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Psychic Distance: Antecedents, Retail Strategy Implications, and Performance Outcomes

ABSTRACT

The authors propose a conceptual model of the psychic distance–organizational performance relationship that incorporates organizational factors (international experience and centralization of decision making), entry strategy, and retail strategy implications. The findings suggest that when entering psychically distant markets, retailers should adopt low-cost/low-control entry strategies and adapt their retail strategy to a greater extent than in psychically close markets. However, the authors find that such strategic responses have an adverse effect on performance. They find that international experience, psychic distance, entry strategy, and retail strategy adaptation are significant drivers of organizational performance and factors that determine critical success in international retailing.

Keywords: psychic distance, retail strategy, performance, internationalization, culture

Jody Evans, Felix T. Mavondo, and Kerrie Bridson

Psychic distance has attracted heightened research interest of both a conceptual and empirical nature over the past decade. Much of the recent literature in the field of psychic distance has concentrated on the conceptualization and operationalization of the construct (Brewer 2007; Dow 2000; Dow and Karunaratna 2006; Evans and Mavondo 2002; Sousa and Bradley 2006), but few researchers agree on the empirical usefulness of psychic distance. In the current literature, there is no clear consensus regarding the role of psychic distance, or its constituent elements, in determining foreign market selection (Stottinger and Schlegelmilch 1998; Whitelock and Jobber 2004), entry strategy (Brouthers 1995; Kogut and Singh 1988), the success of standardized or adapted marketing strategies (Cavusgil and Zou 1994; Shoham 1996), and organizational performance (Evans and Mavondo 2002; Li and Guisinger 1991; O'Grady and Lane 1996). The apparent contradictions in the literature may exist because many of the relationships are explored in isolation. Therefore, it is important to examine psychic distance empirically in terms of its antecedents, strategy implications, and performance outcomes.

Many authors have identified a need for an industry-specific approach to international marketing research (Leonidou, Katsikeas, and Piercy 1998; Vida, Reardon, and Fairhurst 2000). This research focuses on a relatively young and underresearched area: international retailing. Until the 1980s, retailing was characterized primarily as a fragmented

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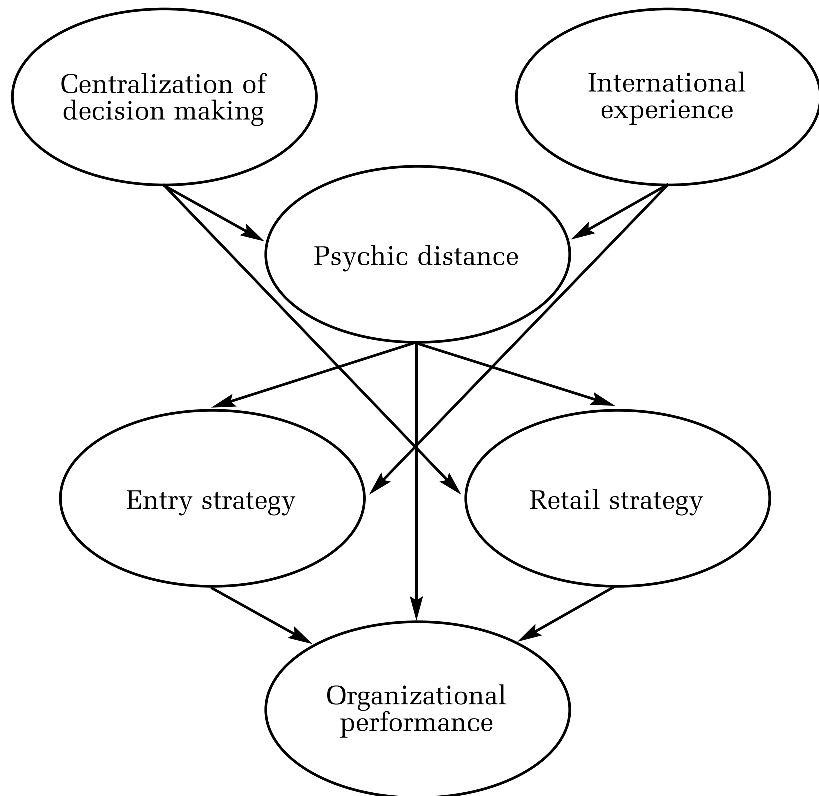
and nationally based industry. However, several factors have made foreign expansion an attractive strategy for many retailers. The maturity and saturation of domestic markets, technological advances, geopolitical rebalancing, the internationalization of financial markets, and a trend toward concentration of ownership in the retail sector all have resulted in an escalation of international retailing activity. Despite the increase in attractiveness of foreign expansion, few international retailers perform as well or better in foreign markets than in their domestic markets (Burt, Dawson, and Sparks 2004). Thus, the examination of psychic distance and its implications for international entry strategies, retail strategy, and performance makes an important contribution to the growing body of research in international retailing.

The purpose of the current research is threefold: (1) to validate empirically a model of the psychic distance–organizational performance relationship that integrates antecedent variables and the mediating effects of entry strategy and retail strategy, (2) to contribute to a more comprehensive understanding of the factors driving and impeding international retailers' performance, and (3) to present a conceptual framework and set of measures that can be used as a basis for further investigation in other industry contexts. We begin with a presentation and brief outline of the conceptual framework and follow it with a discussion of the proposed relationships and the development of hypotheses. We then describe the research design and methodology. Finally, we present and discuss the findings of the study and draw conclusions about the theoretical and managerial implications of the study.

Conceptual Framework

International marketing research is often grounded in the theory of industrial organization economics, in which the focus is on the fit between the organization's environment and its strategy as a driver of superior performance (Cavusgil and Zou 1994; Porter 1980; Townsend et al. 2004). The current research extends previous studies by considering the environment in terms of management's perception of the similarities and differences between the foreign market's environment and the domestic market. Although they acknowledge that managers rely on objective information when making strategic decisions, Cavusgil and Godiwalla (1982) propose that international marketing decisions are strongly influenced by subjective and perceptual factors. Management's perception of the environment also plays a central role in the general literature on the internationalization of the organization (Johanson and Wiedersheim-Paul 1975; Nordstrom and Vahlne 1994). Based on these theoretical underpinnings, the focal concept of interest in the framework presented in Figure 1 is psychic distance. Psychic distance is defined as "the distance between the home market and a foreign market, resulting from the perception of

Figure 1.
Conceptual Framework



both cultural and business differences" (Evans and Mavondo 2002, p. 517). Cultural differences are derived from Hofstede's (1991) dimensions of national culture, whereas business differences incorporate economic, legal and political, business practice, market structure, and language differences.

Building on the conceptual models that Evans, Treadgold, and Mavondo (2000) and Vida, Reardon, and Fairhurst (2000) propose, the framework postulates that psychic distance has a direct relationship to organizational performance. Organizational performance is operationalized in terms of both financial and strategic performance. The relationship between psychic distance and organizational performance does not exist in a vacuum, and we propose that psychic distance can also have an indirect effect on organizational performance through the mediating roles of entry strategy and retail strategy.

Entry strategies can be classified according to two highly correlated characteristics: (1) resource commitment required and (2) degree of control (Anderson and Gatignon 1986; Kogut and Singh 1988; Osland, Taylor, and Zou 2001; Treadgold 1988). Resource commitment refers to the dedication of assets, both financial and nonfinancial, that cannot be employed for other uses without incurring costs (Osland,

Taylor, and Zou 2001). Control is the firm's ability to influence systems, methods, and decisions in the foreign market (Anderson and Gatignon 1986). These characteristics provide a continuum (ranging from low cost/low control to high cost/high control) on which entry strategies can be ordered. For example, wholly owned or greenfield ventures and acquisitions give management tight control over the foreign operation. However, the firm must bear the full cost and risk of such an enterprise. In contrast, joint ventures, strategic alliances, franchises, and concessions reduce the costs and risks of establishing a foreign operation, but they necessitate a higher degree of shared control. Retail strategy refers to the degree of standardization or adaptation of the retail offer. Elements of the retail offer include merchandise quality, range and fashion, level of services, facilities, layout, atmosphere, location, quality of display, advertising, general reputation, reliability, price, and overall image (McGoldrick 1998; McGoldrick and Blair 1995; McGoldrick and Ho 1992).

In our framework, we also posit that aspects of the organizational context—namely, international experience and centralization of decision making—influence psychic distance, entry strategy, and retail strategy. Our decision to include international experience and centralization of decision making as the elements of the organizational context is based on extant literature in the fields of organization internationalization, international marketing strategy, international retailing, and general business strategy (Anderson and Gatignon 1986; Evans, Treadgold, and Mavondo 2000; Ozsomer and Simonin 2004).

Psychic Distance

Although psychic distance has traditionally been used to explain the process of internationalization and international market selection, a growing body of research has attempted to identify its performance implications (Evans and Mavondo 2002; Li and Guisinger 1991; O'Grady and Lane 1996). However, the literature has failed to provide conclusive support for either a positive or a negative relationship between psychic distance and organizational performance. Despite this, Evans and Mavondo (2002) advance several arguments in support of a positive relationship. The first argument focuses on the issue of differentiation and indicates that organizations may struggle in psychically close markets because of the difficulty in establishing a clear basis for differentiation. In contrast, organizations operating in psychically distant countries may be able to capitalize on their differences and avoid direct competition with local organizations.

The second argument attributes the positive relationship between psychic distance and organizational performance to a desire to learn about new markets. Evans and Mavondo (2002) contend that organizations are likely to perceive a higher level of risk when expanding into psychically distant markets than

when entering psychically close markets. This risk perception elicits a strong desire to learn more about the market, which results in a deeper understanding of the challenges and opportunities presented by the market. This knowledge enhances the organization's strategic decisions and, consequently, its performance. O'Grady and Lane (1996) also find this somewhat paradoxical relationship. Their findings suggest that the assumption of similarity prevents executives from noticing subtle but important differences in psychically close markets, and this is strongly associated with poor organizational performance. Thus, we advance the following hypothesis:

> H_1**:** Psychic distance has a significant, positive association with organizational performance in terms of (a) financial performance and (b) strategic effectiveness.

Antecedents

Centralization of Decision Making. Centralization incorporates several aspects of organizational decision making: the degree of control over foreign subsidiaries preferred by headquarters (Young and Tavares 2004), the concentration or amount of decision-making authority that is delegated within an organization (Jaworski and Kohli 1993; Kandemir and Hult 2005), and the extent of the communication with and the involvement of individuals throughout the organization in decision making (Hage and Aiken 1967; Jaworski and Kohli 1993; Kandemir and Hult 2005). Of these, the degree of involvement of organizational members in decision making has the greatest implication for psychic distance. Kandemir and Hult (2005, p. 434) assert that "increased centralization can lead to less communication with middle and lower level management and discourage situational analysis and comprehensiveness of operations in the organization." Therefore, senior management in centralized organizations may have a more ethnocentric view of the world and consequently underestimate the differences between markets. In contrast, a decentralized organizational structure may facilitate greater learning about foreign markets because there is greater communication and interaction with a wider range of management across headquarters and foreign subsidiaries in the decision-making process. This level of involvement will give senior management a deeper understanding and awareness of the similarities and differences between the home and foreign markets. Thus, we hypothesize the following:

> H_{2a}**:** Centralization of decision making has a significant, negative association with psychic distance.

Centralization can be viewed in terms of senior management and headquarters' preference for control. Therefore, centralization is clearly associated with the organization's entry strategy decision. It can be argued that more centralized organiza-

tions would prioritize tight control over foreign operations and would exhibit a strong preference for acquisition and greenfield modes of entry because they assign a high level of control to the headquarters based in the home market. Correspondingly, more decentralized organizations may prioritize the benefits of learning from foreign management and therefore may be more likely to adopt low to medium control entry strategies. Entry strategies, such as joint ventures or franchises, facilitate greater involvement of foreign management in decision making. Thus, we hypothesize the following:

> H_{2b}: Centralization of decision making has a significant, positive association with entry strategy.

The majority of international retailers began operating on a domestic scale only and, because of their success and opportunities available in other markets, expanded internationally. Consequently, such organizations have established decision-making styles and structures that are firmly entrenched before international expansion. It is these structures in general and the degree of centralization in particular that influence the degree of standardization/adaptation of retail strategy. Several studies have provided support for a relationship between centralization and strategy standardization (Birnik and Bowman 2007; Daniels 1987; Jain 1989; Ozsomer, Bodur, and Cavusgil 1991; Ozsomer and Prussia 2000; Ozsomer and Simonin 2004). Although Ozsomer and Simonin (2004) argue and find some support for the notion that centralization is influenced by standardization, the majority of extant literature asserts that centralized decision making leads to greater standardization. Specifically, Jain (1989, p. 76) proposes that "the greater the centralization of authority for setting policies and allocating resources, the more effective the implementation of standardization strategy." Daniels (1987) goes so far as to assert that standardization without centralization is an unlikely occurrence. This direction of causality can be attributed to the control aspect of centralization. In centralized international organizations, headquarters exhibit a high degree of control over all policies, procedures, and strategies. Consequently, such organizations will provide foreign subsidiaries with fewer opportunities to adapt the marketing or retail strategy. Thus, we hypothesize the following:

> H_{2c}: Centralization of decision making has a significant, negative association with retail strategy.

International Experience. Both the international retailing and the export literature streams identify the importance of a firm's international experience when determining foreign market selection, entry strategies, and the degree of standardization/adaptation of marketing strategy (Aaby and Slater 1989; Cavusgil and Zou 1994; Segal-Horn and Davison

1992; Treadgold 1990). With regard to the influence of international experience on psychic distance, we assume that the amount of experience acquired by an organization when operating in foreign markets is likely to have an effect on that organization's perception of the similarities and differences between markets. Despite a lack of research in this area, it is possible to argue that organizations with limited international experience can overestimate the similarities between their home market and a foreign market on the basis of superficial observations that are often made from a distance. In contrast, internationally experienced organizations may have developed superior market-sensing capabilities that provide a deeper understanding of the unique subtleties in each foreign market. Thus, we propose the following:

> H_{3a}: International experience has a significant, positive association with psychic distance.

Prior research has shown that international experience has important implications for entry strategy selection (Agarwal 1994; Anderson and Gatignon 1986; Caves and Mehra 1986; Osland, Taylor, and Zou 2001). However, this research has produced contradictory conclusions. The most popularly supported conclusion suggests that as organizations acquire more international experience, the level of uncertainty and perceived risk regarding operating in foreign markets decreases. As a result, firms are more willing to take greater control over the foreign operation and commit substantial resources. Correspondingly, organizations with less international experience are more likely to enter a foreign market through a low-commitment entry strategy, such as a joint venture or franchise, as a means of sharing the risks and responsibilities (Caves and Mehra 1986; Cicic, Patterson, and Shoham 1999; Erramilli 1991).

This argument is supported by Anderson and Gatignon (1986), who find that the more experience multinational companies gain in foreign markets, the more likely they are to use high-cost/high-control entry strategies. Caves and Mehra (1986) also show a significant relationship between an organization's international experience and high commitment entry strategies. In their study of 138 decisions of foreign firms entering the United States, Caves and Mehra find that the greater an organization's international experience (i.e., the number of countries in which a firm has subsidiaries), the more able it was to endure the financial risk of an acquisition. Correspondingly, organizations with less international experience were more likely to enter a foreign market through a joint venture as a means of sharing the risks and responsibilities. These findings are supported further by Agarwal's (1994) study of 189 foreign investments of U.S. manufacturing firms. Agarwal finds that as an orga-

nization's international experience increased, the likelihood that it would select joint venture as an entry mode decreased. More recently, Pol and Datta (2006) show that the greater the international experience of chief executive officers, the higher was the likelihood that organizations would choose greenfield investments and acquisitions over joint ventures.

In contrast, research suggests that greater international experience may actually be positively related to more cooperative entry strategies, such as joint ventures and franchises. In a study of the international activity of U.S. firms, Osland, Taylor, and Zou (2001) find that joint ventures are a more appropriate entry strategy for experienced firms than for firms with limited international experience, because more experienced firms have a better understanding of the complexities of managing cooperative arrangements. Correspondingly, it is argued that novice firms may be better suited to more independent modes of entry, such as greenfield ventures (Osland, Taylor, and Zou 2001). In accordance with the findings and sound reasoning that Osland, Taylor, and Zou present, we hypothesize the following:

H_{3b}: International experience has a significant, negative association with entry strategy.

A significant relationship also exists between an organization's international experience and the degree of adaptation of retail strategy (Birnik and Bowman 2007; Cavusgil and Zou 1994; Douglas and Wind 1987; Leonidou 1996; Zou and Cavusgil 2002). Douglas and Wind (1987) and Cavusgil and Zou (1994) both show that internationally experienced organizations are more likely to adapt their products. In the specific case of Japanese product firms operating in the Middle East, Leonidou (1996) finds that organizations with a longer presence in the market adapted their products more than those with less experience. In contrast, the findings of Zou and Cavusgil (2002) suggest that internationally experienced organizations are more likely to pursue global marketing strategies and to standardize their marketing mix. This finding notwithstanding, extant literature tends to support the contention that an internationally experienced organization has a greater understanding of the unique conditions in foreign markets and, as a result, is more likely to adapt its retail strategy. Moreover, organizations that have experience in foreign markets have learned from both past successes and failures, which can result in a greater willingness to adapt the elements of their retail strategy that are culturally sensitive. Thus, we hypothesize the following:

H_{3c}: International experience has a significant, positive association with retail strategy.

Strategy Implications

Entry Strategy. Research into the factors influencing entry strategy choice has identified psychic distance and cultural distance as key explanatory factors (Barkema, Bell, and Pennings 1996; Brouthers and Brouthers 2003; Kogut and Singh 1988). However, this research has produced conflicting results (Tihanyi, Griffith, and Russell 2005). We identified two opposing arguments in the literature. On the one hand, when an organization enters a distant market, it is more likely to adopt a low-cost/low-control entry strategy that incorporates an indigenous organization (Luo and Chen 1995). This argument is based partly on the premise that low-cost/low-control modes of entry enable and possibly force foreign organizations to delegate certain management functions to local management. The local management has more experience and knowledge of the unique conditions in the market. On the other hand, greater psychic distance actually leads organizations to adopt an entry strategy that is more independent. This is attributed to the problems encountered by "double-layered acculturation," in which an organization must adjust to both national and organizational cultures when entering the market through strategies that share control with local management, such as joint ventures (Barkema, Bell, and Pennings 1996).

Despite the sound reasoning of both arguments, empirical evidence overwhelmingly supports the contention that psychic distance leads firms to adopt an entry strategy that reduces the cost and risk of the foreign investment. In a study of 228 foreign entries into the U.S market, Kogut and Singh (1988) find that greater cultural distance increases the likelihood that joint ventures will be adopted rather than wholly owned enterprises and controlled acquisitions. This finding is consistent with that of Gatignon and Anderson (1988), who support the hypothesis that sociocultural differences encourage entry modes that involve lower commitment. In an international retailing context, Treadgold (1988) finds that retailers operating in similar or familiar markets adopt high-cost/high-control strategies, whereas those in more distant markets adopt low-cost/low-control strategies. In addition, Hennart and Larimo (1988, p. 534) attribute Japanese firms' preference for using a joint venture entry strategy in the U.S. market to "the need for a joint venture partner who can make sense of a strange and threateningly different environment and who can take over some of the culturally sensitive tasks."

Padmanabhan and Cho's (1996) study is the only one to date that supports a positive relationship between psychic distance and entry strategy. The results indicate that Japanese firms prefer to enter culturally distant markets using a full-ownership strategy. In general, however, the majority of extant literature implies that when a market is perceived as psychically distant, an entry strategy that minimizes resource

commitment and shares control with management in the foreign subsidiary is preferred.

H_{4a}: Psychic distance has a significant, negative association with entry strategy.

Although the majority of research into the relationship between entry strategy and performance focuses on comparisons between wholly owned organizations and joint ventures, there is strong support for the superior performance of high-cost/high-control entry strategies (Brouthers 2002; Li and Guisinger 1991; Luo and Chen 1995). Li and Gusinger (1991) examine differences in the performance of three ownership-based entry strategies (i.e., greenfield ventures, acquisitions, and joint ventures) and conclude that when external factors are controlled, wholly owned greenfield ventures are more successful. Woodcock, Beamish, and Makino (1994) also hypothesize that greenfield ventures will outperform joint ventures and acquisitions. With a sample of 321 entries of Japanese manufacturing firms in North America, they find significant support for the superior performance of greenfield ventures. Moreover, in a comparison of wholly foreign-owned and joint ventures in China, Luo and Chen (1995), show that wholly foreign-owned enterprises performed better than joint ventures. Specific indicators of this superior performance included asset efficiency, financial risk aversion, and export growth.

We attribute this positive relationship between high-cost/high-control entry strategies, such as greenfield ventures, and organizational performance to several factors. First, when organizations devote substantial financial resources to a new venture in a foreign market, they take steps to protect their investment. Second, the managerial time and effort devoted to high-cost/high-control entry strategies can result in more effective strategic decision making, both in the given foreign market and across foreign operations in general. This can help the organization achieve economies of scale, which yield both financial and strategic dividends. Third, although low-cost/low-control entry strategies often facilitate rapid international expansion, they may not be as strategically effective as high-cost/high-control strategies because of possible difficulties encountered in enforcing franchise agreements or disagreements with partners over different business practices, objectives, or decision-making authority. Thus, we can infer that high-cost/high-control entry strategies perform better than low-cost/low-control entry strategies because they minimize coordination costs.

Although the existing research contributes substantially to the debate surrounding the relationship between entry strat-

egy and organizational performance, no studies have yet examined the effect of all the different modes of entry on organizational performance across a range of countries in the context of international retailing. The literature implies that when a market is perceived as psychically distant, an entry strategy that minimizes resource commitment and shares control will be preferred. However, the literature also suggests that an entry strategy involving more control and a greater commitment of resources, such as greenfield ventures, will be more successful. Thus, we hypothesize the following:

H_{4b}: Entry strategy has a significant, positive association with organizational performance in terms of (i) financial performance and (ii) strategic effectiveness.

H_{4c}: Entry strategy mediates the relationship between psychic distance and organizational performance in terms of (i) financial performance and (ii) strategic effectiveness.

Retail Strategy. In an international retailing context, the degree of standardization and adaptation of retail strategy refers to a broad set of strategy elements that constitute the retail offer, including merchandise, customer service, price, in-store customer facilities, store atmosphere, after-sales service, and overall image (McGoldrick 1998). It is unlikely that an international retailer would be able or willing to standardize all these strategy elements. Thus, the continuum perspective of standardization–adaptation is as appropriate in a retail context as it is in the export-dominated literature (Ryans, Griffith, and White 2003; Waheeduzzaman and Dube 2004).

The standardization–adaptation debate tends to focus on the key drivers of standardization and adaptation. Proponents of standardization argue that the feasibility of a predominantly standardized strategy is driven by the similarity of market conditions (Birnik and Bowman 2007; Katsikeas, Samiee, and Theodosiou 2006; Ozsomer and Simonin 2004; Zou and Cavusgil 2002). They suggest that an increasing convergence of cultures, lower trade barriers, and regional economic integration have enabled international organizations to achieve economies of scale and more consistent positioning across markets through a standardized retail strategy. In contrast, supporters of adaptation argue that developed countries are actually diverging and that markets are becoming more heterogeneous (Ryans, Griffith, and White 2003).

Boddewyn and Grosse's (1995) longitudinal study identifies the primary factors impeding standardization as differences in government regulations, consumer tastes and habits,

nationalistic sentiments, competition, and technical requirement. In a case study of IKEA, Martenson (1987) argues that if managers believe that cultural differences are significant, they are more likely to adapt their retail offer. In a study of international firms operating in Turkey, Ozsomer, Bodur, and Cavusgil (1991) find a positive relationship between the standardization of marketing strategies and the similarity of the nature of competition, retail structure, target consumer segments, and marketing legislation. Chhabra (1996) also shows that the primary reasons for adapting retail strategies are differences in market infrastructure, government regulations, language, and product usage conditions.

Of the environmental factors identified as influencing the degree of standardization and adaptation adopted by organizations operating in foreign markets, many can be categorized as either cultural or business similarities and differences. As such, it can be argued that psychic distance is associated with adaptation of retail strategy. We argue that international retailers may choose to adapt elements of their retail strategy to increase the likelihood that the format will be attractive to consumers in different foreign markets. Organizations may be forced to adapt some elements of their strategy because the existing offer is unacceptable to governing bodies of foreign countries or does not comply with existing regulations (Evans and Bridson 2005). Thus, we hypothesize the following:

> H_{5a}: Psychic distance has a significant, positive association with retail strategy.

The performance implications of standardization and adaptation are a primary source of conflict in the international marketing literature (Birnik and Bowman 2007). Several studies have shown a positive relationship between standardization and performance (Okazaki, Taylor, and Zou 2006; Ozsomer and Simonin 2004; Zou and Cavusgil 2002). However, research has also identified a positive relationship between adaptation and performance (Cavusgil and Zou 1994; Shoham 1996). The most consistent finding is a strong positive association between product adaptation and performance. Cavusgil and Zou (1994) tested the strategy–performance relationship in the context of export ventures. They find that both product adaptation and support for the foreign distributor positively affect performance. However, their research does not support the relationship between price competition and performance and refutes the relationship between promotion adaptation because it resulted in poor performance. Shoham (1996) also investigates the relationship between marketing strategy adaptation and performance in the export context. He finds that adaptation of the number of product lines, price, and advertising content

positively affects performance. However, adaptation of product quality, services, and design does not significantly affect performance. Furthermore, Shoham shows that adaptation of the number of items sold and promotion budgets negatively affects performance. Therefore, he argues that the results support a predominantly adapted marketing strategy.

Zou, Andrus, and Norvell (1997) examine the degree of standardization of international marketing strategy in a developing country context. Their results suggest that standardization of core products and pricing increases export intensity. In contrast, standardization of peripherals, such as brand names, features, and product warranties, in addition to customer service levels, reduces export intensity. In a study of 126 Greek manufacturing export firms, Nakos, Brouthers, and Brouthers (1998) find that organizations that adapt their products to suit the foreign market perform better than firms that offer a standardized product to all foreign markets. Thus, the results of both studies support Zou, Andrus, and Norvell's conclusion that firms should think globally but act locally.

The international retailing literature also supports this argument (Clarke and Rimmer 1997; Dupuis and Prime 1996; McGoldrick 1998; Segal-Horn and Davison 1992). McGoldrick (1998) suggests that most international retailers need to adapt at least some elements of their offer to the specific conditions and needs of the foreign market. This is consistent with Segal-Horn and Davison's (1992, p. 50) observation that "one of the most important things that has been learnt by international retailers is that formats, merchandising, store design, and store location often have to be [customized] to local conditions to achieve success." Research also shows that a lack of adaptation of the retail offer negatively affects the performance of international retail operations. Dupuis and Prime (1996) identify the lack of adaptation to American consumer preferences for the one-stop shopping concept as a primary reason for the failure of French-based hypermarket operators in the U.S. market. Similarly, they partially attribute the success of Carrefour, the leading French hypermarket operator in the Asian region, to its willingness to adapt its concept to the local situation. Furthermore, Clarke and Rimmer (1997) credit Daimaru's (a Japanese department store group) initial poor performance in Australia to its lack of adaptation. Daimaru had attempted to replicate both its offer and market position in Australia. However, the different competitive and consumer conditions forced the company to rethink its position and ultimately adapt its offer. Therefore, a retail offer that is adapted more to the needs of the foreign market will be superior to one that is based on a standardized strategy. Thus, we hypothesize the following:

H_{5b}: Retail strategy adaptation is positively associated with organizational performance in terms of (i) financial performance and (ii) strategic effectiveness.

H_{5c}: Retail strategy adaptation mediates the relationship between psychic distance and organizational performance in terms of (i) financial performance and (ii) strategic effectiveness.

METHODOLOGY

The sample for our study consisted of randomly selected nonfood retail operations. In accordance with Cavusgil and Das's (1997) guidelines for sample selection, we asked Dun & Bradstreet to provide a sample frame containing a random selection of retailers that satisfied the following criteria: (1) ran nonfood retail operations; (2) operated in at least three foreign markets; and (3) were based in the United States, the United Kingdom, Europe, or the Asia-Pacific region. The final sample frame used in the study included 768 companies.

Questionnaires were distributed internationally to senior executives who were responsible for either international business development or international retail strategy. We used the mail survey method to collect data from respondents through a formal structured questionnaire. The study adopted the three key principles advocated by Dillman's (1991) total design method: minimize the cost for the respondent, maximize the reward for responding, and establish trust. As a means to minimize the cost of responding, an international reply-paid envelope was enclosed with each questionnaire. Respondents were also given the option of returning the questionnaire by facsimile. To reward the respondent for participating in the study, we included a small token of appreciation, a pen, with the questionnaire. Moreover, we promised all respondents a summary of the results. We emphasized the importance of the study for international retailers to convey the altruistic reward. Finally, we established trust by using university letterhead for both the letter and the cover of the questionnaire.

We received 183 responses, consisting of 102 usable questionnaires; 57 respondents declined, and 24 submitted incomplete questionnaires. Thus, the final effective response rate was 13%, amounting for a sample of 204 international retail operations because we asked respondents to answer all questions twice, once for a retail operation in a psychically close market and once for a retail operation in a psychically distant market. We asked respondents to nominate a psychically close foreign market and a psychically distant foreign market in which their organization operated. Respondents received a definition of psychic distance on which to base their decision.

In terms of the characteristics of the sample, the majority of organizations in the sample were based in the United Kingdom (24%), the United States (27%), and Germany (27%). The majority of respondents identified countries in Western Europe (68%) and North America (20%) as their psychically closest market and countries in Asia (60%) and Eastern Europe (28%) as their most psychically distant market. The majority of respondents (58%) were between the ages of 35 and 54 years, 31% had made between 16 and 30 trips to foreign countries in the past three years, and 33% had lived in a foreign country for one to five years; an additional 17% had lived in a foreign country for six to ten years. In terms of the type of retailers represented in the sample, specialty retailers accounted for the majority (82%) of the sample, and general merchandise retailers made up only 18% of respondents. This is consistent with the international activity of these retail sectors: Specialty retail formats have internationalized at a greater rate than general merchandise retailers. Finally, the most common modes of entry in psychically close markets were greenfield ventures (29%), acquisitions (27%), and joint ventures (21%), whereas joint ventures (46%) and franchising (23%) were the most common modes in psychically distant markets.

Measures

The Appendix lists the measurement items for all constructs. We based the scale for centralization of decision making on existing measures (Jaworski and Kohli 1993). We measured international experience in terms of the number of years operating in foreign markets and the number of foreign markets in which the organization currently operates. Brewer (2007, p. 61) argues that "the measurement of a cognitive phenomenon (e.g., psychic distance) must be improved through the measurement of more rather than less of its elements." In line with this, we measured the psychic distance construct in terms of both cultural and business distance (Evans and Mavondo 2002). We based the cultural distance measures on Hofstede's (1991) definitions and descriptions of the five dimensions of national culture, so that the items captured the perception of differences across general aspects of a country's values and attitudes. We developed new measures on the basis of a review of international business, marketing, and retailing literature for the legal and political environment, economic environment, market structure, business practices, and language. We asked respondents to indicate the degree to which the foreign market was similar to or different from the home market on a seven-point scale (1 = "totally the same," and 7 = "totally different"). We calculated a composite index of both cultural distance and business distance and used it as a basis for the psychic distance construct (Evans and Mavondo 2002). We based this index on Kogut and Singh's (1988) formula for cultural distance, which is represented algebraically as follows:

$$CD_j = \sum_{I-1}^{n} [(I_{ij} - 1)^2/V_i]/n,$$

where CD_j or BD_j is the cultural or business differences of the jth foreign market from the home market, I_{ij} represents the index of the ith cultural or business dimension and the jth market, 1 signifies the home market, and V_i is the variance of the index of the ith dimension. We then averaged these two indexes to provide a composite index of psychic distance, which we calculated for both the close and the distant markets.

Regarding entry strategy, we did not want respondents to decide subjectively whether their entry strategy was at the high or low end of the cost/control continuum because we could not ensure that all respondents would base their answer on the same criteria. Consequently, we measured entry strategy by asking respondents to indicate the entry strategy used in their close and distant markets, respectively. We then coded entry strategies on a scale ranging from 1 ("low cost and control") to 6 ("high cost and control"). The alternative responses were (1) concession, (2) nonequity strategic alliance, (3) franchise, (4) equity joint venture, (5) acquisition, and (6) greenfield. We drew items for retail strategy from the work of McGoldrick and Blair (1995) and included the key aspects of the retail offer. We asked respondents to indicate the degree to which the retail strategy in the psychically close and distant foreign markets was similar to or different from that in the home market on a seven-point scale, ranging from 1 ("totally the same") to 7 ("totally different").

We based the measurement scales for performance on existing measures (Cavusgil and Zou 1994; Shoham 1996). We measured performance in terms of both financial performance and strategic effectiveness. With regard to measures of financial performance, we asked respondents to indicate the extent to which several financial indicators had changed in the last three-year period on a seven-point scale (1 = "decrease of more than 20%," and 7 = "increase of more than 20%"). We measured strategic effectiveness using a seven-point scale (1 = "very unsuccessful," and 7 = "very successful").

Given the relatively small sample size, after initially establishing the psychometric properties of the measures individually, we developed item parcels to enable all the variables to be entered into one model to test for discriminant and convergent validity. The procedure developed here closely follows that of Landis, Beal, and Tesluk (2000). We tested various approaches to allocating items to parcels, and they all led to similar psychometric findings. Using this approach enabled us to maintain the relationship between

distinct parameters to be estimated to a sample size of 1:5, which is considered robust and desirable.

Measure equivalence is an important issue in conducting research that involves potentially qualitatively different samples. The factors likely to be affected by a lack of measure equivalence were the new scales for psychic distance (i.e., cultural distance and business distance). First, we tested these for measure equivalence on the basis of psychically close or distant operations. The baseline model involving no equality constraints showed that the conceptual equivalence could not be rejected because $\chi^2 = 108.128$, d.f. = 48, Cmin/d.f. = 2.253; goodness-of-fit index (GFI) = .898; normed fit index (NFI) = .920; Tucker–Lewis index (TLI) = .930; comparative fit index (CFI) = .953; and root mean square error of approximation (RMSEA) = .07, which showed an acceptable fit to the data. This supports the fact that the latent factors and indicators map the same constructs. Second, we imposed equality constraints on the factor loading across the two samples. This is considered a test of weak metric invariance (Vandenburg and Lance 2000). This model is pitted against the baseline model. The appropriate test is the chi-square difference. If imposing the equality constraints leads to significant deterioration of the fit measures, the equality of factor loadings is rejected. The chi-square test ($\Delta\chi^2 = 5.872$, Δd.f. = 7, $p >$ .75) supports the equality of factor loadings across the samples. Imposing equality constraints on either the intercepts (strong factorial invariance) or the error terms (strict factorial invariance) showed that the model would be rejected. However, in cross-cultural research, the establishment of metric invariance is considered adequate to establish construct equivalence. We noted that the correlation between cultural distance and business distance was .96 and the two constructs lacked discriminant validity ($\Delta\chi^2 = 3.264$, Δd.f. = 1, $p >$ .05). This validated our argument in conceptualizing psychic distance as a composite of both cultural and business distance and enabled us to combine the two into one second-order factor for psychic distance for any further analyses (see Table 1). Table 1 shows that though the correlation between financial performance and achievement of strategic objectives is large (.925), a chi-square difference test ($\Delta\chi^2 = 4.267$, Δd.f. = 1, $p < .05$) established discriminant validity. Moreover, Table 1 shows that the chi-square difference between cultural distance and retail strategy (.848; $\Delta\chi^2 = 38.916$, Δd.f. = 1, $p <$ .001) and between business distance and retail strategy (.828; $\Delta\chi^2 = 46.274$, Δd.f. = 1, $p < .001$) indicates that discriminant validity is supported by constraining the covariance to one (unit) and comparing this with the unconstrained model.

Because we obtained all measures from the same respondent at the same time, it was necessary to establish whether common method variance (CMV) was a problem that threatened

Table 1.
Correlations, Internal Consistency, and Average Variance Extracted

	Internal Consistency	1	2	3	4	5	6	7
1. Cultural distance	.943	.944						
2. Business distance	.967	.962	.966					
3. Centralization	.818	.059	.09	.807				
4. International experience	.739	–.048	–.007	–.146	.738			
5. Retail strategy	.973	.848	.828	.103	–.075	.882		
6. Financial performance	.927	.104	.095	–.175	.058	.053	.874	
7. Strategic performance	.880	.176	.158	–.151	–.119	.090	.925	.881

Notes: Diagonal figures are the square root of the average variance extracted; figures in the table are correlations.

the findings. We performed this using Harmen's one-factor model test (McFarlin and Sweeney 1992; Olson, Slater, and Hult 2005). The rationale for this analysis is that if CMV poses a serious threat to the analysis, a single latent factor would account for all manifest variables (Podsakoff and Organ 1986). A worse fit for the one-factor model would suggest that CMV does not pose a serious threat (Olson, Slater, and Hult 2005; Sachez, Korbin, and Visdoes 1995). The one-factor model's fit statistics (χ^2 = 1179.548, d.f. = 77, Cmin/d.f. = 15.319; GFI = .553; NFI = .574; TLI = .513; CFI = .588; and RMSEA = .266) showed that this model does not fit the data. This suggests that CMV is not likely to be a problem threatening the interpretation of the findings. Furthermore, the results in Table 1 show low correlations among the factors, indicating low probability of CMV.

We checked all measures for convergent validity by performing a confirmatory factor analysis for each construct. We evaluated the models for their psychometric properties and model fit (see the Appendix). To test for discriminant validity, we used the method that Fornell and Larcker (1981) suggest, which involves comparing average variance extracted for the indicators of each latent factor and the covariance of the latent factors. We conducted this test for all latent variables that belonged to the same conceptual domain, such as the dimensions of cultural and business distance. In all cases, average variance extracted was much larger than the covariance, leading us to conclude that discriminant validity was satisfied using one of the most stringent specifications. We report the corresponding Cronbach's alphas for all the constructs in the Appendix.

RESEARCH FINDINGS

On the basis of the conceptual framework depicted in Figure 1, we used a path model with AMOS Version 5.0 to test all

hypotheses. A $\chi^2 = 6.01$, d.f. = 4, $p = .20$; GFI = .99; adjusted goodness-of-fit index (AGFI) = .94; Cmin/d.f. = 1.50; TLI = .98; NFI = .99; CFI = .99; and RMSEA = .05 all indicate that the data fit the proposed model adequately. Table 2 summarizes the results of the path model. The proportion of the variance explained for each of the dependent variables was entry strategy, 27%; retail strategy adaptation, 65%; financial performance, 14%; and strategic effectiveness, 44%.

In relation to the antecedent variables, we found that neither international experience nor centralization influences psychic distance. However, the model provides support for H_{2b} ($p < .01$) and refutes H_{3b} ($p < .001$). Both centralization and international experience influence entry strategy choice. It can be argued that more centralized organizations prefer entry strategies that provide a high level of control for the global headquarters. We also found that international experience has a positive influence on entry strategy. This finding is consistent with previous research (Anderson and Gatignon 1986) and challenges the findings of Osland, Taylor, and Zou (2001). The positive relationship can be attributed to the notion that experience reduces the perception of risk in entering a foreign market. Because this is a common reason for using a local partner, the likelihood of an organization to enter a foreign market through a low-cost/low-control strategy declines as the organization's experience increases. However, there is no support for the influence of organizational factors on retail strategy adaptation; thus, H_{2c} and H_{3c} are not supported. Therefore, we can infer that the decision to adapt the retail strategy is dependent more on the perception of differences between the home and the foreign markets than on the organizational context.

The results provide support for H_{1a} ($p < .001$) and H_{1b} ($p < .01$): Psychic distance is directly and positively related to financial performance and strategic effectiveness. This implies that when retailers recognize that they are entering a significantly different market from their own, they may devote more time and resources to the venture than they would in a similar market. Moreover, organizations may perform better in psychically distant markets because they are able to take advantage of differences. Organizations operating in psychically close markets may find it difficult to establish a clear basis for differentiation; consequently, they will encounter stronger competition from local organizations, which could have an adverse effect on performance. Therefore, this result provides further support for the psychic distance paradox that O'Grady and Lane (1996) propose and on which Evans and Mavondo (2002) elaborate.

In terms of the strategy implications of psychic distance, the findings provide support for H_{4a} ($p < .001$). Psychic distance

Table 2.
Summary of Path Model

Relationships	Direct Effects			Indirect Effects			Total Effects		
	β	SE	t-Value	β	SE	t-Value	β	SE	t-Value
H_{1a}: Psychic distance → financial performance	.10	.02	4.48	–.08	.02	–3.75	.03	.01	2.15
H_{1b}: Psychic distance → strategic effectiveness	.05	.02	2.70	–.02	.02	–.83	.04	.01	2.78
H_{2a}: Centralization → psychic distance	–.28	.37	–.73				–.28	.37	–.74
H_{2b}: Centralization → entry strategy	.21	.07	2.99	.02	.02	.70	.22	.07	3.17
H_{2c}: Centralization → retail strategy	.03	.07	.40	–.06	.09	–.74	–.04	.11	–.35
Centralization → financial performance				–.05	.03	–1.36	–.05	.03	–1.36
Centralization → strategic effectiveness				–.00	.03	–.06	–.00	.03	–.06
H_{3a}: International experience → psychic distance	–.54	.36	–1.50				–.54	.36	–1.49
H_{3b}: International experience → entry strategy	.52	.10	5.00	.03	.02	1.41	.55	.10	5.30
H_{3c}: International experience → retail strategy	.10	.06	1.53	–.13	.08	–1.49	–.03	.11	–.25
International experience → financial performance	.24	.08	2.85	–.12	.05	–2.40	.12	.08	1.51
International experience → strategic effectiveness				.15	.06	2.50	.15	.06	2.48
H_{4a}: Psychic distance → entry strategy	–.06	.01	–3.80				–.06	.02	–3.80
$H_{4b/c}$: Entry strategy → financial performance	–.14	.07	–1.92				–.14	.07	–1.92
$H_{4b/c}$: Entry strategy → strategic effectiveness	.18	.05	3.47	–.09	.05	–1.88	.09	.07	1.18
H_{5a}: Psychic distance → retail strategy	.23	.01	17.85				.23	.01	17.85
$H_{5b/c}$: Retail strategy → financial performance	–.36	.08	–4.70				–.38	.08	–4.70
$H_{5b/c}$: Retail strategy → strategic effectiveness	–.10	.07	–1.51	–.24	.06	–4.15	–.34	.09	–3.82
Financial performance → strategic effectiveness	.68	.06	10.89				.68	.06	10.89

has a significant association with low-cost/low-control entry strategies. This finding implies that when markets are perceived as psychically distant from the home market, a retailer is more likely to adopt an entry strategy that requires less financial commitment and lower levels of sole control. A possible explanation for this finding is that organizations will perceive greater risks in markets that are psychically distant and consequently will try to minimize their financial exposure (Brouthers 1995). It is also possible that entry strategies involving local organizations will be more desirable in distant markets because culturally sensitive tasks can be delegated to the local organization (Hennart and Larimo 1988).

The results indicate that psychic distance increases the degree to which retailers adapt their offer in foreign markets, providing support for H_{5a} ($p < .001$). When retailers perceive a foreign market to be substantially different from their domestic market, they might assume that the retail strategy, in its current form, will not be suitable for the foreign market. Consequently, the decision to adapt the retail strategy may be based on a subjective assessment of market differences. Retailers also might undertake obligatory adaptation in response to differences in the business environment. As Evans and Bridson (2005) report, the perception of market structure, business practices, and language differences necessitate adaptation of the retail strategy. For example, firms would need to adapt elements of the retail strategy such as signage, promotional materials, and care labels on merchandise to suit the language and practices of the foreign market.

The results provide support for $H_{4b(ii)}$ ($p < .05$) because we found that entry strategy has a significant, positive relationship to strategic effectiveness. This finding supports the contention that entry strategies involving high levels of control and a greater commitment of resources will be more successful than low-cost/low-control strategies (Brouthers 2002). Thus, we can infer that greenfield ventures and acquisitions avoid the difficulties associated with enforcing franchise agreements or cooperating with joint venture partners and therefore are more strategically effective. Entry strategy is not related to financial performance, per se. This is not surprising given the multitude of factors that contribute to financial success, many of which are not included in our model.

We found a significant, negative relationship between retail strategy adaptation and financial performance, which is contrary to $H_{5a(i)}$. This finding is consistent with those of Ozsomer and Simonin (2004) and Zou and Cavusgil (2002), and it challenges the extant international retailing literature (Clarke and Rimmer 1997; Dupuis and Prime

1996; McGoldrick 1998). The negative relationship can be explained in terms of the costs associated with adapting the retail strategy. It can be argued that a more standardized strategy achieves economies of scale, which has a positive influence on organizational performance. An adapted retail strategy can also negatively influence organizational performance because foreign retailers that adapt their offer fail to capitalize on their uniqueness, which places them in more direct competition with local organizations and results in poor performance.

In terms of the mediating roles of entry strategy and adaptation of the retail strategy in the relationship between psychic distance and organizational performance, the results support H_{4c} and H_{5c}. Psychic distance has a negative indirect effect and a significant, positive total effect on financial performance and strategic effectiveness, respectively. This suggests that the relationship between psychic distance and financial performance is mediated by entry strategy and retail strategy adaptation. Thus, although psychic distance prompts retailers to adopt low-cost/low-control entry strategies and to adapt their retail strategy, such strategies actually have an adverse effect on the financial performance of the foreign venture.

Finally, although we did not hypothesize it, we found that international experience has a significant, positive direct effect on financial performance. This differs from the findings of previous studies (Katsikeas, Piercy, and Ioannidis 1996; Nakos, Brouthers, and Brouthers 1998), which predict but do not find a significant relationship between international experience and export performance. This implies that internationally experienced retailers will perform better than those with less experience in foreign markets.

CONCLUSION

The findings of this study enrich the literature on international marketing and, more broadly, international business. First, the study builds on the work of Brewer (2007), Dow and Karunaratna (2006), Evans and Mavondo (2002), and Sousa and Bradley (2006). The study empirically validates the explanatory power of psychic distance, not just in terms of organizational performance but also in relation to international marketing strategies. Second, the study contributes to the understanding of the psychic distance phenomenon by examining two organizational antecedents—international experience and centralization of decision making.

Third, the findings reveal that whereas retail strategy is driven by psychic distance alone, entry strategy is influenced by a multitude of factors. The significant association between centralization and entry strategy is particularly

important because this relationship has not been empirically examined before. The positive relationship between international experience and entry strategy adds further support for the argument that organizations with greater international experience are more confident when expanding into foreign markets and therefore are more willing to take control over the foreign operation and commit substantial resources (Agarwal 1994; Anderson and Gatignon 1986; Caves and Mehra 1986). Furthermore, the significant association between psychic distance and low-cost/low-control entry strategies helps resolve the current conflict in the literature (Tihanyi, Griffith, and Russell 2005). This finding adds further weight to the argument that organizations in distant foreign markets use entry modes that enable them to delegate certain management functions to local management (Luo and Chen 1995). With regard to retail strategy, the majority of research explores the influence of a range of environmental factors on the degree of standardization and adaptation of marketing strategy. This study, in conjunction with Evans and Bridson's (2005), is one of the first to examine specifically the effect of psychic distance on retail strategy.

Fourth, the model we examined herein explains a reasonable proportion of the variance in organizational performance: 18% of the variance of financial performance and 44% of strategic effectiveness. International experience, psychic distance, entry strategy, and retail strategy adaptation are significant drivers of organizational performance and can be considered critical success factors in international retailing. The empirical examination of entry strategy and organizational performance is particularly important because the majority of extant literature focuses on a comparison between wholly owned ventures and joint ventures only (Brouthers 2002). This study adopts a novel cost/control continuum to examine the relationship between psychic distance and a wide range of entry strategies. Finally, in accordance with Leonidou, Katsikeas, and Piercy (1998) and Vida, Reardon, and Fairhurst (2000), this study expounds an industry-specific approach. The conceptual framework illustrates that many of the concepts from export marketing can be applied and adapted to the retail context, and we hope that this model will be applied to other underresearched areas, such as international services, not-for-profit sectors, and international e-commerce.

Managerial Implications

The findings of this study have several implications for international marketing managers. The study suggests that marketing managers should not always look for the markets that are most similar to their home market because these can be fraught with difficulties. In contrast, in psychically distant markets, an organization may face less direct competition, have a greater ability to differentiate, and can capitalize on a

growing market. Because we identified international experience as a critical success factor, we advise marketing managers to accumulate as much international experience as possible. This can be done in several ways, from operating in foreign markets to acquiring or partnering with internationally experienced organizations. In addition, organizations will benefit from hiring internationally experienced staff and establishing training and professional development protocols that enhance the experience of existing staff.

This study suggests that in entering psychically distant markets, retailers adopt low-cost/low-control entry strategies and adapt their retail strategy to a greater extent than in psychically close markets. Intuitively at least, this would seem to be the best course of action. The strategic fit view of international marketing indicates that organizations will achieve success by adjusting their strategies to suit the foreign market environment. However, the findings of the current study suggest that such strategic responses have an adverse affect on performance. Although low-cost/low-control entry strategies typically require less commitment from the organization than high-cost/high-control strategies, they are also less strategically effective. This highlights the usual trade-offs with which international retailers must deal. However, if firms prioritize long-term strategic effectiveness, a greater degree of commitment to and control over the foreign venture is important. Furthermore, adaptation of the retail strategy can be costly in several ways, including loss of the ability to capitalize on both economies of scale and the synergies afforded by a globally consistent image and store experience. It is also possible that international retailers in particular have adapted too much to the differences in the foreign markets and lost their basis of differentiation. Therefore, the results imply that international retailers may need to be bolder in their international ventures and maintain the retail strategy that was the foundation for their success in their domestic market.

Limitations and Further Research

Although our research provides additional insight into the psychic distance phenomenon, we should note several limitations. First, we examined two aspects of the organizational context only. Other factors such as the ownership, resources, and capabilities of the organization should be studied in the future. Second, we relied on the key informant method. We assumed the perceptions of one senior executive from each organization to be representative of the organization as a whole. Although previous psychic distance studies adopt this approach (e.g., O'Grady and Lane 1996), we recognize that the perception of differences in the organization can vary by level of respondent. Moreover, given that we did not find a significant relationship between the organizational factors and psychic distance, exploration of the impact of

personal characteristics on psychic distance could provide a strong contribution to this field. Third, we administered the survey in English only, which might have resulted in a reduced response rate from some European countries. Fourth, the composition of the sample limits the generalizability of the findings somewhat. We restricted our study to nonfood retailers. Further research could replicate the study with international food retailers or extend the study to other industry contexts.

Appendix. Items, Reliability, and Convergent Validity

	Measure	α/Confirmatory Factor Analysis
Antecedents		
Centralization	• Actions can be taken by middle-level managers in this company without the need for approval of senior management.	α = .814, χ^2 value = 1.977, d.f. = 2, $p < .372$, Cmin/d.f. = 1.00; GFI = .995; AGFI = .975; RMSEA = .000
	• Operational decisions do not have to be referred to senior management for a final answer.	
	• Making decisions without the approval of senior management is discouraged in this company.	
	• Middle-level managers are encouraged to make decisions in this company.	
International experience	• Number of years operating in foreign markets.	α = .613
	• Number of foreign markets in which the organization currently operates.	
Cultural Distance		
Power distance	• Degree of inequality among people.	α = .941, χ^2 value = 11.478, d.f. = 7, $p < .119$, Cmin/d.f. = 1.640; GFI = .981; AGFI = .944; RMSEA = .056
	• Salary range between the highest and lowest paid in organizations.	
	• Importance of social status symbols.	
	• Importance of equality before the law.	
	• Basis for achieving positions of power and influence.	
	• Usual method of political change (i.e., evolutions of rules or revolution).	
Individualism/ collectivism	• Importance of loyalty to close groups (i.e., family and friends).	α = .945, χ^2 value = 7.052, d.f. = 3, $p < .070$, Cmin/d.f. = 2.351, GFI = .986; AGFI = .932; RMSEA = .082
	• Recognition of a right to privacy.	
	• Freedom of the press.	
	• Respect for individual freedom.	
	• Importance of consensus in society.	

Appendix. Continued

	Measure	α/Confirmatory Factor Analysis
Masculinity/ femininity	• Importance of caring for others. • Importance of material success. • Degree to which women are *expected* to be assertive and ambitious. • Primary means of resolving interpersonal conflicts (i.e., compromise or confrontation).	α = .873, χ^2 value = 1.696, d.f. = 1, $p < .193$, Cmin/d.f. = 1.696; GFI = .996; AGFI = .959; RMSEA = .059
Uncertainty avoidance	• Openness to change and innovation. • Faith in young people. • Tolerance of differences (i.e., religious, political, and ideological). • Reliance on rules to govern behavior. • Acceptability of displaying emotions.	α = .910, χ^2 value = 5.331, d.f. = 3, $p < .149$, Cmin/d.f. = 1.777; GFI = .990; AGFI = .949; RMSEA = .062
Long-term orientation	• Degree to which traditions are respected. • Importance of thrift. • Importance of personal reputation and honor. • Importance of working hard for long-term success. • Importance of virtue.	α = .927, χ^2 value = 5.640, d.f. = 4, $p < .228$, Cmin/d.f. = 1.410; GFI = .989; AGFI = .958; RMSEA = .045
Business Distance		
Legal and political environment	• Stability of political structure. • Ideology of national government. • Planning legislation. • Consumer protection legislation. • Business ownership legislation. • Licensing legislation. • Competitive practices legislation.	α = .975, χ^2 = 19.070, d.f. = 12, $p < .087$, Cmin/d.f. = 1.589; GFI = .974; AGFI = .938; RMSEA = .054
Market structure	• Physical distribution systems. • Number of large multiple chains in the market sector. • Share of the market sector held by one or a group of retailers. • Number of direct competitors. • Strength of competitors.	α = .921, χ^2 value = 4.345, d.f. = 2, $p < .114$, Cmin/d.f. = 2.173; GFI = .992; AGFI = .937; RMSEA = .076
Economic environment	• Gross domestic product (GDP) per capita. • Contribution of primary production to GDP. • Capacity of the banking sector. • Country's exposure to economic risks.	α = .942, χ^2 value = 12.012, d.f. = 6, $p < .062$, Cmin/d.f. = 2.002; GFI = .981; AGFI = .934; RMSEA = .070

Appendix. Continued

	Measure	α/Confirmatory Factor Analysis
	• Level of demand for goods and services.	
	• Stability of demand for goods and services.	
Business practices	• Basis for rewards and recognition of staff and management.	α = .956, χ^2 value = 17.547, d.f. = 11, $p < .093$, Cmin/d.f. = 1.595; GFI = .974; AGFI = .935; RMSEA = .054
	• Terms and conditions of employment.	
	• Setting budgets.	
	• Setting operating procedures.	
	• Credit and financial arrangements with banking institutions.	
	• Use of contracts in business dealings.	
	• Concept of fair dealing	
Language	• Language used to communicate in business transactions.	α = .944
	• Language used to communicate in social settings.	
Retail Strategy		
	• Merchandise quality.	α = .955, χ^2 value = 12.971, d.f. = 10, $p < .225$, Cmin/d.f. = 1.297; GFI = .982; AGFI = .950; RMSEA = .038
	• Level of customer services.	
	• Pricing strategy.	
	• In-store customer facilities.	
	• Store atmosphere.	
	• Provision of after sales service.	
	• Overall image presented to the customer.	
Organizational Performance		
Financial performance	• Return on assets.	α = .905, χ^2 value = 3.068, d.f. = 2, $p < .216$, Cmin/d.f. = 1.534; GFI = .993; AGFI = .963; RMSEA = .051
	• Return on investment.	
	• Return on sales.	
	• Sales.	
Strategic effectiveness	• Achievement of strategic objectives.	α = .882
	• Satisfaction with overall performance.	

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