

Managers' Perceptions of the Impact of Cultural Differences on the Process of Internationalization of Polish Companies

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SUMMARY

A large sector of researchers in the International Business field, along with those in other fields (such as International Marketing and International Management), have dedicated themselves to research involving the reliability, applicability and generalizability of the psychic distance phenomenon. This construct has an influence on the internationalization of companies. The aim of the article is to present qualitative research results on managers' perceptions of the importance of one of the psychic distance stimuli, namely cultural differences, in the process of internationalization of companies.

In the theoretical section of the article, the definition and operationalization of psychic distance and different stimuli of this construct are described. Particular consideration is dedicated to cultural differences. The second part of the article focuses on the research background. In the third part of the article, the importance of the differences in culture in the process of internationalization is evaluated. The article presents the respondents' opinions on the significance of cultural values and practices, differences in religion and differences in languages in managers' decisions on internationalization. The authors focus on the impact of cultural differences on the choice of directions of foreign expansion, market entry strategies, the amount of foreign expansion markets, the pace of internationalization as well as the value of sales and capital engagement abroad.

Key words: psychic distance, cultural differences, internationalization, qualitative research

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INTRODUCTION

In recent years, companies have increasingly committed themselves to operations on international markets. Selecting a suitable foreign market and entry strategy is one of the most crucial decisions for firms in the internationalization process and can have long-term consequences for the success of the company (Holzmutter and Kasper, 1990; Clark and Pugh, 2001). The managers of companies internationalizing their activity are also obliged to decide on the number of foreign expansion markets, the pace of internationalization and the value of sales and capital engagement abroad.

The analysis of the concept and impact of psychic distance on decisions related to internationalization is often discussed in the International Business literature. Psychic distance has been identified as a key variable in explaining the international expansion of a company. This construct consists of different dimensions, such as differences in culture, economic and political systems, and mentality, as well as geographic distance.

In order to solve the research problem, the following research questions had to be answered: What are managerial perceptions of the differences in cultures (differences in values and practices, religion, and

languages) between Poland and the host countries of Polish companies? How important are cultural differences in the internationalization processes of these companies?

The main way in which attempts to solve the aforementioned research problem can contribute to the discipline of international business is by investigating the role of psychic distance in the decision-making process of Polish companies with respect to internationalization. Contribution to the development of the discipline will be a result of the attempts to elaborate the authors' own methodology for psychic distance measurement and the methodology for investigating the impact of psychic distance on the process of internationalization. The applicability of this methodology is tested on a sample of Polish companies (as representatives of Central and Eastern European countries) and could be extended for measuring the importance of cultural differences in the process of internationalization of companies coming from CEE and other geographic regions. It is extremely important to select appropriate methods and techniques that are used while measuring psychic distance, to determine measurement tools (in-depth interview and questionnaire) and to select appropriate methods of analysing data obtained while conducting research. The main advantage of the article is the presentation of a new approach to measuring psychic distance, and especially one of its factors (cultural differences). The aim of the

applied methodology is the confrontation of theoretical constructs with an empirical “world” and creation of the preliminary theory by the identification of constructs, when *a priori* assumptions do not exist. The chosen methodology allowed the measurement of the subjective opinions of managers regarding the importance of differences in cultures – in practice, between Poland and the foreign expansion markets in which Polish companies operate. This methodology could be used for investigating the impact of psychic distance on the process of internationalization, regardless of the country of origin.

Research on the impact of psychic distance on the internationalization of Polish companies could be treated as a contribution to initiating international comparisons as to the role of psychic distance in the process of internationalization of companies from CEE markets or other regions of the world.

The article is divided into three parts. First, the theoretical part of the article is dedicated to the definition and operationalization of the concept of psychic distance, while the factors influencing cultural differences are also described. The second, methodological part of the article focuses on the description of ethnographic methods; research results are described in the third part of the article. The paper ends with conclusions including the implications for managers as well as the limitations of the research.

THEORETICAL FRAMEWORK

When describing insights into the reasons for various degrees of businesses’ foreign orientation, references are often made to managers’ ‘psychic distance’ to operating abroad (Albaum, et al., 2002). This reflects the managers’ subjective impressions and emotions towards a foreign country, and also has an ultimate impact on whether a company opens up and decides to commence operations abroad or chooses to limit its market connections (*Ibid*). Cultural distance, in turn, is defined as the differences between the culture of one’s own country and the culture of a target country (e.g. an export destination country). In this approach, the term of psychic distance refers to the perception, e.g. of customers’ needs and expectations in a foreign country (Sousa&Bradley 2008). The distance is culturally determined but subjective. Cultural distance has a more objective character – it acknowledges the existing cultural differences (*Ibid*).

As various authors have written, the terminological division into psychic distance and cultural distance has thus far failed to gain acceptance in research on the international environment. In the subject literature, the terms ‘psychic distance’ and ‘cultural distance’ are often used interchangeably (Kogut&Singh, 1988). These researchers have done much to popularise the term ‘cultural distance’, openly mentioning the term ‘psychic distance’ in their discussions and citing the Uppsala-based psychic distance literature when justifying their hypotheses. However, a review of the empirical literature in this area reveals that the vast majority of researchers have operationalized cultural distance in a much narrower form, i.e. as differences in Hofstede’s (1980) dimensions of national culture. In analysing the impact of cultural distance on market entry strategies, two other prominent

cultural frameworks (like the models of Schwartz and GLOBE) could be applied (Brewer&Venai, 2012; Kim&Gray, 2009).

In recent years, some authors (e.g. Sousa and Bradley, 2008; Avloniti and Filippaios, 2014) have more explicitly endorsed the narrower interpretation of cultural distance and have argued that the other main distinction between the two constructs is that cultural distance is measured as exogenous differences at the national level. In effect, they are endorsing the perceptual approach to defining psychic distance. However, a review of these various definitions raises the issue of how Johanson and Vahlne’s (1977) ‘sum of factors’ other than cultural distance fits in.

Despite the argument that psychic distance and cultural distance are conceptually different and should therefore be assessed at a different level of analysis, a strong correlation between the two concepts is expected to exist. The greater the cultural distance between the foreign country and the home country, the less knowledge of the new environment is likely to be available; which means that learning and understanding the foreign country in question will be more difficult as a result. This is further supported by Eriksson et al. (2000), who point out that greater cultural distance between the home and the foreign country makes the task of identifying and interpreting incoming signals more difficult. On the other hand, individuals’ personal values are expected to influence their assessment of psychic distance toward a foreign country.

The concept of psychic distance has attracted considerable research attention. It can be described as intriguing in that it represents a relatively simple, yet outstanding discriminator – useful for various purposes. The concept of psychic distance is based on the assumption that managers are less likely to initiate and/or pursue business relations with countries perceived to be dissimilar (Stottinger&Schlegelmilch, 2000). Conversely, the lower the perceived psychic distance from a market, the more likely it is that business activities with this market will be expanded. Thus, firms are advised to initiate cooperation with closed markets in terms of psychic distance (Bilkey&Tesar, 1977). This would also reduce their learning needs and accelerate their pace of globalization (Keegan, 1989). From a managerial perspective, the concept of psychic distance appears to offer a variety of applications, e.g. in investigating the role of international experience in the choice of establishment mode (Dow&Larimo, 2011). It could be used as a discriminator between managers with high and low psychic distance respectively, thus allowing for the more effective targeting of recipients when allocating export activities. Psychic distance also guides country selection decisions during the internationalization process (namely by addressing psychically close countries).

The attempts to operationalize psychic distance and empirically test its relevance remain relatively limited, although on the increase (Brewer, 2007; Prime et al., 2009; Håkanson and Ambos, 2010). This applies to both the number of empirical studies on psychic distance as well as to the sophistication of the measurement instruments which have been developed (Shohan&Albaum, 1995).

To enhance an understanding of psychic distance, it is necessary to analyze in detail the terms that constitute the concept “psychic” and “distance” (Evans et al., 2000). “Psychic”, a word derived from the Greek word

psychikos, which means the mind or soul (Simpson & Weiner, 1989), refers to something in the mind of each individual. Distance exists in an individual's mind and depends on how he or she perceives the world. Thus, it is the individual perception of the differences between the home country and the foreign country that shapes the psychic distance concept (Sousa & Bradley, 2005). Therefore, psychic distance cannot be measured by factual indicators, such as publicly available statistics on economic development, level of education, language, and so forth, as Vahlne & Wiedersheim-Paul (1973) and Luostarinen (1980) attempt to do. For example, Vahlne & Wiedersheim-Paul (1973), cited in Nordstrom & Vahlne (1992), used primarily factual indicators to measure psychic distance. These include: level of economic development, education, differences in language, and existing trading channels. Similarly, in a study of Finnish firms' international operations, Luostarinen (1980) measured psychic distance through economic development, language and level of education. Klein & Roth (1990) also focused on factual indicators when attempting to capture the construct with a five-point rating scale, ranging from "very similar" to "very different". Five aspects were rated, namely: language of the country, accepted business practices, economic environment, legal system, and communication infrastructure.

To measure psychic distance, attention should be paid to the level of analysis at which the concept is assessed. The measurement of psychic distance at the national level may hide important variations (O'Grady & Lane 1996). Thus, problems in the literature appear to be that current indexes measure psychic distance at a very high level of analysis. The individual's perception is an interpretation of reality and is therefore highly subjective. This means that psychic distance cannot be considered as a construct that influences each person within a firm in the same way. Accordingly, the psychic distance concept should be applied at the individual level.

The overall framework within which the 12 dimensions are located was informed by Ghemawat's (2001) "CAGE" classification of distance between two countries according to cultural, administrative, geographic and economic factors. More specifically, cultural distance includes differences in language, social norms, religious beliefs and race; administrative distance includes differences in political systems, common currency, trade arrangements, government policies and institutions; economic distance includes differences in income levels, infrastructure, human and other resources; while geographic distance includes the physical distance between the two countries, the size of the target country, access to waterways and the ocean, internal topography, and transportation and communications infrastructure. This framework can help to identify the ways in which potential markets may be distant from existing ones.

The various types of distance influence different business fields in different ways. Geographic distance, for instance, affects the cost of transportation and communications, and is therefore of particular relevance to companies that deal in heavy or bulky products, or whose operations require a high degree of coordination among highly dispersed people or activities. Cultural distance, by contrast, affects consumers' product preferences.

Dow and Karunaratna (2006) also employ a set of psychic distance stimuli, covering culture, language, level

of education, level of industrial development, political system, and time zone.

The cultural distance concept refers to the country level and not the individual level, as psychic distance does. The cultural distance concept is defined as the degree to which cultural values in one country are different from those in another country. Instead of assessing the individual's perceptions of differences, the cultural distance concept uses cultural values to assess the distance among countries and not individuals. Consequently, the cultural distance concept should be applied at the national level, not the individual level.

Dow and Larimo (2009) propose a scheme of evaluation for different forms of distance (see Figure 1). They refer to perceptions of distance, measured at the level of the individual, as perceived psychic distance. Psychic distance stimuli are referred to in Johanson & Vahlne's (1977) sum of factors, which influence the perceptions of psychic distance. The authors list such factors as national cultural distance, differences in language, institutional distance and other forms of distance.

Another classification of psychic distance stimuli was prepared by Sousa & Bradley (2006; 2008). These authors claim that there is a general consensus in the literature that when firms decide to enter foreign markets, they must then adjust to a foreign national culture and be prepared for challenges, such as differences in language, lifestyles, cultural standards, consumer preferences, and purchasing power. The following stimuli of psychic distance were distinguished: climatic conditions, purchasing power of customer, lifestyles, consumer preferences, cultural values, beliefs, attitudes, and traditions, language, level of literacy and education. Both psychic distance and cultural distance have been used in the literature to bypass the complexities of assessing these differences among markets (Clark & Pugh, 2001, Eriksson et al., 2000; Evans & Mavondo, 2002; Grosseand Trevino, 1996).

In our opinion, none of the aforementioned classifications of psychic distance stimuli is sufficiently comprehensive, which has necessitated the preparation of the authors' own system of classification. For the purpose of this study, the following classification of psychic distance stimuli is presented: cultural differences (including differences in values and practices, differences in languages and differences in religion), economic differences (including differences in income levels, infrastructure, the stability of financial institutions, infrastructure development, the level of economic development, the situation in the labour market, human and other resources), political differences (differences in government policies, level of democracy, political stability, the quality of legal institutions and practices), and differences in mentality (ways of thinking, beliefs, rules, attitudes, views and opinions). Geographic distance was not included in the stimuli of psychic distance [1]. The proposed classification includes all psychic distance stimuli.

The aim of this research project is to evaluate the importance of each psychic distance stimulus in the decision-making process as it relates to internationalization. In the next section of the article, only the managers' perceptions about the role of cultural differences in the process of internationalization will be described. It should be emphasized that the focus of the article is the differences in culture, treated as one of the

psychic distance stimuli (these reflect the managers' subjective impressions and emotions towards a foreign country, and should be assessed at the individual level. In this approach, these factors are not being treated as objective, existing cultural differences between countries).

RESEARCH APPROACH

Considering that psychic distance is a very complex phenomenon, its impact on the process of internationalization should be analysed through the use of a number of various methods (triangulation of methods). The impact of psychic distance on the internationalization of companies will be evaluated using both quantitative and qualitative methods. During the first stage of research, as presented in this article, qualitative methods with the use of in depth interview were used.

Qualitative research in the form of depth interviews were undertaken in the period between July 2013 and April 2014. The research was undertaken on a sample of 13 companies in the territory of Poland. The research subjects were Polish companies undergoing the process of internationalization; the research objects were managers' perceptions of the psychic distance between Poland and the foreign expansion markets of Polish companies.

The sample consists of Polish companies. The list of companies, as the subjects of the research, was created on the basis of the general knowledge of the researcher and the following lists and rankings of Polish exporters: the rankings of the Ministry of Economy; „Sława Polski”, „Orzeł Eksportu” i „Dobra firma”; the „Lista 500” Polityki ranking of the most significant Polish companies; the list by „Stowarzyszenie Eksporterów Polskich” and the „Liderzy Eksportu” ranking of Polish companies.

The criteria for choosing the cases are as follows: origin of capital (100% Polish capital); experience in activity on foreign markets (more than five years); value of sales on foreign markets during the last two years (more than 10% of total sales); the geographic spread of foreign sales (companies should operate in more than 10 foreign markets). The criteria of 100% Polish capital ensured that the national culture of the companies as subjects of the research was Polish (thus facilitating a contrast between Poland and foreign countries). In the authors' opinion, the interviewees should ideally have experience in activity on international markets in order to formulate opinions on different psychic distance stimuli. This was measured by the time of activity abroad, the share of foreign sales in total sales, and the geographic spread of foreign activity.

On the basis of telephone contact, those responsible for managing export functions in the company were chosen, and direct relations were subsequently established. Interviews were conducted directly during visits to export companies. Additionally, some telephone interviews were also included. The maneuver ability of research was 30.00%. Cases were developed based on interview data combined with information freely available on company websites.

The majority of the companies were large (69.23%) or medium-sized (30.76%) companies, representing the mining industry (Companies B and C); the chemical

industry (Company F, J); the cosmetics industry (Companies E and I); the food industry (Company D); the pharmaceutical industry (Company L); the ICT industry (Company M); the vehicle industry (Company G); the furniture industry (Company A); the automation industry (Company H); and the aluminum profiles industry (Company K). The majority of the respondents were export directors and export managers (46.15% of the respondents); sales and marketing directors (23.07% of the respondents); international markets and regional directors (15.38% of the respondents); marketing and communication managers (7.69% of the respondents) and assistants to export directors (7.69% of the respondents). The companies are experienced in activity on international markets; their characteristics are presented in Tables 1-3.

A narrative strategy is applied for describing the research results.

RESEARCH RESULTS

Managers' perceptions of the role of psychic distance in the process of internationalization

The definition of psychic distance was presented to the respondents, who were asked about their general perceptions of psychic distance. According to the managers from **Companies A, D, H, I, K, L and M**, psychic distance exists and has a substantial impact on decisions related to the internationalization process and on the rules of conducting business on international markets. Managers representing companies A, H, K, L, and M state that the stimuli which have the greatest impact on decisions related to internationalization are differences in cultures; while for managers representing companies D and J, differences in economic systems have the largest impact.

The respondents from **Companies B, C, E, F, G, J** believe that psychic distance exists but does not have any significant impact on decisions relating to internationalization. Respondents representing **Companies B, C and E** perceive differences in cultures, economic and political systems as well as mentality between Poland and foreign expansion markets, but do not treat them as barriers to internationalization. Their companies adapt their strategy to suit local markets, e.g. by employing staff proficient in the language of the host country. To adapt to local conditions, managers of these companies participate in varied training sessions which help to understand local cultures and business practices. For the manager representing **Company F**, the most important stimuli to psychic distance are differences in economic systems and geographic distance. For the managers representing **Companies G and J**, the most important stimuli to psychic distance with an impact on the internationalization process of their companies are differences in both economic and political systems.

Managers' perceptions of the differences in cultures between the home and host countries of companies which they manage will be described in the next section. Special consideration will be given to differences in values and practices, religion, language and educational systems.

Managers' perceptions of the role of differences in values and practices in the process of internationalization of companies

The manager representing **Company A** described his experience of establishing a company in the Czech Republic. Even though this country is a geographic neighbour to Poland (thus geographic distance does not exist), he perceived the Czech Republic as 'a different world' and experienced culture shock living in that country. In the case of the Czech Republic, it could be said that both language and culture are much the same, or almost the same as in Poland. However, this 'almost' constitutes a substantial difference in terms of the business practices of these countries' representatives. The most significant difference between the two countries lies in the hugely different working styles prevalent in both countries. This can be seen to result from the differing dominant religions in both countries, in that in Poland the dominant religion is Catholicism while in the Czech Republic it is Protestantism. As the respondent opined, the Czech "live to work", their jobs are of crucial importance for them, to the extent that they often remain at work after working hours and during weekends. Another example of the impact that religion has on business life is in Arab countries, where the inferior role of women in business can be easily perceived. This has an impact on the design of promotion campaigns for the needs of these countries.

The manager representing **Company B** perceived the most significant differences as being between Poland and Asian and African countries, specifically mentioning the country of origin effect. The customers have trust to products coming from certain countries. The clients of manager representing company B prefer buying products from European companies, which are perceived as being of better quality. Products of Polish companies are perceived as cheaper as American or German ones, but more expensive than Chinese ones. However the most important factor is that the company is set up in Poland, giving rise to the perception that it provides good quality products. The manager of Company B distinguished very 'expressive' and 'calm' countries, a characteristic which has an impact on behavior during negotiations and decisions related to international business. In this manager's opinion, a potential problem may arise when an impatient negotiator would like to do business in Asian countries, in that his style could be perceived as rude or ignorant.

The respondent representing **Company C** fails to perceive differences in national cultures between Poland and the foreign expansion markets of Polish companies. The company undertakes B2B activity, and his clients are huge transnational corporations and concerns which employ international—and intercultural—staff. This industry is globalized and significant cultural differences are not easily discernible. As an example, if Russian businessmen were to establish companies and register them in Switzerland, the home country of the corporation would not be seen as important in such circumstances. For the respondent from Company C, the organizational culture of the company is an extremely important factor, as it is there where the behavioral patterns of managers are formed. The respondent was reluctant to generalize his answers and to ascribe any features to representatives

of specific nations. Differences in behavior in business result from the different characteristics of businessmen at an individual level and not from differences in national cultures.

The aforementioned opinion on the impact of cultural difference as perceived by the inhabitants of Arab countries was shared by the manager representing **Company D**. In his experience, managers representing these countries prefer men as partners in negotiations. A woman from a European country, even one at a higher position, tends to be omitted during the negotiation process, as opposed to men, who are welcome to conduct negotiations.

The differences in national cultures between countries were also observed by the respondent representing **Company E**. He quoted the example of British businessmen, who try to build trust and long-term relationships with business contacts. These managers do not 'bind' themselves in terms of formal issues. He observed a slightly different situation in his experiences dealing with German managers, who demand that everything be confirmed in writing. Business formalities are of the utmost importance to them. A completely different set of circumstances can be observed in Russia, where excessive formality is perceived to represent a lack of trust, and the most important aspects of business are relationships and honesty. Such differences do not constitute barriers to conducting business in foreign countries. The most important factor is to recognise these differences and to learn how to negotiate with partners representing different cultures and nations. One of the most important aspects of successful operations on foreign markets is gaining experience in communicating with foreigners.

The manager of **Company F** states that people are different irrespective of their nationalities and national cultures. He is experienced in communicating with representatives of numerous nationalities and does not feel able to generalize and to categorise people as members of different national cultures. The main criterion for evaluating business transaction is according to price rather than the 'pleasure' of contact with business partners. He emphasized that he treats negotiations as 'work' and not 'entertainment'. There is minimal difference between the inhabitants of European countries in that they represent the same cultural circle. He emphasized that organizational cultures are more important than national cultures, as people who work in the same types of companies or industries have the same values and behave in a similar manner.

As opposed to the manager representing Company F, the manager of **Company G** perceives numerous differences between national cultures, stating that 'every country has its own customs'. This respondent stated that each country or geographic region has specific features which have an impact on business operations there. To give one example, the inhabitants of Scandinavian countries are focused on procedures, communicating in an open and clear manner. The representative of Company G mentioned also the role of women in Islamic countries, specifying the example of adaptation of products to local conditions in these countries (for example, men and women occupy separate sections of buses when travelling). She also quoted the importance of avoiding some symbols in marketing instruments for religious reasons. Differences in values and practices have the most significant impact on negotiations with

business partners, and are of comparatively smaller importance during the following stages of business transaction. For Company G the most important issue is preparation for foreign transaction, discerning information on local culture and maintaining a flexible approach to the client. Their offers are aimed at countries which are characterised by huge demand, prognosticate well, but the means of gaining access to clients vary according to country. The manager also mentioned the importance of the country of origin and the promotion of some national products, of which one example would be France and more specifically government regulation on promoting French products during the tender process.

The manager representing **Company H** was also aware of the differences between national norms and values. He divided his company's foreign expansion markets into Western Europe, Central and Eastern Europe, Africa and Asia. This manager claimed that the inhabitants of Central European countries Eastern countries are similar to Poles; indeed he described them as people with "Slavonic soul." This manager was not aware of any closeness, isolation or reluctance in these countries. He described the inhabitants of Eastern European countries as open and keen to discover foreign cultures. One example he gave was the inhabitants of Russia and Belarus, who seemingly have a very personal attitude to business and contact with others. By contrast, this manager maintained that the inhabitants of Western Europe are highly concentrated on transactions rather than relations in business. To him Western culture is one of 'fair play' in that should a Western businessman perceive some conflict within the negotiation process, they do their utmost to reach a mutually beneficial solution. He described Italy and Spain as very expressive cultures, but also as places where 'compromise is reached by screaming'. Another example given was the USA, the inhabitants of which are described as concrete, with clearly defined expectations, where there is no place for vague hints. American businesspeople are sometimes dominant and attempt to demonstrate their superiority. On the other hand, they can be described as very loyal, honest and straight forward, with no time for 'shiftiness' and 'cuteness'. The respondent representing Company H described Arabic countries as very specific nations which are dominated by religion. On one hand, they are seen as 'very open to the world', the development of science and education, but on the other hand are somewhat 'hermetic.' He called this culture 'a culture of men', where only men are eligible to participate in business. Time is also a characteristic feature of negotiations with Arabs, in the sense that negotiations can last much longer than in other nations. They have money, but also lead a relaxed lifestyle, and in their view negotiations should evolve organically. In terms of cooperation they anticipate mutuality and the extension of contact. Arabic businessmen can be described as trustworthy, but in return they expect the same from their partners; they obtain an opinion of a company through its representatives, which makes first impressions vital. According to the same manager, Poles are perceived as highly capable specialists, albeit they sometimes like to project an image of themselves as better or stronger negotiators than they are in reality. The main aim of this man's activity (as sales director) is to increase the value of sales; therefore, business can be conducted with anybody regardless of country or culture.

The respondent representing **Company I** also perceived differences in values and norms between different cultures, giving the example of South Korea, which he views as completely different to Poland. Poles "work to live", whereas South Koreans "live to work". They do, however, share one common aim: to achieve success. The decision-making process in South Korea is convoluted and complicated. South Koreans are known for the respect shown to elders and supervisors, making this society "a culture of status." This manager divided his company's clients geographically into Africa, Asia, the Middle East, Eastern and Western Europe. The clients from Western Europe are highly complex for the company due to the high cost of entering foreign markets, a hermetic market and consumer loyalty to local and well-known brands. Russian businessmen present grand plans, very often 'inflated', but which turn out to be different in reality. Ukrainian managers are described as highly demanding, and Belarusians as business-oriented. The manager representing Company I noted that the 'business culture' is less developed in post-communist countries, where managers tend not to trust people, and have control on both public and private life. He observed the distrust of partners from post-communist countries, where all elements are included in written form in contracts and high contractual penalties are fixed.

According to the manager representing **Company J**, there exist numerous differences in business values and practices between him and his foreign business partners, but this manager has accumulated such vast experience in operating on foreign markets that he feels able to overcome any obstacles. He perceived differences in the role of contracts and relationships in transactions.

The manager representing **Company K** operates both on the European market and in the USA, and notices the cultural differences prevalent in each field of his company's operations. He divided the foreign expansion markets of his company into the following distinct geographical areas: Great Britain and the northern part of Europe, Switzerland, Austria and the south of Europe. Managers in the various areas have different mentalities and different standards of activity. The Germans are characterized as highly demanding in terms of quality and prices. The process of convincing partners of their reliability can be time-consuming. Sometimes an opinion on a business partner can change over the course of cooperation. Businessmen from the North of Europe are seen as cold, maintaining their distance from Polish managers, who are viewed through the prism of emigration. For the manager representing Company K, cooperation with European managers can be problematic, especially the development of long-term relationships. Clients representing the North of Europe do not tend to be tethered to foreign products and clients. It is difficult for them to establish contact with Scandinavian partners, as cooperation within one country is easier for the managers.

The manager of **Company L** is experienced in negotiations with Swiss partners, who are perceived as being extremely rich and never having lived and worked under pressure. Swiss businesspeople have a different perspective on life, and come across as highly demanding—quality is extremely important to them. They do not trust cheap products. Poland is perceived as 'stuck' to Russia and Eastern Europe through its mentality. It is important for Polish companies to present themselves as suppliers of high quality products and

services. This manager states that differences in culture have an effect on decisions relating to internationalization, especially in terms of building relations with foreign partners. The manager representing Company L noticed a difference in behavior between the managers of huge transnational corporations as opposed to smaller local companies. The managers of transnational corporations are accustomed to working in terms of globalization, and have experience working in international and intercultural environments. In contrast, managers of small local firms still treat internationalization as a challenge. The manager representing Company L made specific mention of the highly specific nature of Chinese culture. The Chinese use imperatives in communication, and managers do not treat a contract as a final document but rather as something which could be renegotiated or changed. The manager of Company L noted that there is no need to have people "opening the doors" as in countries such as Russia, Ukraine, Belarus. In this manager's opinion, marketing and sales activity are sufficient to develop the market.

The manager of **Company M** also evaluated the position of Polish companies on international markets, coming to the conclusion that Polish companies should operate on international markets without any complexes, provided that they act professionally. Polish products are evaluated positively, even in the case of such demanding clients as German and North American companies, and are not treated as inferior. Differences in culture should be treated as advantages rather than as barriers to international business contacts.

The situation is different in Central Europe, especially during the arrangements of tenders. Very often the subject of the tender is not compatible with the requirements of the client, or the product specification is not adequately worked out. Openness is perceived as highly important during negotiations. The Scandinavian countries are viewed as very restrained; the inhabitants of Great Britain and the United States talk about business in a much more open manner; while the inhabitants of the South of Europe are not well-organized, but rather are characterized by creativity.

Managers' perceptions of the role of differences in religion in the process of internationalization

The manager representing **Company A** classified differences and religion as a major factor in the existence of cultural differences, in that religious differences can affect the rules and regulations applicable within a certain society. This fact also imposes a specific code of behaviour for business activities. In terms of these differences, Islam is the religion with the most significant impact on Company A's international business activity. Important differences in religion were observed in the case of Arab countries, most notably the role of women in business and society, which materially affects the choice of representatives for conducting business in these countries. Religion has an impact on values and norms connected with internationalization. The company is cautious when entering certain foreign markets due to the likelihood of conflict on religious grounds. These concerns are brought about by the unstable situation in

foreign countries and the accompanying higher level of risk in foreign operations.

The respondent representing **Company B** also provided empirical examples of differences between religions having an effect on business activity. As an example, the representatives of Arab countries may not discuss business issues during Ramadan. Another aspect is the role of women in business in some countries (e.g. South America and Saudi Arabia), or rather lack thereof. Women are not permitted to participate in business negotiations, and certainly are not treated as equal partners in business. It therefore makes no sense to employ women for export activities in these regions of the world, because there is no practice or tradition of using women to conduct business.

In the words of the respondent, "there is no religion which forbids business or trade," but "there are some beliefs which make business difficult". The respondent mentioned the unstable situation in Pakistan and Afghanistan, and also discussed the highly restrictive approach to religion in Saudi Arabia. Representatives of what may be termed 'extreme' religions only conduct business in accordance with their norms. Representatives of Muslim countries are not eager to use credit as a form of financing transactions, which is a further obstacle to business operations.

According to the respondent of **Company C**, religion has no impact on decisions connected with internationalization. He said, that "people are pragmatic, and this pragmatism is more important than religious beliefs".

The manager representing **Company D** also notices differences between religions. He admitted that the most rigorous adherence to religious orders and prohibitions is within Islam, followed by Christianity. He noticed the most significant differences in religion in the cases of Afghanistan, Iran, and Saudi Arabia.

The manager representing **Company E** confirmed that differences in religion have an effect on internationalization, most significantly on the elements of the international marketing mix (products, promotion). Most important to this company are prohibitions on eating certain kinds of food in accordance with certain religious doctrines (e.g. periods of fasting).

The manager representing **Company F** stated that his business partners do not "parade" their religion nor their beliefs. He is aware of religious differences between him and his business partners, but does not treat them as an obstacle to internationalizing his business activity.

The manager representing **Company G** also mentioned the different calendar and holidays in the Eastern Orthodox Church, which must be taken into consideration when conducting business.

The manager representing **Company H** believes that religion has the most significant impact on business in Muslim countries. Foreigners should not publicize their beliefs if they happen to be atheists. According to representatives of Arab countries, people should follow religious principles which can also be applied to business. People should believe in something and have values. In contrast, there is no equivalent to this in Western countries, where people are not evaluated according to their personal characteristics, but instead by the business relations which they develop. Representatives of Arab countries "demonstrate" their religion, and it could even be said that they "parade" it openly. The Japanese are described by the manager representing Company H

as involving religion in business, while the adherents of the Orthodox Church are perceived as very strict and reserved.

The manager representing **Company I** also mentioned the value of religion in Arab countries. Outsiders are not supposed to confess their atheism when conducting business under such circumstances.

For the manager representing **Company J**, differences in religion do not have any significant impact on decisions relating to internationalization. He agrees that there are different beliefs which influence people's behaviour including in business, but is of the opinion that such potential obstacles are easy to overcome.

In the opinion of the manager of **Company K**, religion has a pronounced impact on the ethics and rules of conducting business in different countries.

The respondent representing **Company L** also took into consideration issues relating to business ethics. This manager mentioned that the most important aspect in these countries is reassurance when engaging in business transactions. For the manager of **Company L**, the Ukrainians are the most difficult business partners in that local managers do not treat Poles as equal partners there. They see only one side of the transaction – that which maximizes their own profits. It is difficult to select business partners for this reason. In the case of foreign direct investment, the most important issue is control of foreign operations. Joint ventures are difficult because of the mentality of foreign managers, when only one party to the transaction would like to 'earn' and therefore the chance to reach a 'win-win' solution is negated.

The lack of trust in foreign partners caused the company to withdraw its direct presence on markets such as Ukraine and Russia. Nowadays the company retails its products on those markets through distributors.

For the respondent representing **Company M**, differences in religion are highly relevant. He gave the example of India, where castes within society have an effect on hierarchy and cooperation within the groups. Within Indian society, a representative of the lower castes should not reprimand his employee. In this respondent's opinion, being of the same religion makes it easier to communicate in business. Differences in culture caused the withdrawal of this manager's company from the Mexican market; the differences in mentality were so great that they proved impossible to overcome.

Managers' perceptions of the role of language differences in the process of internationalization

According to the responses provided by the manager of **Company A**, language differences can also affect the process of internationalisation for Polish companies. Such differences may in fact create an important barrier to internationalisation. Language differences are associated with a lack of knowledge of foreign languages on both sides, regarding both the sales representatives of this manager's company and their foreign business partners. The management of this company decided to employ staff proficient in the client's language in order to avoid misunderstandings and negate the language barrier. This measure enabled the management to feel 'closer' to the client, and was therefore a necessary step, especially on the Eastern markets where the level of knowledge of English remains

insufficient for communication during negotiations. Certain problems also arose with non-verbal communication – for example with the proper recognition of a 'visual signal' and spatial distance in Japan. The respondent noticed that, besides verbal communication, we can also observe differences in non-verbal communication. Such an aspect can have a massive impact on the process of negotiations, which is an important condition of successful trading on foreign markets. Any improper interpretation of the body language of the partner could cause a misunderstanding and eventually spoil hitherto pleasant relations with foreign partners. According to the respondent, language differences have an impact, not only on establishing relations with foreign partners, but also on conducting business with them – in some cases leading to withdrawal from foreign markets due to miscommunication.

The respondent representing **Company B** detailed the main features of negotiations with his business partners (which are also related to the issue of language). The representatives of Arabic and Asian countries are extremely demanding, meaning that negotiations with them are long and detailed. He still perceives language differences as an obstacle to conducting business. It is necessary to employ staff proficient in local languages or to employ foreign staff who are also aware of local customs, especially in less developed countries. There are also some differences in non-verbal communication: for example 'physical distance' in Turkish culture is smaller than elsewhere, and some of the behavior of Turkish managers could be perceived by Polish managers as too familiar. The second issue is the "easygoing" behavior of modern European women in Muslim countries.

The respondent representing **Company C** admitted that the company predominantly makes use of English as a business language, in contrast to the somewhat different situation on the Eastern markets, where managers prefer speaking their own languages. In these situations, it is necessary to use translators to communicate with local staff. The respondent had the greatest communication problems in France and Brazil, indeed having had to learn basic French and Portuguese to communicate well and "successfully" in these countries. The manager agreed that there were also some misunderstandings arising out of non-verbal communication. Brazilian negotiators maintain a smaller distance in communication, and sometimes were claimed to be 'too friendly'. Sometimes this can be seen as a kind of tactic designed to extend the length of negotiations.

The manager representing **Company D** admitted that language barriers exist, mostly in Eastern countries. The representatives of Eastern countries such Russia and Belarus do not speak English and do not treat English as a business language, preferring to communicate in Russian. They demand that potential clients have at least a working knowledge of Russian. A lack of knowledge of English is not viewed by Eastern managers as something about which to be ashamed. The most difficult communication problems were faced in Russia and the Ukraine in circumstances when businessmen were unable to converse in Russian.

The manager representing **Company E** had a broadly similar opinion to the manager representing **Company D**, in that language differences have an effect on the establishment of business relations with foreign partners. He admitted that it is difficult to establish and maintain good relations with partners without some level

of foreign language ability; to give but one example, a situation in which a merchant is all but forced to conclude negotiations early due to a lack of mutual comprehension. Such a businessman will end up on the losing side in the long term. If a good relationship with our partners is not established, we will not be able to improve our sales results, which testifies to the importance of communication, both verbal and non-verbal. By contrast, problems in communication with partners within trade networks are not nearly as prevalent, as the representatives of such organizations have an excellent command of English. More complicated obstacles may arise in the case of wholesale trade in countries such as Slovakia and the Czech Republic, where it is deemed more necessary to know the local language.

The manager representing **Company F** treats language differences as a barrier to internationalization. The main problem he finds is with partners from Eastern Europe (Russia, Belarus, and Ukraine) who are unable to communicate in English, which necessitates the hiring of Russian-speaking staff at such companies. However, no problems exist in international negotiations resulting from differences in non-verbal communication.

The manager of **Company G** stated that language differences can affect decisions relating to internationalization. There are no issues with communication in countries where English is treated as an international business language; however, in many countries where English is not as prevalent, there is a necessity to employ staff who can communicate using local languages. A prime example of such a country is France, which is treated as a country with a somewhat closed attitude to foreign languages and cultures and as oriented toward the superiority of its own language and culture.

The manager representing **Company H** admitted differences in languages do not have any real impact on internationalization, mainly due to the fact that English is fast becoming the language of international business even in Eastern countries. Additionally, he feels that non-verbal communication should not be treated as a barrier to internationalization. In fact body language can very often prove a helpful tool in negotiations, functioning as a complement to verbal communication.

Language differences also have an impact on business according to the manager representing **Company I**, who observed different levels of foreign language ability amongst his business partners. Managers representing his company are very often obliged to use the services of translators. The company made the decision to employ staff with local "roots" in places such as Belarus, Ukraine and Romania, who possess knowledge of local markets, cultures and conditions as well as some foreign language capabilities. Such a step has proven helpful in establishing good relations abroad and in fulfilling local legal and institutional regulations.

For the manager representing **Company J**, language differences are the most important factor in the first stage of transaction, in other words during the process of negotiation with foreign partners. This very often affects the choice of foreign partners, as when the inhabitants of different countries are not able to come to an understanding during the initial stage of a transaction, it is impossible to continue negotiations.

The manager representing **Company K** stated that when taking into consideration language differences, there is a substantial problem in communication with

French managers, with whom it is difficult to negotiate without some knowledge of French. They are perceived as "distant" towards foreigners and convinced of the superiority of their own language.

The manager of **Company L** noticed differences between Poland and Western Europe. According to him, German managers are somewhat formal, but nevertheless they communicate in an open manner. They make no attempt to adapt in any manner which would be disadvantageous to themselves, because further cooperation would be difficult.

This respondent also mentioned Australian managers, who are perceived as uninhibited when conducting business, which makes first contact with them easier. For Australian managers, it is most important to develop both themselves and their business activity; they are seen as forward-thinking, and such behavior and attitude to life is evaluated positively and indeed appreciated.

A further example given by the respondent is Algeria, where the level of English is very limited, making communication difficult. There are a limited number of transnational corporations in that country and local managers are inexperienced in terms of international business.

The respondent from **Company M** sees some nuances in people's behavior which are related to language differences, their attitude towards other people, openness during negotiations, and codes used in communication. Problems in communication result from the fact that managers are not able to negotiate in their mother tongues—English is the language of international negotiation. This interaction could be perceived as awkward, as very detailed communication should be prepared in such circumstances. The misinterpretation of words and expressions could arise as a result. The manager of **Company M** tends to take gender differences into consideration: in his opinion, Scandinavian managers are quite withdrawn, but the role of women in the social sphere is similar to that of men. The difficulties which occur are not discussed. Contract conditions are important in the USA, and mistakes are reproached at the beginning of proceedings. In Germany and Sweden punctuality is viewed as extremely important, although the opposite is true in Ukraine, Belarus and Russia. Employees in Scandinavian countries behave in a proper manner, and their work can be described as very productive. For the representatives of developed countries, making mistakes is generally treated as something normal, although it is necessary to prepare error reports. In Scandinavian countries, Western Europe and in the United States, contracts are negotiated slowly and carefully, with long-lasting negotiations and strict establishment of technical specifications prior to signing. According to the respondent, it is better to establish a working relationship over time than to rapidly conclude the signature of a contract only to later find that further changes are necessary because in reality the product requirements have not been fulfilled.

Managers' opinions on the importance of cultural differences in the process of internationalization are presented in Table 4.

The significance of cultural factors in the process of internationalization

The respondents were asked to identify the impact of cultural differences on the process of internationalization. They were asked to evaluate, on a scale of 1 to 5, the importance (1 being least important and 5 most important) of the differences in values and practices, differences in religion and differences in language in the managerial decision-making process. In order to identify the impact of the level of internationalization on the perceptions of managers of the role of cultural differences in the internationalization process, the samples were divided into two sets of subsamples: I and II, based on value of foreign sales, and III and IV, based on the number of continents on which the company operates.

Subsample I consists of less internationalized companies (in terms of value of foreign sales) and is comprised of **Companies A, B, D, E, I, and K**. The value of foreign sales in these companies is up to 25% of total sales.

Subsample II consists of highly internationalized companies (in terms of value of foreign sales) and is comprised of **Companies C, F, G, H, J, L, and M**. The value of foreign sales of these companies exceeds 25% of total sales.

Subsample III consists of less internationalized companies (in terms of the number of continents on which the company operates). Companies operating on up to three continents were assigned to this subsample, namely **Companies D, E, F, G, H, and K**.

Subsample IV consists of highly internationalized companies (in terms of the number of continents on which the company operates). Companies operating on more than three continents were assigned to this subsample, namely **Companies A, B, C, I, J, L, and M**. The research results are presented in Table 5.

The differences in values and practices have the most significant impact on the choice of direction and the number of countries subject to the foreign expansion of a company (the average of respondents' answers is 3.54). Managerial perception of the impact of the differences in values and practices on the decisions relating to internationalization differ depending on the level of the company's internationalization, as seen in Figure 2. The most significant effect of the differences in values and practices on decisions relating to internationalization is perceived by the managers of less internationalized companies in which the value of foreign sales does not exceed 25% of the total value of sales. They perceive the significant impact of values and practices on the choice of direction of the company's foreign expansion, the value of export of the company, the pace of internationalization and the number of countries subject to the foreign expansion of the company (in these cases the average of respondents' answers exceeds 4.0).

Religious differences have the most significant impact on market entry strategy and on the number of countries subject to the foreign expansion of a company (the average of respondents' answers is 4.0). Figure 3 shows that the most significant impact of the differences in religion on decisions connected with internationalization is perceived by managers of less internationalized companies (in terms of the value of exports). In the opinion of managers of these companies,

differences in religion have the most significant impact on the choice of market entry strategy and the number of countries subject to foreign expansion (the average of respondents' answers is 4.67), the choice of direction of a company's foreign expansion (the average of respondents' answers is 4.17) and the value of capital engagement on foreign markets (the average is 4.0). The managers of companies which operate on a limited number of continents (not exceeding three) perceive that religious differences have the most significant effect on the choice of a company's market entry strategy and the number of countries subject to foreign expansion (the average of respondents' answers is 4.5).

Language differences have the most significant impact on the choice of direction of a company's foreign expansion together with the number of countries subject to the foreign expansion of a company (the average of respondents' answers is 4.54). As shown in Figure 4, language differences have the most significant impact on decisions relating to internationalization as perceived by the managers of companies in which export values do not exceed a value of 25%; but also by those companies which operate on more than three continents. The managers of companies exporting no more than 25% of their products perceive the most significant impact of language differences to be on the choice of direction of a company's foreign expansion (average 4.83), the amount of countries subject to foreign expansion (average 4.83) and the choice of market entry strategy (4.67). The managers of companies spreading their geographic expansion onto no more than three continents perceive the most significant impact of language differences to be on the choice of direction of a company's foreign expansion and the number of countries subject to foreign expansion (average 4.57).

The respondents were also asked to evaluate, on a scale of 1 to 5 (where 1 represents the least important factor and 5 the most important) the impact of cultural differences on initiating, performing and withdrawing from business activities on a certain market. Figures 5-7 give the values by group. The differences in values and practices, religion and language have the most significant impact on the withdrawal of business activity from a certain market (the average of respondents' answers is higher than 4.0). The differences in values and practices, religion and language are taken into consideration when initiating business activity on foreign markets (the average of respondents' answers differs from 3.09 to 3.53). Cultural factors are less important in the process of undertaking business activity on a certain market (the average of respondents' answers differs from 2.0 to 2.54).

Managers of less internationalized companies, that is to say those exporting less than 25% of the total value of sales, perceive differences in values and practices, differences in religion and differences in languages as the most significant in making a decision about withdrawal from a certain market (the average of respondents' answers is 4.83).

Managers of highly internationalized companies, that is to say those operating on more than three continents, perceive differences in values and practices, as well as differences in religion and language in making decisions about withdrawal from a certain market to be most significant (the average of respondents' answers equals 2.46).

CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

Conclusions

The fundamental purpose of this study was to draw scholarly attention to the link between one of the psychic distance stimuli, namely cultural differences, and managers' decisions on internationalization. The results are treated as an initial step towards quantitative research on the impact of psychic distance (including differences in national cultures) on internationalization.

The results indicate that cultural differences are still relevant in the decision-making process as it relates to internationalization and that these aspects should not be ignored in future research. The managers described examples of differences in cultural values and practices as well as differences in religion and languages. These factors are taken into consideration in the decision-making process as it relates to developing business activity abroad; however, they are not treated as a barrier to internationalization. Managers agreed that they are able to overcome such barriers to undertake business activity together with foreign partners.

The respondents reveal that the main differences in values and practices relate to the different working styles and business practices in various countries as well as to behavior during negotiations. For them, the most important factors are trust and the process of building business relationships. Also mentioned were the perception of a country by foreign partners, the 'country of origin' effect and the adaptation of marketing-mix instruments to local cultures. A further important factor mentioned is the role of nationality in demands made towards foreign markets. The respondents also took into consideration the impact of globalization on reducing cultural differences. Although national culture is important, the organizational culture of a company and the decision-making process within the company are equally relevant.

These managers have different opinions on the role of differences in religion in the decision-making process as it relates to internationalization. Some respondents state that religion has no effect on business. Some managers mentioned the role of women in business within different religions (especially Islam), and the impact of differences in religion on the formulation of marketing strategy. Some managers believe that religion has an effect on business ethics and the role of trust in business transactions.

Regarding language differences, the respondents were aware of the necessity of employing staff proficient in local languages as a tool for reducing barriers in communication; however, they agree that English is the predominant language of international business. Additionally, non-verbal communication is an important factor in negotiations.

The managers also evaluated the significance of cultural stimuli in the process of internationalization. These managers state that the most significant factor which impacts decisions relating to internationalization is differences in language, an aspect which may affect the choice of direction of a company's foreign expansion or the number of countries subject to a company's foreign expansion.

Because research was conducted on a sample of Polish companies who internationalize their activity mainly through export activity (both direct and indirect) and who do not invest a significant share of their capital abroad, such measures of internationalization could not be taken into consideration. Results of research not described in this article reveal that other psychic distance stimuli (differences in economic and political systems) have a greater impact on internationalization. This may be due to the fact that the sample of companies consisted mainly of medium-sized and large companies with vast experience operating on foreign markets, which in turn could make managers less vulnerable to the effects of cultural differences. Their knowledge and experience in operating on foreign markets help to overcome the challenges posed by cultural and historical differences. Furthermore, large companies seem to be more aware of the importance of the economic and political factors of psychic distance and the need to adapt their strategies to these circumstances.

Limitations and future research

As with any study, the results should be interpreted in light of some limitations. The study was conducted within the context of one country, which may limit the generalizability of the results to some degree. Therefore, additional research should aim to test the framework in other countries as well.

Second, the use of managers responsible for foreign operations introduces a potential limitation in that it is possible that these managers do not constitute samples representative either of other managers or of the general population. In this study, the respondents were more likely to be more experienced in operating on foreign markets and in aspects of culture than the general population. However, individual values are acquired early in childhood and are stable over time, which suggests that the potential effect of this limitation is somewhat reduced.

The article presents the results of research on managers' perceptions of the importance of cultural factors in the process of internationalization. The aim of the qualitative research conducted by the authors was also to identify the impact of other psychic distance stimuli, such as differences in economic and political factors, as well as differences in mentality and geographic distance, on the internationalization process. The results of this research will be presented in further articles.

In the future, further research of a quantitative nature is needed, which will enable testing of the hypothesis and projection of the results onto the entire population. In general, further research in this field should provide a more comprehensive picture of the importance of psychic distance stimuli and allow for a more precise evaluation of its relationship with internationalization. Such quantitative research is in fact planned, and will be conducted by means of face-to-face interviews on a sample of 200 companies. The main objective of this quantitative research will be the identification of the importance of cultural and systemic (economic and political) differences, as well as differences in mentality and geographic distance between Poland and the foreign markets into which Polish companies expand.

Another direction of conducting research on the importance of psychic distance in the process of

companies' internationalization is international comparisons covering the region of CEE countries. The aim of this research will be the identification of the main differences of perceptions of psychic distance by managers representing CEE countries.

Managerial implications

The results of this research entail several implications for international business managers, who will hereafter be able to identify cultural factors which impact on the international activity of their companies. Research results could be treated as a guide as to how to increase their company's engagement in foreign markets notwithstanding the cultural differences between the company's home and the host country. To be able to select and expand into culturally distant markets, managers would not only need to acquire and develop typical cross-cultural skills for international management, such as languages, but also increase their understanding

of other distance-creating factors, such as religion or national backgrounds.

ENDNOTES

- [1] For obvious reasons, psychic distance is correlated with geographic distance. However, exceptions are easy to find. Some countries are far apart geographically, e.g. England and Australia, but for different reasons they are 'near' each other in terms of psychic distance. The USA and Cuba are near neighbours other geographically, but, for political reasons, far apart with regard to psychic distance. As these examples indicate, psychic distance is not constant but rather volatile, due to the development of communication systems, trade and other kinds of social exchange.

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FIGURES AND TABLES

Psychic distance stimuli National-level factors which may distort the flow of information between markets	National Cultural Distance (e.g. differences in Hofstede's national cultural dimensions)	Perceived psychic distance
	Language Distance (e.g. differences in languages at the national level)	
	Institutional Distance (e.g. differences in legal, political, educational or religious institutions)	
	Other Forms of Distance (e.g. the listed stimuli are not necessarily exhaustive)	

National-level Exogenous

Individual–Level

Perceptions of Differences

Differences

Figure 1. Schematic illustration of the different forms of distance

Source: Dow&Larimo(2009)

Table 1
Characteristics of sampled Polish companies (Companies A–E)

Company symbol	A	B	C	D	E
Year of establishment	1973	1922	1951	1992	1989
Industry	furniture	mining	mining	FMCG	cosmetics
Key changes in structure	1973 – establishment by a private entrepreneur (family-owned company)	1922 – establishment of the private company 1951 – transformation the company into the state treasury company 2002 – purchasing with the status of bankruptcy by a private investor	1951 – establishment of the state owned company 1993 – transformation from a state-run company into a state treasury company	1992 – establishment by a private entrepreneur (family-owned company)	1989 – establishment by a private entrepreneur (family-owned company)
Total sales					
2005	126927964	240000000	4780 059.3	166 000 000	NA
2010	116775038	664000000	2 947 758.6	476 300 000	
2012	140423837	1200000 000	3472 672.3	460 000 000	
2013	124233022				
Foreign sales					
2005	33111000	60000000	4659 655.2		NA
2010	16016000	95000000	2721 285.3	12 231 000	
2012	19095000	260000 000	2728 095.5	19 976 000	
2013	14973505				
Company symbol	A	B	C	D	E
Starting year of foreign sales	2001	2005	1951	2005	2000
First foreign expansion market	Czech Republic, Russia, Ukraine, Great Britain	Russia	Germany, Russia	Germany	Lithuania
Other foreign expansion markets	Europe (Hungary, Croatia, Denmark, Spain, the Netherlands, Latvia, Lithuania, France, Russia, Romania, Belarus, Latvia, Slovakia, Great Britain, Kazakhstan, Slovenia, Estonia, Serbia, Norway, Switzerland, Belgium, Ghana, Canada, Japan, the USA, Israel	Mexico, Russia, Indonesia, Turkey, India, Ukraine, Kazakhstan, Argentina, European markets (Germany, Czech Republic, Austria, Slovakia, Hungary), Africa (Morocco, Egypt), South America	European countries, Morocco, Turkey, Brazil, Japan, Egypt, Argentina, the USA	Denmark, the Netherlands, Belarus, Czech Republic, Slovakia, Romania, Bulgaria, Italy, Spain, Great Britain, Ireland	Russia, Ukraine, Belarus, Lithuania
Market expansion (years)	13		63	10	14
First foreign subsidiary	–	-	Austria	–	–
Foreign manufacturing units	–	Russia, Ukraine, Kazakhstan	–	–	–
Exit from foreign markets	–	2007 – Iran	–	–	–

Table 2
Characteristics of sampled Polish companies (Companies F–J)

Company symbol	F	G	H	I	J
Year of establishment	1945	1996	1953	1993	1992
Industry	chemistry	automobile	automation	cosmetics	chemistry
Key changes in structure	1945 – formed as government-owned corporation, 1995 – transformation into a limited liability company	1996 – establishment by a private entrepreneur (family-owned company)	1953 – establishment by a private entrepreneur	1993 – establishment by a private entrepreneur (family-owned company)	1992 – establishment of two partnerships
First foreign expansion market	Czech Republic	Czech Republic	France	Ukraine	Germany
Other foreign expansion markets	Great Britain, Singapore, Austria, Hungary, Sweden, Germany, Finland, Nigeria, Russia, Bulgaria, Vietnam, Czech Republic, Slovakia	Austria, Belgium, Bosnia, Bulgaria, Denmark, Estonia, Finland, France, Greece, Spain, Israel, Latvia, Lithuania, Malta, Germany, Norway, Portugal, Russia, Romania, Serbia, Slovakia, Switzerland, Sweden, Turkey, Hungary, Italy, United Arab Emirates	Europe (France, Germany, Italy, Austria, Czech Republic, Slovakia, Hungary, Montenegro, Macedonia, Croatia, Bulgaria, Ukraine, Belarus, Russia, North America (the United States), South America (Mexico, Brazil))	European Union countries (Austria, Bulgaria, Denmark, Estonia, Greece, the Netherlands, Germany, Great Britain, Greece, Hungary, Ireland, Latvia, Romania, Slovakia), Eastern Europe (Belarus, Russia), Armenia, Canada, Egypt, Kazakhstan, Norway, South Korea, the USA	Slovakia, Germany, Spain, Italy, Hungary, Bulgaria, Romania, Ukraine, South Korea, the USA, Kazakhstan
Total sales 2005 2010 2012/2013	2200000 000 4000000 000 3500000 000	659000000 1298000000 1301000000 1502000 000	19400000 17900000 13700000 14500 000	100000000 130000000 135000 000	322 000 000 879 000 000 1 061 000 000
Foreign sales 2005 2010 2012 2013	1200000000 2500000000 1000000 000	487000000 809000000 833000000 1177000000	11300000 13500000 11500000 12400 000	3 000000 6500000 8100 000	- 639 000 000 767 000 000
Starting year of foreign sales	1945	2004	1999	2002	2000
Market expansion (years)	69	10	15	13	14
First foreign subsidiary	Czech Republic, 1948	Czech Republic, 1999	–	–	Romania 2001
Foreign manufacturing units	Romania, Germany	–	–	–	Spain, Brazil, Turkey, China
Exit from foreign markets	–	–	–	–	–

Table 3
Characteristics of sampled Polish companies (Companies K–M)

Company symbol	K	L	M
Year of establishment	1953	1989	1991
Industry	aluminum profiles	pharmaceutical	ICT
Key changes in structure	1953 – establishment as a state-owned company 1993 – transformation into a limited liability company	1989 – company establishment	3 offices in Poland
Total sales			
2005	165 000 000	151 586 000	80 000 000
2010	196 000 000	378 595 000	200 000 000
2012	510 000 000	406 303 000	263 000 000
2013		340 358 000	
Foreign sales			
2005	43 000 000	26 993 000	78 000 000
2010	64 000 000	255 595 000	195 000 000
2012	117 000 000	309 803 000	245 000 000
2013		219 358 000	
Starting year of foreign sales	2003	1999	1991
First foreign expansion market	Germany	Latvia	Sweden, Ukraine
Other foreign expansion markets	EU countries, Switzerland, Norway, Turkey, Ukraine, the USA	China, Russia, Thailand, the Philippines, Indonesia, South Korea, Singapore, Malaysia, Australia, Vietnam, Belarus, Ukraine, Italy, Egypt, Uzbekistan, Hong Kong, Algeria, Dominican Republic, Guatemala, Costa Rica, Panama, Paraguay, Kazakhstan, Kyrgyzstan, Armenia, Sao Tome and Principe Islands	Western Europe, Scandinavian countries, the USA, Canada
Market expansion (years)	16	14	23
First foreign subsidiary	Hungary – 2004	Russia – 2004	–
Foreign manufacturing units	Ukraine	Italy, Ukraine, India	Belarus, Ukraine, Sweden
Exit from foreign markets	–	Russia – 2010, Israel – 2012	The Netherlands – 2001, Mexico – 2009

Table 4
Managers' perceptions of the importance of cultural differences in the process of internationalization

Company	The importance of psychic distance	Differences in values and practices	Differences in religion	Differences in languages
A	Psychic distance exists and has a significant impact on decisions relating to internationalization and on the rules of conducting business on international markets	– Working styles, business practices	– The role of women in business, – Conflicts on grounds of religion	– The necessity of employing staff proficient in the local language as a tool for reducing barriers in communication, – The importance of non-verbal communication
B	Psychic distance exists, but is not important in the decision-making process as it relates to internationalization	– Country of origin effect (good quality of European products) – Behavior during negotiations	– The role of women in business, – Different dates of holidays, – “There is no religion which forbids business or trade, but there are some beliefs which make doing business difficult”	– The length of the negotiation process, – The necessity of employing staff proficient in local languages and familiar with local customs, – Physical distance between negotiating partners
C	Psychic distance exists, but it is not important in the decision-making process as it relates to internationalization	– The impact of globalization on reducing cultural differences – Behavior during negotiations	– No impact of religion on business and decisions relating to internationalization	– English as the language of business in international markets
D	Psychic distance exists and has a significant impact on decisions relating to internationalization and on the rules of conducting business on international markets	– The role of women during negotiations in Arabic countries	– The impact of Islam and Christianity on business	– Language barrier in Eastern European countries, – The necessity of knowing local languages
E	Psychic distance exists and has a significant impact on decisions relating to internationalization and on the rules of conducting business on international markets	– Trust in negotiations – Building relations in business	– The impact of differences in religion on marketing-mix instruments	– The impact of language differences on establishing international business relations
F	Psychic distance exists, but is not important in the decision-making process as it relates to internationalization	– No importance of values and practices in international business activity – The importance of organizational cultures	– Differences in religion not treated as a barrier to internationalization	– Language differences as a barrier to communication and internationalization
G	Psychic distance exists, but is not important in the decision-making process as it relates to internationalization	– The customs of inhabitants in certain countries – The role of women in different national cultures – Adaptation of marketing-mix instruments to local cultures	– Different calendar of holidays in different religions	– Necessity of employing staff proficient in local languages
H	Psychic distance exists, but is not important in the decision-making process as it relates to internationalization	– Concentration on transaction versus concentration on relationships – The importance of time in	– Different importance of religion in different countries	– English as an international language even in Eastern European countries

		negotiations – No importance of national values and practices in negotiations		
I	Psychic distance exists and has a significant impact on decisions relating to internationalization and on the rules of conducting business in international markets	– The role of work in life – The decision making process – The role of communist regimes in business activity – The role of trust in business activity	– The importance of religion in Islamic countries	– The necessity of employing staff proficient in local languages and familiar with local cultures, especially for Eastern European countries
J	Psychic distance exists, but is not important in the decision-making process as it relates to internationalization	– The role of the contract in business – The role of experience in overcoming cultural differences	– No importance of religion in decisions relating to internationalization	– The importance of language differences in the initial stage of negotiations
K	Psychic distance exists and has a significant impact on decisions relating to internationalization and on the rules of conducting business in international markets	– The role of nationality in demands toward foreign markets, – The role of nationality in building relations	– The impact of religion on business ethics in different national cultures	– The superiority of French language and culture
L	Psychic distance exists and has a significant impact on decisions relating to internationalization and on the rules of conducting business in international markets	– The role of organizational culture in negotiations – The perceptions of Poland by foreign partners (as a country 'stuck' to Russia and Eastern Europe)	– Business ethics, reassurance of transaction – The role of trust in business transactions	– The level of openness in communication between managers representing different countries
M	Psychic distance exists and has a significant impact on decisions relating to internationalization and on the rules of conducting business in international markets	– Differences in culture as an advantage in communication	– The role of castes in India	– The misinterpretation of words and expressions by the representatives of different cultures

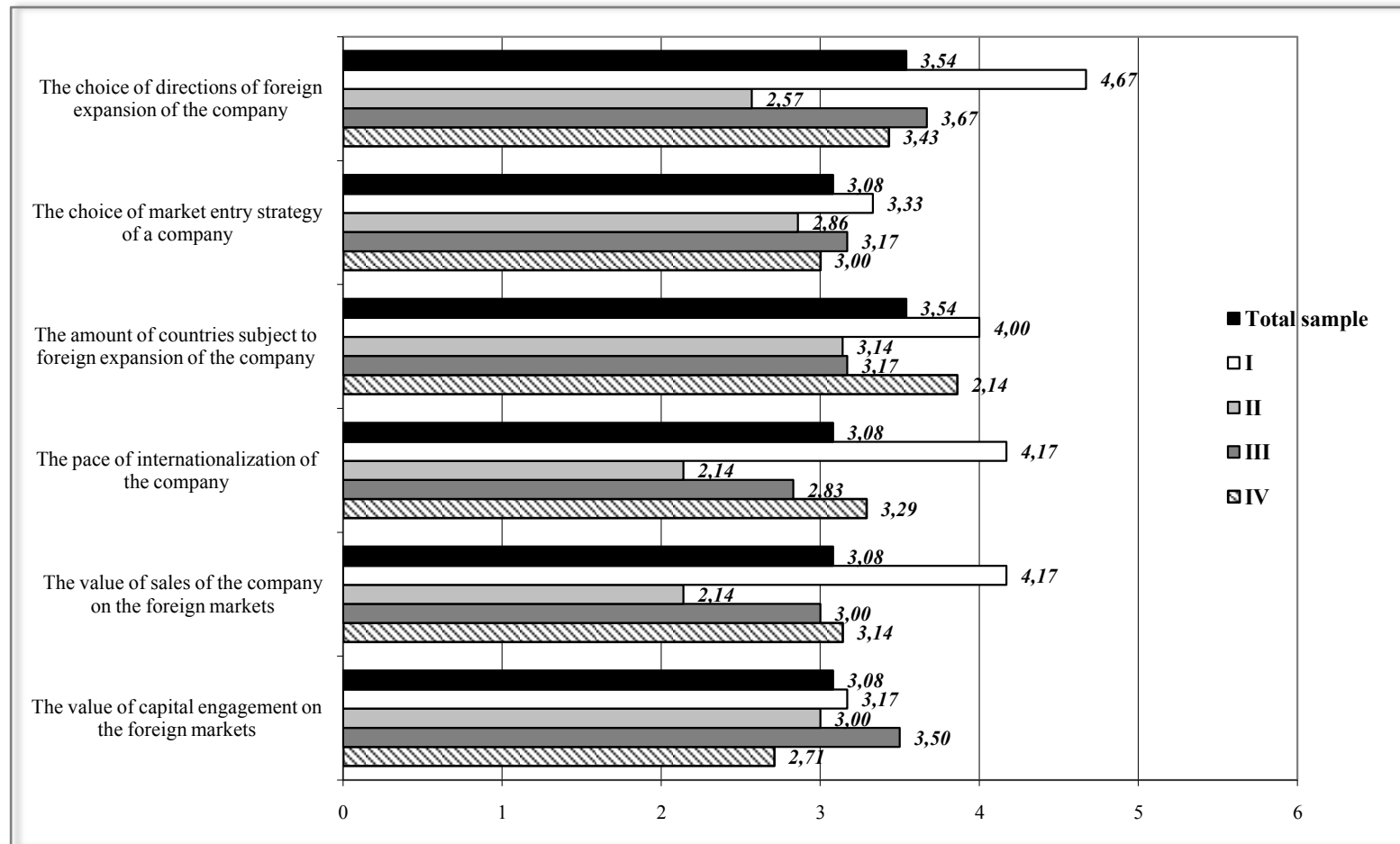


Figure 2. The significance of differences in values and practices in the process of companies' internationalization

- I – Subsample of less internationalized companies (in terms of value of foreign sales) **A, B, D, E, I, K**
- II – Subsample of highly internationalized companies (in terms of value of foreign sales) **C, F, G, H, J, L, M**
- III – Subsample of less internationalized companies (in terms of value of number of continents the company operates) **D, E, F, G, H, K**
- IV – Subsample of highly internationalized companies (in terms of number of continents the company operates) **A, B, C, I, J, L, M**

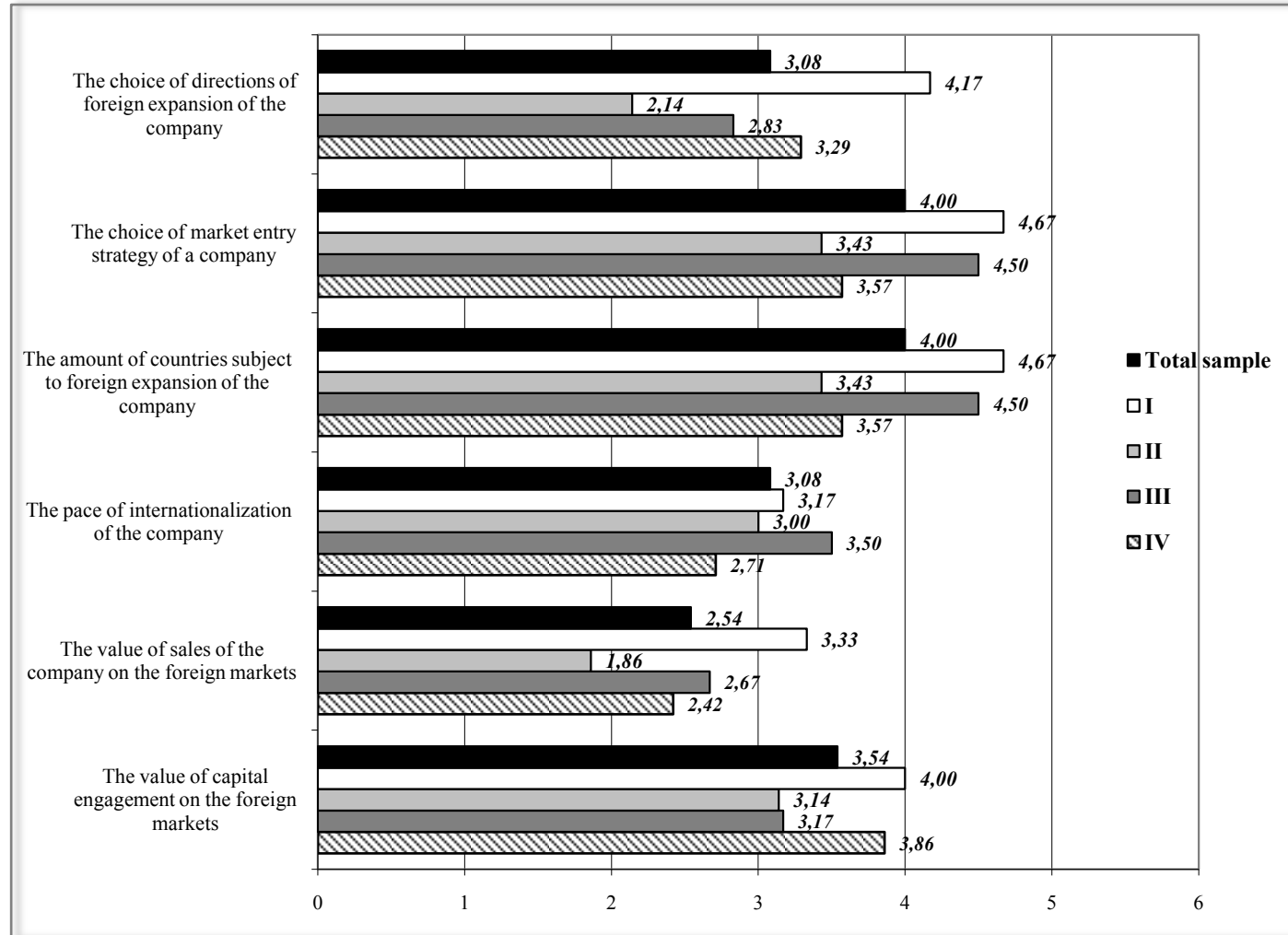


Figure 3. The significance of differences in religion in the process of companies' internationalization

I – Subsample of less internationalized companies (in terms of value of foreign sales) **A, B, D, E, I, K**

II – Subsample of highly internationalized companies (in terms of value of foreign sales) **C, F, G, H, J, L, M**

III – Subsample of less internationalized companies (in terms of value of number of continents the company operates) **D, E, F, G, H, K**

IV – Subsample of highly internationalized companies (in terms of number of continents the company operates) **A, B, C, I, J, L, M**

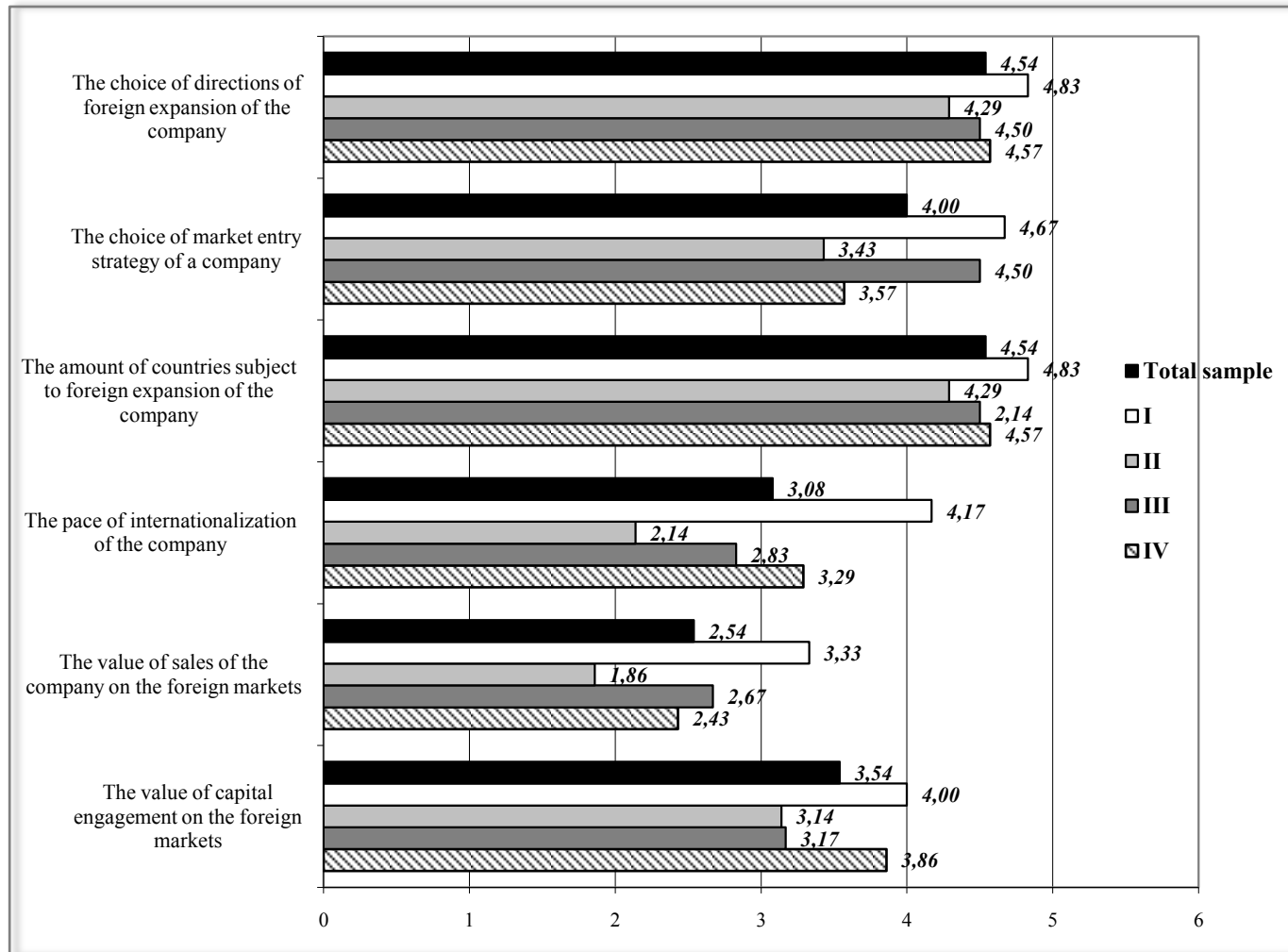


Figure 4. The significance of differences in languages in the process of companies' internationalization

I – Subsample of less internationalized companies (in terms of value of foreign sales) **A, B, D, E, I, K**

II – Subsample of highly internationalized companies (in terms of value of foreign sales) **C, F, G, H, J, L, M**

III – Subsample of less internationalized companies (in terms of value of number of continents the company operates) **D, E, F, G, H, K**

IV – Subsample of highly internationalized companies (in terms of number of continents the company operates) **A, B, C, I, J, L, M**

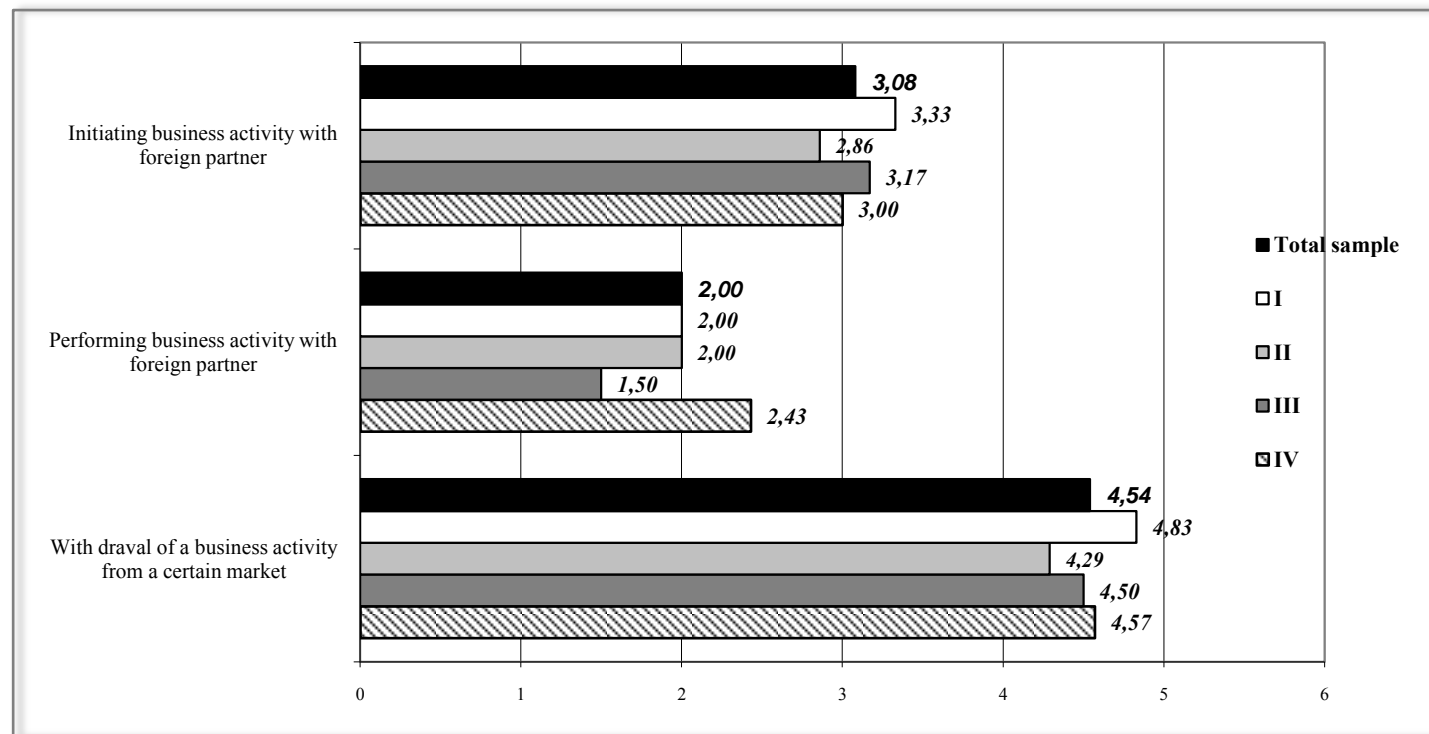


Figure 5. The significance of differences in values and practices in international business activity

I – Subsample of less internationalized companies (in terms of value of foreign sales) **A, B, D, E, I, K**

II – Subsample of highly internationalized companies (in terms of value of foreign sales) **C, F, G, H, J, L, M**

III – Subsample of less internationalized companies (in terms of value of number of continents the company operates) **D,E, F, G, H, K**

IV – Subsample of highly internationalized companies (in terms of number of continents the company operates) **A, B, C, I, J, L, M**

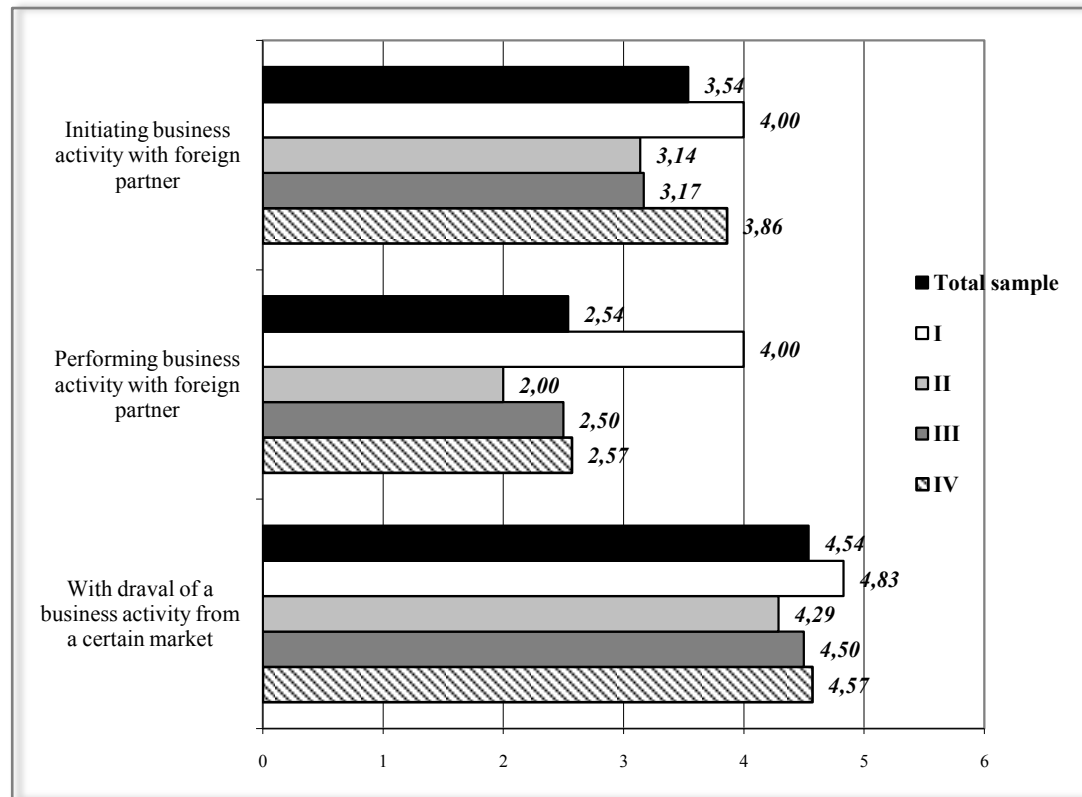


Figure 6. The significance of differences in religion in international business activity

I – Subsample of less internationalized companies (in terms of value of foreign sales) **A, B, D, E, I, K**

II – Subsample of highly internationalized companies (in terms of value of foreign sales) **C, F, G, H, J, L, M**

III – Subsample of less internationalized companies (in terms of value of number of continents the company operates) **D,E, F, G, H, K**

IV – Subsample of highly internationalized companies (in terms of number of continents the company operates) **A, B, C, I, J, L, M**

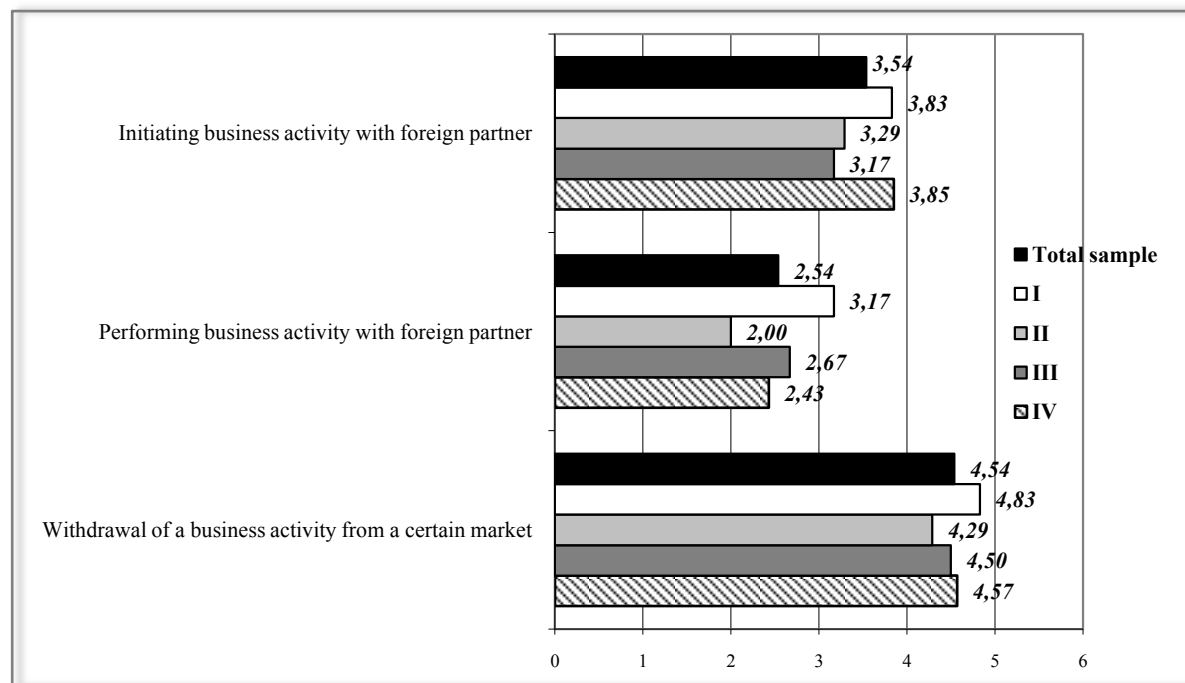


Figure 7. The significance of differences in languages in international business activity

I – Subsample of less internationalized companies (in terms of value of foreign sales) **A, B, D, E, I, K**

II – Subsample of highly internationalized companies (in terms of value of foreign sales) **C, F, G, H, J, L, M**

III – Subsample of less internationalized companies (in terms of value of number of continents the company operates) **D,E, F, G, H, K**

IV – Subsample of highly internationalized companies (in terms of number of continents the company operates) **A, B, C, I, J, L, M**