversation is relatively easy, because we both know what we have in mind. For example, if I go to England and begin to talk about a registration of our products in England, the British partner understands completely what I mean by that. However, if I go to Ukraine, it takes two to three hours before it is even clear what registration is"* (respondent H).

Similarly, some respondents perceive Russia as a country with significantly different patterns of thinking and culture in general: *"For me, working with the Russians is highly distinctive, because it is a large country quite different from ours, with a profoundly different thinking… and everything there takes place on a large scale"* (respondent J). Further, even greater differences were mentioned with regards to the Middle East countries. For example*: "I still have very serious problems when operating in Iran… There is a cultural difference or a way of doing things based on a completely different thinking which is not clear to us or at least to me personally"* (respondent H). These statements correspond to the literature asserting that partners from different cultural environments will likely interpret phenomena in the external business environment differently due to their different reference frames (Chelariu/Bello/Gilliland 2006; Katsikeas/Skarmeas/Bello 2009).

In contrast to the problems mentioned above, several respondents perceive the European Union countries as markets the easiest to work with. As we discuss later, there are several reasons for this notion, including the perceived cultural similarity: *"For me, the easiest is to work with the countries of the European Union. I guess that the mentality is probably about the same"* (respondent B). Similarly, respondents mentioned the countries of pre-1991 Yugoslavia as the countries they like to work with: *"The Balkans are more 'in our pocket'…"* (respondent F). Among the reasons, the respondents indicated a strong, long-term presence of their companies in these markets, i.e., prior to the disintegration of Yugoslavia where they had historically established strong business ties.

Differences in patterns of behaviours: Similar to the patterns of thinking, some respondents mentioned the commonly accepted mode of behaviour of foreign partners as a source of difficulties. For example, the respondent who operates in the tourism industry described: *"Israeli's customers are known as being somewhat more difficult. They like to bargain. When everything is agreed upon, they still tend to find something that they don't like and then they want to reduce the price"* (respondent K).

While the general patterns of behaviour of people in culturally distant markets are difficult to understand (e.g., respondent H operating in Iran), our informants largely believed that major difficulties appear at the beginning when both partners are learning about each other. This is well illustrated in the respondent's E

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own words: *"Each country has its own specifics. Once you know what you can expect and where you have to be careful, then there is no problem.*"

Differences in language: Our respondents also mentioned the language as a potential source of difficulties in working with their importers: *"The problem is the language, because I do not speak Italian, but I also understand it poorly"* (respondent C). In particular, the respondents highlighted Eastern European countries and some South-European countries: *"In most cases, the Poles do not speak English. In Russia, it is necessary to make contact in their language. The same holds for Romania and Spain. Very few people speak English"* (respondent E). Problems with mutual understanding and communication can become even more pronounced if further communication takes place at lower levels of decision-making: *"We have worked quite well with our Hungarian customer. We communicated in English. Then they wanted to pass the commercial logistics to a lower level. But there the English language was a problem, while the Hungarian language was a problem to us, of course"* (respondent A).

Our findings are in line with the literature asserting that differences in languages often contribute to misunderstandings (Evans/Mavondo 2002) and tend to increase both the costs and the risks of transactions (Dow/Karunaratna 2006). Words spoken in one language may not translate perfectly into another language, therefore the message received may differ from the information transferred (Johnston/Khalil/Jain/Ming-Sung Cheng 2012). Managers proficient in one or more relevant foreign languages are likely to learn quicker and develop a better understanding of foreign markets than someone without these skills (Smith et al. 2011).

4.2. Differences in relational business practices

Differences in relational business practices are the second key dimension of factors underlying psychic distance in our study. We classified the components of this dimension into further two categories: (1) differences in relationships with business people, and (2) differences in business practices. In contrast to the commonly accepted general patterns of thinking and behaviour (dimension 1) in another cultural milieu, differences in relational business practices refer to more specific ways of doing business with the exporters' foreign partners.

Relationships with business people: Our respondents strongly agree that the people they work with in foreign markets are crucial for their export performance: *"People are the ones who make business, not a firm by itself"* (respondent B). As a result, the quality of the relationship depends primarily on the partners' mutual understanding and congruence: *"You simply fit better with one business partner and less with another one. It is much easier to work with some partners than with others"* (respondent F). For example, one respondent described his negative experience with Italian partners: *"I think they have such an*

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attitude towards the Slovenes that we are somewhat less worthy than others. I would say that they sometimes have an arrogant attitude when you need them. For example, when our firm and the German partner made the same inquiry, the German partner received an immediate response, whereas we received a response only after several calls and with significantly different prices and other business terms. But, it is also true that we can't claim this for all of them and we can't put them all in the same basket" (respondent F).

While country-level differences affect cross-border activities particularly in the early stage of exporting to a new market, a mutuality of both firms' interests and a personal understanding between both partners seem to play a crucial role for developing trustful and long-term relations. This is in line with the existing literature that highlights the importance of interpersonal relationships and their longer-term impact on a person's behaviour (Palmatier/ Scheer/Houston/Evans/ Gopalakrishna 2007).

Some respondents mentioned the difficulties in obtaining a foreign distributor for long-term cooperation: *"The problem is to find the right distributor who will persist in the long run. This means that the distributor will be willing to invest some time and money, because it typically takes at least half a year to start a business"* (respondent C). The relational problems seem to be linked to adequate communication with the person in charge of the foreign market, particularly in the initial stage of cross-border operations. Such difficulties have been described by one of our respondents as: *"Israelis and Pakistanis have a completely different way of communication when developing business ties. You never know where the decision-making takes place, whether a business will succeed or not"* (respondent C). Another respondent explained: *"It had taken me a year before I found out why [in Iran] there is a whole bunch of companies that would work with me, and why I can't arrange the meeting with any of these companies…The problem there is to get the right company which has 'the right cousin'"* (respondent H). Our analyses suggest that finding appropriate foreign distributors appears to be challenging not only for less experienced but also for highly experienced respondents operating in many foreign markets. While some respondents mentioned that they like to cooperate with all business partners, others admit that they prefer to work with certain partners, which consequently affects the intensity of communication and development of relationship between partners. This corresponds to the literature suggesting that cooperation not only requires intensive exchange of information between the parties (Bello/Chelariu/Zhang 2003), but also interpersonal understanding which is difficult to develop in cross-cultural relationships (Leonidou et al. 2014).

When selecting foreign business partners, our exporters appear to attach a high importance to establishing relationships in the context of personal visits and relying on their intuition. Nevertheless, even the respondents with long-standing

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experience with their business partners in several markets noted that the risk cannot be completely avoided. Since transactions are related to payments, *"a high level of trust should not exist at the beginning of business relationships"*, explained one of the respondents. Our sub-sample of experienced exporters, in particularly, believed that "step by step" approach is beneficial, i.e., starting with small business operations and then increasing the value of transactions based on their past experience simply because cross-cultural relational practices are so unpredictable. Importers who enjoy the exporter's trust obtain better terms and conditions (e.g., payment after delivery, additional services). But even if trust does exist between the partners, the respondents strongly believe that all agreements should be done in writing. *"In my personal experience, agreements with the Poles, even if they are written, are not always kept, whereas in other countries, sometimes a word is enough"* (respondent J).

These assertions by our respondents seem consistent with the literature emphasizing that trust is built at an individual level (Zhong/Su/Peng/Yang 2014). Indeed, establishing trust in relational exchanges reduces unnecessary and costly supervisory procedures, reduces the likelihood of fraud and other forms of opportunistic behaviours, facilitates the exchange of relevant and accurate business information and enhances work enthusiasm and productivity (Leonidou et al. 2014).

Our respondents emphasized that they try to solve conflicts in agreement with their partners in other countries: *"Much can be done if people develop adequate business relationship and understand each other"* (respondent C). Conflict solving is the search for compromises: *"Sometimes one party loses, yet another time the other party loses, but this is inevitable in business"* (respondent J). Our informants posit that conflict solving also depends on the importer's market position in the foreign market. If a business partner has a large market share in the local market, s/he uses his power to resolve conflicts and forces the exporter to correct the problem. In particular, exporters facing strong competition in their foreign markets appear to be aware of their limited bargaining power relative to their distributors. In the rare cases when the agreement between the partners is not possible, they choose to resolve the conflict in the court. The respondents seemed reluctant to utilize this solution. They perceived it as a lengthy and complex process which creates additional problems, particularly in the Eastern European markets: *"Any alternative paths, particularly the legalistic ones, are very long-running and are probably doomed to failure from the beginning. There is a possibility (this often happens in the East in particular) that the importer simply disappears, that is, he establishes a new company and any trace of that importer is lost"* (respondent J). In contrast, significantly less problems and conflicts were reported by exporters who produce customized products and sell them through a limited number of Western European partners.

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Participants in our study seem to be in agreement that their companies strive for a long-term cooperation with their foreign business partners. The recognized benefits of longer cooperation include faster sales growth, lower costs of production, logistics and sales support, and greater availability of information received from the partner. Long-term exchanges also seem to enable development of close personal relationships between partners which is particularly beneficial to smaller exporters. In addition, long-term cooperation appears meaningful to the exporters with specialized products requiring specific and highly technical knowledge. The respondents agree that the objectives of both parties diverge to some extent. *"Everyone is looking after his own interest, which is normal, but there must be some synergy so that both parties are satisfied"* (respondent F). Greater synergies between the two partners exist when they both seek a long-term cooperation: *"Those [distributors] who are short-term oriented, want to earn as much as possible from each product sold. But it is in our interest that they earn just enough to be able to operate normally and to make an effort to sell as many of our products as possible"* (respondent C).

Our findings suggest that our informants' exporting companies in Slovenia tend to terminate cooperation with their foreign distributors for the following reasons: the importer was not committed to the sale and did not achieve the expected sales growth; non-payments; a new person enters the business relationship but then the exporter "no longer finds a common language" with that person; and dishonesty (e.g., brand theft). Indeed, these factors correspond to the literature suggesting that conflicts between exporters and importers may arise from incompatibility of goals, different perceptions of critical issues regarding the relationship, opportunism and antithetical expectations regarding future courses of action (Leonidou/Katsikeas/Hadjimarcou 2002). Higher levels of conflicts may lead to friction and finally to the disintegration of the relationship (Leonidou/Barnes/Talias 2006).

Differences in business practices: Six respondents mentioned difficulties related to payments, local business standards and corruption. Payments in non-transparent markets are viewed as risky. Financial indiscipline represents a serious problem, particularly in the Eastern European countries: *"If you do not call them several times, nothing happens. Money doesn't come from them and you have to keep pleading them for payments"* (respondent E). Due to differences in business practices, exporters may have difficulties in coordinating payment insurance: *"Partners in certain countries understand that our policy is 100% payment insurance and they pay a partial pre-payment, while they open a letter of credit or they issue a bank guarantee for the remaining amount. In other countries, they are not used to this practice and they want to avoid it whenever possible which is a real problem for us"* (respondent E). When a particularly high payment risk is perceived, the exporters may require full payment in advance, particularly

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when dealing with certain countries: *"...for example, in Russia and Belarus. There's no other way to get paid in the end"* (respondent B).

In contrast, particularly the North-European countries are perceived as being the most disciplined with regards to payments. One respondent explained: *"I remember, it happened years ago, when we first worked with a Danish company. I called just once on the due date and kindly asked about the payment. They were offended because I called. They told me they had paid the day before. We never made such a call again, because we knew that the money would come"* (respondent E). Moreover, the respondents perceive Western markets in general as more transparent, with similar standards and business practices which are closer to the Slovenian exporters: *"Although we have less experience with Western markets, I find these markets simply more orderly and predictable. They do not compare apples and oranges when they evaluate the quality of our products like some other importers do"* (respondent A). This does not mean that there are no differences in business practices. For example, one respondent observed Italian partners as hard negotiators: *"They set low prices"* (respondent I). Another respondent provided an interesting insight by pointing to the problems in adapting to the greater complexity of Western foreign markets: *"There are no deviations from standards and regulations. For us, in the former Yugoslavia and in Slovenia, I have never heard that anyone had ever charged any penalty. Hundreds of reasons were always found to elude this contractual clause…Therefore, our transition to operating in [Western] foreign markets has been rather difficult and, at times, rather costly for us"* (respondent D).

Despite the generally perceived closeness of the pre-1991 Yugoslav markets, some differences in business practices were noticed: *"It was very nice to work with buyers from Serbia. The agreements generally held. Yet, it is also true that we, Slovenes, are driven to the West and we want to have things signed and agreed immediately. Hence, their way of doing business can make us rather impatient, because they work more in terms of 'lako ćemo'* ['take it easy' in the Serbian language]*"* (respondent A).

Our analysis of primary data suggests the largest differences in business practices are perceived in culturally distant markets: *"The way of doing business in Arab countries is based on distributors that deal with just about everything. Companies there import all kinds of products ranging from live animals, animal poison, to milk for the children, for instance. This is a problem for us because we can't determine which company of thousands of distributors is the one we should work with"* (respondent H).

Finally, a few respondents perceive corruption as a real problem in some countries. Respondent H described his experience with the Ukrainian partner: *"It turns out that he wants to get a bribe and this is a problem. We simply don't want to give a bribe"*. Another participant, a sales area manager (respondent A)

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observes that the quality of products is not always the criterion for selection: *"There are some lobbies that decide the game"*.

4.3. Differences in the macro environment

Our analysis shows that the perception of general differences in the macro environment also represents an important source of difficulties for our exporters while doing business in their international markets. This category, in fact, received the most commonly mentioned challenges among our respondents. Difficulties are related to the political-legal environment (i.e., tariffs, differences in legislation, the unstable political situation) and the economic environment (currency exchange rates, exchange rate differences, purchasing power). Exporting to the non-EU foreign markets is a subject to some substantial tariffs (e.g., in Serbia).

In addition, some respondents mentioned the complexity of tariff regulations: *"Tariff regulations in Russia and Belarus are quite annoying"* (respondent B). For exporters operating in several foreign markets, a considerable problem lies in constant and rapid changes of legislation, differences in legislation across foreign markets, as well as in administrative barriers. On the other hand, doing business within the European Union is much easier: *"The EU is quite nice to deal with"* (respondent B). Some respondents mentioned specific difficulties related to their industry. For example, an exporter in a chemical industry (respondent H) faces significant difficulties with the product registration in foreign markets: *"These registrations are serious, and at times they represent the main barrier to enter certain foreign markets. Registration processes are different in almost all respects"*. Our managers also believed that these registrations tend to be used to protect local competitors. These findings are in line with Zanger et al. (2008) who found legal conditions along with political stability as the core variables of psychic distance, hindering cross-border cooperation of the Saxon and Czech entrepreneurs. Indeed, differences in the political-legal environment are important components of institutional distance (Xu/Shenkar 2002). The larger the institutional distance, the more difficult it is to establish legitimacy and to transfer business practices to foreign markets (Xu/Shenkar 2002). Phillips, Tracey, and Karra (2009) argue that the degree of institutional distance depends not only on the extent of the host country institutional differences, but also on the degree of the host country institutional uncertainty. In our study, exporters attributed low institutional distance to the EU-markets, whereas exporting to non-EU markets of Eastern Europe is perceived riskier and more complex due to both institutional differences and institutional uncertainty. Yet, our findings suggest that the highest institutional distance is attributed to the markets of the Middle East which are perceived as markets “without any rules”.

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In addition to political-legal aspects, the respondents A and H mentioned difficulties associated with the economic environment. For example, respondent H referred to the foreign currency exchange rate which reduces the company's competitiveness in its foreign markets: *"I have a problem in Latin America due to the US dollar exchange rate. I had some potential partners there, but when they've received my price in dollars with delivery costs, I simply couldn't compete with their local vendors"*.

5. Discussion and conclusions

In summary, the findings of our grounded theory based qualitative inquiry revealed three main dimensions of factors underlying psychic distance from the practicing exporters' perspective: (1) perceived cultural differences and the language (i.e., patterns of thinking, behaviours, language), (2) perceived differences in relational business practices (i.e., relationships with business people, business practices), and (3) differences in the macro environment. The identified factors of psychic distance caused difficulties in understanding foreign markets and in developing trustful and effective cross-border relationships for our informants in Slovenia. While the managers maintained it is possible to do business with just about any country when a mutual interest for cooperation is shared between the partners, the respondents also recognize that a lot of patience and efforts are required to overcome difficulties and to navigate (psychically) distant international markets. This is in line with the authors who contend that building and maintaining successful relationships, particularly across vastly different cultures, takes considerable time, effort, and financial resources (e.g., Styles/Patterson/Ahmed 2008; Leonidou et al. 2014).

The respondents in our study believed that the West-European countries, particularly the Northern ones, are the easiest to deal with, because these countries are viewed as being more consistent with the Slovenian culture with similar patterns of thinking and business practices. Countries of the pre-1991 Yugoslavia are also perceived as being close due to the Slovenian companies' long-term operations and established business contacts in these markets. On the other hand, the exporters face substantial challenges in understanding the culture and business practices when initiating and developing business activities in the Middle East, in Latin America and in other non EU countries of Eastern Europe (e.g., Russia, Belarus and Ukraine).

5.1. Theoretical contributions

Our study offers rich qualitative insights into the relevant factors underlying psychic distance in the context of exporters from a small and open CEE country, in which international involvement is a necessity rather than a luxury relative to the countries with larger domestic markets. The study findings can supplement

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the existing knowledge in the literature which has largely focused on the psychic distance issues faced by firms in the developed Western countries (Lages et al. 2015). While Pietrzak and Łapińska (2015) examined the objective determinants of the European Union's trade (GDP per capita, foreign direct investment per capita, geographical distance), our study reveals that a relative similarity in terms of culture, relational business practices, and the macro environment should also be considered when explaining the growing trade among the EU member-states. This study was conducted in response to the calls in the literature to conduct qualitative research on cultural and psychic distance (Stahl/Tung 2015; Gligor et al. 2016) in order to capture managers' perceptions of the relevant elements of foreign environment (Nebus/Chai 2014). In doing so, we examined the phenomenon of cultural issues and psychic distance in the exporting context "from the perspective of those living it" (Corley 2015: 1) so as to compensate for the deficiencies associated with deriving knowledge solely based on deductive reasoning (Gligor et al. 2016).

Our categories of the elements underlying psychic distance in the export context (i.e., culture and the language, business practices, macro environment) reveal some similarities and some major differences relative to the existing quantitative studies (Table 1). In line with Shenkar's (2001, 2012) recommendation, our identified categories reflect differences that indeed create problems in cross-border operations. These results are somewhat consistent with the four studies in Table 1 (Bello/Gilliland 1997; Simonin 1999; Bello et al. 2003; Sachdev/Bello 2014) that explicitly addressed the problems or barriers in their psychic distance operationalization, although none of them captured all the elements uncovered in our study. The remaining studies in Table 1 either measured perceptions of various differences regardless of whether or not these represented operational problems for practicing international managers or apply objective measures of cultural distance using Kogut-Singh index (Zhang et al. 2003; Dow/Karunaratna 2006; Nes et al. 2007; Dow/Ferencikova 2010; Hutzschenreuter et al. 2014). For example, the elements and categories of psychic distance identified by our informants cannot be integrated into Hofstede's cultural dimensions of power distance, individualism, masculinity and uncertainty avoidance as these did not reflect difficulties as the exporters see them. Several factors previously identified such as religion, time zones, colonial links, literacy and education (e.g., Sousa/Bradley 2005; Dow/Karunaratna 2006) seem to be irrelevant for the context of our informants.

Indeed, our findings provide rich insights into the content of factors underlying psychic distance and clearly point to its complex nature, which is typically not embraced by the measures used in quantitative studies. For example, several studies presented in Table 1 include the distance related to business practices operationalized as a single measurement item (Bello et al. 2003; Katsikea et al. 2007; Skarmeas et al. 2008; Katsikeas et al. 2009; Johnston et al. 2012;

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Sachdev/Bello 2014) which may or may not be relevant to the reality of practicing exporters in empirical samples. Moreover, our study reveals that relationships with business people play a particularly important role in managers' perceptions of distance. None of the studies presented in Table 1 covered this issue. This is in line with the notion by Shenkar (2012: 16) that distance concepts used in many quantitative studies attempt to reduce complex phenomenon to "questionable and frankly indefensible proxies".

Our findings point to some context-specific differences among the participating exporters. In general, greater difficulties were encountered by exporters (a) working with firms and partners in non-EU markets, particularly when they perceived large differences in culture, business practices and macro environment; (b) operating in several foreign markets simultaneously, mostly when they face frequent changes in the legislation, different tariff regulations, issues related to payments, etc.; (c) operating in specific industries in which complex and costly product registrations are necessary; and (d) dealing with short-term oriented foreign partners with little interest in developing lasting relationships. In contrast, significantly fewer difficulties were encountered by exporters when (a) perception of cultural similarity existed between the two countries, such as when working with importers in Western European markets, (b) they offered customized products, requiring specific technical knowledge, (c) interpersonal trust and understanding could be developed between partners and (d) both exporting and importing companies shared mutual interests for a long-term cooperation.

To conclude, our results suggest that not only the type of foreign market/country and the firm contexts, but also the respondents' personal experiences as well as the type of the products exchanged seem to affect managers' assessments of psychic distance. Based on the results of our analyses, we would reiterate the recommendation by Harzing and Pudelko (2016: 26) in urging researchers to first "critically consider various home and host country context variables rather than simply assume that (cultural) distance can provide a catchall explanation for all international business phenomena".

5.2. Managerial implications

The perceived similarity of the EU-markets and markets of the former Yugoslavia to the home country, as reported by our respondents, may be hazardous because it may prevent exporters to learn about subtle, yet important differences between markets (O'Grady/Lane 1996). Our study shows that salient differences in the proximate markets still exist in the minds of our informants, such as those related to the language; unequal treatment of foreign partners based on their country of origin (i.e., importers' attitudes toward the Slovenian relative to the German exporters); impatience due to different time commitments (i.e., 'take it easy' way of doing business in Serbia) etc. Exporting managers, particularly in

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the early stages of their careers, should therefore pay attention to not underestimate such differences. As Baack et al. (2015) suggest, exporting managers may systematically overemphasize the potential opportunities in proximate markets and overlook the opportunities in more distant markets due to a confirmation bias rooted in past experiences and existing beliefs regarding the foreign market. In addition, Shenkar (2001) suggests that certain cultures are subjectively considered as being more attractive than others. When this attractiveness does not exist, the adjustment to a relatively similar culture is often just as difficult as the adjustment to a distant one. This is further supported by the recent study where Håkanson, Ambos, Schuster, and Leicht-Deobald (2016) find that managerial distance perceptions depend on the reputation of target countries relative to the home country, in addition to a manager's exposure to other countries and the size of the home country. The authors confirm that subjects from small countries experience smaller distance than those from bigger ones, which gives our study, conducted with experienced export managers in a small CEE country, a particular credence with respect to the uncovered factors underlying cultural and psychic distance in the exporting context. In addition, exporters are advised to pay attention to individual differences between them and their business partners. Some of our informants hinted that the lack of a personal fit between both partners can hinder the development of trustful relationships regardless of the cultural similarity.

The question is then how managers can overcome difficulties arising from differences of psychically distant markets, and not to overlook subtle, yet important differences of psychically closer markets. Many authors emphasize the importance of training and employee soft skills (e.g., Magnusson/Westjohn/Semenov/Randrianasolo/Zdravkovic 2013; Elo/Benjowsky/Nummela 2015). Given the Slovenia's strategic objective to continue to increase exports to non-EU markets in the future, training and coaching on cross-national differences along with the development of soft skills will play a crucial role, and should enable export managers to be better prepared for new, psychically more distant markets. Training on the core cultural standards can sensitize and prepare managers for working with the dissimilar others and establishing relational exchanges based on respect and appreciation for cultural diversity. The understanding, respectfulness and acknowledgement of other cultural standards provide the foundation for intercultural competence (Thomas 2010) or cultural intelligence (Earley/Mosakowski 2004; Magnusson et al. 2013).

5.3. Limitations of the study and recommendations for future research

While this research has been thoughtfully crafted in each stage of the research process, our study is not without limitations. First, our respondents focused more on their relationships with their business partners in the European and Balkan

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countries rather than on their exchanges in the psychically more distant markets (e.g., Russia, Latin America). Although this corresponds to the reality of international involvement of the majority of firms in Slovenia, the inclusion of informants operating in distant markets (e.g., China, India) could offer additional insights into the phenomena examined. Second, considering that we conducted interviews with highly knowledgeable exporters to delve into their first hand experiences of cultural issues, no explicit inquiries were made with respect to how they gained knowledge about foreign markets over the years. Our analyses suggest such knowledge is based largely on "learning by doing". Future research could focus on export managers in the early stages of their careers and examine the role of training as well as managers' personal characteristics (i.e., openness, flexibility, cultural intelligence) in their ability to manage export ventures.

Third, we deliberately focused only on the exporters' perspective. Psychic distances are, contrary to geographical distances, asymmetrical (Shenkar 2001; Ellis 2008). Hence, we suggest future research focuses on how foreign partners perceive doing business with the Slovenians, as this knowledge would enable Slovenian managers to better adapt their strategies, tactics, and behaviours to their foreign markets and partners. Drawing from the recent study by Håkanson et al. (2016), it would be beneficial to include business partners from various countries in terms of their size and reputation. Finally, in line with other similar studies, our study explicitly builds on the premise that psychic distance creates difficulties. However, cultural [and other] differences not only lead to problems, but also to enrichment and to generation of solutions (Drogendijk/Zander 2010). As Stahl and Tung (2015) argue, differences can provide opportunities for enhanced creativity, adaptability, and effective decision-making, as well as an opportunity to decrease a tendency towards group- and rigid thinking. While our respondents did not explicitly mention such positive effects, this study reveals that the Slovenian companies had to adapt to the higher standards in the developed (Western) markets, which represented not only (initial) difficulties (i.e., additional costs) for the Slovenian exporters, but also provided an opportunity to improve the quality of their products and services (e.g., faster delivery). Future research could therefore strive for a more balanced view, acknowledging both negative and positive effects of psychic distance.

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