

What cultural differences really matter for managers? Towards a new model of cultural distance

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ABSTRACT

Cultural differences play a central role in International Business research. Despite receiving a great deal of attention from scholars, the effect of cultural differences is still not completely understood. While the importance of cultural differences in conducting business abroad is widely accepted, extant research provides mixed results on their impact. We argue that one of the reasons why cultural differences' impact is not fully understood are the shortages in the national cultural distance construct (Kogut & Singh, 1988), especially in the globalized and fast-changing contemporary world. Specifically, we identify three shortcomings in the current national cultural distance construct: (1) cultural differences are becoming increasingly less relevant among managers working in internationally oriented firms; (2) organizational cultural differences may prove more relevant than national cultural distance, especially since many firms have global operations; (3) the cultures' reputation is not symmetric, i.e., the perceptions of the cultural differences are not taken into account. Thus, we present a conceptual model which addresses these shortcomings and we arguably contribute to a better understanding of the impact of national cultural distance. We discuss our proposed model and we put forward some avenues for future research.

Keywords: cultural distance; national cultural distance; Kogut & Singh (1988) index; conceptual.

INTRODUCTION

Firms operating abroad face a unique set of constraints which hinder their ability to run profitable operations especially due to the differences between home- and host-country business environments. These differences are arguably the distinguishing feature of International Business (IB) research and are the focus of a long and fruitful strand of research (Ferreira, Serra & Reis, 2011). One of the key features which influence firms' international operations is the host country's culture and the cultural differences between home and host countries. Cultural differences have been found to influence the entry mode sequence (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975), the choice between wholly-owned subsidiaries and joint-ventures (Barkema & Vermeulen, 1997; Hennart & Larimo, 1998), the knowledge sharing across subsidiaries (Cho & Lee, 2004) and the communication with outside stakeholders (Hutzschenreuter & Voll, 2006).

Cultural differences are usually regarded as cultural distance between home and host countries. There are a number of models addressing cultural distance but arguably the most profuse dates back to the 1980's. Building on Hofstede's (1980) scores for cultural values, Kogut and Singh (1998) have put forward a cultural distance index which attempts to compute the distance between two given countries. Kogut and Singh (1988) index is widely used in IB research arguably due to being widely available and being easy to use and to interpret (Silva, 2007; Ferreira et al., 2013; Reis et al., 2013). Despite not measuring individual cultural dimensions, which are considered to be important in strategy definition (see, for instance, Sousa, 2003; Sousa & Bradley, 2006), this indicator provides an easy approach to examine national cultural values and national cultural distance, which are important constructs within IB literature. Notwithstanding the widespread use, the cultural distance index (Kogut & Singh, 1988)

has been criticized for having conceptual and methodological flaws (see for instance Shenkar, 2001) and for providing erroneous findings (Kirkman, Lowe & Gibson, 2006).

However, the cultural distance construct has limitations other than the ones attributed to Kogut and Singh's (1988) index. We identify three important shortcomings which warrant the need for new methods of ascertaining the differences in culture. First, we argue that cultural differences are becoming less relevant nowadays, especially among managers working for internationally oriented companies. Second, we discuss the importance of assessing and taking into account the possible supremacy of a specific subculture – the subculture of firms that see international arrangements as common strategies for coping with the increase of competition in a globalized world – over national culture. Finally, we call for the need for a measure that reflects country reputation instead of differences on cultural dimensions. Thus, the aim of this paper is reviewing the literature on measurement of cultural differences and cultural distance in IB and to put forward a speculative model rooted on the three shortcomings ascribed to the cultural distance construct.

Our conceptual model of cultural distance arguably takes into account the dynamic of the environment in recent years and addresses major issues. In the globalized world in which business takes place today, the nationality of the partner is becoming less and less important. Managers often have multicultural teams, serve customers across different countries and due to factors such as intermarriage and media usage managers become acculturated. Thus, it may be that international managers' assumptions, perceptions and values are less and less likely to be influenced by their cultural background. On the other hand, subnational cultures are arguably important, especially a firm-level culture, in on-going business relationships. Indeed, organizational cultural compatibility may foster trust and, indirectly, increase partner

satisfaction. In this situation, the differences between the national cultural backgrounds of partners involved in an on-going relationship seem to lose importance. Therefore managers may more quickly recognize differences between companies that act through partnerships in a globalized world and those that keep their activity constrained to certain geographical regions, than differences between countries and their cultural idiosyncrasies. Indeed, it is more likely that decisions tend to be influenced by partner's attitude towards international cooperation (Simões, 1997) rather than other factors that characterize nations instead of firms. As stated by Silva and Nardon (2008) the perceived asymmetry between managers from different countries is relevant but their propensity to do business depends a lot on the nature of the task they have at hands. And obviously they also rely on the perception they have on country reputation, as we will see further.

Addressing these three shortcomings allow us to contribute to the extant IB literature on cultural differences by offering a model which may be empirically tested and thus enriching the debate on cultural distance.

LITERATURE REVIEW

The cultural distance construct

International business environment is the distinguishing factor of International Business (IB) research (Ferreira et al., 2011). In fact, firms operating abroad face constraints that hinder firms' ability to develop profitable operations (Hymer, 1976). Firms incur in such liability of foreignness especially due to the differences between home and host international business environment. This is what IB scholars have termed "distance" (Shenkar, 2001) and it refers to the distance between home and host countries. This distance arguably increases the difficulties of international firms, not

only geographical distance but also economic, administrative and cultural distance (Ghemawat, 2001; Hennart & Larimo, 1998; Slangen & Van Tulder, 2009). Firms may arguably cope with the distance by learning how to do business abroad (Johanson & Vahlne, 1977) which allows them to enter markets increasingly distant, meaning with a higher degree of dissimilarities (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). Therefore when entering a foreign market, firms have to take into account the distances (i.e. the differences) between home and host countries and adapt to those differences (Ferreira et al., 2011) either in its structures, systems and processes to comply to host country's idiosyncrasies (Hutzschenreuter & Voll, 2006).

Cultural distance is one of the main differences which may hinder firms' international operations. Scholars have sought to understand the impact of cultural distance on firms' decisions, namely the entry mode choice (Kogut & Singh, 1988; Slangen & Van Tulder, 2009). The choice of an entry mode is arguably influenced by the degree of uncertainty that firms face in the host market and scholars have used the cultural distance construct (Hofstede, 1980; Kogut & Singh, 1988) to proxy this uncertainty (Slangen & Van Tulder, 2009). Thus, according to Kogut & Singh (1988) manager's perceptions about the uncertainty of entering a new market, along with its inherent perceived costs, tend to be influenced by national values and propensity to choose a specific entry mode. Therefore, the larger the cultural distance, the more uncertainty firms have to cope with, which notably tends to lead them to choose joint ventures with local firms (Barkema & Vermeulen, 1997; Hennart & Larimo, 1998) as an entry mode. Cultural distance also arguably influences the choice between greenfield investments or acquisitions: firms would tend to perform greenfield investments in more culturally distant countries to avoid the costs of acquiring and integrating an existing target (Slangen & Hennart, 2007). However the cultural distance may be less important

if the firm has international experience and if it plans to concede high levels of autonomy to the subsidiary: in that case, firms arguably tend to acquire firms (Slangen & Hennart, 2008).

Cultural distance is also posited to impact other dimensions of firms' international operations. Operating in a country with a different culture forces firms to take into account different beliefs, perceptions and behaviors (Kirkman et al., 2006) and therefore firms arguably adapt their structures, systems and processes. The more the cultural distance between two countries the greater the "challenges for the organizational control system" (Gomez-Mejia & Palich, 1997: 313) which augments the uncertainty and the costs of managing and controlling the subsidiaries (Hutzschenreuter & Voll, 2006). Cultural distance also impacts firms' communication, namely among the staff – which hinders firms' efficient operations (Gomez-Mejia & Palich, 1997) –, in sharing knowledge – which requires costlier control systems when cultural distance increases (Cho & Lee, 2004) – and between firm and outside stakeholders (Hutzschenreuter & Voll, 2006). Other effects of cultural distance include differences in leadership styles (Kirkman, et al., 2006), in staff's expectations and incentives (Park & Ungson, 1997) in HQ-subsidiaries relationship (Drogendijk & Holm, 2012) and in the satisfaction expatriates retrieve from their expatriation missions (Ferraz, Silva & Duarte, 2012; Selmer, Chou & Shenkar, 2007). Adapting to a new cultural setting may benefit from previous experiences which facilitate the learning process. Therefore firms may arguably overcome the uncertainties and costs of operating in culturally distant countries by using their experience and knowledge in similar contexts (Haleblian & Finkelstein, 1999).

Several constructs have been used to operationalize and empirically ascertain cultural distance. Arguably the most used construct was put forward by Kogut and

Singh (1988) in their article "*The effect of national culture on the choice of entry mode*" to measure the extent to which one national culture differs from another (Drogendijk & Slangen, 2006). Analyzing the entry mode decision, Kogut and Singh (1988) have used Hofstede's (1980) dimensions to compute the difference between the scores of each cultural dimension of two given countries, i.e., cultural distance index. Kogut and Singh's (1988) cultural distance index has received a great deal of attention from IB scholars delving on culture-related issues (Reis et al., 2013) arguably due to its simplicity and the availability of data (Shenkar, 2001; Silva, 2007). Other measures of cultural distance are somewhat similar (e.g. using Euclidean distances) but use different cultural scores (Drogendijk & Slangen, 2006), namely the scores put forward by Schwartz (1994) or Project GLOBE's scores (House et al., 2004). Using different measures to assess the impact of cultural distance in entry mode decision, Drogendijk and Slangen (2006) concluded there is only a partial overlap between Hofstede's (1980) and Schwartz's (1994) models but that their explanatory power is relative similar (for a comparative test see Hsu, Woodside and Marshall, 2013).

Measuring cultural distance is not an undisputed procedure as critics point out several flaws to cultural models. Hofstede (1980) is still the most used cultural model in IB research and its use has increased in recent years (Ferreira et al., 2013). However it has been criticized for not considering the cultural differences within a given country (Kirkman et al., 2006), for not capturing the dynamic nature of culture (Berry, Guillén, & Zhou, 2010; Kirkman et al., 2006) and for having been built on data which misrepresented the population and which is outdated (Drogendijk & Slangen, 2006; Kirkman et al., 2006; Ralston et al., 1997). GLOBE Project scores, which are often considered an alternative to Hofstede's (1980), are also criticized for having negatively correlated scores in "values" and "practices" (Hofstede, 2006; Javidan et al., 2006) and

for not being an alternative to Hofstede (1980) as they represent similar dimensions (Hofstede, 2006). GLOBE scores are arguably misused by some scholars which used them to compute the cultural distance index instead of Hofstede's (1980) thus mistaking country-level and individual-level (Brewer & Venaik, 2011).

Indeed, the cultural distance construct – especially the cultural distance index put forward by Kogut and Singh (1988) – has then received a great deal of criticism. This index (Kogut & Singh, 1988) aggregates the differences in every dimension which may result in some of the differences being cancelled out (Shenkar, 2012). The aggregation arguably also conceals the complexity of culture by reducing culture to a single dimension (Drogendijk & Holm, 2012). Critics argue that Kogut and Singh's (1988) index does not take into account the dimensions in which the countries differ. By combining all the differences in a single measure, some of the variance may be cancelled out and thus renders difficult the full grasp of cultural differences (Brewer & Venaik, 2011). Therefore it is impossible to understand the impact of national cultures differences in people's behavior (Drogendijk & Holm, 2012). The cultural distance construct (Kogut & Singh, 1988) has also been criticized for being symmetrical: the distance between two given countries is the same regardless of the perspective you take. However critics suggest that cultural differences are not symmetrical and are different depending on the perspective you adopt (Chapman et al., 2008; Shenkar, 2001; Silva & Nardon, 2008). The cultural distance index (Kogut & Singh, 1988) is also criticized for presenting contradictory results (Berry et al., 2010; Kirkman et al., 2006; Shenkar, 2001) arguably due to methodological issues (Shenkar, 2012). There is widespread criticism addressed to this work¹, mainly due to its unidimensional character (Salk &

¹ One main criticism of Hofstede's work is made by McSweeney (2002), whose criticism is based on five assumptions (a) consideration of culture as a "mental programming", as "software of the mind"; b) assumption of culture as a "common component" of a wider culture that contains both global and sub-national constituents; c) the fact that culture should be treated as an independent variable and not

Brannen 2000; Shenkar & Zeira 1992). In fact, “because organizations are, in many ways embedded in the larger society in which they exist, research on culture differences of cross-national business should examine both national and organizational cultures.” (Pothukuchi et al. 2002, p. 244). There is a controversy about this point that was recognized by Hofstede et al. (1990). Indeed, while on the one hand individuals are considered to not necessarily reflect general population tendencies (Schneider & Barsoux 1997), on the other, cultural level analysis is not meant to predict individuals’ behaviors (Hofstede 1991). This problem was labelled as “ecological fallacy” in Hofstede (1980) and Hofstede (1991) and has to do with the use of data from one level of analysis at another level of analysis.

Criticism and alternatives to cultural distance

Based on the previous criticism, some studies have used the work of Schwartz (1994) as a superior alternative to that of Hofstede (1980) (Brett and Okumara (1998), for instance) for the assessment of the cultural distance construct. The measures of Schwartz (1994) imply a model of national culture with seven dimensions. Mezias et al. (2002) prefer this approach, claiming that systematic errors can result when measures derived at national level are used to characterize phenomena at the organizational level. Other studies (Ralston et al. 1997; Smith et al. 2002; Steenkamp 2001; Tan 2002) use the values defined by Schwartz (1994). However, Schwartz’s model is also refuted and criticized. Drogendijk and Slangen (2005) find no fundamental differences between Schwartz’s and Hofstede’s works; Barkema and Vermeulen (1997) use a different set

receiving other influences; d) the consideration of a country, or better, a territory, as a unit of analysis of national culture; and, e) the excessive use of statistical average. Holden (2002) adds to this list the outdated data used in Hofstede’s work; and Lane (1989) points out the use of a questionnaire to capture cultural diversity, which is a questionable method in her opinion.

with no major alterations in terms of the original values; and Dahl (2004) highlight the stability in Hofstede's values.

In any case, most of the criticism displayed against Hofstede's work (e.g. Roberts & Boyacigiller 1984; Triandis 1982), and their subsequent products (namely the Kogut and Singh Index) is based on specific problems raised by different authors. Much of the criticism addressed to his work is refutable with situational factors and with the lack of operational alternative methods. In Morosini et al. (1998) advantages of the use of Hofstede's scores as a measure of national cultural distance are stressed. They say that the use of those scores avoids the problem of common method variance in which the individuals answer questions about national culture and firm performance in the same manner. Besides this, they also say that Hofstede's scores avoid the problem of retrospective evaluation of national culture, which is a problem that may occur when inquired persons are framed by a system of values that involves more than one national cultural background and had to focus on just one to respond.

Erramili (1996) is a good example of an author that uses Hofstede's values although only in a partial way ("Power Distance Index (PDI)" and "Uncertainty Avoidance Index (UAI)"). In fact, there are studies focusing on just some of the dimensions developed by Hofstede. This is the case in the work of Barkema and Vermeulen (1997), which is based on uncertainty avoidance and long-term orientation; and of Hennart and Larimo (1998), who use uncertainty avoidance and power distance as the main dimensions of cultural distance. In any case, it is clear that there is widespread use of Hofstede's work in different studies in the international business literature. Benito and Gripsrud (1992), for instance, recognize several advantages in Hofstede's work. They say that it corrects a bias that may result from the fact that surveyed employees have different occupations and work for different companies, thus

having different organizational practices. Besides, the size of the sample used by Hofstede is also pointed out as an interesting advantage, as well as the reliability of scores over time, its emphasis on work-related attitudes and values, and the ability to codify cultural traits along with a numerical index (Kogut & Singh 1988).

In Drogendijk and Slangen (2005), Hofstede and Schwartz's values are compared in the evaluation of the effect of cultural distance measures on the choice of entry mode. In their opinion, "the explanatory power of Hofstede and Schwartz-based measures is comparable (...)" (p. 3) This allows them to recognize that dismissing Hofstede's work because it is outdated, or considering Schwartz's work as superior to Hofstede's would not be prudent. Nevertheless, despite the criticism, Hofstede's values and the Kogut and Singh Index continue to be used considerably in the management literature and it "...is probably the most popular work in the arena of culture research. (...) It is particularly useful, as it reduces the complexities of culture and its interactions into five relatively easily understood cultural dimensions." (Dahl 2004, p. 19).

Going beyond national culture

Building on criticisms to the cultural distance construct (Shenkar, 2001), scholars have called out for a new metaphor for cultural differences (Shenkar, Luo & Yeheskel, 2008) putting forward the concept of cultural friction. Cultural friction is arguably a better metaphor for cultural differences than cultural distance as it takes into account who are the actors, what the context is and what is the purpose of the cultural contact (Luo & Shenkar, 2011). Cultural differences may not influence firms' behavior and outcomes until firms actually interact and engage in any cross-border activity (e.g. entry mode, stakeholders diversity and so forth). Thus scholars and managers arguably better understand the factors which hinder firms' actions and how they may overcome the

friction using “organizational lubricants” (Luo & Shenkar, 2011). It is therefore a substantial shift in the paradigm to include the challenges and the dynamics of cultural interactions, as specifically proposed by Shenkar et al. (2008: 911): “The metaphorical substitution is therefore also about switching from a positivist, functionalist thrust to an approach where the world is viewed as continuously enacted and reenacted, negotiated and renegotiated, and subject to what Foucault (1979) calls the ramifications of governance, hierarchical ordering, and, most important, control.”

Using friction instead of distance remarkably addresses the problems of symmetry, linearity and the homogeneity within countries (Shenkar et al., 2008). The distance between two given points is usually symmetric whereas cultural differences are not: the home and host country culture have different effects on overseas operations and there are arguably no studies which suggest symmetry (Shenkar, 2001). Scholars putting forward the friction metaphor also argue cultural distance may not be adequate as there is no homogeneity within countries, as there are differences across countries (Kaasa, Vadi & Varblane, 2013; Sasaki & Yoshikawa, 2013) and corporate culture itself may influence behaviors linked to national culture (Shenkar, 2001). Thus friction moves past abstract differences at country level to describe contact between two specific entities at firm level (Shenkar et al., 2008). There have been some attempts to operationalize the cultural friction construct (Luo & Shenkar, 2011) but the definitive and widely accepted methodology is not yet available as the cultural friction is still relatively recent (Shenkar, 2012).

Scholars have also gone beyond national culture and differences in national cultures to put forward the role of sub-national regional cultures (Sasaki & Yoshikawa, 2013). Traditional research in culture and cultural distance do not take into account the within-country cultural differences (Kirkman et al., 2006; Shenkar, 2001) unlike

research in economic geography which acknowledges the role of regional characteristics in developing a competitive advantage (Beugelsdijk, McCann, & Mudambi, 2010). In fact, national culture is an ensemble of regional sub-cultures which often are considered homogeneous in IB research although evidence suggest otherwise (Sasaki & Yoshikawa, 2013). Recent studies have pointed to the significant differences in sub-national regional culture, both in China (Chan, Makino & Isobe, 2011; Li et al., 2013) and in European countries (Kaasa et al., 2013) which arguably influence individuals' (Kaasa et al., 2013) and firms' behaviors and outcomes (Chan et al., 2011).

Indeed, in recent studies, culture is often considered a multi-level construct (Tung, 2007). National culture is considered to be important to explain decisions and behaviors but it should be complemented with the effect of sub-national regional culture and organizational culture (Sasaki & Yoshikawa, 2013; Silva, 2007). Other authors posit an even more detailed perspective to include the perceptions of culture and cultural distance at the individual level (Johanson & Vahlne, 1977; Shenkar, 2001; Zhao, Luo, & Suh, 2004). The rationale for this claim is that managers' perceptions of cultural distance drive their decisions and thus it is important to know their perceptions (Drogendijk & Slangen, 2006; Silva, 2007).

CONCEPTUAL MODEL

In the search for a model of cultural distance which more accurately depicts the cultural differences which actually matter to managers. We root our propositions on previous shortcomings identified in the existing models which deal with cultural differences and put forward the need to consider them in works involving the idea of national cultural distance. In this section we propose three new building blocks of a renewed cultural differences model.

1) Managers of internationally oriented firms are less affected by cultural differences

Based on previous readings and on the basis of observation of more recent trends in international management, we believe that in the globalized world in which business takes place today, the nationality of the partner is becoming less and less important. In fact, it is less and less likely that managers in a single multinational company have the same nationality. In a globalized world, acculturation² is becoming more and more frequent, which makes it possible to find managers, as well as consumers, that belong to multiple cultures. This phenomenon is mostly due to factors such as intermarriage and media usage, as referred by Ogden et al. (2004), as well as global mobility and the pursuit of a global career (Silva, Duarte & Ferraz, 2013). The proliferation of such factors seems to be mitigating general cultural differences. Besides these factors, we also have to consider the scenario in which business takes place. In this scenario a cultural interchange within international alliances, as well as within firms occurs. Nokia, for instance, is headquartered in Espoo, Finland, where the official working language is English and where there are people from more than 60 nationalities. Thus, even though cultural differences maintain their importance on the consumer's side (with the inherently important respect for cultural idiosyncrasies), on the managers' side, it is losing importance. Thus, it may be that international managers' assumptions, perceptions and values are less and less likely to be influenced by their cultural background and even when that influence exists, it is not easy to draw a relationship between those and management decisions.

² Acculturation is defined by Redfield, Linton and Herskovits (1936, p. 149, cited in Ogden, Ogden et al. 2004) as "...those phenomena which result when groups of individuals having different cultures come into continuous first-hand contact, with subsequent changes in the original cultural patterns of either or both groups."

2) Firm-level culture surpasses the national culture effect

There may be room for a possible supremacy of the subculture of firms (that see international arrangements as common strategies for coping with the increase of competition and collaboration in a globalized world) over national culture. This means that it could be more important to infer about a firm's own culture rather than relying on perceptions formed on the nationality where it eventually has its headquarters. However, if there is an image assigned to the trustworthiness of a country, it may be more genuinely derived from a construct grounded on manager's perceptions rather than a figure calculated according to Kogut & Singh index.

Besides the exploration of a construct based on the perception of the reputation of a nation, we also think that future research should explore the effect of other cultural spheres of influence on managers' decisions. We are referring to regional, industry and company cultures. In fact, it may be the case that the boundary dividing one country from another is less meaningful than the boundary between regions (Scandinavia, for instance), between industries (car manufacturers, for instance) or between companies. We realize that organizational cultural compatibility is important and can foster trust and build relationship quality (Silva, 2012) that can, indirectly, increase partner's satisfaction when engaging in business with international companies. In this situation, the differences between the national cultural backgrounds of partners involved in an on-going alliance seem to lose importance. That may be because organizational culture is indeed more important than national culture for companies involved in international alliances. Indeed, the fact that these companies are involved in a certain type of international arrangement may give rise to certain assumptions, beliefs and behaviors that, on the whole, may constitute a subculture – the subculture of firms that see

international arrangements as normal strategies for coping with the increase of competition in a globalized world. This thought is in line with Schneider and Barsoux's (1997) idea of different interacting spheres of culture. They say, "It may not be possible or even useful to argue which of the many spheres of culture is more dominant." (p. 46). This leads us to raise the possibility that managers may more quickly recognize differences between companies that act through partnerships in a globalized world and those that keep their activity constrained to certain geographical regions, than between countries and their cultural differences.

The citation above follows Seppänen et al. (2007) in their suspicion that awareness of trust may depend on other cultural elements besides national ones. Hence, there is space here for investigation into the extent to which companies that see international alliances as a source of competitive advantage may share common beliefs, assumptions, values, artefacts, attitudes and behaviors, that give rise to a subculture. This may constitute another sphere of influence, which, in the particular case of these companies, may produce stronger influences than national culture, in the way they act.

National culture may be then overtaken in importance depending on the strength of beliefs resultant from subcultures. In this process, organizational culture, another important cultural sphere, plays an important role. It is important to note that when we move to the field of companies engaged in international relationships, different cultural spheres exert their influence to different degrees and in ways that are more or less observable. These spheres interact. It is not only their identification, but also their mutual interaction that may lead to an interesting hint for further investigation on the influences of culture in international business.

3) Measuring reputation instead of differences on dimensions

The Kogut and Singh Index give us a number that reflects the difference between two nations in terms of their culture. However, this number may have different interpretations depending on the side from which the reading is made. It does not take into account the idea that each culture can value cultural distance in a different manner, creating asymmetry in interpretations. For example, we can say that the country with the largest difference for uncertainty avoidance is, in the Portuguese case, Sweden. The interpretation of this value as being positive or negative, despite being a Euclidean distance, may be different depending on whether we are looking at it from the Portuguese or Swedish perspective. There seems to be no commutability in the interpretation of the value, because it depends upon the nation from which the reading is made.

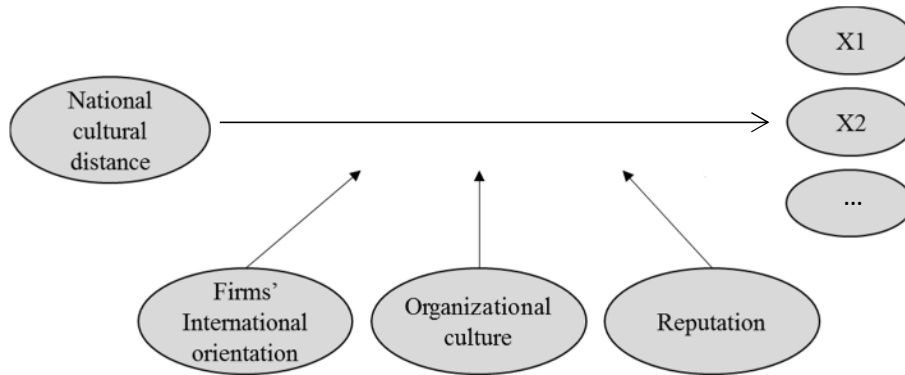
Therefore, we are tempted to think that what really may matter is not the distance between countries embodied in Hofstede's dimensions for culture, but the perception of reputation that different nationals have for one another. This may explain why the Portuguese are willing to work with far distant cultures. They are willing to work with them because they have a very positive idea of those nationals, a better idea than the one that they have, for instance, of the neighboring Spanish, which rank much closer in all four dimensions. Thus, in order to get information on a possible causal link between cultural distance and relational risk perception, we should include the perceived reputation of a country (Silva & Nardon, 2008). This measure should reflect the idea that foreigners have about the reputation for fairness³ of a country and can be seen as a country's attractiveness indicator. That may be named as "perceived reputation of a nation" and include aspects related with the credibility of the nationals of a country. This measure could be based on the principles of the "country-of-origin effect" of

³ As Anderson and Weitz (1992) refer to a reputation for fairness that companies may develop within the industry, we refer to a reputation for fairness that individuals may develop within a country.

products, a notion that is widely used in the marketing literature (for the foundations of the "country-of-origin" effect see Bilkey & Nes, 1982; Jaffe & Nebenzahl, 1984; Jaffe & Nebenzahl, 2001; Schooler, 1965), and that may provide some ground rules to the study of the proposed concept. Hence, we believe that further research should be built on this foundation.

DISCUSSION AND CONCLUDING REMARKS

As we have been claiming, the distinctive characteristic of IB research is the international business environment (Ferreira et al., 2013), being national culture one of its key elements (Ferreira et al., 2013; Reis et al., 2013). However, the international business environment is rather dynamic and the effect of national cultural distance is arguably different from the past. In this paper we sought to address the changes in the impact of national cultural distance in IB constructs by proposing three moderating effects that should also be assessed: the international orientation of firms, firms' organizational culture and countries' reputation (see Figure 1). We therefore contribute to the extant literature on cultural distance and we aim at extending the current understanding of the effect of national cultural distance on other variables. From a managerial perspective, we contribute to a better understanding of the national cultural distance effects which pose a myriad of challenges, such as managing teams, integrating acquired firms or selecting the adequate entry mode in a foreign market. This remains a crucial topic for managers, whether their firms are initiating their internationalization process or extending it.

Figure 1. Proposed framework

Source: Authors.

The international orientation of firms arguably moderates the national cultural distance. In fact, as firms operate in more globalized international business environment, managers – especially managers from MNEs – have to cope with multicultural teams and are thus less affected by the influence of national cultural distance (Haleblian & Finkelstein, 1999). Therefore firms' international orientation arguably reduces the uncertainty and costs involved in managing and controlling the subsidiaries (Hutzschenreuter & Voll, 2006) and it also reduces the challenges in communication between staff members (Gomez-Mejia & Palich, 1997). The transfer of knowledge between HQ and subsidiaries may also be more effective and have less costs as firms' international orientation moderates national cultural distance (Cho & Lee, 2004; Drogendijk & Holm, 2012). As managers gain experience and learn to cope with different cultures (Haleblian & Finkelstein, 1999) their cultural values and beliefs become less relevant and arguably cease to be an obstacle in managers' actions and decisions. Thus, the impact of cultural distance on important IB variables, such as satisfaction or entry mode choice, for instance, tends to have a loose impact.

We understand that firms' organizational cultures arguably render national cultural differences less relevant. Firms which have a broad international operations,

especially MNEs, incorporate the relation with international partners in their day-to-day procedures and experiences and they consider international arrangements as common means to cope with global competition. Therefore firms welcome the inputs from different cultural backgrounds (e.g. team members, foreign subsidiaries, foreign costumers, foreign suppliers), insofar as they contribute to improve the effectiveness and performance of firms, instead of being deterred due to national cultural distance. Thus an organizational culture which promotes international cooperation (Simões, 1997) will arguably moderate the effect of national cultural distance in such issues as selecting the correct entry mode (Kogut & Singh, 1988), cross-border acquisition performance (Morosini et al., 1998) and ownership strategies (Hennart & Larimo, 1998).

In what concerns reputation, we volunteer the idea that the national cultural distance is not symmetric, as two given cultures may have different reputations and thus be differently influenced by national cultural distance. Individuals from one culture may have a more benign perspective of differences in culture (e.g. due to the education system, economic openness or cosmopolite context) and may thus be less affected by national cultural distance. In fact, understanding the reputation one foreign culture has improves the understanding of the effects of national cultural distance, by including the country-of-origin effects (Jaffe & Nebenzahl, 1984; Jaffe & Nebenzahl, 2001). This approach follows the rationale put forward by Shenkar (Luo & Shenkar, 2011; Shenkar, 2012) in his call for improving the understanding of cultural differences by dropping the “distance” metaphor. Instead a “friction” metaphor is proposed (Luo & Shenkar, 2011) to take into account the base condition (i.e., the cultural distance) but also the “lubricants” which reduce the friction (Luo & Shenkar, 2011). In other words, the reputation of a given culture introduces an asymmetry perspective which is absent from

the existing national cultural distance measures (e.g. Kogut & Singh, 1988) and should be considered.

Future research may proceed in a number of ways. We intend to empirically validate our conceptual model. The theoretical framework we propose arguably improves the understanding of the effects of national cultural distance in managers' actions but it needs to be empirically corroborated using the data available from Hofstede (1980) study or GLOBE project study or the World Values Survey study. On another perspective, in this paper we considered a number of factors which are especially relevant in MNEs. Other firms may have less international exposure, such as SMEs, and thus may have different moderating variables in national cultural distance effect: for instance, it may be interesting to delve into the role of vicarious learning in moderating the effect of cultural distance. Therefore we may offer a more accurate perspective of the national cultural distance impact on IB.

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