

OPPORTUNITY DISTANCE RATHER THAN PSYCHIC DISTANCE IN ENTREPRENEURIAL FIRM INTERNATIONALISATION

Sanjay Bhowmick: Auckland University Of Technology, Auckland, New Zealand

~

Contact: Sanjay Bhowmick, Auckland University of Technology, Private Bag 92006, 1142
Auckland, New Zealand, Email: sanjay.bhowmick@aut.ac.nz

Abstract

Extending recent opposition to “psychic distance” as a summary indicator of firm internationalisation, this paper argues that while “psychic distance” affects internationalisation decisions it fails to explain how internationalisation decisions are made by firms in a globalising world today, particularly entrepreneurial technology firms which often internationalise early. It draws from the opportunity paradigm in entrepreneurship literature and posits that entrepreneurial internationalisation decisions are primarily driven by opportunity perception of the entrepreneur. With illustrative data from eight entrepreneurs in the technology space, the paper argues that opportunity perception and psychic distance perception are individual level perceptions of the entrepreneur that combine to determine internationalisation action/intention decisions. This theory building paper proposes “opportunity distance” as a combination metric to explicate entrepreneurial firm internationalisation better.

Keywords: Psychic distance, entrepreneurial opportunity, opportunity distance

INTRODUCTION

The concept of “psychic distance” has been used in traditional internationalisation literature by several scholars to explain internationalisation of firms by way of gradual offshore expansion (Bilkey & Tesar, 1977; Conway & Swift, 2000; Jan Johanson & Vahlne, 1977; J Johanson & Wiedersheim-Paul, 1975). There has however been contrary evidence (Holzmuller & Kasper, 1990) and criticism that it has insufficient explanatory power (Stottinger & Schlegelmilch, 1998). Nor has the origin of “psychic distance” as a concept been established satisfactorily. Bell (1995) suggests Burenstam-Linder’s observation, that trade is favoured between countries at similar level of economic development having similar cultures, as the basis for psychic distance in international trade (Burenstam-Linder, 1961, cited in J. Bell, 1995). The concept has been linked to Hofstede’s research on managers in one large multi-national, multi-location firm (Hofstede, 1980) and several scholars have taken psychic distance to be represented by mean cultural differences between markets *a la* Hofstede (Hofstede, 1980; Kogut & Singh, 1988; Shenkar, 2001; Wilkinson *et al.*, 2008). Apart from the lack of clarity of its origin, psychic distance has not been properly operationalised as an internationalisation indicator variable (Stottinger & Schlegelmilch, 2000). However, its parsimonious nature keeps the concept of psychic distance current in internationalisation research thinking.

This paper proposes that entrepreneurial firms are not guided by psychic distance concerns in their internationalisation initiatives and introduces but are driven primarily by opportunity perception of the entrepreneur. Taking from the opportunity paradigm in entrepreneurship literature, “opportunity distance” is proposed as a new metric that better explains the entrepreneurial internationalisation decision processes. The extant literature on psychic distance and the entrepreneurial opportunity

paradigm in entrepreneurship literature are briefly reviewed before building the “opportunity distance” proposition.

THE LITERATURE AND THE PROPOSITION OF OPPORTUNITY DISTANCE

Psychic Distance Literature

Psychic distance concepts may be enduring in the internationalisation literature but empirical data show that psychic distance is often not a summary determinant of foreign market entry choice. The process/stages models, based on the seemingly elegant concepts of incremental learning through “advantage cycles” and incremental commitment through “establishment chain” (Jan Johanson & Vahlne, 1990), are explicated by “psychic distance” at a psychological level. The Stages theory specifically takes a firm’s knowledge of the foreign market as the variable determining the stage of internationalisation. However, while the need for foreign market knowledge for successful firm internationalisation as articulated in the “advantage cycles” concept seems plausible, various empirical studies have shown contrary event sequences in a firm’s offshore expansion contradicting traditional advantage cycle and psychic distance explanations (Daniels *et al.*, 1976; Davidson, 1980; Gatignon & Anderson, 1988). If advantage cycles operated, it would indicate a relationship between a firm’s foreign market knowledge and the level of control it sets up in offshore operations. However, to recapitulate, Kogut and Singh (1988) found no significant relationship of control sharing preference varying in step with a firm’s prior foreign market experience. Again, Erramilli (1991) reported service sector firms following a U-curve in foreign market commitment, as do O’Grady and Lane (1996) in their Canadian study highlighting a “psychic distance paradox”.

There is also some conceptual unease in the gradual foreign market commitment perspective of the Stages models for entry mode choice. The logic in favour of the Dynamic model of the advantage cycles is that increasing commitment goes with higher/ fuller control of foreign market presence. Yet there is a contrary logic supporting a higher initial control or foreign market commitment due to higher psychic distance concerns. And evidence on this does not converge either. On commitment increasing proportionally with knowledge of foreign markets, Gatignon and Anderson (1988) report observing a greater tendency to employ wholly owned subsidiaries, i.e., a high commitment market presence, with increasing number of prior foreign markets entered by the firm. Davidson’s (1980) study shows high commitment with a firm’s prior manufacturing experience in the host country. With rising experience firms become more knowledgeable and aggressively commit larger resources in foreign markets, more confident of risks vis-à-vis returns (Davidson, 1980; Jan Johanson & Vahlne, 1977) leading to fuller control (Gatignon & Anderson, 1988). However a contrary propensity is also observed. Daniels *et al* (1976) report firms starting with full control foreign market operation and subsequently sharing control as operations get established. Stopford and Wells (1972), on the other hand, report American firms’ first five manufacturing investments outside USA and Canada showing a preference for joint ventures rather than full control in the early stages of internationalisation.

Other studies provide evidence that international experience may have no effect at all on control tendency. While working with Hofstede’s (1980) concept of culture zones, Kogut and Singh (1988) found US entrant firms’ preference for joint ventures over wholly owned subsidiaries increased with larger cultural distance of the host country market from the US. They found no significant relationship of such control sharing preference with the firms’ prior experience in the markets. Some scholars have claimed that the Hofstede (1980) surrogate for psychic distance estimates is flawed. Despite the intuitive appeal of the concept – or perhaps because of it - “psychic distance” has not been operationalised properly in internationalisation research and there has been little agreement on the subject (Brewer, 2007; Dow & Karunaratna, 2006; Stottinger & Schlegelmilch, 2000). Psychic distance as an indicator of foreign market selection and entry mode choice is not well supported in several studies (Child *et al.*, 2002; Ellis, 2008; Evans & Mavondo, 2002; O’Grady & Lane, 1996).

Therefore, theoretically as well as empirically, the path dependent, psychic distance based, incremental stages approach is inadequate in explaining firm internationalisation. The incremental “rings in the water” concept of stages theories is too prescriptive and too linear to explain actions of early internationalisers or born global / international new ventures (INVs) (Madsen & Servais, 1997), which today are often found to be small entrepreneurial firm internationalising in situations of rapidly internationalising markets. Even traditional firms are found not to follow linear incremental internationalisation paths today. If the incrementalist argument of the stages theories did not explain

the many instances of firm internationalisation then the basis of these models, ie, the concept of psychic distance, even when present, could not be instrumental in driving firm internationalisation decisions.

A particularly problematic aspect of the psychic distance argument, largely based on cultural difference, is its exogenous construction dependent on difference between markets – factors that define separation between markets – quite external to the entrepreneur or the firm. Therefore, apart from being an aggregate level concept, it is also exogenous, ie, a metric external to the entrepreneur or firm. In modern times, advances in growth enablers like transportation, information and communication technology have enabled entrepreneurs to overcome distance and time delays and reduce time-to-market in ways that were often not anticipated by psychic distance based theories.

Entrepreneurship Literature and the Opportunity Paradigm

The recent study of Ellis (2008) shows Chinese exporting firms' choice of USA, Germany, Canada and France over Taiwan, Indonesia, Thailand and Vietnam which goes against the psychic distance logic. This is found increasingly the case in the technology sector. Despite the assertions and suppositions of psychic distance obstacles in internationalisation theory, the whole world is the stage for modern technology entrepreneurs who find technology based commonalities across borders, as Hara and Kanai observe: "Even if national cultures are starkly different, there are common features that characterize technology-based businesses regardless of their country of origin" (Hara & Kanai, 1994: 489). Extant internationalisation theories do not give salience to endogenous processes such as intentionality and voluntary action that might explain choice of market and entry mode, as also make the difference between successful and unsuccessful internationalisation in modern entrepreneurial firms. When voluntaristic action of entrepreneurs often drive internationalisation in modern technology entrepreneurial firms, aggregate differences between markets represented by cultural distance become less relevant. The macro-level structural forces of enablement have allowed entrepreneurs to look for opportunities internationally. In entrepreneurship in general, opportunity - whether discovered or created - has been established as the most important paradigm, and the driver for entrepreneurial action. Entrepreneurship literature has now strongly posited that the essence of entrepreneurship lies in the nexus of enterprising individuals and lucrative opportunities (Venkataraman, 1997). Scholars have supported the instrumental role of voluntaristic action in entrepreneurial opportunity formation (Andersson, 2000; Carter *et al.*, 1996; Sarasvathy, 2004; Shrader *et al.*, 2000). We must therefore expect that internationalisation of entrepreneurial firms must be a manifestation of such nexus between voluntaristic enterprising entrepreneurs and the entrepreneurial perception of lucrative international opportunities. It is argued here that, as in entrepreneurship in general, the opportunity paradigm is what primarily operates in entrepreneurial internationalisation action. Therefore, it is suggested that for the internationalising technology entrepreneur, it is the pursuit of international entrepreneurial opportunity that drives the internationalisation effort, despite psychic distance and other obstacles, real or perceived, in the form of differences in business practices, culture, and limited foreign market familiarity.

Proposition 1: Higher the perceived opportunity in a foreign market, higher the entrepreneur's propensity to enter that market even in the presence of psychic distance concerns.

Thus, while psychic distance concerns may exist in the entrepreneurial firms, the factor that drives choice of foreign market and of entry mode today is opportunity, net of costs to overcome market differences that may also include perceived psychic distance concerns. It has now been strongly argued that psychic distance is an individual level construct, unlike the country level construct of cultural distance (Sousa & Bradley, 2006). The psychological perception of difficulty in doing business in a foreign country market therefore would differ across entrepreneurs. Also, while a general perception of a market's overall attractiveness may be linked to its size (Ellis, 2008) or growth rate, an individual entrepreneur's perception of specific opportunity s/he can pursue in that foreign market would also be linked to other characteristics such as the industry the entrepreneur operates in. Furthermore, the opportunity formation literature argues that an opportunity is noticed by some and not by others (Kirzner, 1969, 1973) in a voluntaristic action world of the entrepreneur. Hence entrepreneurial perception of opportunity in a foreign market is also likely to be an individual level construct and vary across entrepreneurs. It is proposed that:

Proposition 2: Internationalisation decisions of an entrepreneur with respect to a foreign market are a function of the individual opportunity perception as well as the individual psychic distance perception for that market, ie, a function of a combination of psychic distance and opportunity perceptions of the entrepreneur.

Put differently, a high perceived psychic distance will not necessarily stop entrepreneurs from initiating action decisions in a foreign market; a lack of perceived opportunity will stop entrepreneurs from initiating action decisions in a foreign market. Therefore, high psychic distance perception will modify, rather than drive, offshore action/ intention decision that is primarily led by high opportunity perception. The opportunity perception, beyond obstacles including psychic distance, is proposed as an alternative metric of “opportunity distance” for understanding firm internationalisation decisions. While psychic distance may exist, it is only secondary to opportunity perception in entrepreneurial firm internationalisation decisions. It is therefore proposed as follows:

Proposition 3: The ratio of a measure of individual psychic distance perceived for a foreign market to a measure of the opportunity perceived in that market indicates the deterrent for entrepreneurial internationalisation with respect to that market. This metric is proposed to be called “opportunity distance”.

While driven by opportunity perceived the entrepreneur weighs up chances of success through difficulties s/he perceives, including psychic distance perceived, in that market. A high ratio of the opportunity perception measure to the psychic distance perception measure would indicate propensity to enter a market. However, the inverse of that ratio, ie, “opportunity distance”, is considered in the study to indicate an obstacle or “distance” measure that would deter internationalisation decision. A lower opportunity distance for a foreign market would thus indicate a higher propensity to internationalise.

METHOD

To what extent do internationalising technology firms, and the decision making entrepreneur in these firms, have psychic distance concerns with regard to internationalisation? And, how does psychic distance manifest itself in their decisions regarding internationalisation? How, indeed, does opportunity distance manifest in that decision process? The complexity of the bases for internationalisation processes, or even of the factors promoting foreign market activities of firms, has led to the suggestion that “a more qualitative approach to psychic distance may represent a way forward” (Stottinger & Schlegelmilch, 1998). Qualitative data were therefore gathered in the study. Earlier studies have used measures of psychic distance that have several external or country level components (Brewer, 2007; Clark & Pugh, 2001; Dow & Karunaratna, 2006) to individual level components (Håkanson & Ambos), to those that have a mix of country level and individual level components (Sousa & Bradley, 2006). Ellis (2008) takes macro measure of country GDP to assess market size, a proxy for opportunity. However, like psychic distance perception, opportunity perception is also suggested here as an individual level construct. Both these measures are proposed to be better assessed qualitatively, and individually with each entrepreneur. Therefore a direct participant response method was used to assess both opportunity perceived in a foreign market and psychic distance perceived for that market from verbal protocol of the entrepreneurs.

Sample selection

The selection of the illustrative cases of entrepreneurs/ firms was done with a view to observe and examine internationalisation behaviour across technology entrepreneurial firms of different sizes and ages and serving different markets. The wide range of firms selected in this fashion was considered “particularly suitable for illuminating and extending relationships among constructs” in the proposition made (Eisenhardt & Graebner, 2007: 27). Eight entrepreneurs, E-1 to E-8, from as many entrepreneurial firms in technology sectors in New Zealand were selected. All eight entrepreneurs were running early internationalisers or INVs as defined by Oviatt & McDougall (1994) as they pursued internationalisation opportunities within the first 6 years of their inception at the time for which internationalisation initiative data was collected. Profiles of the firm are given in Annexure 1. Five of the entrepreneurs were successful internationalisers (E-1, E-2, E-4, E-5 and E-6), one was unsuccessful and now out of business (E-7), and two entrepreneurs were first unsuccessful in their

internationalisation attempt, succeeding subsequently (E-3 and E-8). The inclusion of the wide variety of internationalisation initiative outcomes ranging from outright success to failure, to initiatives that failed first and subsequently succeeded, makes the data rich in its relevance to the research proposition. In the verbal protocol all eight entrepreneurs discussed details of their early internationalisation initiatives, within six years of start-up, and also responded to case scenarios as described below.

Operationalising the Propositions; Data Collection

Apart from the verbal protocol from in-depth semi-structured interviews with entrepreneurs describing in detail the steps involved in their internationalisation initiatives in terms of foreign markets entered and entry mode chosen, two hypothetical case scenarios were built to elicit entrepreneurial response and are presented in Annexure 2. One scenario was based on a new product invention in the food packaging industry, chosen as the sector was not the domain of any of the participating technology entrepreneurs and avoided variation due to differences in the entrepreneurs' familiarity with the activity. The entrepreneurs were asked to decide what they would do with the invention against the possibilities of a manufacturing alliance with domestic user firms and a US firm, and why. The second case scenario was built around the entrepreneurs' own businesses; they were asked to decide between the attractiveness of acquiring a firm in their home markets and in the UK. All the entrepreneurs expressed a willingness to attempt an offshore market rather than be limited to the domestic New Zealand market. Even though this was apparent for the INVs selected, it was important as it confirmed their international orientation and their willingness to look offshore. In both cases the second question was to rethink their decision if the potential foreign acquisition or alliance was in China leading finally to an expected comparison between the UK, US and China as foreign markets. As several of the entrepreneurs had also entered Australia which is commonly the early internationalisation action seen out of New Zealand. As that provides a comparison point, the entrepreneurs were also asked about their perception of opportunity and of difficulties with regard to Australia. The responses to the case scenarios are combined with data from the interviews and also compared with actual event histories of the firms. To capture the concerns of perceived psychic distance and the motivation to pursue perceived opportunity that the sample entrepreneurs express towards foreign country markets, data from the semi-structured interviews and case scenario responses were coded to identify the following two subthemes that would evidence the proposition made:

1. psychic distance concerns that entrepreneurs indicated in terms of difficulty in doing business with a foreign market due to differences in culture, market practices, etc; and,
2. pursuit of foreign market opportunities that the entrepreneurs indicate in terms of intention or actual initiatives, despite any psychic distance related concerns indicated for the market.

The entrepreneurs' perception of psychic distance related obstacles felt for specific foreign markets and their choice of action already taken and intended, action choices selected in the case scenarios, as well as their perception of opportunity in the markets were discussed. Data were gathered in two semi-structured interviews with each entrepreneur lasting one to one-and-a-half hours. The rich data gathered were analysed and the results are presented below.

RESULTS

The entrepreneurs' responses for China varied widely, ranging from admiration for a rapidly rising market and willingness to do business there, to strong mistrust. New Zealand has a visible Chinese immigrant population and data on China were collected in 2006, at a time when New Zealand entrepreneurs were highly aware of China's growing importance on the world stage. The psychic distance concerns verbalised for the USA/UK were more complex, while those for Australia were quite straightforward in that none of the entrepreneurs expressed very high psychic distance concerns for it. First, the data regarding China is presented and analysed below.

Data on China

Out of the eight entrepreneurs, four were certain that they would not venture into China though their reasons varied; the others would engage with China. The data showed that the entrepreneurs' psychic distance related concerns differed widely. The data from the entrepreneurs regarding entering China, covered a range from strong psychic distance concern to a willingness to manage psychic distance to

do business. The responses were graded over a 5-point scale for magnitude of perceived psychic distance: low/low-medium/medium/high-medium/high. To illustrate: excerpts from the verbal protocol are shown in Annexure 3.

The sample entrepreneurs were all Caucasian Kiwis (New Zealanders) and, by received theory, would be expected to consider China to be psychically distant. However, all shades of psychic distance concerns are visible in the data, showing that psychic distance is not a uniform structural obstacle to all entrepreneurs as a summary indicator of internationalisation with respect to China. Only one entrepreneur expressed a low level of opportunity perceived for the China market, and another was assessed to have a medium level of opportunity perception. The others expressed higher opportunity perception for that market, whether or not they thought they were presently ready to exploit the opportunities they perceived.

Data on the USA / UK

Both the US and the UK are usually considered closer to New Zealand where the population is predominantly Caucasian. The fact that the entrepreneurs have all had business or life associations with the US/ UK and several of them have lived or worked in one or both the countries makes the feedback, often based on their first hand experiences, difficult to juxtapose with those about China. However, it was clear the entrepreneurs expressed unease about the US and an underlying issue with trust seemed to show in their responses about the US and not about the UK. This was found in the case scenarios as also in the semi-structured interviews as they discussed their own engagement with these markets. Only two of the eight entrepreneurs expressed a low level of psychic distance for the US, the rest showing some amount of apprehension about doing business in the US. Three entrepreneurs expressed medium or higher levels of concern about doing business in the US. Most of the entrepreneurs who are doing business with the US have either expressed higher uncertainty of outcome in business dealings with the US compared to the UK or have implied that by mentioning lack of trust about the US.

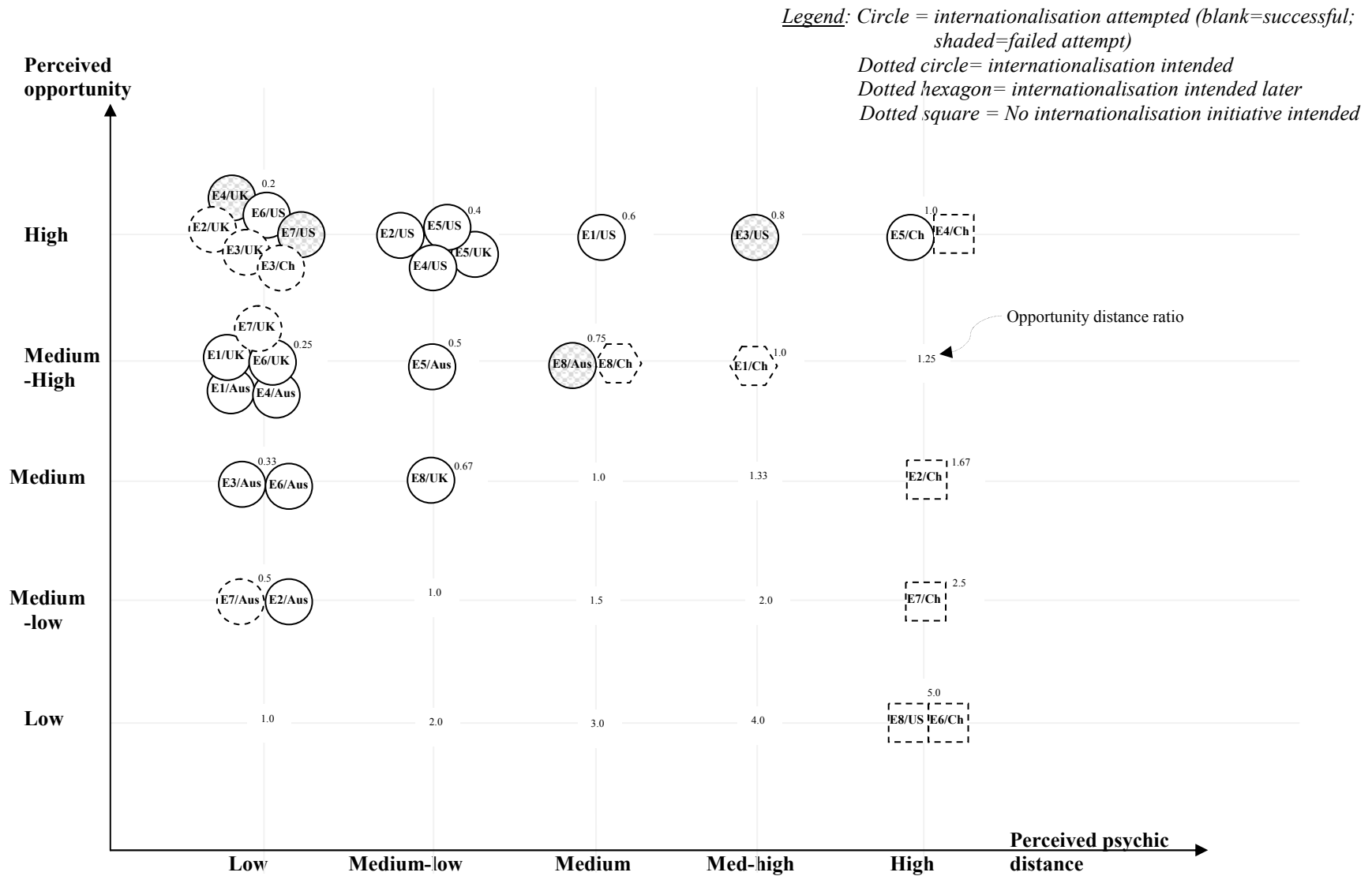
Opportunity perception for the US and UK markets were usually expressed on the high side except E-8 who had an emotional response for the US market saying he hated it and perceived low levels of opportunity there (“The US is too litigious. I hate it.” “I have no honeymoon expectations of the US market.”). This entrepreneur also mentioned that while he had past success in the UK, he does not see much opportunity there in the future and expected opportunities to shift to eastern emerging markets. The data for both psychic distance perception and opportunity perception were coded on a 5-point scale from “low” to “high” as done with the China data in Annexure 3.

Data on Australia

Six of the entrepreneurs considered Australia to be easy to enter and hence assessed to have low psychic distance; the other two considered it to have its characteristic problems, for example E-8, who had failed in his first attempt to enter Australia 3 years earlier, thought “Aussies don’t buy from Kiwis” and was in the process of installing a local manager to drive his business there in his second attempt in that market in 2006. The entrepreneurs’ opportunity perception for the Australia market also varied from medium-low to medium-high. One All had attempted to enter that market except E-7 who expressed an intention to do so if an opportunity arose which he did not see as highly likely just now (“there are better markets for us”).

The data on the US, the UK and Australia were coded with psychic distance and opportunity perceptions of each entrepreneur over a 5-point scale (high/medium-high/medium/medium-low/low) similar to the data on China as shown through excerpts in Annexure 3. These perceptions of opportunity and psychic distance of the entrepreneurs thus assessed for the four foreign markets yield thirty two data points as collated in Table 1 (See Annexure 4) and plotted in Figure 1 below.

FIGURE 1: PERCEIVED OPPORTUNITY VERSUS PERCEIVED PSYCHIC DISTANCE PLOT



DISCUSSION

Two findings stand out in the data. Firstly, the entrepreneurs exhibit the entire range of psychic distance response from no concern to extreme concern with regard to both China and the US as choice of foreign market to enter. This, indeed, challenges received theory that psychic distance is normatively determined as a function of the difference between home market and foreign market in terms of culture, language and practices. In the sample population here psychic distance shows up as individually determined with each individual entrepreneur having a different level of psychic distance perception of markets such as the US and China and some with quite opposite perceptions. Psychic distance does not seem to be an externally determined “summary indicator” of choice of foreign market confirming the position of recent assertions made by scholars including Evans, Treadgold and Mavondo (2000) and Stottinger & Schlegelmilch (2000).

International Opportunity Pursuit in Opposition to, Or Despite Concerns of, Perceived Psychic Distance

The second finding is that some entrepreneurs, despite feeling the psychic distance with a foreign market, still engage or intend to engage with it indicating that the entrepreneurs manage their psychic distance concerns. For instance, six of the eight entrepreneurs who do business in the US feel psychic distance concerns in terms of adverse consequences of differences with their home market. E-5 specifically mentions how he manages this, especially with regard to his business with China. His preferred mode of entry, indeed of doing business in any foreign market, is the partnership mode. The higher the psychic distance concerns in any market the more certain he feels of using this partnership mode, like in China. Evidently, E-5 manages psychic distance concerns in his internationalisation initiatives but is not directed by such concerns in terms of foreign market choice to enter. Also, entrepreneurs E-1 and E-8 would like to enter the Chinese market, despite their not-so-low psychic distance perception of it, when they have overcome the obstacles they feel exist: E-1's concerns relate to insufficient resources to overcome language obstacles in doing business in China, and E-8's relates to market regulatory conditions of profit repatriation rules in China. E-3, on the other hand, feels low psychic distance and high opportunity for China and is willing to enter that market as soon as possible after he establishes the US entry. Even with Australia, considered psychologically close by all Kiwis, one entrepreneur explicitly mentioned it was not easy in Australia as “Aussies don't buy from Kiwis” and has a psychic distance perception assessed at a “medium” level, but is entering that market a second time differently to exploit the opportunity he sees there.

Opportunity Pursuit as Key Driver

Challenging psychic distance as the internationalisation driver, the paper introduces opportunity pursuit, the central concept in entrepreneurship, in the subject of small technology firm internationalisation. The differing degrees to which psychic distance concerns manifest with different New Zealand entrepreneurs as regards the same foreign markets are shown in Figure 1. The plot also shows that a larger number of attempted internationalisation forays as well as a number of plots denoting intention to internationalise, concentrated in the top right corner of the plot. This may show psychic distance to be a relevant factor in internationalisation decision making. However, these instances are also concentrated in the higher perceived opportunity region on the plot. The “attempted”/ “intended” data points are all in the upper half of the diagonal through the origin of the plot, crowded away from the diagonal and thin out nearer the diagonal. The plot shows that intention to take internationalisation action and actual action taken favours a combination of higher opportunity perceived with lower psychic distance perceived for a foreign market. In the region of higher opportunity perception along with psychic distance perception there are several entrepreneurs who have either attempted or intend foreign market forays. While being relevant, psychic distance impacts intention of these entrepreneurs but is not a summary driver of their internationalisation action, and is overshadowed by the entrepreneur's perception of opportunity. It is the opportunity-difficulty perception that seems to determine the internationalisation decision.

Opportunity Distance: the New Metric for Internationalisation

The plot shows the two perceptions, opportunity perception and psychic distance perception, are both relevant in the entrepreneur's internationalisation intention/action decisions. The combined metric

could be captured by a simple mathematical relationship between the two expressed, say, as a ratio of psychic distance and opportunity perception coordinates. Therefore all data points above the diagonal from the origin of the plot representing higher opportunity – lower psychic distance perception combinations are what drive internationalisation action/intentions of entrepreneurs in a foreign market. In this region the lower ratios of psychic distance perception to opportunity perception would drive the entrepreneur to attempt a foreign market entry while a higher ratio would deter a foreign market entry below the diagonal significant for the absence of internationalisation intention shown in the plot. Foreign market entry decision by the entrepreneur is therefore determined by both opportunity perception as well as psychic distance perception the ratio of which may be termed as “opportunity distance” perceived by the entrepreneur. At least for technology entrepreneurial firms, psychic distance by itself is not a summary indicator for internationalisation. However it still has a “high theoretical appeal” and “should not yet be dismissed altogether” (Stottinger & Schlegelmilch, 1998) even though its importance is diminished today due to increasing homogeneity of globalising world markets (Nordström, 1990; Stottinger & Schlegelmilch, 1998). The new metric of “opportunity distance” represents an adequate combination of the effects of the enabling opportunity perception of the entrepreneur and the constraining psychic distance perception.

CONCLUSION

Reviewing the inadequacy of the incrementalist tradition of extant internationalisation theories, namely the psychic distance and incremental learning based stages concepts, the paper takes an in-depth look at internationalisation decision making. The data show that while psychic distance concerns did exist among the entrepreneurs in the study, the entrepreneurs show widely differing levels of psychic distance concerns for the same international markets. Even when psychic distance concerns were expressed, the entrepreneurs’ internationalisation decisions were often driven by opportunity perceived in foreign markets beyond such psychic distance concerns for those markets. Entrepreneurs look at ways to minimise adverse impact on their internationalisation decisions from psychic distance effects perceived between home and foreign markets, of differences in culture, language and business/legal/social practices. The illustrative data indicate that while “psychic distance” concerns may exist in entrepreneurial internationalisation decisions, it is only secondary to and forms a part of “opportunity distance” in entrepreneurial firm internationalisation decisions. The new metric “opportunity distance” signifies the propensity to internationalise in the face of costs and psychic distance effects, due to perceived offshore opportunity, but as an inverse “distance” measure.

Psychic distance concern being understood as secondary to opportunity distance as a driver of internationalisation decisions in entrepreneurial firms, offers a new understanding of the internationalisation process. It shifts the focus from internationalisation processes being explicated through the lens of obstacles that constrain, to a lens that sees opportunity as the primary driver of internationalisation, with psychic distance effects as obstacles to be overcome. The data show psychic distance as a substantially personal construct around the action orientation of the entrepreneur, thus refuting traditional conceptions of psychic distance as an externally determined obstacle normatively established as differences between markets, external to the entrepreneur. The shift in focus to “opportunity distance” seems essential to understanding internationalisation of firms that now operate in a globalised world where, on the one hand, technology cuts across cultures even of psychically distant markets (Hara & Kanai, 1994) and, on the other hand, “entente” is the business logic of today (Ohmae, 1989) when entrepreneurial firms form alliances in opportunity creation (Sarasvathy *et al.*, 2003). We need to free ourselves from static perspectives to understand international entrepreneurship today (Zahra *et al.*, 2005) where entrepreneurs seek opportunities globally in a technology-enabled world where the enabling opportunity distance, rather than the constraining psychic distance, drives their internationalisation initiatives. This understanding may also be relevant in explicating modern day internationalisation situations where increasingly emerging market firms engage with western markets that are highly dissimilar to theirs, far more than with markets like their own. The concept of “opportunity distance” is proposed here as a combination of individual opportunity perception and psychic distance perception in a way that explicates action/intention decisions of technology entrepreneurs to internationalise in a globalising world today. While technology entrepreneurial firms are among the most fleet of foot in terms of attempting cross border business early, the concept of opportunity distance may be a more appropriate metric for understanding internationalisation decisions in general in today’s global environment.

ANNEXURE - 1**Profile of entrepreneurs and their companies at the time of the study (2006)**

	Activity	Firm set up	Export-to-sales	Employee numbers
E-1	Data warehousing software	1995-96	Over 70%	28
E-2	E-mail management software solutions	2003 (earlier software dev. firm started in 1995)	Over 60%	24
E-3	Forex trading software	2003	Approx 50%	7
E-4	Enterprise solution software	1999	Approx 50%	31
E-5	Engineering design of boats, yachts	Early 1980s	Over 80%	52
E-6	Precision electromagnet and ion beam implant system	Late 1970s	Over 95%	147
E-7	Document automation software	1993	Mostly overseas but contracting business	6 and winding down
E-8	Full range internet and hosting service	1992	Approx 30% (down from 50%)	28

ANNEXURE - 2

Case Scenario 1

You, a chemist by training, have been working for several years in the specialty chemicals industry. After a few years in the R&D labs of a large multinational firm, you worked in the sales and marketing function of that and some other large companies in several countries. Now, back in New Zealand, you have been working for a privately held chemicals importing company. Your real motivation for returning to New Zealand was to pursue ideas that you had been developing on new packaging material.

You and your long time friend and university mate Dick Mahoney, a polymer scientist with extensive work in related manufacturing technologies, have been working on specific products exploring polymer-to-polymer compounding as a potential new packaging material concept. You have now developed a new product, a polymer fibrillar composite, that appears greatly superior to existing packaging material in terms of enhancing shelf life of food contents, and have also developed the related manufacturing process. Extensive lab trials of the fibrillar composite have been successfully carried out and results obtained in their collaborative trials with industry players have indicated that the composite can enhance the shelf life of perishable content four fold.

- 1 A New Zealand food packaging firm supplying to large corporate clients has expressed interest and there are possibilities of a tie-up. The firm's personnel were introduced by the beverages company who tried your product as a user. They could be providing assistance to test market your product in NZ, assist in developing the product further if necessary. If all goes well they would be open to partnering for manufacturing and possible patenting.
- 2 Your partner Dick had met a US firm at the packaging industry conference in Australia last year. This US mid-size packaging firm operates in North America and Mexico and exploring the Australian market. Their offer is to start with trial orders from you to test the market and expect to ramp up supplies in six months. They also offer necessary assistance in developing the product further for the market within that period. There is some funding possibility in New Zealand and some venture capital interest from the US.

Which option will you choose? Why?

Case Scenario 2

Your New Zealand based, technology oriented business has been growing at a reasonable pace over some years and you have looked at expanding. The following two opportunities come up.

- 1 A few years ago a couple of technologists started up a firm in New Zealand working in similar technology products/service as you. While your firm is older and more established, they are coming up fast and have struck an alliance with a larger firm to develop their products further and to market them, immediately increasing their turnover to rival yours. However the entrepreneurs now have got into an internal dispute and disagree on the course ahead, and are now sending feelers in the market to sell up. Breakthroughs the firm has achieved in niche products for some sizable domestic clients could be a clear gain for your company.
- 2 A small British technology firm is in similar product/ service as yours, a little larger in turnover and is growing. Recently the owner-entrepreneurs fell into a dispute and, not being able to resolve the same, are believed to be putting the business up for sale which offers foreign market gains for you.

Which option would you take up? Why?

ANNEXURE - 3**Psychic distance and opportunity perception data on China – excerpted from verbal protocol**

	Representative verbal data	Psychic distance perception	Opportunity perception
E-1	<p>“.. increases the risk profile” for business.</p> <p>“Would divert us too much to manage the challenges of language”</p> <p>“... language is very important in the software business for technical reasons too much effort to build resources to learn practice, and language”</p> <p>“It doesn’t mean I wouldn’t do it (go to China) but it would require a lot of effort”</p> <p>“It is a large market .. getting large”</p> <p>“We don’t have the resources to develop the skills for China now”</p>	Medium-high (M-H)	Medium-high (M-H)
E-2	<p>“Don’t understand their culture. Don’t understand how they do business”</p> <p>“Language issues around China are too hard”</p> <p>“.. it doesn't really light a candle”</p> <p>“There may be opportunities coming up but ... no haven’t, can’t go there”</p>	High (H)	Medium (M)
E-3	<p>“Have worked in South East Asia, familiar with market”</p> <p>“Will go for opportunity... can take risk for returns”</p> <p>“Yeah... the opportunity to break into a new market like that - it would be a huge leg up”</p>	Low (L)	High (H)
E-4	<p>“Will lose control...culturally challenging”</p> <p>“... ripping off is quite popular anyway”</p> <p>“Big (Chinese market) is going to be there for some time to come - I have no desire to rush in”</p> <p>E4 aware that China is a big market and that the Chinese are ready for his product as they all want to “pay per use” instead of owning a big software product, which is the way he thinks future computing will go. But he also thinks it will stay; for now he would like to abstain on trust issues.</p>	High (H)	High (H)
E-5	<p>“It is an unknown culture ... imposing my culture on an entity in China is too hard because the Chinese culture is too different”</p> <p>But “..some people in China that don’t rip you off”</p> <p>Sees high opportunity and has longstanding partnership in China. He would take up another opportunity but only through an alliance.</p>	High (H)	High (H)

E-6	“.. you cant get the manager that you spoke to next time when you call... you cant confirm what was agreed...they leave you high and dry even when you have a 50-50 venture” “Not worth investing there ... not on a level playing field”	High (H)	Low (L)
	Considers Low Opportunity in China for ion-impregnation accelerator electromagnet systems he makes, and not keen to explore in China		
E-7	“Don’t know about China. Won’t make assumptions”	High (H)	Medium-low (M-L)
	E7 does not see reason to explore China. “May be a rising market but don’t see prospects for our product there”		
E-8	“No language barrier ... everybody speaks English in the business world” “Our focus is Asia-pac” But “profit not repatriable ... it would take several years”	Medium (M)	Medium-high (M-H)
	Upbeat on opportunity. “We are in the region”		

ANNEXURE - 4

Table 1: Summary from verbal protocol of intentions and actions in USA/UK/China/Australia
(*H = high, MH = medium high, M = medium, ML = medium low, L = low*)

<u>Entrepreneur</u>	<u>Internationalisation Initiative</u>	<u>Business outcome/intention reported</u>	<u>Psychic distance perceived</u>	<u>Opportunity perceived</u>
E-1	UK	Successful	L	MH
	USA	Successful	M	H
	China	Intended later	MH	MH
	Australia	Successful	L	MH
E-2	UK	Intended	L	H
	USA	Successful	ML	H
	China	Not intended	H	M
	Australia	Successful	L	ML
E-3	UK	Intended	L	H
	USA	Failed	MH	H
	China	Intended	L	H
	Australia	Successful	L	M
E-4	UK	Failed	L	H
	USA	Successful	ML	H
	China	Not Intended	H	H
	Australia	Successful	L	MH
E-5	UK	Successful	ML	H
	USA	Successful	ML	H
	China	Successful	H	H
	Australia	Successful	ML	MH
E-6	UK	Successful	L	MH
	USA	Successful	L	H
	China	Not intended	H	L
	Australia	Successful	L	M
E-7	UK	Intended	L	MH

	USA	Failed	L	H
	China	Not intended	H	ML
	Australia	Intended	L	ML
E-8	UK	Successful	ML	ML
	USA	Not intended	H	L
	China	Intended later	M	MH
	Australia	Failed	M	MH

References

- Andersson, S. (2000). The internationalization of the firm from an entrepreneurial perspective. *International studies of management & organization*, 30 Spring(1), 63.
- Bell, J. (1995). The Internationalization of Small Computer Software Firms: A Further Challenge to "Stage" Theories. *European Journal of Marketing*, 29(8), 60.
- Bell, J. (1995). The internationalization of small computer software firms: A further challenge to "Stage" theories. *European Journal of Marketing*, 29(8), 60-75.
- Bilkey, W. J., & Tesar, G. (1977). The export behaviour of smaller Wisconsin manufacturing firms. *Journal of International Business Studies*, 8 (Spring/ Summer), 93-98.
- Brewer, P. A. (2007). Operationalizing Psychic Distance: A Revised Approach. *Journal of International Marketing*, 15(1), 44.
- Carter, N. M., Gartner, W. B., & Reynolds, P. D. (1996). Exploring Start-Up Event Sequences. *Journal of Business Venturing*, 11(3), 151-166.
- Child, J., Ng, S. H., & Wong, C. (2002). Psychic distance and internationalization: Evidence from Hong Kong firms. *International Studies of Management & Organization*, 32(1), 36.
- Clark, T., & Pugh, D. S. (2001). Foreign country priorities in the internationalization process: a measure and an exploratory test on British firms. *International Business Review*, 10(3), 285-303.
- Conway, T., & Swift, J. S. (2000). International relationship marketing - The importance of psychic distance. *European Journal of Marketing*, 34(11/12), 1391.
- Daniels, J. D., Ogram, E. W., & Radebaugh, L. M. (1976). *International business: Environments and operations*. Reading - Mass.: Addison-Wesley.
- Davidson, W. H. (1980). The location of foreign direct investment activity: Country characteristics and investment effects. *Journal of International Business Studies*, 11(2), 9-12.
- Dow, D., & Karunaratna, A. (2006). Developing a multidimensional instrument to measure psychic distance stimuli. *Journal of International Business Studies*, 37(5), 578.
- Eisenhardt, K. M., & Graebner, M. E. (2007). Theory Building from Cases: Opportunities and Challenges. *Academy of Management Journal*, 50(1), 25-32.
- Ellis, P. D. (2008). Does psychic distance moderate the market size-entry sequence relationship? *Journal of International Business Studies*, 39(3), 351-369.
- Erramilli, M. K. (1991). The Experience Factor in Foreign Market Entry Behavior of Service Firms. *Journal of International Business Studies*, 22(3), 479-501.
- Evans, J., & Mavondo, F. T. (2002). Psychic distance and organizational performance: An empirical examination of international retailing operations. *Journal of International Business Studies*, 33(3), 515.
- Evans, J., Treadgold, A., & Mavondo, F. (2000). Psychic Distance and the Performance of International Retailers - A Suggested Theoretical Framework. *International Marketing Review*, 17(4/5), 373-.
- Gatignon, H., & Anderson, E. (1988). The multinational corporation's degree of control over foreign subsidiaries: An empirical test of a transaction cost explanation. *Journal of Law, Economics and Organization*, 4(2), 305-336.
- Håkanson, L., & Ambos, B. The antecedents of psychic distance. *Journal of International Management*, In Press, Corrected Proof.
- Hara, G., & Kanai, T. (1994). Entrepreneurial Networks Across Oceans to Promote International Strategic Alliances for Small Businesses. *Journal of Business Venturing*, 9(6), 489-507.
- Hofstede, G. H. (1980). *Culture's consequences : international differences in work-related values*. Beverly Hills, Calif: Sage Publications.
- Holzmuller, H. H., & Kasper, H. (1990). The Decision-Maker and Export Activity: A Cross-National Comparison of the Foreign Orientation of Austrian Managers. *Management International Review*, 30(3), 217, 214 pgs.

- Johanson, J., & Vahlne, J.-E. (1977). The Internationalization Process of the Firm - A Model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business Studies*, 8(1), 23.
- Johanson, J., & Vahlne, J.-E. (1990). The Mechanism of Internationalisation. *International Marketing Review*, 7(4), 11, 14 pgs.
- Johanson, J., & Wiedersheim-Paul, F. (1975). The internationalisation process of the firm: Four Swedish case studies. *Journal of management studies*, 12(3), 305-322.
- Kirzner, I. M. (1969). Entrepreneurship and the Market Approach to Development. In *Perception, Opportunity and Profit (Kirzner)* (pp. 107-119). Chicago, US: University of Chicago Press, 1979.
- Kirzner, I. M. (1973). *Competition and entrepreneurship*. Chicago, IL, US: University of Chicago Press.
- Kogut, B., & Singh, H. (1988). The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, 19(3), 411-432.
- Madsen, T. K., & Servais, P. (1997). The internationalization of Born Globals: an evolutionary process? *International Business Review*, 6(6), 561-583.
- Nordström, K. A. (1990). The Internationalisation Process of the Firm in a New Perspective. *Institute of International Business*.
- O'Grady, S., & Lane, H. W. (1996). The Psychic Distance Paradox. *Journal of International Business Studies*, 27(2), 309-333.
- Ohmae, K. (1989). The Global Logic of Strategic Alliances. *Harvard Business Review*, 67(2), 143-154.
- Oviatt, B. M., & McDougall, P. P. (1994). Toward a theory of international new ventures. *Journal of International Business Studies*, 25(1), 45-64.
- Sarasvathy, S. D. (2004). Making It Happen: Beyond Theories of the Firm to Theories of Firm Design. *Entrepreneurship Theory and Practice*, 28(6), 519.
- Sarasvathy, S. D., Venkataraman, S., Dew, N., & Velamuri, R. (2003). Three Views of Entrepreneurial Opportunity. In Z. J. Acs & D. B. Audretsch (Eds.), *Handbook of Entrepreneurship Research : An Interdisciplinary Survey and Introduction* (Vol. 1, pp. 141-160). Boston, Mass. ; London: Kluwer Academic, 2003.
- Shenkar, O. (2001). Cultural Distance Revisited: Towards a More Rigorous Conceptualization and Measurement of Cultural Differences. *Journal of International Business Studies*, 32(3), 519.
- Shrader, R. C., Oviatt, B. M., & McDougall, P. P. (2000). How new ventures exploit trade-offs among international risk factors: Lessons for the accelerated internationalization of the 21st century. *Academy of Management Journal*, 43(6), 1227.
- Sousa, C. M. P., & Bradley, F. (2006). Cultural Distance and Psychic Distance: Two Peas in a Pod? *Journal of International Marketing*, 14(1), 49.
- Stopford, J. M., & Wells, L. T. (1972). *Managing the Multinational Enterprise*. New York: Basic Books.
- Stottinger, B., & Schlegelmilch, B. B. (1998). Explaining Export Development Through Psychic Distance: Enlightening or Elusive? *International Marketing Review*, 15(5), 357.
- Stottinger, B., & Schlegelmilch, B. B. (2000). A response to Evans et al. Psychic Distance: a Concept Past its Due Date? *International Marketing Review*, 17(2/3), 169-173.
- Venkataraman, S. (1997). The Distinctive Domain of Entrepreneurship Research: An Editor's Perspective. In J. A. Katz (Ed.), *Advances in Entrepreneurship, Firm Emergence, and Growth* (Vol. 3, pp. 119-138). Greenwich, CT, US; London: JAI Press.
- Wilkinson, T. J., Peng, G. Z., Brouthers, L. E., & Beamish, P. W. (2008). The diminishing effect of cultural distance on subsidiary control. *Journal of International Management*, 14(2), 93-107.
- Zahra, S. A., Korri, J. S., & Yu, J. (2005). Cognition and International Entrepreneurship: Implications for Research on International Opportunity Recognition and Exploitation. *International Business Review*, 14(2), 129-146.