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The Psychic Distance of the Enterprise Internationalization

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Abstract: Firstly, this article defines the basic concept of the psychic distance, analyzes the influencing factors of psychic distance and establishes an evaluation model based on fuzzy comprehensive evaluation on the basis of psychic distance. On this basis, the paper made it clear that the psychic distance is an important factor to affect international development of enterprises. When enterprises want to enter the international market, they should choose the national market which perceptual similarity, namely the psychic distance similar country market access to enter.

Keywords: Internationalization, Psychic distance, Measurement, Treatment

1. INTRODUCTION

The concept of the psychic distance was first used by W.Beckermann's paper which published in the Review of Economics and Statistics journal in 1956 and gradually become an important reference enterprise to select target market during its internationalization. However, it has not formed a more consistent point of the concept of the psychic distance and its measurement by the domestic and foreign research. In this paper, it will be construct the measurement system of psychic distance base on the definition of the concept of psychic distance in order to expand the related research about the psychic distance.

2. CONCEPT DEFINITION OF PSYCHIC DISTANCE

Psychic distance is a concept proposed by Nordic scholars for the explanation and description of the behavior of corporate international. UPPASALA model is defined the psychic distance as the sum of factors that prevent information passed between the market and the enterprise, including language, culture and political system, level of education and economic development stage etc. Nordic scholars believe that when enterprises are facing different foreign markets choose they follow the principle of the psychological distance from near to far. Since then, the concept of psychic distance in the international literature is widely accepted and used. Hallen and Wiedersheim-Paul (1984) pointed out that the psychic distance is the differences in perception of the buyers and sellers on the supply and demand. Nordstrom Vanlne (1994) pointed out that the psychic distance is factors that discourage firms from overseas market knowledge. Grady lane (1996) pointed out that the psychic distance is the uncertain level of enterprises which due to cultural and other difficulties which affect they are unable to obtain the relevant overseas market knowledge.

Sum up the scholars' definition and discussion about the psychic distance, this paper argues that psychic distance is a difference in feelings which is formed because of the differences in political, economic, cultural and environmental aspects of the home and host countries when the enterprises conduct international operations activities. The greater difference of the environment between home and host country, the farther psychic distance are.

Psychic distance has a very important impact on multinational business operations as many literatures pointed out that the psychic distance is an important factor that decides the choice of national markets for enterprise. Specifically, the psychic distance as perceived differences between home market and overseas market affect transnational business behavior from the following two aspects:

First, when enterprises face different overseas markets, they first select the countries that are same with the

home in market conditions and cultural background. That is, enterprises' operating overseas have cultural identity. In other words, the process of corporate international operations are often the first to select countries similar to those perceived psychological distance near, and then re-enter the market of those differences. For instance, analyze the process of expansion of Japanese companies from the 1950s to the 1990s, 59% of the expansion is to East Asian and Southeast Asian countries. German enterprises prefer the Netherlands, Belgium and Luxembourg.

Second, in the operating activities of a particular market, the enterprises often Follow a path that from export agency to direct investment. The Stage theory of export behavior explains this by analyzed the export behavior of some companies in Sweden and the United States. It found that companies originally lack of interest on exports and less input of resources due to the overseas market information is lacking and irregular. But when it gains overseas orders through some kind of opportunity, the company began to seek information and to assess the potential export market. Subsequently, with the gradual accumulation of exports experience as well as familiar with the overseas market, the enterprises begin export to closer country and exported to more countries gradually.

3. THE MEASUREMENT OF PSYCHIC DISTANCE INDEX SYSTEM

Analysis of psychic distance shows that the closer the psychic distance between the home country and the overseas market, the less of uncertainties in overseas markets when Its access to overseas markets, the higher the probability of the success of enterprises international operations. Therefore, the psychic distance has become an important basis for enterprises overseas market selection. How to measure the psychological and cultural distance? On the basis of the research from Australian scholar Dr. Paul Brewer, this thesis proposes and builds a psychic distance index to measure the psychic distance.

First of all, it needs to determine the impact factors of psychic distance for Build the psychic distance index. According to the principle of objectivity and the availability of data and on the basis Research on the existing relevant theory literature of market choices, the psychic distance and international business, this paper lists some variables that effects psychic distance as follows:

First, Business Contacts. In general, the closer business contacts between the countries, the more frequent of relevant market information and knowledge flows and the more close the psychic distance is. The business contacts between the countries can be expressed in terms of the level of trade and FDI flows between countries.

Second, Political Contacts. Close political contacts between countries also helps to reduce the psychological distance and will deepen and promote the development of the national information exchange and business relationships. The Political Contacts can be express by a number of bilateral trade agreements between the countries as well as some government assistance projects.

Third, Historical Contacts. The history of the countries and their civil contact will provide some detailed national knowledge. The closer historical contacts, the closer psychic distance is. These contacts may be from the geography between countries bordering or other colonial relationship, war alliance, such as the special relationship between France and other former colonial powers in Africa led to a special kind of business, diplomatic and cultural exchanges. Historical Contacts often indicate by the existence of a colonial relationship or facing a common enemy and other historical contacts between countries.

Fourth, Geographic contacts. Location plays an important role for commercial trade between countries. Because of the transportation costs of the product is directly related to geographical distances. Geographical vicinity will have a transaction cost advantage and also conducive to the flow of information. The shorter of location, the closer of psychological distance is. The transportation distance between the countries is often used to represent geographic contacts.

Fifth, Social contacts. It mainly refers to the similarities and differences in culture, language, sports among countries. The more similar to language and culture and sports between the countries, the more is closer to the psychological distance. Social contacts with the home country and the host country can be measured by the same number in some major sports and similarities and differences of language

Sixth, Information contacts. It mainly refers to accessing knowledge and information about the host country's environment in the home country. This mainly depends on the frequency and number of the home country on national information reported, and the number of the movement of persons between the two countries (immigration and visits visitors, etc.). The more closely of information, the more closely of the information among countries is.

The exposition can be constructed in the following table:

Table 1. National psychological distance between evaluation index systems

Evaluation factors	Metrics	
Business Contacts	1	The bilateral trade volume
	2	FDI stock
Political Contacts	3	Trade Agreement
	4	Defense agreement
	5	Assistance Scheme
	6	Trade institutions
Historical Contacts	7	Colonial relationship
	8	War alliance
Geographic Contacts	9	Geographical proximity
Social Contacts	10	Culture
	11	Sports preferences
	12	Language
Information Contacts	13	Second-hand information available
	14	Immigrant

4. TO DETERMINE THE WEIGHTS OF THE FACTORS OF THE PSYCHIC DISTANCE EVALUATION INDEX SYSTEM

Previous analysis showed that the psychic distance is a concept which is affected by a variety of factors which bring about the psychic distance indicator system is a comprehensive index system that contains a number of evaluations. In this comprehensive index system, the key issue is to determine the relative importance (weight) of the index. The paper uses the Analytic Hierarchy Process (AHP) to determine the weights of each affecting factors of psychological distance. The specific process is as follows:

The first step, create a psychic distance factors affecting hierarchical structure, as shown below:

Table 2. Evaluation of Psychic Distance Hierarchical Structure Diagram

Psychic Distance	Business Contacts
	Political Contacts
	Historical Contacts
	Geographic Contacts
	Social Contacts
	Information Contacts

The second step, Structure psychic distance judgment matrix evaluation factors, as follows:

$$A = \begin{pmatrix} & A1 & A2 & A3 & A4 & A5 & A6 \\ A1 & 1 & 2 & 1/2 & 3 & 2 & 3 \\ A2 & 1/2 & 1 & 1/4 & 2 & 1 & 2 \\ A3 & 2 & 4 & 1 & 5 & 3 & 4 \\ A4 & 1/3 & 1/2 & 1/5 & 1 & 1/2 & 1 \\ A5 & 1/2 & 1 & 1/3 & 2 & 1 & 2 \\ A6 & 1/3 & 1/2 & 1/4 & 1 & 1/2 & 1 \end{pmatrix} \quad (1)$$

The above formula, A1, A2, A3, A4, A5, A6, respectively, represent the psychological distance 6 Evaluation constituent elements, the specific values for the relative importance of each other assignment.

According to the judgment matrix is calculated:

$$\lambda_{max} = 6.124 \quad (2)$$

On this basis, solving deviation consistency index CI:

$$CI = (\lambda_{max} - n) / (n - 1) = (6.124 - 6) / (6 - 1) = 0.0248 \quad (3)$$

Richard from the table of values of the average random consistency index:

$$RI = 1.24 \quad (4)$$

Calculate the random consistency ratio CR:

$$CR = CI / RI = 0.0248 / 1.24 = 0.02 \quad (5)$$

CR < 0.1, that it has satisfied the consistency of judgment matrix.

The third step, solve the weight of each factor of psychic distance. First calculate the product of psychic distance judgment matrix each row element M, and obtain the following vectors:

$$\left[18 \quad 0.5 \quad 480 \quad 0.0167 \quad 0.6667 \quad 0.0208 \right] \quad (6)$$

Calculated 6 the root of M as follows:

$$\left[1.619 \quad 0.891 \quad 2.798 \quad 0.505 \quad 0.935 \quad 0.524 \right] \quad (7)$$

W standardized to obtain the following vector:

$$\left[0.223 \quad 0.123 \quad 0.384 \quad 0.070 \quad 0.128 \quad 0.072 \right] \quad (8)$$

WI is weighting vector of each index factor

According to the calculation results to develop a map specific psychological distance index weights shown in the figure below:

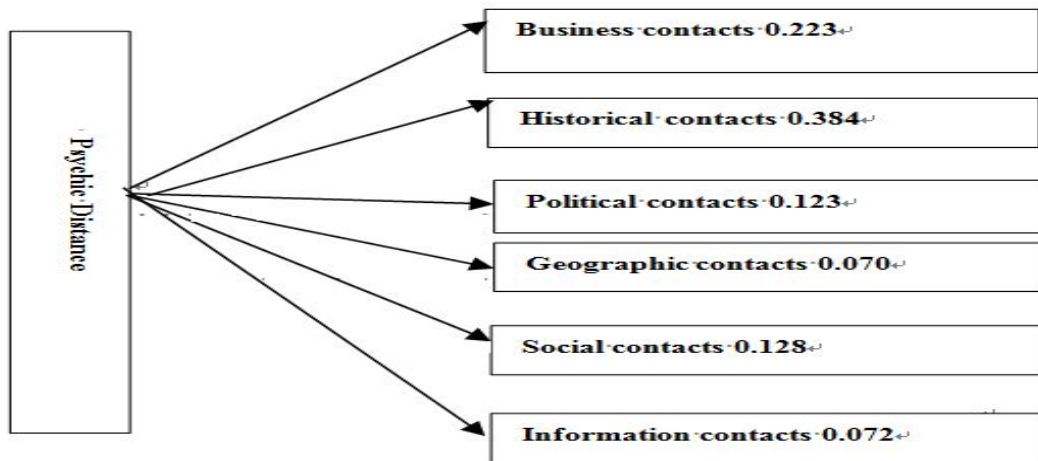


Figure.2 Psychological Distance Constitue Elements of Weighting Diagram

5. CONCLUSIONS

In terms of Internationalization of enterprises, psychic distance is a factor that cannot be ignored. It should apply relevant theories and methods to assess the target country market when Enterprise to enter the international market. First of all, the enterprises which In the initial stage of internationalization, especially those small and medium enterprises should choose those perceptual similarities, namely the psychic distance small country market access that will increase the success probability of developing international market.

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