

# Review 4

## Psychic Distance

For the fourth and final seminar, I have read *The Psychic Distance Paradox* by O'Grady and Lane (1996). The article explores if psychic distance is to be trusted completely or if any complications arises. The authors did research on thirty-two companies from Canada internationalizing in the United States and discovered that only seven (22%) of these companies were still running their business successfully.

In the background section of the article, psychic distance and the internationalization process is compared. The authors meant that, with the internationalization process, firms need the experiential knowledge more than they need the objective knowledge (O'Grady & Lane, 1996). Psychic distance was a factor in order to understand the internationalization process and could be explained as "preventing or disturbing the flow of information between potential or actual suppliers and customers". United States and Canada was close in both cultural distance, physical distance and psychic distance (O'Grady & Lane, 1996), but why did only 22% of the Canadian companies "survive" the United States market? The results of the research showed that psychically close countries, with more similarity, may hide unexpected barriers to successful entry (O'Grady & Lane, 1996).

In order to understand why these Canadian companies performed poorly in the United States and to discover the differences between the countries, the authors did two types of research; qualitative research and survey research (O'Grady & Lane, 1996).

The qualitative research was including a literature review, about defining culture, and case studies of ten Canadian companies where executives were interviewed (O'Grady & Lane, 1996). The findings from the qualitative research was that the executives agreed that there were differences in the United States culture and the Canadian culture. The executives did not feel like they were the cause for the varying performance though, the amount of knowledge about the differences before entry was the cause. The authors categorize the differences to *market* and *competitive environment*. The market was about the *consumer differences*, with customer demands, and *regional differences*, about how buying behavior differ from east to west in the United States. The competitive environment was about *relationships*, difficult to gain long term suppliers, *employee and management attitudes*, with employees that wants to work hard and be rewarded for it and the managers that had much pressure in delivering what has been promised, and *competition*, where the market was described as a "war" (O'Grady & Lane, 1996).

The survey research showed results that were consistent with the results from the qualitative research; that American executives work harder and are more job involved than Canadian executives (O'Grady & Lane, 1996).

After reading the prior four articles and in particular this article, I am thinking about how other great multinational companies have started their internationalization process. It seems to be complications and difficulties no matter how you internationalize. IKEA is one multinational company that has succeeded with the internationalization process, and they started

internationalizing in Norway. When expanding to Norway, which is the closest country from Sweden (both physically and psychically according to the article), IKEA must have gone through all of the difficulties mentioned in this article about the psychic distance paradox; *similarity, proximity, success and size and certainty*. Like the article says in the end discussion, it would be interesting to further investigate if or how it differs with psychically close countries in Europe or Asia compared to the articles example with United States and Canada. In that way it would also be interesting to see if the purposed “learning to overcome barriers by psychic distance” from the article are relevant even in Europe or Asia.

One part from the article that I also find interesting is the direction of psychic distance. The authors mean that there is an asymmetry in the psychic distance concept, from their research comparing Canadian business success in United States and American business success in Canada. It would therefore be interesting to read further on psychically close countries in Europe and also comparing the business success or performance in different directions.

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### Discussion questions

- How can the psychic distance differ depending on from which direction you come from?
- What did the authors mean with “In the case of Canadian businesses they induced a sense of satisfaction, leading to carelessness...”?
- Could there be any consequences by “treating even psychically close markets as foreign markets”?