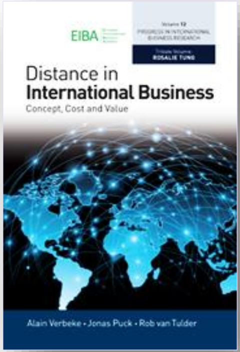
In search of an integrative approach to managing distance

By: Rob van Tulder
In: EIBAzine International Business Perspectives, Issue 26, Spring-Summer 2020, pp. 8–16.
SSRN version available ***here***

Complementary paper to Verbeke, A., Puck, J. and Van Tulder, R. (Eds.) (2018). *Distance in International Business: Concept, Cost and Value*, Progress in International Business Research, Volume 12. Bingley: Emerald



The International Business (IB) discipline persistently looks for key concepts that can legitimise 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 as in 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. However, well-managed distance can also create 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. However, when the world started moving towards globalisation in the early 1990s, some claimed that distance was of decreasing importance—some even proclaimed 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 than physical geography alone, and that IB scholars should try to inquire into all dimensions in order to increase managerial relevance.

Ideally, managers of Multinational Enterprises (MNEs) have to take all distance dimensions into account simultaneously in order to make the right decisions at various stages of internationalisation. Distance thereby contains both 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, philosophical, political, or psychological. Space explorers know the (theoretical) relativity of distance very well, whilst the (practical) problems related to immense distances in space remain 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 kilometres 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’, i.e. less accessible, than the 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 explains trade flows and thus has 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 operate in another Asian country that is similar to its home country than in Europe, because of cultural similarities. Cultural differences between Asian and European countries are much greater, which gives rise to the idea of ‘cultural distance’ as one of the explanatory variables for successful internationalisation (Kogut and Singh, 1988). The exact importance of cultural distance, particularly in relation to 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 are often mixed up or used in ambiguous ways. This finding probably also explains why distance is still not a widely used concept among MNE managers.

The concept of distance, nevertheless, contains strong heuristic value in providing shorthand for a greater understanding of the distinct challenges that, in particular, managers of MNEs face. However, some concepts in the scientific and practical discourse have become more popular than others. This has various causes. A very important selection mechanism has been the availability of data. This explains the focus on country-by-country data—the main level of analysis of most statistical offices and international organisations. Country-by-country comparisons prevail in macroeconomic (FDI) studies on international business. These sources of information have been used as intervening or control variables to explain other correlations, such as the nature of entry or the impact on the performance of MNEs.

Another important selection mechanism has been the method of research. When survey techniques are applied, relative or perceived distance becomes a factor. The IB literature has introduced the term “psychic distance”, which represents the impact distance has on the perceptions of managers. However, psychic distance remains a rather vague concept, and there is disagreement about what it exactly entails and which dimensions it comprises (Sousa and Bradley, 2008).

Rather than arguing which single aspect of distance should prevail in management practice, it seems more important to argue in favour of a more integrative approach to distance—from the premise that MNE managers have to take all dimensions of distance into account, preferably simultaneously. This presents a very complex challenge. This paper aims to set the scene for such an approach by distinguishing the dimensions of distance covered by extant research as published in leading IB journals, in order to present a richer and more meaningful framework for managing distance. On the basis of such an approach, managers should be able to prioritise 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 useful 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).

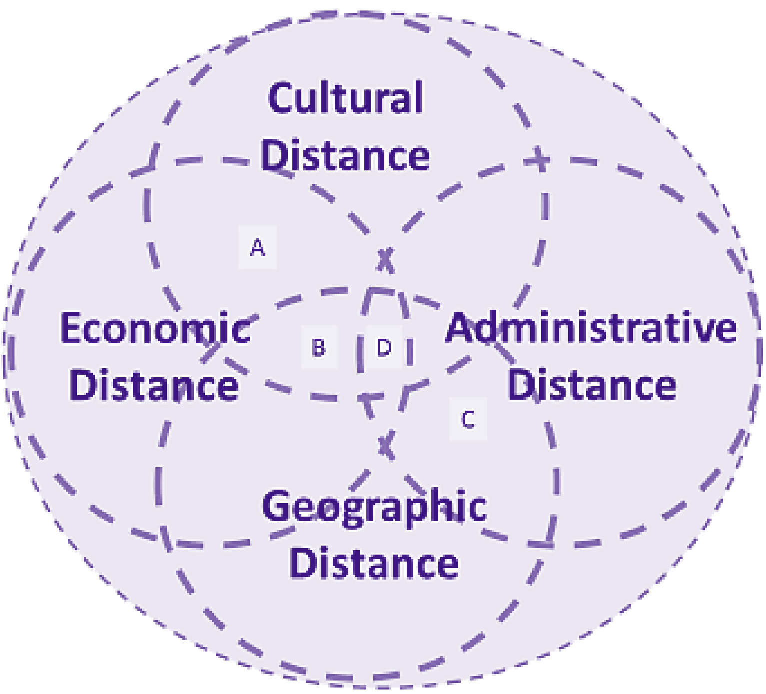
Administrative distance has also been elaborated as 'institutional distance', largely because of the availability of data at the national level. Depending on its connotations, institutional distance can also be categorised as 'cultural distance', for instance when including informal, normative, and cognitive dimensions, as contained in the popular definition of institutions by Scott (2008).

Geographical 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 differences in economic and income levels between countries (Tsang and Yip, 2007). Departing from a different research technique (in particular surveys), the four distance variables 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 has indeed been the most widely investigated in extant IB research, as will be elaborated in more detail below.

However, it can be argued that the overlapping areas of the CAGE framework perhaps present the most promising avenues for further theorising and empirical testing in managerial practice. For example: what lies between cultural and economic distance [A]? What lies between geographical and administrative distance [C]? Combining more than two distance dimensions [B or D] creates even greater levels of complexity, but arguably also higher levels of managerial relevance.

To cover these overlapping areas, other distance variables have been introduced, such as 'political risk distance', 'CSR distance', 'colonial distance' (Jones and Lundan, 2001), 'corruption distance', 'stakeholder distance' (Van Tulder, 2010), and 'normative' or 'value distance'. These overlapping areas come closest to management practice. In this contribution, we therefore 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[i]

Applying the Scopus database made it possible to create an overview of relevant insights from peer-reviewed studies. Seventeen types of distance were searched for, including all major dimensions mentioned above. Article titles, abstracts, and keywords were examined 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 Wall in 1989, 1990 can be considered the starting point of the globalisation era, in which degrees of internationalisation rapidly increased for most countries in the world. The carriers of these internationalisation processes were, of course, MNEs. Scientific and managerial interest in the concept incontestably took off. Over the 1990–2016 period, all journals showed steady growth in distance-related topics, reaching an accumulated total of 619,658 articles on distance in general. Most of these articles originated in physics, engineering, and medicine.

With regard to economics and the management discipline, I conducted a popularity check: (1) over time, to reveal certain historical and disciplinary trends – for which all journals were considered [3.1]; and (2) within the IB discourse, for which distance studies in six leading IB journals over the same period were examined [3.2].

3.1 Trends

At the start of the period under review, only two distance variables were widely covered in the general discourse: travel distance and geographical distance. Both witnessed a steady increase in attention throughout the 1990–2016 period, reaching more than 200 articles annually by 2016. Mainstream thinking on particular distance variables mostly took off in the 1990s, but with varying degrees of popularity. Attention to more specific or novel dimensions shows an even more diffuse pattern.

[a] Mainstream thinking:

- **Economic distance:** received continuous attention, with a clear and rapid increase after 2005 (economics as the dominant discipline, followed by social sciences and management);
- **Psychic distance:** continuous growth, particularly since 1995 (with dominance of the management disciplines);
- **Cultural distance:** continuous growth, particularly 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:** received marginal but consistent attention throughout the whole period (primarily in chemistry rather than business/management).

[b] Complementary thinking:

- **Administrative distance:** from 2000 onwards, this dimension received some, albeit modest but continuous, attention (largely from 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;

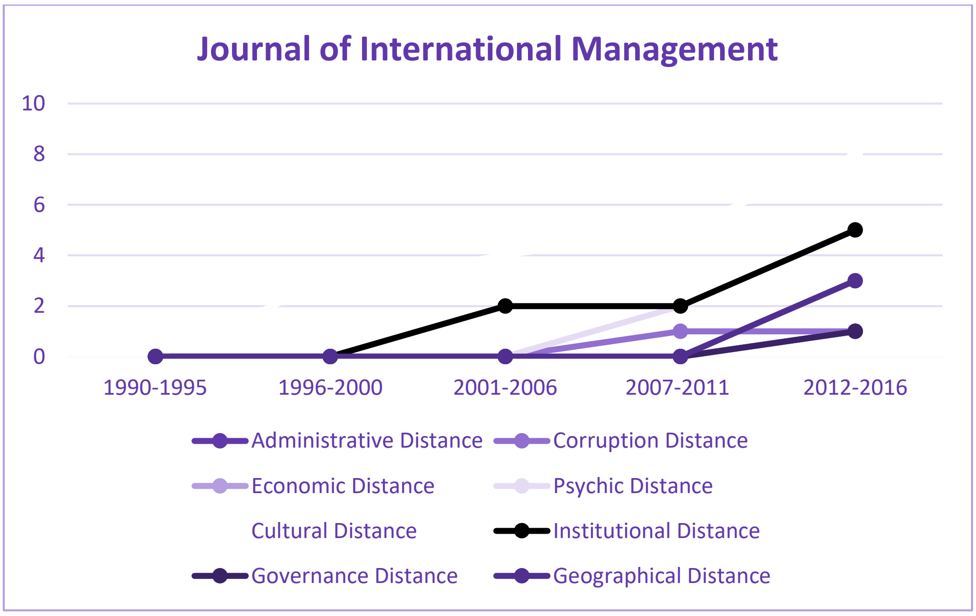
- **Corruption distance** (at the interface between economic and administrative distance): took off after 2006 (with input largely from business and economics);
- **Governance distance** (as a partial synonym for administrative distance): introduced only in 2014;
- **Stakeholder distance** (as a synthesis of all distance variables; D): introduced in 2010, but did not attract significant follow-up;
- **Host distance** (at the interface between geographical 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 geographical distance; B): took off in 1994, but attracted only marginal follow-up;
- **Normative distance** (at the interface between cultural, economic, and administrative distance): introduced in 1995, but received only marginal attention since 2006 (largely in business ethics and economics);
- **Value distance:** more popular than normative distance; can be positioned at the same interface; became more prominent after 2005 (spread across a large number of disciplines, but received limited attention from management scholars).

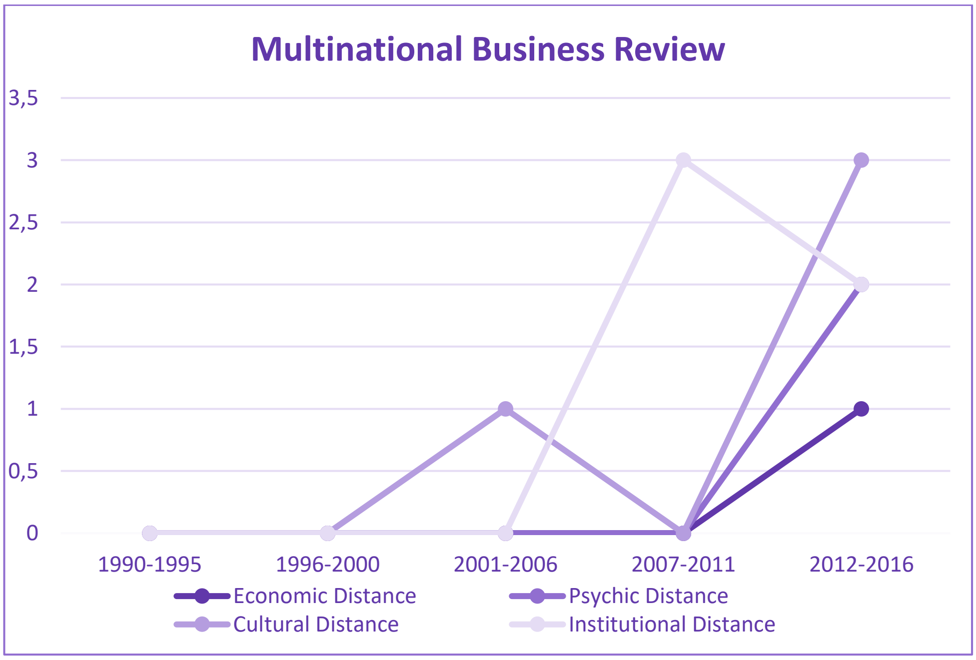
[3.2] The resulting IB discourse

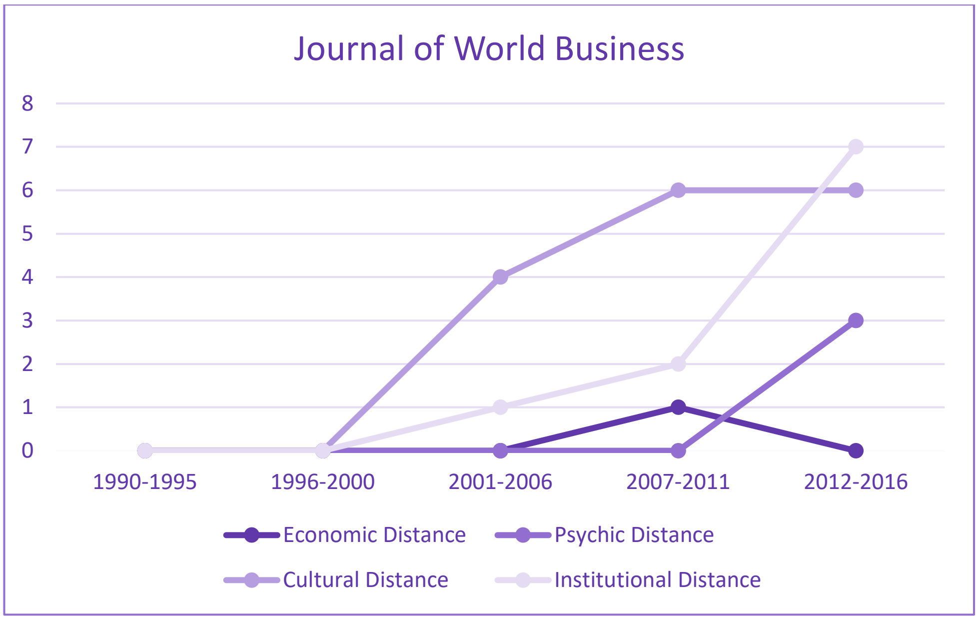
More specific attention to the various distance dimensions in the IB discourse can be assessed by the number of papers published in six leading journals: *Journal of International Business Studies*, *International Business Review*, *Journal of International Management*, *Multinational Business Review*, *Journal of World Business* (since 2000, following its name change), and *Global Strategy Journal* (established in 2010).

The 1990–2016 period was divided into five-year intervals to identify general trends. The relative attention given to specific distance dimensions in five of the six journals developed as follows:[ii]


International Business Review
20
15
10
5
0
1990-1995
1996-2000
2001-2006
2007-2011
2012-2016
Administrative Distance
Corruption Distance
Economic Distance
Psychic Distance
cultural Distance
Institutional Distance


Journal of International Management
10
8
6
4
2
0
1990-1995
1996-2000
2001-2006
2007-2011
2012-2016
Administrative Distance
Corruption Distance
Economic Distance
Psychic Distance
Cultural Distance
Institutional Distance
Governance Distance
Geographical Distance


Multinational Business Review
3,5
3
2,5
2
1,5
1
0,5
0
1990-1995
1996-2000
2001-2006
2007-2011
2012-2016
Economic Distance
Psychic Distance
Cultural Distance
Institutional Distance



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 more as a methodological construct than as a theoretical one. Since 2007, attention to institutional distance has grown rapidly, recently becoming the leading frame in the distance discourse in most journals. Interestingly, neither geographical nor travel distance received significant attention in these journals. This may explain why some managers – who are confronted with the practical challenge of overcoming travel distance – may be less interested in the published findings of IB research.

At the margins of the journals, several concepts have emerged, such as normative distance (JIBS), corruption distance (JIM, IBR), economic distance (IBR, JIM, JWB, MBR, JIBS, MIR), governance distance (JIM), and administrative distance (JIM, GSJ). With increasing attention to emerging economies, as well as to sustainable development, the topic of 'economic distance' appears to be gaining prominence. It was first addressed in 2008. In a number of parallel initial publications in JIBS and MIR, leading authors considered economic distance in the context of performance effects (Hutzschenreiter, 2008) or governance questions (Verbeke and Kenworthy, 2008). Low economic distance thereby explains the prevalence of regionalism (Rugman and Verbeke, 2008). Most other concepts have only recently been developed, or have not been widely embraced.

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 can theoretically be distinguished from others (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, particularly those that exhibit overlapping characteristics. These are less easy to study, but nevertheless prove relevant for managers to take into account.

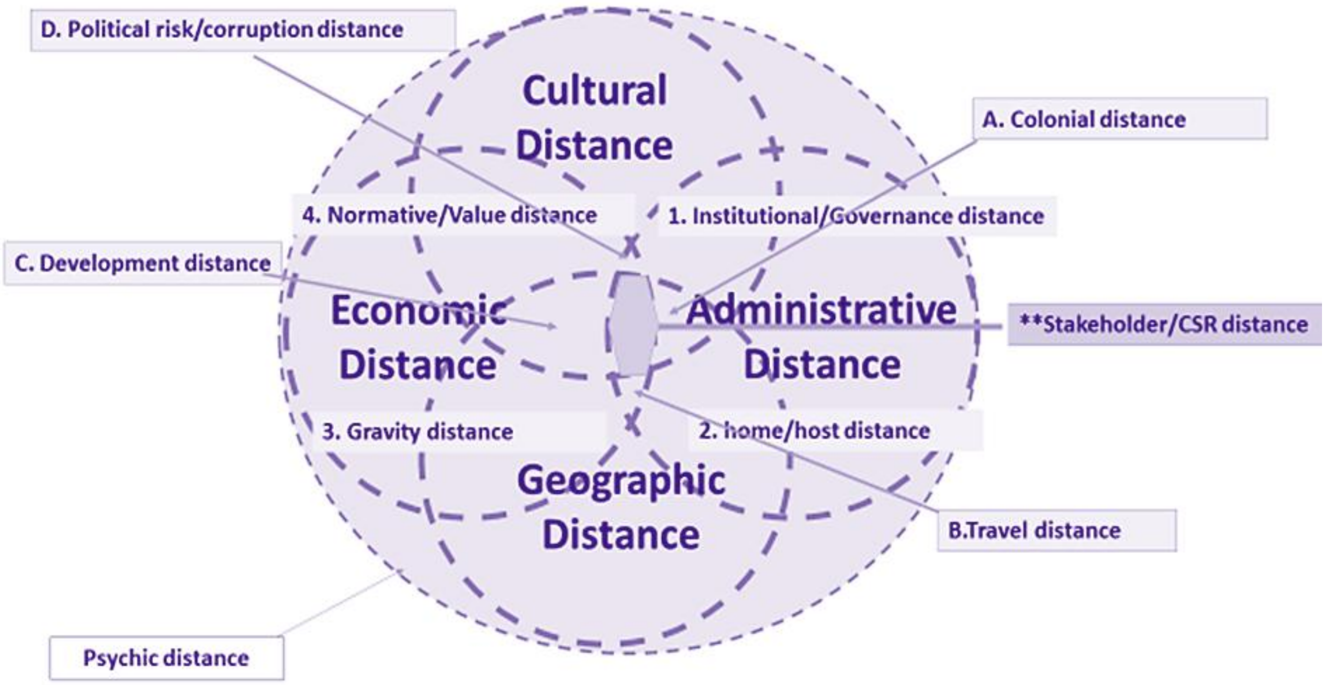
In other disciplines – beyond IB – additional insights have been identified, but these have not yet been integrated into IB. The main challenge for a managerially relevant approach to distance is therefore twofold: (1) how to cover all relevant – and often overlapping – aspects of distance identified in existing studies; and (2) how to make these insights strategic.

An upgraded CAGE model may serve the first aim in particular. To guide further research in this area and to position relevant research topics, Figure 2 illustrates and labels the relevant distance dimensions. The positioning of each dimension beyond the original CAGE framework should be treated as a set of propositions derived from extant research, which still require further validation and assessment of practical relevance. The labels used represent an effort to link these dimensions to existing IB research, but may evolve with further insights.

Only a limited number of these dimensions have been studied exhaustively in extant IB research. Considerable analytical space remains for IB scholars. Filling these gaps may further enhance the managerial relevance of the IB discipline in the coming decade.

We can postulate that the outer layers of the CAGE+ model define the independent contextual variables of any active management model: they are important to consider, but difficult to change or influence.

Figure 2 – A CAGE+ Framework[1]



The further one moves 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, initially as an 'entry condition'. The literature on whether cultural or administrative distance determines entry mode (wholly owned subsidiary versus joint venture) is among the most extensively researched themes. Other entry-related distance dimensions involve concrete logistical challenges or bargaining

[1] We developed a manual to help researchers define some of the appropriate databases for each of these distance variables (if existing).

relationships with ‘distant’ governments (e.g. Vernon’s ‘obsolescing bargain’ theorem). Subsequent distance challenges concern internal integration and coordination, particularly in managing diverse cultures – often compounded by economic and administrative differences – across home and host countries.

The final challenge relates to the longer-term management of a portfolio of both proximate and distant countries. MNE management ultimately involves managing capabilities, resources, and stakeholders, both inside and outside the firm. The most integrative management challenge, therefore, concerns engagement with external stakeholders in home and host countries over sustained periods. A portfolio approach appears to be particularly effective.

MNEs that have developed ‘community programmes’, as well as advanced CSR strategies and cross-sector partnerships, are leading in this increasingly important area. This discourse addresses how MNEs can gain, retain, and sustain a ‘licence 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 support the strategic ambitions of MNE managers, a further link with core business models is required. The upgraded CAGE+ framework should ideally be connected to the business models and internationalisation motives adopted by MNEs. This can be defined as an organisational and strategic ‘fit’ challenge: how to prioritise those dimensions of distance that require particular attention, given a specific internationalisation strategy.

For this purpose, a simple classification of archetypal internationalisation strategies can be used (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 generates distinct integration and coordination challenges across borders. Table 1 provides an initial (exploratory) overview of the relative importance of these categories for each strategic orientation. Managers can use this classification as a checklist for prioritisation and exploration, while management scholars can use it to guide further research.

Table 1 Your Strategic Distance Fit Challenge: what to prioritise?

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

REFERENCES

Alstyne, M.V. & Brynjolfsson, E., (2005). 'Global village or cyber-Balkans? Modelling and measuring the integration of electronic communities', *Management Science***,** Vol**.**51, No6, pp. 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, pp. 199-224.

Dow, D. & Karunaratna, A. (2006). 'Developing a Multidimensional Instrument to Measure Psychic Distance Stimuli', *Journal of International Business Studies*, Vol. 37, No. 5, pp. 578-602.

Ghemawat, P. (2001). 'Distance still matters: The hard reality of global expansion', *Harvard Business Review***,** Vol. 79, No. 8, pp. 137-147.

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,* Vol. 39, pp. 53-70.

Johnson, J. & Tellis, G.J. (2008). 'Drivers of Success for Market Entry into China and India', *Journal of Marketing*, Vol. 72 No. 3, pp. 1-13.

Jones, G. & Lundan, S. (2001). 'The 'commonwealth effect' and the process of internationalization', *The World Economy*, Vol. 24, No. 1, pp. 99-118.

Kogut, B. & 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. & Verbeke, A. (2008). 'The theory and Practice of regional strategy. A response to Osegowitsch and Sammartino, *Journal of International Business Studies*, Vol. 39, pp. 326-332.

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, pp. 276-291.

Sousa, C.M.P. & Bradley, F. (2008). 'Cultural distance and psychic distance: refinements in conceptualisation and measurement', *Journal of Marketing Management*, Vol. 24, No. 5-6, pp. 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, pp. 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), pp. 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, pp. 137-165.

Verbeke, A. & Kenworthy, T. (2008). 'Multidivisional vs metanational governance of the multinational enterprise', *Journal of international Business Studies,* Vol. 39, pp. 940-956.

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.

---

[i] Thanks to Mounia Yekhlef and Garnik Kazarjan for timely research support.

[ii] The figure for Global Strategy Journal is not included, as it only published one very recent article relevant for this study.