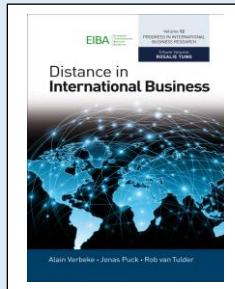


# *In search of an integrative approach to managing distance*

**Rob van Tulder**

*EIBAZine, issue 26, spring-summer 2020, p. 8-16*

*Complementary paper to:*



*The International Business (IB) discipline persistently looks for key concepts that can legitimize its existence as a separate scientific discipline in at least two related areas of research: (1) management sciences and (2) international (political) economics. A key concept, thereby, is arguably that of 'distance'.*

## **[1] Studying distance: the managerial relevance**

Distance impacts international management decisions in many ways: as part of entry strategies in 'distant' countries, in the proper management of geographically separated business units, in understanding institutional and regulatory differences as well day-to-day dealings with different mindsets of employees influenced for instance by cultural differences. Distance creates gaps that need to be taken into account to enhance efficiency. But well managed distance potentially also creates business opportunities for instance through enhanced creativity and diversity in supply as well as marketing chains. So, what dimensions of distance can be considered particularly relevant for practitioners and what insights can they expect from extant IB research?

In earlier IB studies, absolute geographical distance was thought to be the only relevant dimension of distance between countries and economies. But when the world started moving towards globalization by the early 1990s, some claimed that distance was of decreasing importance – some were even proclaiming the 'death of distance' (Cairncross, 1997). Others argued that distance is and will remain an important factor for firms (Ghemawat, 2001; Alstyne and Brynjolfsson, 2005). In successive debates most management scholars argued that 'distance' has many more relevant dimensions other than physical geography alone and that IB scholars should try to inquire all dimensions in order to increase managerial relevance. Ideally, managers of Multinational Enterprises (MNEs) have to take all distance dimensions into account *at the same time*, in order to make the right decisions at various stages of internationalization. Distance thereby contains a relative and an absolute connotation. What seems geographically distant can be psychologically close and vice versa. The analytical challenge is multifarious. Distance has many disciplinary angles: metaphysical, philosophic, political or psychological. Space explorers know the (theoretical) relativity of distance very well, whilst the (practical) problems related to the immense distances in space are still insurmountable for actual (human) travel.

The role of distance in economics and business can first be explained as the accessibility of markets (World Bank, 2008). Distance in kilometers between one (home) country and two other (host) countries might be the same, but several barriers (road blockades, local content policies, culture) can make one country more ‘distant’, e.g. less accessible, than the other other (World Bank, 2008). This idea has also been at the core of so called ‘*gravity models*’ of international trade in which the relative openness of economies explained for trade flows and thus had to be used as a correction factor in international trade statistics dealing with the impact of geographical distance on the nature and direction of trade and foreign direct investment. Besides political barriers several other factors also play a role. For an Asian firm it is easier to work in another Asian country that is similar to its home country than to work in Europe, because of cultural similarities. Cultural differences between Asian and European countries are much bigger, which gives room for the idea of ‘*cultural distance*’ as one of the explanatory variables for successful internationalization (Kogut and Singh, 1988). The exact importance of cultural distance in particular on entry strategies of multinational corporations, however, remains disputed (e.g. Slangen and Van Tulder, 2009). The same applies to many other dimensions of ‘distance’ that have been introduced. Description and prescription, levels of analysis and methodologies get mixed-up or used in sometimes ambiguous formats. This finding probably explains also why distance is still not a widely used concept by MNE managers.

The concept of distance, nevertheless, contains strong heuristic value in providing short-hand for a greater understanding in the distinct challenges that in particular managers of Multinational Enterprises (MNEs) are faced with. But some concepts in the scientific and practical discourse have become more popular than others. This had various causes. A very important selection mechanism has been the availability of data. This explains for data selection on a country by country basis – the main level of approach of most statistics offices and international organizations. Country by country comparisons prevail in macro-economic (FDI) studies on international business. This source of information has been used as intervening or control variables to explain for other correlations, such as the nature of entry or the impact on performance of MNEs. Another important selection mechanism has been the method of research. In case survey techniques are applied, relative or perceived distance becomes a factor. The IB literature has introduced the term of “*psychic distance*” which represents the impact distance has on the perceptions of managers. But psychic distance remains a rather vague concept and disputed on what it exactly means and of which dimensions it exists (Sousa and Bradley, 2008).

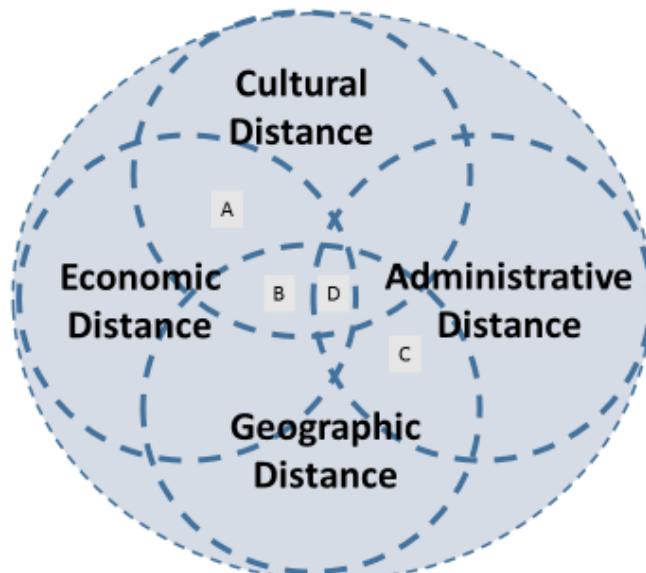
Rather than arguing which single aspect of distance should prevail in management praxis, it seems more important to argue in favor of a more integrative approach to distance - from the premise that MNE managers have to take all dimensions of distance into account – preferably at the same time. This presents a very complex challenge for which this paper aims at setting the scene of such an approach by distinguishing all those dimensions of distance that have been covered by extant research as published in leading IB journals in order to present a richer and more meaningful frame for managing distance. On this basis of such an approach, managers should be able to prioritize those distance dimensions that are of particular relevance to their business. I call this the ‘Strategic Distance Fit’ challenge.

## *[2] Questions underlying a broader Classification*

The popular CAGE Framework of Ghemawat (2001) can serve as a good point of departure for a classification of the manifold dimensions of distance. The CAGE framework identifies four basic dimensions of distance: Cultural, Administrative, Geographical and Economic distance (Figure 1). Administrative distance has also been elaborated as ‘institutional distance’ – largely because of the availability of data at national level. Depending on its connotations, institutional distance can also be categorized as ‘cultural distance’ for instance when including informal, normative and cognitive dimensions as contained in popular definition of institutions by Scott (2008). Geographic distance is also referred to as ‘travel distance’. Economic distance as a measure of economic disparity between two countries (Johnson and Tellis, 2008), can also be classified as ‘development distance’ referring to the difference between economic and income levels of countries (Tsang and Yip, 2007). Departing from a different research technique (in particular surveys) the four distance variable can also be taken together and classified as ‘psychic distance’ (cf. Child et al, 2009; Dow and Karunaratna, 2006). Figure 1 shows how these distance dimensions can be positioned. The relevance of these dimensions have indeed been the most widely investigated in extant IB research, as will be elaborated in more detail below.

But it can be argued that the overlapping areas of the CAGE framework perhaps present the most promising areas for further theorizing and empirical testing in the managerial practice. So for example: what lies between cultural and economic distance [A]? What lies between geographic and administrative distance [C]? Combing more than two distance dimensions [B or D] creates even greater levels of complexity – but arguable higher levels of managerial relevance. To cover for these overlapping areas other distance variables were introduced like “political risk distance”, “CSR distance”, “colonial distance” (Jones and Lundan, 2001), “corruption distance”, “stakeholder distance” (Van Tulder, 2010) or “normative” or ‘value distance’. The overlapping areas actually come closest to the management praxis. So in this contribution we explore whether any of these concepts have gained ground and what this implies for a more integrative approach to managing distance. .

Figure 1 – The CAGE Framework



Source: based on Ghemawat (2001)

### **[3] A popularity check**

Appling the Scopus database made it possible to create an overview of relevant insights from peer-reviewed studies. The 17 types of distance were searched for, including all major dimensions mentioned above. Article title, abstract and keywords were identified in order to select only those articles that intended to provide a major contribution to the distance discourse. The research covered the 1990-2016 period. After the fall of the Berlin in 1989, 1990 can be considered the starting point of the globalization era – in which degrees of internalization rapidly increased for most countries in the world. The carriers of these internationalization processes were of course MNEs. The scientific and managerial interest in the concept incontestably took off. Over the 1990-2016 period all journals showed a steady growth of distance related topics reaching an accumulative total of 619.658 articles on distance in general. Most of these articles originated in physics, engineering and medicine. Related to economics and the management discipline I engaged in a popularity check (1) over time to reveal certain historical and disciplinary trends – for which all journals were considered [3.1] and (2) on the IB discourse for which distance studies in six leading IB journals over the same period were covered [3.2].

#### **[3.1] Trends**

At the start of the period under review, only two distance variables were really covered in the general discourse: travel distance and geographical distance. Both witnessed a steady increase in attention throughout the 1990-2016 period - to reach more than 200 articles annually by 2016. Mainstream thinking on particular distance variables mostly took off by the 1990s, but with

varying degrees of popularity. The attention to more specific or novel dimensions shows an even more diffuse pattern.

**[a] Mainstream thinking:**

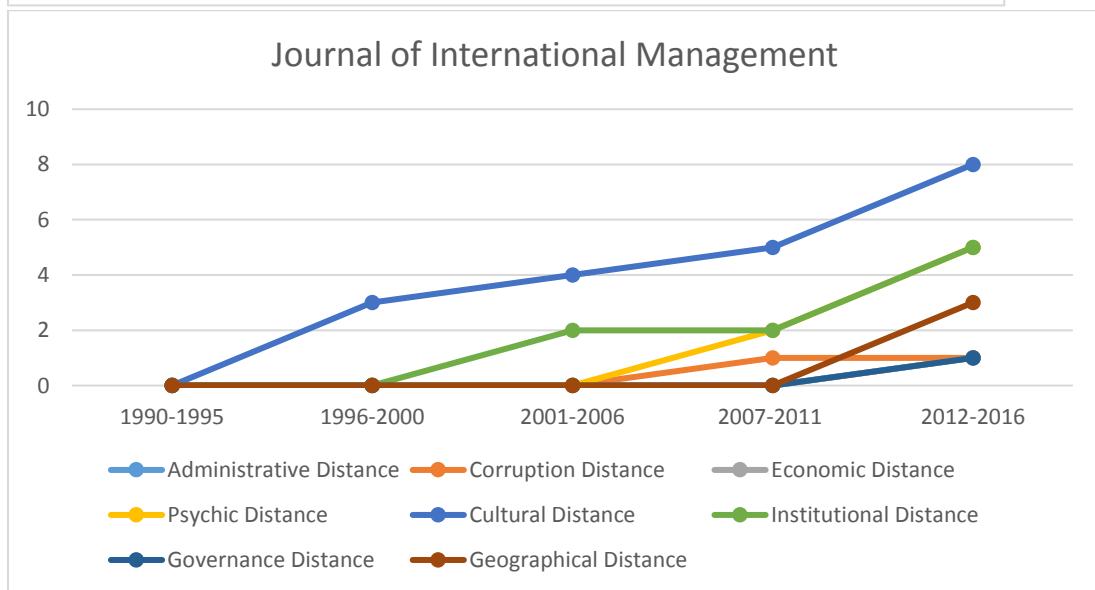
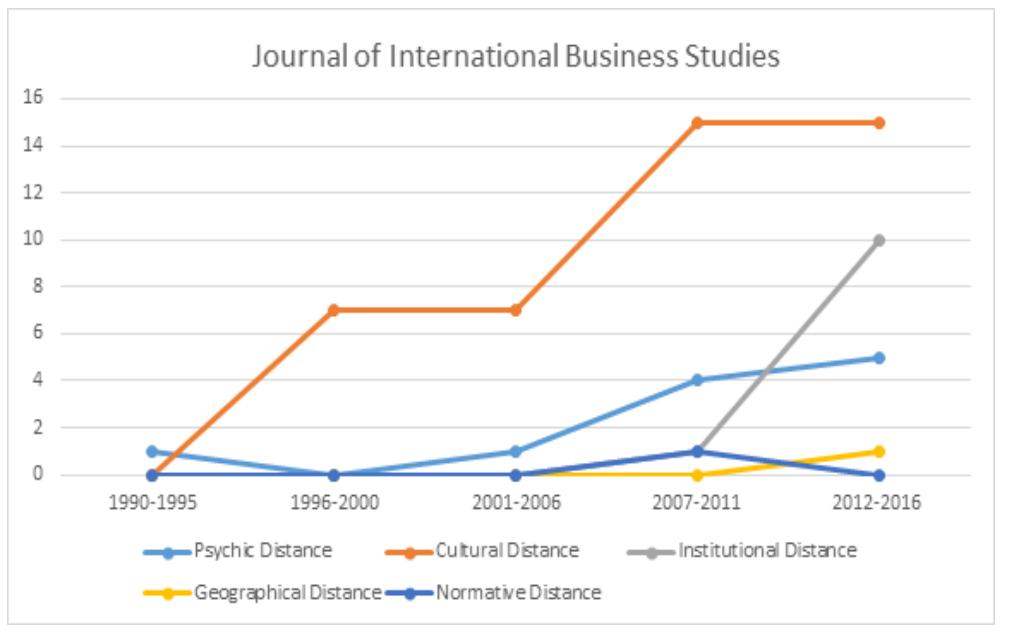
- Economic distance: received continuous attention, but with a clear and rapid increase after 2005 (economics as dominant discipline, followed by social sciences and management);
- Psychic distance: continuous growth in particular since 1995 (with a dominance of the management disciplines);
- Cultural distance: continuous growth in particular since 2004 (discourse dominated by management scholars);
- Institutional distance: only took off after 2005, but then increased rapidly (also dominated by management and business journals);
- Development distance: has received marginal but consistent attention throughout the whole period (in chemistry, rather than business/management).

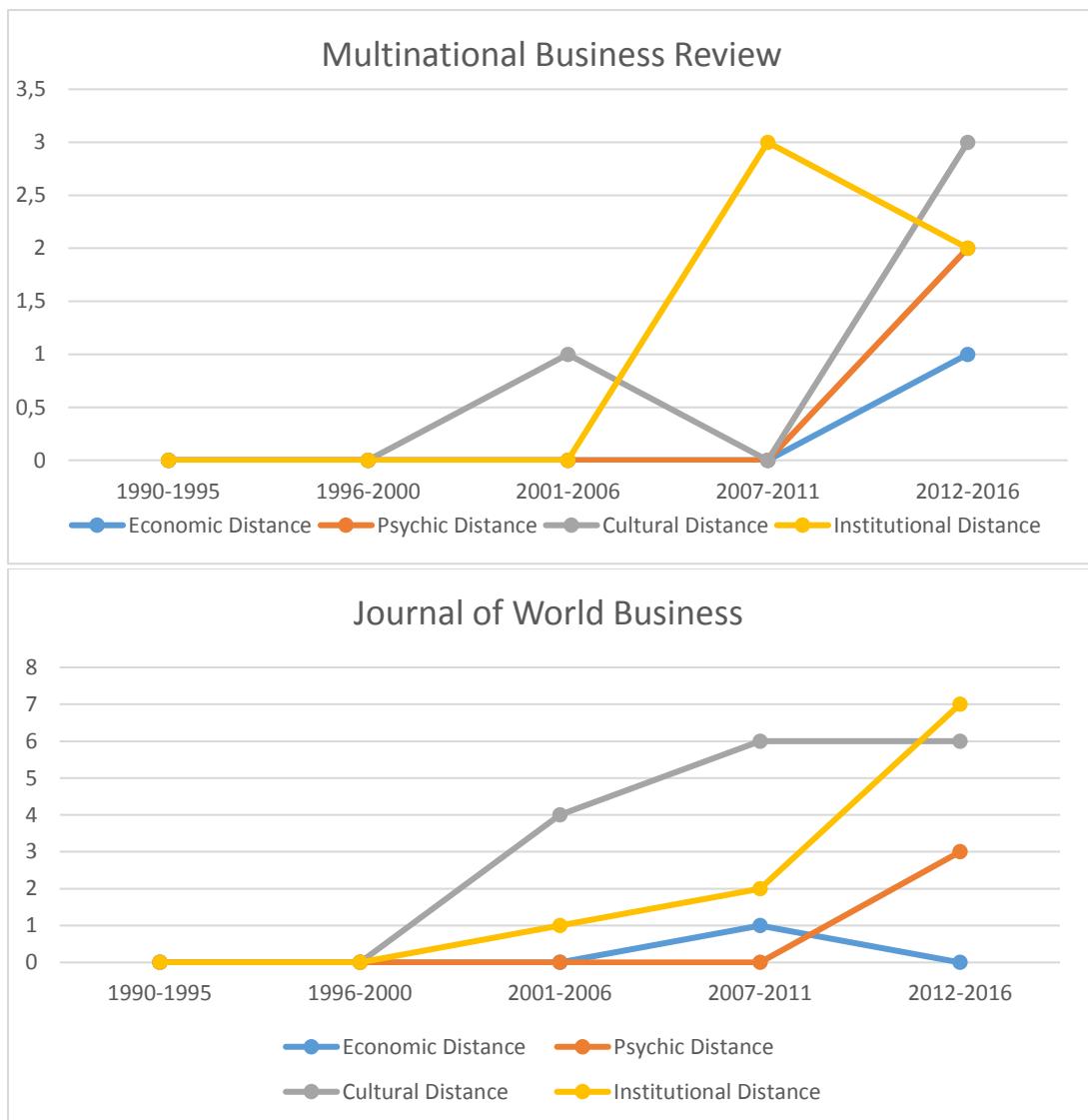
**[b] Complementary thinking:**

- Administrative distance: from 2000 onwards this dimension received some, albeit modest but continuous attention (largely by business and economics scholars);
- Colonial distance (at the interface between economic and cultural distance): received a short spike of attention in 2011-2013 in the management literature;
- Corruption distance (at the interface between economic and administrative distance): took off after 2006 (with input largely from business and economics);
- Governance distance (as a partial synonym for administrative distance): was introduced only in 2014
- Stakeholder distance (as a synthesis of all distance variable; D): was introduced in 2010, but did not create major followers
- Host distance (at the interface between geographic and administrative distance): took off in 1996 and received low and volatile attention (dominated by agriculture and physics);
- Gravity distance (at the interface between economic and geographic distance; B): only took in 1994, and showed marginal followers
- Normative distance (at the interface between cultural, economic and administrative distance): was introduced in 1995, but only received marginal followers since 2006 (largely in business ethics and economics)
- Value distance: has been more popular than normative distance; can be positioned at the same interface; it became more popular after 2005 (spread over a large number of disciplines, but received marginal attention by management scholars)

**[3.2] The resulting IB discourse**

The more specific attention to the various distance dimensions in the IB discourse can be checked by the number of papers published in six leading journals: Journal of International Business Studies, International Business Review, Journal of International Management, Multinational Business Review, Journal of World Business (since 2000 after its name change), Global Strategy Journal (only exists since 2010). The 1990-2016 period was divided in five 5-year periods to uncover general trends. The relative attention for specific distance dimensions in five of the six journals, developed as follows:<sup>ii</sup>





What can be concluded from these overviews? Over the years, the IB discourse has clearly been dominated by the topic of 'cultural distance' (taking off in 1995). Psychic distance has been used as a technique, rather than as a theoretical construct. Since 2007 the attention for Institutional distance is growing rapidly, recently taking over as leading frame in the distance discourse in most journals. Interestingly, neither geographic nor travel distance received any attention in the journals. It might explain why some managers – that actually are confronted with the practical challenge of overcoming travel distance – might be less interested in the published findings of IB research. In the margin of the journals we see some concepts popping-up, such as normative distance (JIBS), corruption distance (JIM, IBR), economic distance (IBR, JIM, JWB, MBR, JIBS, MIR), governance distance (JIM), administrative distance (JIM, GSJ). With the increasing attention for emerging economies, but also the growing attention for sustainable development, the topic of 'economic distance' seems to receive increased attention. It was first addressed in 2008. In a number of parallel first publications in JIBS and MIR, leading authors in the area considered 'economic distance' in the context of performance effects (Hutzschenreiter, 2008) or governance questions (Verbeke and Kenworthy, 2008). Low economic distance thereby explains for the prevalence of regionalism (Rugman and Verbeke, 2008). Most other concepts developed only recently, or were not embraced at all.

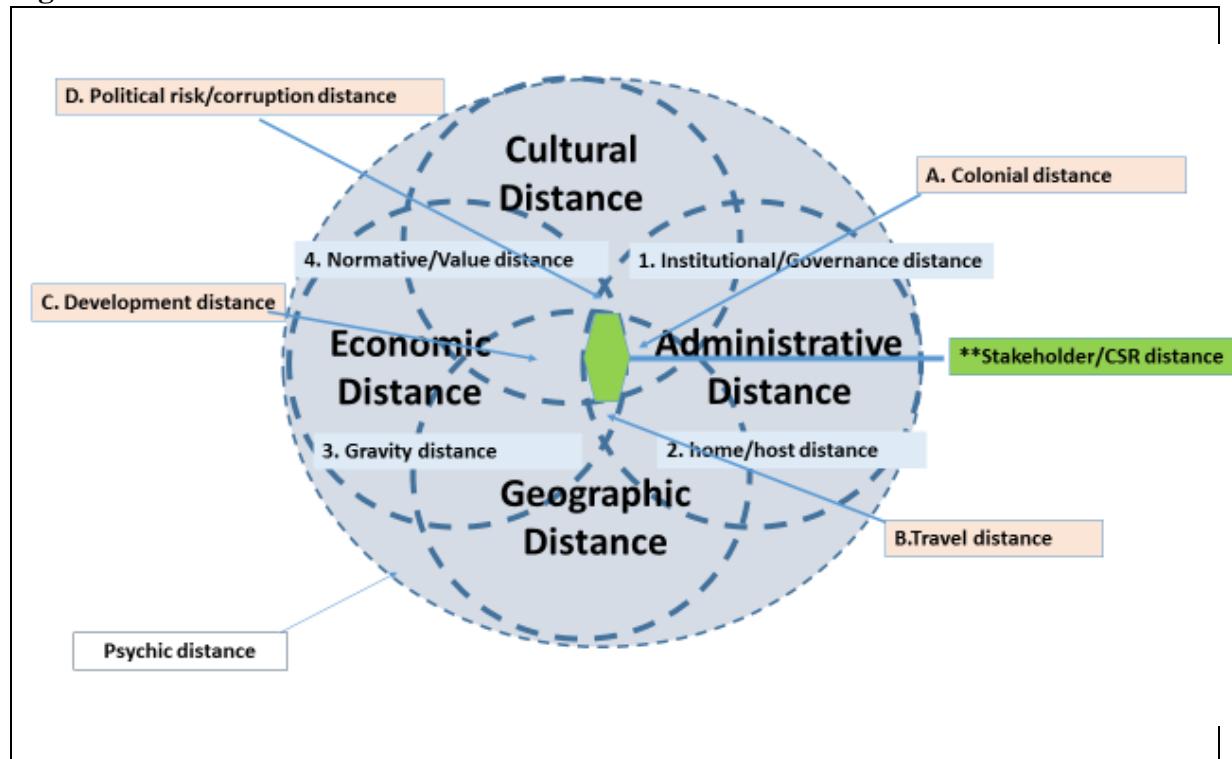
#### **[4] In search of a proper ‘distance fit’**

We can conclude that the IB discourse has been skewed towards a number of leading concepts that theoretically could be distinguished from other concepts (cf. Verbeke et al, 2018, for the most recent overview). Unfortunately, this state-of-affairs represents a rather parsimonious picture of the relevant dimensions of distance, in particular those distance dimensions that show overlapping characteristics that are less easy to study, but that nevertheless prove relevant for managers to take into account. In other disciplines – beyond IB – additional insights were found. But they have yet not been integrated in IB. The main challenge for a managerially relevant approach towards distance is therefore twofold: (1) how to cover all relevant – and often overlapping – aspects of distance that have up till now been researched in the studies and (2) how to make these insights strategic.

An upgraded CAGE model might serve the first aim in particular. To guide further research in the area and to position relevant research topics Figure 2 illustrates and denominates all relevant distance dimensions. The positioning of each dimension beyond the original CAGE dimensions, should be treated as propositions which were derived from extant research – but which have to be further validated and checked for their practical relevance. The label of this particular dimension presents an effort to link it to some of the relevant IB research done, but can change with growing insights. Only a few of these dimensions have been studied exhaustively in extant IB research. There remains some sizable space to fill by IB scholars. Filling these analytical voids can further help increase the managerial relevance of the IB discipline in the decade to come.

We can postulate that the outskirts of the CAGE+ model define the independent context variables of any active management model: they are important to take into account, but are difficult to change or influence.

**Figure 2 A CAGE+ Framework<sup>1</sup>**



The more we enter into the overlapping areas (the inner core of the CAGE+ model; 1-4 and A-D), the more concrete and managerial the distance challenge becomes first as an 'at entry' condition. The literature on whether culture or administrative distance defines the entry mode (wholly owned versus joint-venture) is one of the best researched themes. Other at-entry distance dimensions involve concrete logistical problems or bargaining relationships with 'distant' governments (Vernon's famous 'obscoescing bargain' theorem). The next distance dimension then concerns internal integration and coordination challenges related to the management of various cultures (aggravated by economic and administrative differences) in both home and host countries. The final challenge relates to the longer term management of a portfolio of nearby and distant countries. MNE management ultimately is related to the management of capabilities, resources and stakeholders – both inside and outside the company. The most integrative management challenge therefore can be considered the approach towards external stakeholders in home and host countries over sustained periods of time. A portfolio approach thereby seems to be the most effective. MNEs that have been developing 'community programs' as well as advanced CSR strategies and cross-sector partnering approaches are leading in this increasingly relevant area. This discourse covers in particular the question on how MNEs can gain, retain and/or sustain a 'license to operate' across countries – which in turn has been shown to positively affect the classic 'liability of foreignness' (Van Tulder with Van der Zwart, 2006).

Secondly, to serve the strategic ambition for managers of MNEs a further link with their core business models is required. For this, the upgraded CAGE+ should ideally be linked to the

<sup>1</sup> We developed a manual to help researchers define some of the appropriate databases for each of these distance variables (if existing)

business models and internationalization motives adopted by MNEs. We can define this as an organizational and strategic ‘fit’ challenge: how to prioritize those dimensions of distance that require special attention with what kind of internationalization strategy. For this we can use a simple classification of archetypical internationalization strategies (cf. Van Tulder, 2015): trade-oriented MNEs, multi-domestic, regional, global and glocal (or transnational). Each of these strategic orientations can be linked to a different portfolio of distances and consequently creates different integration and coordination challenges across borders. Table 1 provides a first (exploratory) sketch of the relative importance of each of these categories per strategic orientation. Managers can use this classification as a checklist for prioritizing and exploration, management scholars can apply this list for further research.

**Table 1 Your Strategic Distance Fit Challenge: what to prioritize?**

	CONTEXT				FIT ENTRY				INTERNAL COORDINATION				EXT. LtO
	C	A	G	E	1	2	3	4	A	B	C	D	
<b>Trade-export</b>	xx	x	xxx	-	x	xxx	xxx	x	x	xx	-	xx	xx
<b>Multi-domestic</b>	xxx	xxx	x	xxx	xxx	x	x	xx	x	xx	xxx	xxx	xxx
<b>Regional</b>	x	x	xx	xx	x	xx	xx	xx	x	xx	xx	x	xx
<b>Global</b>	x	xx	xx	-	xx	x	xx	xxx	x	xxx	xx	xxx	xx
<b>Glocal/ Transnational</b>	xxx	xxx	xx	x	xxx	xx	xx	xx	x	xx	xx	x	xxx

## References

Alstyne, M.V. and Brynjolfsson, E., 2005, ‘Global village or cyber-Balkans? Modeling and measuring the integration of electronic communities’, *Management Science*, Vol.51, No6, p. 851-868.

Cairncross, F. (1997) *The Death of distance*, Boston: Harvard Business School Press

Child, J., Rodrigues, S.B., Frynas, J.G. 2009, ‘Psychic Distance, its Impact and Coping Modes Interpretations of SME Decision Makers’, *Management International Review*, Vol. 49, No. 2, p. 199-224.

Dow, D. and Karunaratna, A., 2006, ‘Developing a Multidimensional Instrument to Measure Psychic Distance Stimuli’, *Journal of International Business Studies*, Vol. 37, No. 5, p. 578-602.

Ghemawat, P. 2001, ‘Distance still matters: The hard reality of global expansion’, *Harvard Business Review*, Vol. 79, No. 8, p. 137-147.

Hutzschenreuter, T. and 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*, Vol. 39, p. 53-70.

Johnson, J. and Tellis, G.J., 2008, ‘Drivers of Success for Market Entry into China and India’, *Journal of Marketing*, Vol. 72 No. 3, p. 1-13.

Jones, G., Lundan, S., 2001, ‘The ‘commonwealth effect’ and the process of internationalization’, *The World Economy*, Vol. 24, No. 1, p. 99-118.

Kogut, B. and Singh, H., 1988, 'The effect of national culture on the choice of entry mode', *Journal of International Business Studies*, Vol. 19 No. 3, pp. 411-32.

Rugman, A. and Verbeke, A. (2008) 'The theory and Practice of regional strategy. A response to Osegowitsch and Sammartino, *Journal of International Business Studies*

Scott, W. R. (2008) Institutions and Organizations: Ideas and Interests. Los Angeles, CA: Sage Publications.

Slangen, A. & Van Tulder, R. 2009, 'Cultural distance, political risk, or governance quality? Towards a more accurate conceptualization and measurement of external uncertainty in foreign entry mode research', *International Business Review, Volume 18(3), June*, p. 276-291

Sousa, C.M.P. and Bradley, F., 2008, 'Cultural distance and psychic distance: refinements in conceptualisation and measurement', *Journal of Marketing Management*, Vol. 24, No. 5-6, p. 467-488.

Tsang, E. K., Yip, P.L., 2007, 'Economic distance and survival of foreign direct investment', *Academy of Management Journal*, Vol. 50, No. 5, p. 1156–1168.

Van Tulder, R. (2015). Getting all the motives right. A holistic approach to internationalization motives of companies. *The Multinational Business Review*, 23 (1), 36-56.

Van Tulder, R. with Van der Zwart, A. (2006) *International Business Society Management. Linking Globalization and Corporate Responsibilities*, London: Routledge

Van Tulder, R., 2010, 'The past, present and future of managing distance: Stakeholders and development', *Advances in International Management*, Vol. 23, p. 137-165.

Van Tulder, R., 2010, 'The past, present and future of managing distance: Stakeholders and development', *Advances in International Management*, Vol. 23, p. 137-165.

Verbeke, A. and Kenworthy, T. (2008) 'Multidivisionsl vs metanational governance of the multinational enterprise', *Journal of international Business Studies*

Verbeke, A., Puck, J. , Van Tulder, R. (eds) (2018) 'Distance in International Business: Concept, Cost and Value', Progress in International Business research, Volume 12, Bingley: Emerald

World Bank, 2008, *World Development Report 2009 "Reshaping Economic Geography"*, Washington D.C.

World Bank, 2009, *World Investment and Political Risk 2009*, Washington D.C.

---

<sup>i</sup> Thanks to Mounia Yekhlef and Garnik Kazarjan for timely research support. For researchers interested in an eclectic approach to all distance variable; see [www.ib-sm.org](http://www.ib-sm.org) for a dossier on 'managing a portfolio of distances".

<sup>ii</sup> The figure for Global Strategy Journal is not include. It only published one very recent article relevant for this study.