The effect of management’s perception of psychic distance on organizational performance in a foreign market
- A case study of Bufab Sweden and Bufab Finland

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Date: 2012-05-31
Abstract

Globalization and global markets are dominating in the today’s business arena. Companies are more often than not required to internationalize and operate in global markets instead of just competing within national borders. Due to the high level of globalization, psychic distance between nations and countries is argued to have decreased significantly. However, underlying national and business culture differences still very much exist and companies must be aware of and take the differences into account in their international operations. For decades cross-cultural science has been guided by Hofstede’s cultural dimensions model and it is widely used to research and describe national cultures and differences between different cultures.

Psychic distance concept is one of the most applied constructs of multinational enterprises’ internationalization and it has deservedly attracted a lot of attention within the literature and research of international business. Psychic distance is recurrently utilized when presenting and evaluating differences between a company’s home and foreign market. The general underlying notion of psychic distance is that companies operating in psychically close countries will succeed in their international operations. However, there is an increasing amount of research and literature providing contradictory evidence, referred to as psychic distance paradox. According to the concept of psychic distance paradox, perceived similarities within countries may result in cultural overconfidence and inadequate preparation prior entering psychically close markets resulting in poor organizational performance.

The aim of the dissertation is to contribute in the research of the psychic distance concept regarding the existence of the psychic distance paradox and how it appears in the international business. The main focus is on management’s perceptions of psychic distance and how they affect a company’s organizational performance in psychically close foreign market. From the research conducted it can be concluded that the management’s perceptions of psychic distance can essentially affect the company’s organizational performance in a foreign market. In case the management’s perceptions of psychic distance are not in accordance with reality and the differences are overlooked, the company can face difficulties and poor organizational performance even in a psychically close market. The findings of the research provide additional proof to the existence of the psychic distance paradox concept.

Key words:

Psychic distance, Psychic distance paradox, Hofstede’s cultural dimensions
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1. INTRODUCTION

This chapter provides an introduction and background information on the research question of the dissertation. In addition, relevance of the research is discussed followed by presentation of purpose and research question. In the end of chapter, a short description of the structure of the dissertation is presented.

Today’s business environment is largely characterized by globalization and global markets. The business environment has changed and evolved significantly during the last two decades. Nowadays companies no longer compete only within national borders but have instead within recent years become increasingly committed to operating in global markets (Madsen & Servais, 1997; Sousa & Bradley, 2005; Sousa & Lages, 2011). Globalization and global markets have decreased the distance between countries and on superficial level even cultures have become more similar. However, on a deeper level cultural differences do still very much exist which is why international companies must take them into account in their international operations (Hofstede, 1998).

The international expansion and operating in global markets provides the companies first and foremost significant growth opportunities (Sousa & Lages, 2011), which is crucial in today’s business arena since most home markets are saturated and have limited growth possibilities for companies. As a result, internationalization is a widely discussed field within business research (Madsen & Servais, 1997) and it is characterized as a process of adapting for example the firms’ strategy, structure and resources to the international environment and foreign markets (Calof & Beamish, 1995). In addition, different strategic decisions regarding international operations and expansion, like appropriate entry strategies, are a crucial aspect in internationalization and companies’ business policies in general (Cavusgil, 1998). Strategic decision making involves considerable amount and commitment of resources and affects the whole company, which makes it of such great importance in today’s business operations (Sousa & Bradley, 2005). Strategic decisions are argued to be affected by the management’s perceptions of similarities and differences between the home and foreign country (psychic distance). The management’s perceptions of psychic distance and actual differences between countries have a great impact on the decision and choice of strategies and in turn on companies’ organizational performance in foreign markets (Evans & Mavondo, 2002; Sousa & Bradley, 2005; Dow & Karunaratna 2006; Dikova 2009).

1.1 Relevance

The psychic distance concept has attracted an increasing amount of attention and interest within the literature and research field of international business (Dow & Karunaratna, 2006; Ojala & Tyrväinen, 2009) and is one of the most commonly applied constructs when it comes to research of multinational enterprises’ internationalization (Dikova, 2009). Psychic distance concept has commonly been referred to as the key factor explaining international expansion and trade and used to present and evaluate differences between the home and foreign market (Johanson & Vahlne, 1990; O’Grady & Lane, 1996; Evans & Mavondo, 2002). The general argumentation is that psychically close countries are easier to learn about and enter due to lower level of uncertainty and thus companies’ performance is better in psychically close countries (Johanson & Vahlne, 1977).
Within the increase of attention to psychic distance concept and especially its influence on organizational performance, there have also emerged a few contradicting studies. The results of these studies support in contrast a positive relationship between psychic distance and organizational performance, referred to as psychic distance paradox (O’Grady & Lane, 1996; Evans & Mavondo, 2002; Fenwick, Edwards & Buckley, 2003). Perceived similarities within countries may result in cultural overconfidence and inadequate preparation prior entering psychically close markets, which results in poor organizational performance (Fenwick et al., 2003). Overall the various studies and literature of internationalization identify psychic distance as an essential factor explaining organizational performance (O’Grady & Lane, 1996; Evans et al., 2000; Evans & Mavondo, 2002; Dikova, 2009).

There are various different approaches in the literature and research regarding factors and measurement of psychic distance as well as its impact on organizational performance. Some authors have used macro-level indicators whereas others have taken a completely different approach, concentrating on more people and individual level factors (Dow & Karunaratna, 2006), like management’s personal skills and experiences (Child et al., 2009; Frynas and Rodrigues, 2009; Sousa & Bradley, 2005). However, it is argued that especially the management’s skills, experiences and perceptions of psychic distance as well as the ability to overcome barriers resulting from psychic distance are substantial factors in a company’s international expansion, entry strategies and ultimately in the performance on foreign markets (e.g. O’Grady & Lane, 1996; Child et al., 2009). The companies’ management is challenged to design and implement strategies that are appropriate and practical within countries that differ in for example economic, social, cultural and political aspects (Mathur, 2008). Intercultural competence is needed when entering both psychically close and distant markets and knowledge and skills are associated with global success (Morley & Cerdin, 2010). Thus, there is an increasing consensus within various studies that the attention and emphasis of psychic distance concept should be on decision makers’ and managements perceptions of psychic distance between the home and the foreign market (O’Grady & Lane, 1996; Evans et al., 2000; Sousa & Lages, 2011).

For a few decades the cross-cultural science has been guided by Geert Hofstede’s (1983) four-dimensional model of cultures. The model, which consists of Power Distance, Individualism, Masculinity and Uncertainty Avoidance, is widely used to study and describe national cultures (Hofstede, 1983; Minkov & Hofstede, 2011). Organizational cultures, and thus management, leadership and organizational strategies, are strongly affected by culture (Zabid, Rashid, Sambasivan & Rahman, 2004). In international business it is essential to take cultural differences into account and make sure there is a balance between culture and strategy in the foreign market. Foreign cultures are harder to predict and therefore careful preparation is needed. International companies need to understand that what works in the home market and culture may not work at all in foreign markets (Ekwall & Karlsson, 1999). When culture and strategy are in balance, there is a greater possibility for success (Minkov & Hofstede, 2011).
1.2 Purpose and Research Question

The overall purpose of the dissertation is to contribute in the research of the psychic distance concept regarding the existence of the psychic distance paradox and how it appears in the international business. The main idea is to address the psychic distance concept from the individual and people aspect. That is, from the management and decision makers’ perceptions of psychic distance. The study concentrates on investigating the management’s perceptions of psychic distance in countries that are perceived to be psychically close.

Appropriate literature review and theory of psychic distance will be presented and discussed, including definition and elements affecting perceptions of psychic distance, the affect psychic distance has on organizational performance and the psychic distance paradox concept. The empirical research regarding psychic distance will concentrate on the management’s perceptions and the affects the perceptions of psychic distance has on organizational performance. Since the focus of the research is on the management’s perceptions’ effect on organizational performance and not how the perceptions are created, the empirical research will not include elements affecting individual’s perceptions. The elements will simply be presented as supplementary information explaining psychic distance and its definition.

Actual differences between Finland and Sweden are studied and discussed by using Hofstede’s (1983) cultural dimensions model, which is largely used to describe characteristics of a country and its culture and to point out existing cultural differences between different countries. The empirical research regarding actual cultural differences between Finland and Sweden is then used in the analysis and conclusions to point out whether the management’s perceptions differ from reality.

The research is based on a case study of a Swedish multinational company, Bufab Group. Bufab has been very successful in its home market Sweden, whereas it has been facing difficulties in Finland that can be considered to be rather psychically close to Sweden. The study strives to find out whether the management’s perceptions of psychic distance between these countries have influenced their organizational performance in Finland and to study whether the psychic distance paradox plays a role in the organizational performance of the company.

In order to address the above presented purpose of the study, the following research question was formulated:

*How does management’s perception of psychic distance affect a company’s organizational performance in a foreign market?*
1.3 Structure

In addition to this introduction chapter, there are two chapters presenting literature review and theoretical framework, a chapter presenting the conceptual framework chosen for the study, methodology and empirical findings. These chapters are the basis for the analysis and conclusions that are presented following the above mentioned chapters. The presentation of the literature review and theoretical framework starts with psychic distance concept, including definition and discussion of the different elements affecting psychic distance, the concept of psychic distance paradox ending with discussion of the effects of psychic distance on organizational performance in chapter 2. This is followed by presentation of Hofstede’s cultural dimensions in chapter 3, after which a conceptual framework based on the literature review and theoretical framework is provided in chapter 4. Chapter 5 addresses the methodology of the study, consisting of the chosen research approach and strategy as well as data collection method and the quality of the study. After the methodology chapter empirical data is presented in chapter 6, followed by analysis of the collected data in chapter 7. Finally conclusions including implications, recommendations for further research and limitations of the study are provided in chapter 8.
2. **Psychic Distance**

In the following chapter a literature review and theoretical framework regarding psychic distance is presented. The chapter presents definition of psychic distance and elements affecting perceptions of psychic distance, followed by discussion of psychic distance paradox and the effect of psychic distance on organizational performance.

The definition of psychic distance has been developed and modified rather greatly throughout its existence. One of the earliest and simplest definitions of psychic distance is that of Johanson and Vahlne (1977). They define psychic distance as a hindrance of information flows to and from the foreign market, resulting from differences in language, culture, education, business practices and industrial development. A more recent definition that follows that of Johanson and Vahlne (1977) was made by Dikova (2009). According to her, psychic distance results from differences in local consumer preferences, culture and business systems between the home country and foreign country. The outcome of these differences is reduced level of understanding of the foreign country’s local market conditions.

Evans and Mavondo (2002) expand the concept of psychic distance by stating, that the degree of psychic distance is not only determined by external environmental factors, but rather by the perceptions of individuals of the cultural and business differences. Evans, Treadgold and Mavondo (2000) describe psychic distance further, in more detail, as a perception of cultural and business differences that stems from legal, political and economic environment as well as the company’s business practices and the industry structure. Evans et al. (2000) point out that the company’s home country, international experience, business strategy, size, ownership and structure of decision making all affect the perceptions of the psychic distance. In addition the researchers stress the importance of the company’s management’s perception and understanding of the foreign market and the company’s abilities when it comes to determining appropriate entry and operating strategies in foreign markets. From this Evans et al. (2000) draw the conclusion that psychic distance is not only determined by external environmental factors, but rather by the individuals’ perception and understanding of both cultural and business differences. In other words, according to Evans et al. (2000), psychic distance is defined as a perceived degree of similarity or difference between home and foreign market regarding the cultural and business differences.

Dowling, Rose and Smith (2011, p.123) define psychic distance further as “[...] perceived psychological or mental distance held by business people to foreign markets, as distinct from the actual physical distance.” In accordance to Dowling et al. (2011) Child et al. (2009, p. 209) summarize the definition of psychic distance as “[...] the perceived differences between the characteristics of a firm’s domestic environment and those of a foreign country generate uncertainties among business decision-makers which may discourage the firm’s international diversification into that country.”

Sousa and Lages (2011) propose a multi-dimensional scale when assessing psychic distance, consisting of country characteristics’ and people characteristics’ distance between the home and foreign country. They define psychic distance as the distance between the home and foreign market reflecting on the differences between the above mentioned dimensions.
In summing up the presented definitions, the most used aspects of psychic distance among the authors are cultural and business differences. The individuals’ perceptions of psychic distance have become more and more focus point when discussing psychic distance concept (Ojala & Tyrväinen, 2009; Dow & Karunaratna, 2006; Dowling et al., 2011). Therefore the definition of psychic distance in this study follows those of Dikova (2009), Evans and Mavondo (2002), Evans et al. (2000) as well as Dowling et al. (2011). Psychic distance in this study is referring to the cultural and business differences between the home and foreign country, and in more specific to individuals’ perceptions of these differences.

**Psychic Distance Elements**

There are various different approaches in the internationalization literature and research regarding factors and measurement of psychic distance. The discussion of the psychic distance factors range from macro-level indicators to individuals’ perceptions. The research is increasingly focusing on the individuals’ perceptions, and especially on the management’s and decision makers’ perceptions when pointing out aspects of psychic distance.

Johanson and Vahlne (1977) have a more macro-level influenced approach in psychic distance. They list differences in language, education, business practices, culture and industrial development as the factors affecting psychic distance and therefore lack of knowledge in their model of basic mechanisms of internationalization. Ojala and Tyrväinen (2009) on the other hand present the opposite approach. Their case studies of Finnish software SMEs operating in the Japanese market brought out the importance of the perception of the management regarding psychic distance. According to their study psychic distance is influenced by, as also presented in Dow and Karunaratna’s study (2006), individual level factors consisting of education, international experience and age. In addition to these factors it was revealed that language proficiency, international experience of the target country as well as the management’s motivation and interest toward the target country had an essential impact on the perception of psychic distance (Ojala & Tyrväinen, 2009).

In order to resolve the problem whether psychic distance should be measured by individual’s perceptions or by focusing more on macro-level variables, Dow and Karunaratna (2006) developed a psychic distance stimuli concept. According to them it is not sufficient to measure psychic distance merely based on macro-level factors. Instead psychic distance should be regarded by the impact of macro-level factors’ and the perceptions of management on managerial decisions. Dow and Karunaratna (2006) point out several essential advantages of the individual’s perception approach on conceptualizing psychic distance. For example, many of the manager’s decisions that are associated with psychic distance, like export decisions, are mostly based on perception. In addition cultural differences may increase psychic distance between countries as well as strongly influence customer behavior and preferences. According to Dow and Karunaratna (2006) manager’s perception of psychic distance is formed within the context of macro-level indicators and the manager’s perceptions, which have a great influence on the company’s international marketing. Therefore, in order to conceptualize and measure psychic distance and its impact on managerial decisions, Dow and Karunaratna (2006) divided psychic distance in the different macro-level indicators, which include culture, language, religion, education and political systems (psychic
distance stimuli) and included perceived psychic distance as a related but distinct construct in the concept. The manager’s perception of psychic distance is an aspect of psychic distance stimuli indicators, but the perception is also moderated by the manager’s sensitivity to the stimuli indicators. The manager’s sensitivity to the stimuli is based for example on the manager’s previous international experience, age and education level and in turn the manager’s perception influences the international marketing choices (Dow & Karunaratna, 2006).

Dowling et al. (2011) propose additional aspects to Dow and Karunaratna’s (2006) psychic distance stimuli concept. The items in the psychic distance stimuli are measured or assessed at national level and Dowling et al. (2011) present a differing viewpoint by defining psychic distance to be determined by aspects associated with individual’s perceptions, since at the company level the management’s decisions on international business are affected by psychic distance. These additional aspects are the following characteristics of an individual: international experience, cultural background, education, command of foreign language, conservative nature and information flows.

Sousa and Lages (2011) also propose a multi-dimensional scale when assessing psychic distance, consisting of country characteristics’ and people characteristics’ distance between the home and foreign country. They define psychic distance as the distance between the home and foreign market reflecting on the differences between the above mentioned dimensions. The country characteristics, relating to general aspects of a modernization of a country, include the following factors: level of economic and industrial development, communications and marketing infrastructure, technical requirements, market competitiveness and legal regulations. The people characteristics of Sousa and Lages’ (2011) multidimensional scale of psychic distance items reflect the level of separation and interaction between people from different countries and consist of the following factors: per capita income, customer’s purchasing power, lifestyles, consumer preferences, level of literacy and education, language, cultural values, beliefs, attitudes and traditions. Sousa and Lages (2011) apply an individual’s perceptions for both country and people characteristics instead of operationalizing the psychic distance concept on a country and/or cultural level. Therefore, their analysis of psychic distance derives from the scores of individuals. According to Sousa and Lages (2011) it is important to combine the two key elements, country and people characteristic, when operationalizing psychic distance concept.

2.1 Psychic Distance Paradox

There has been a general understanding within the literature of internationalization process that companies will succeed in international markets when they start their internationalization process in countries psychically close to the home country and enter new markets gradually. However, contradictory research and evidence has been emerged and presented regarding the phenomenon. O’Grady and Lane (1996) challenge the traditional psychic distance theory and refer to it as psychic distance paradox in their study. Although they believe that the sequence of entry is an important consideration in a company’s internationalization process, they bring out that the literature of psychic distance is somewhat lacking. The most important aspect missing from the literature, according to O’Grady and Lane (1996), is that it doesn’t give consideration on what kind of affect perceived psychic distance between countries can have on the market entry decisions or on the company’s performance and success in the foreign market. Starting the internationalization process
gradually in countries psychically close to home market may also result the company to be perform poorly or even fail to operate in the new market and as a result of this end up in the paradox. O’Grady and Lane argue that the perceived similarity between countries can make the managers to overlook and not be prepared to possible differences and so fail in their decision making. The perceived similarities may not reduce uncertainty nor make it easier to learn about the new market. Instead they can lead to unexpected and unforeseen entry barriers and unsuccessful performance. Psychically close countries may have significant differences and they can in reality be more distant than they appear on the surface. The inability to see or look for these differences can affect the managers’ decision regarding the company’s internationalization and so lead to failure (O’Grady & Lane, 1996).

Fenwick, Edwards and Buckley (2003) point out that even though research of culturally close markets may result in reduced risk in entering and operating in foreign market, there is no guarantee that it will result in successful performance. This supports the existence of the psychic distance paradox, as cultural differences are a crucial aspect in determining psychic distance. According to Fenwick’s et al. (2003) research of companies’ performance in psychically close markets, unanticipated cultural differences in psychically close markets can result in difficulties. Their results also point out that mistakes made in international markets based on managerial differences were common and that perceived similarities resulted in cultural overconfidence and poor preparation prior entering psychically close markets.

The results of Dikova’s (2009) research show that there is a positive relationship between psychic distance and subsidiary performance only when the company has no market specific experimental knowledge, i.e. no prior experience in investing to the foreign market or a subsidiary established without a local partner. The findings stress the importance of market specific experience to the psychic distance’s effect on organizational performance. The findings also provide supplementary support to O’Grady and Lane’s (1996) suggestion of psychic distance paradox. Dikova (2008) agrees that the high uncertainty stemming from psychically distant markets motivates the company to research and study the psychically distant markets more thoroughly, which results in better performance in foreign subsidiaries.

Dikova (2008) stresses the importance of market specific knowledge about business climate, individual customers, suppliers and culture when working to overcome issues raised by psychic distance. Also Evans and Mavondo (2002) provide support for the existence of the psychic distance paradox. They suggest that assumed psychic closeness may in fact lead to poor organizational performance resulting from subtle, but essential, differences between the home and foreign market, being underestimated or in worst case scenario even overlooked. Evans and Mavondo (2002) suggest further that psychic distance may indeed have a positive impact on organizational performance. They point out that the uncertainty and risks linked to psychically distant markets pushes companies to invest more time and money on research and planning, which in turn results in better organizational performance.

2.2 Psychic Distance and Organizational Performance

Johanson and Vahlne (1977) argue that a lack of knowledge about foreign markets and operations is an essential barrier to the development of international operations. From this argument it is possible
to draw conclusion that the knowledge also affects organizational performance in international markets. Johanson and Vahlne (1977) believe that the lack of knowledge resulting from the psychic distance factors (differences in culture, language, education, business practices and industrial development) hinders the decisions made regarding international operations. In addition they state that the main characteristics of international operations are comprised of the psychic distance factors.

Evans and Mavondo (2002) point out that when it comes to psychically distant markets, the psychic distance can in fact have a positive impact on organizational performance. The perception of cultural and business differences regarding psychically distant markets is likely to result the company to feel a high level of uncertainty. In order to reduce the uncertainty and minimize the risks resulting from it, companies are more inclined to invest more time and money on research and planning of the market entry strategy. This leads to improved decision making and in due course better organizational performance. This applies especially when a company has originally entered psychically close markets and faced problems that were not expected. Overall, Evans and Mavondo’s (2002) research prove that psychic distance explains fundamentally the level of a company’s financial performance and strategic effectiveness in psychically distant markets but not in close ones.

Evans, Treadgold and Mavondo (2000) state that perceptions of cultural and business differences stemming from legal, political and economic environment as well as the company’s business practices and the industry structure lead to uncertainty in foreign markets. The uncertainty a company faces, increases the company’s level of planning and investment in research of the foreign market in order to gain more knowledge of the market and reduce the risk and uncertainty. The knowledge gained can be used to determine suitable strategies and thereby improve the profitability prospects of expanding to the foreign market (Evans et al., 2000).

Evans and Mavondo (2002) point out, that differences between countries are more likely a result of individuals’ perceptions of the foreign country’s values and attitudes, which is an essential part of the psychic distance construct. Based on the importance of cultural distance to psychic distance construct, they suggest that cultural distance also on its own has a positive effect on organizational performance. A perception of great cultural distance results in more extensive market research, which provides the company more comprehensive knowledge of the foreign market and enables the company to enhance its performance through more informed decisions (Evans & Mavondo, 2002).

Evans and Mavondo (2002) argue that assumed similarities between the home and foreign market may lead to poor performance as the perceived psychic closeness may result in that subtle, but essential, differences are underestimated or even overlooked. In addition the companies may have difficulties in differentiation of their product or service when operating in psychically close markets. As a result the local companies may offer stronger competition, which could also have an unfavorable impact on performance.

According to Sousa and Bradley (2005) the international marketing strategy standardization and adaption are greatly influenced and determined by psychic distance between the home and foreign market. An especially important factor in the degree of standardization and adaption is the management’s perception of the foreign market’s psychic distance. Thus, their findings state the
great effect of psychic distance concept to a company’s decisions of their international marketing strategy. The appropriate international marketing strategy is determined by the management and it is essential that the management makes correct assessments of the differences between the home and foreign market. Therefore, the management should base their decision making regarding internationalization strategy on thorough analysis and assessment of the similarities and differences of the foreign market compared to the home market (Sousa & Bradley, 2005).

The results of Evans and Mavondo’s (2002) research also indicate a positive impact of psychic distance to organizational performance. The implication of their research results is that perceived distance between markets pushes companies to make real effort in ensuring their success despite apparent differences in the foreign market. Expected difficulties in psychically distant markets may in addition result in underestimation of predicted performance or the setting of more achievable objectives. This points out to the positive relationship between business distance and strategic effectiveness. It is also possible that companies modify, change or even abandon strategies in case they perceive and identify important differences in the markets after entering a market they have initially identified to psychically close.

Cultural distance is, according to Dow and Karunaratna (2006), an essential factor in psychic distance though they feel it’s been slightly overemphasized in psychic distance literature. Culture influences people’s behavior, communication as well as how information is perceived. Large cultural differences may potentially have a big influence on managerial decisions regarding international business through real and perceived transaction costs. Language, religion and educational level all affect communication between people from different cultures regarding the manner as well as interpretation of received information. Language differences increase transaction risks and cost whereas education level differences may result in management’s increased risk and uncertainty of understanding and communicating with the foreign market. In addition the level of industrial development and political systems also affect the business communication and interaction and thus increase costs and uncertainty and reflect on managerial decisions (Dow & Karunaratna, 2006).

Fenwick et al. (2003) stress the importance of cultural differences’ effect on companies’ international performance. The values of a culture guide, among other things, companies’ organizational and managerial practices. The more important and significant the value is to the culture, the stronger its impact on the organizational and managerial practices is, also possibly resulting in greater differences between markets. Core values of a culture can be considered to form the management practices of a company. According to Fenwick et al. (2003) the positioning and hierarchy of significant and less important values determine perceived cultural differences. According to their study, differences in management style and business practices occur even between relatively close markets when it comes to psychic distance. The differences in management style and business practices result in cross-cultural conflicts. The conflicts between psychically close markets challenge the strategy of companies starting their internationalization in psychically close markets and using them as learning stepping stones.
3. Cultural Dimensions

This chapter presents Hofstede’s (1980) four-dimensional model of cultural differences which will later be used as a base for pointing out actual differences between Finland and Sweden. Following a short introduction of the model the four dimensions are separately presented and described.

National cultures differ mainly on fundamental values, which affect the organization structures, strategies and management. National culture differences, as well as organizational culture differences must be taken into account when managing multinational companies. Therefore, Hofstede (1998) suggests that when it comes to multinationals, one should think locally and act globally. According to him global thinking should be ignored since national and organizational cultures, and especially differences in cultures between home and foreign market, are key elements in global management. Hofstede (1998) stresses that management practices are culturally dependent and what works in a company’s home country might not at all work in a foreign country. In case of mergers and acquisitions management should always conduct some kind of culture assessment as well as research of the foreign market. The aim of the assessment is to identify potential cultural conflicts and differences in order to be able to evaluate whether to accept and optimally use the foreign culture or adapt it to the culture of the home country.

Hofstede’s cultural dimension model has been a cornerstone for cross-cultural research since its publication and Hofstede has become one of the most-cited authors in social science. The four-dimensional model provides a largely used method for researching cultural differences (Minkov & Hofstede, 2011). Culture is a complex phenomenon and can’t be treated as a single package. Culture needs to be unpacked into different and independent dimensions (Minkov & Hofstede, 2011). The dimensions are divided into four and consist of Power Distance, Individualism, Masculinity and Uncertainty Avoidance. These dimensions are used to describe national cultures and basic problems all countries deal with (Hofstede, 1983).

3.1 Power Distance

Power distance deals with the inequality of individuals in organizations (Hofstede, 1983) including the relationship with authority (Minkov & Hofstede, 2011). Power distance measures the degree of acceptance and expectations of the unequal distribution of power between members within organizations (Hofstede, 1980; Hofstede, 2001; Minkov & Hofstede, 2011).

Countries and organizations with a high power distance culture are very centralized and the individuals within it accept centralized power. This means that managers are the ones possessing the power to control the employees and the ones making decisions. The managers are also expected to take responsible for things that might go wrong. In organizations with high power distance, employees are dependent on the managements’ decisions and to follow a strong and clear structure. The individuals largely accept the inequalities that exist between them. The relationship between employees and management is impersonal and strict. In addition the employees in the organization avoid expressing their doubts and disagreements with managers (Hofstede, 1980; Hofstede, 2001; Minkov & Hofstede, 2011). Organizations with low power distance on the other hand have
decentralized structure. Flat hierarchy and an equal treatment are dominant. Both employees and managers are involved in decision-making process. There are no status differences and individuals in organizations with small power distance do not accept and tolerate centralized power. Low power distance means that the employees and the manager are working closely together and are interdependent. The two parts trust each other and the employees are responsible for their own actions within the organization. Despite possible differences in level of education, people within the organization are considered to be equal (Hofstede, 1980; Hofstede, 2001; Minkov & Hofstede, 2011).

3.2 Individualism

Individualism describes the relationship between an individual and a group as well as individuals within a group. It measures the degree of interdependence a group maintains among its members. Individualism focuses on the individual or collective achievement, interpersonal relationship and whether individuals’ self-image is defined in terms of "I" or “We” (Hofstede, 1980; Hofstede 1983; Hofstede, 2001; Minkov & Hofstede, 2011).

In individualistic cultures ties between individuals within an organization are weak and everyone is focusing more on looking after themselves than others (Hofstede, 1983). Clarity and going straight to the point are preferred in conversations, making communication more effective. Success is defined by reaching a position with more responsibility or a higher ranking in hierarchy. Reaching one’s goals with other’s expense is not frowned upon. Individuals’ main purpose to build relationships is to move forward in career and gain more competitive advantage (Hofstede, 1980; Hofstede, 2001; Minkov & Hofstede, 2011).

Individuals in collectivistic countries on the other hand take care of each other and there is a mutual trust between group members. People in collectivistic cultures belong to groups they can relate themselves with and there is a consistent and strong link between the individuals within a group. There is a great appreciation and value towards family and organizations and responsibility is collective. Members of a group put the groups’ best interest ahead of their own and decisions are based on what is best for the group (Hofstede, 1980; Hofstede, 2001; Minkov & Hofstede, 2011).

3.3 Masculinity

Masculinity versus femininity describes how cultures differ based on whether the so called male or female values are dominant within the culture (Hofstede, 1980; Hofstede, 2001; Minkov & Hofstede, 2011). In addition it deals with motivation behind people’s actions and behavior; whether individuals prefer to do what they like (feminine) or strive to be the best (masculine) (Hofstede, 1980; Hofstede, 2001).

Societies in masculine countries are driven by competition, control, power and success (Hofstede, 1983). Assertiveness and competitiveness are highly valued and individuals have a stronger need for achievement and accomplishments. In masculine cultures men and women have different, specific roles; men being dominating ones and women tender and modest. Men are expected to be the decision makers and providers. In addition they tend to be more ambitious, work-oriented and striving for success. Women on the other hand are supposed to the care-givers, taking care of the
family, children and quality of life. All in all wealth, status and achievements are highly valued in masculine cultures (Hofstede, 1980; Hofstede, 2001; Minkov & Hofstede, 2011).

In contrast to male cultures, feminine cultures are driven by softer values. They are characterized by interpersonal relationships and overlapping social roles for men and women. Both genders are considered to be equal, have the same expectations and are expected to be caring and modest. Relationships, helping each other and sympathy are highly appreciated. People seek security in work and work to live, meaning more flexible working hours and longer vacations. Family and relationships are considered to be very important and good quality of life is a sign of success (Hofstede, 1980; Hofstede, 1983; Hofstede, 2001; Minkov & Hofstede, 2011).

3.4 Uncertainty Avoidance

Uncertainty avoidance measures tolerance for uncertainty and ambiguity. It explains how strongly individuals feel threatened by unknown and uncertain situations and the need for rules and structure. The level of uncertainty avoidance describes how individuals feel and behave in unstructured, uncertain situations and how comfortable they are with uncertainty (Hofstede, 1980; Hofstede, 2001; Minkov & Hofstede, 2011).

In cultures with high uncertainty avoidance individuals prefer structure and try to avoid uncertain and unknown situations. Rules, structure and deadlines are used to decrease the amount of anxiety and stress. High uncertainty avoidance cultures have an aversion to change and differences and low tolerance for uncertainty. Individuals worry about the future, avoid risk-taking and have difficulties presenting and implementing new ideas and concepts. Countries with long history and homogenous population are commonly related with high uncertainty avoidance (Hofstede, 1980; Hofstede, 2001; Minkov & Hofstede, 2011).

Individuals in cultures with low uncertainty avoidance are tolerant of uncertain situation and do not need clear structures. Individuals within cultures with low uncertainty avoidance are willing to take more risks, accept and embrace changes and are not worried about the future. Individuals are encouraged to be innovative and come up with new ideas. Countries with shorter history and heterogeneous population are commonly linked with low uncertainty avoidance (Hofstede, 1980; Hofstede, 2001; Minkov & Hofstede, 2011).
4. CONCEPTUAL FRAMEWORK

This chapter provides a description and visualization of conceptual framework of the research. The conceptual framework will later on be used to guideline the analysis of the research.

Based on the previously presented theory and literature review a conceptual framework describing the effect of management’s perception of psychic distance on organizational performance in a foreign market was created. A short description referring to the literature and theory used is provided below before the visualization of the conceptual framework.

Psychic distance is measured by management’s perceptions and understanding of the cultural and business differences between the home and the foreign country. Management’s perceptions on the other hand are formed by for example the individual’s own culture, language skills, education and international experience (Dikova, 2008; Evans & Mavondo, 2002; Evans et al., 2000; Dowling et al., 2011). Since the elements forming the perceptions of an individual are personal, they may not reflect reality and actual differences that exist between countries. Hofstede’s four-dimensional model is a largely used method to study and present the actual cultural differences between countries (Hofstede, 1988).

National cultures, and therefore also organizational cultures, differ mainly on fundamental values and must be taken into account in international business (Hofstede, 1998). The management’s perception of psychic distance, regarding national and organizational culture, influence the amount of planning and research that is considered necessary and that is conducted on the foreign market. In addition the management’s perceptions and understanding of the foreign market are essential factors when determining entry and operating strategies in foreign markets (Evans et al., 2000).

Perceived psychic distance, especially perceived similarities between home and foreign country may result in poor international performance despite the common understanding that companies perform better in psychically close countries. The poor performance in psychically close countries is most commonly a result of the management underestimating or even overlooking underlying differences and thus failing in creating appropriate strategies (O’Grady & Lane, 1996; Dikova, 2008; Evans & Mavondo, 2002). The failure in decision making results mainly from the management’s perceptions of psychic distance that are not based on actual facts and that are not reflecting the actual similarities and differences between the home and foreign market. Management’s overconfidence in their knowledge and experience can lead to lack of research of the foreign market and planning of appropriate entry and operation strategies. Unanticipated national and organizational differences are likely to result in difficulties in the foreign market and thus in poor organizational performance (Fenwick et al., 2003; Evans & Mavondo, 2002).

The general idea of the psychic distance concept is that companies having more success and better organizational performance in psychically close countries. However, the perceived similarities between psychically close countries may in fact not reduce uncertainty or risks a company faces in international business. Perceived psychic distance can actually lead to unexpected and unforeseen difficulties because of inadequate preparations and bad decision making, and thus lead to poor organizational performance in the foreign market. This phenomenon of poor performance or even
failure in operating in psychically close market is called psychic distance paradox (O’Grady & Lane, 1996; Dikova, 2008; Evans & Mavondo, 2002). The management’s perceptions of national and organizational culture determine the research and planning conducted of the foreign market, as well as the decisions made and strategies conducted. In case the management’s perceptions are not correct and reflecting actual differences between the countries, the company may face difficulties in the foreign market due to failure in decision making regarding the company’s internationalization. This can therefore lead to poor organizational performance even in psychically close market and result in psychic distance paradox.

Based on the above summarized theory and causation of factors and events, the following conceptual framework was created:

![Conceptual framework](image)

*Figure 1. Conceptual framework (created by the authors, 2012)*
5. Methodology

In this chapter the scientific approach, research method and research strategy of the study are presented. Following the overall presentation of the research approach and method, a closer look to a case study is conducted including the strengths and limitations of the chosen strategy. Thereafter the quality of the research is discussed regarding reliability and validity of the research.

5.1 Deductive Approach

There are two main approaches to conducting a research; inductive and deductive approach. In the inductive approach theory is an outcome of the research whereas the deductive approach is guided by the preceding theory and statements and specific conclusions are made through logical argument (Bryman & Bell, 2011; Walliman, 2011). In the inductive approach general conclusions can be drawn. The findings are incorporated back into existing theories to improve those (Ghauri & Grönhaug, 2005). In this research, the deductive approach is applied and therefore a closer look to this approach is provided.

In deductive approach theories are tested by observation and experiment, which are meant to provide speculative answers to perceived problems (Walliman, 2011). According to Bryman and Bell (2011) as well as Walliman (2011) deductive approach is characterized by a linear process, meaning that the proceeds as follows: theory, data collection, findings, evaluation of findings and revision of theory. However, this might not always be the case as the researcher’s view may change due to, for example new published theoretical findings or ideas. Eisenhardt and Graebner (2007) argue that the deductive approach is using data to test the sustainability of a theory.

Bryman and Bell (2011) argue that the deductive approach is the most common way of viewing relationship between theory and research. The deductive approach is used in case the researcher strives to apply theories on empirical data in order to confirm the theory’s reliability while the inductive approach is used to develop theories based on empirical data (Saunders, Lewis & Thornhill, 2009). The deductive approach is based on theory that influences the rest of the research process. Later the theory is tested in reality and it can either be accepted or rejected (Ghauri & Grönhaug, 2005).

The aim of this research is to find out how the perceptions of psychic distance have influenced and affected the international performance of Bufab Finland. The existing theory relating to psychic distance, organizational performance and cultural differences are researched and studied in accordance to Bufab's operations; therefore a deductive approach has been the approach used in the research. This approach was most suitable because before a research problem was determined and a research question was develop, a literature research and review was necessary (May, 2001).

5.2 Qualitative Research Method

Like in the research approach, there are two alternatives in the method chosen to collect empirical data for a research. These methods are quantitative and qualitative (Bryman & Bell, 2011; Walliman, 2011). The qualitative method emphasizes words in the collection and analysis of the data whereas the quantitative method is characterized by numbers and the data is often gathered
through surveys. Quantitative studies can be characterized to emphasize quantification in the gathering and analysis of data (Bryman & Bell, 2011). The qualitative method is more flexible, open and is characterized by personal interviews, discussions and observations. The main goal of the qualitative method is to present data based on inside information and to understand the possible causation with the bearing of the information (Saunders et al., 2009). The method used in this research is qualitative due to its characteristics being more appropriate in answering to the particular research question. Ghauri and Grönhaug (2005) argue that the qualitative method is more suitable when studying organizations, individuals and human behavior and functions. Thus, the following discussion of the research method as well as its validity and reliability will be focused on qualitative method instead of quantitative.

Qualitative research focuses on discovering meanings of phenomenon, seeking patterns of unanticipated as well as expected relationships for those involved in it instead of determining cause and effect, predicting or describing distribution of an attribute among people. In other words, qualitative research’s orientation is on personal interpretation instead of explanations on cause and effect (Stake, 1995; Merriam, 2009). The main idea is to understand how people interpret experiences and what meanings they place on these experiences. The characteristics of a qualitative research are; focus on process, understanding and meaning, the researcher being the primary tool in data collection and analysis and the product of the research being highly descriptive (Merriam, 2009).

As mentioned, qualitative data cannot be counted or measured in an exact way. Qualitative data is in general presented in words instead of numbers and is therefore descriptive in character (Merriam, 2009; Walliman 2011). The lack of ability to measure or count qualitative data does, however, not make it less valuable than quantitative data. In fact, qualitative data might provide greater and more detailed findings than that of quantitative (Walliman, 2011).

According to Bryman and Bell (2011) qualitative research allows the researcher to get closer to the participants of a study. According to Bryman and Bell (2011) the qualitative research involves the seeking to understand the social reality in its own terms through interactions and people in the natural settings. It also tends to view the social life in terms of processes. A qualitative research makes it possible to get a close involvement with the people that are interviewed, which lead to a deeper understanding of their perception of the world. The qualitative research provides more detailed information and gives a better understanding from the respondents’ point of view (Ghauri & Grönhaug, 2005). In addition the researcher can get an understanding of behavior, beliefs and values in terms of the context in which the research is conducted (Bryman & Bell, 2011).

The qualitative research was chosen as the method of this study mostly due to it being suitable for studying meanings of phenomenon, the closeness to the people participating in the study and the possibility of getting more detailed information and deeper understanding of the respondents’ point of view and perception of the phenomena. The purpose of the research is to study management’s perceptions of psychic distance and their effect on organizational performance in a foreign country, which is why it is essential to get a close contact and detailed, individual information from the interviewees to be able to study the causation of the information gathered.
5.3 Single Case Study

The strategy chosen for this study is single case study. A case study is one of the social science research strategies, which is usually used when the research question includes “how” or “why” questions. The researcher has not a lot of control over events and when the research is focusing on real-life contemporary phenomenon (Yin, 2009). The reason why the single case study was chosen for this research is the desire of getting a deeper insight in the chosen research subject by applying it on one case. A case study is an in-depth description and analysis of a chosen unit and is expected to grasp the complexity of a single case (Stake, 1995; Merriam, 2009). The case study is always delimited in the object of study which also characterizes the research (Merriam, 2009). A case study is useful in business studies when studying the inside settings and testing theories. The case study is used when studying a single organization, its behavior and to identify factors affecting organizational practices. Another reason behind the choice of a case study is the direct interaction that is possible in a case study. This provides a clearer picture of the research subject by get a closer look at the organization and how the people within the organization operate (Ghauri & Grönhaug, 2005).

A case study strategy is chosen when a descriptive study is in order and the researcher is looking for information about a given population’s characteristics or about an area of interest. The benefit of conducting a case study is that it enables investigation of complex social units and multiple variables influencing the phenomenon being researched. One of the limitations of a case study is that the results are restricted to only describe the chosen phenomenon instead of predicting future behavior or being generalizable. The purpose of this research is not to draw general conclusions but to investigate the effect of the managements’ perception on the chosen case’s performance. Generalized conclusions are not desired in this research. Therefore the main motivation for choosing a case study stems from the research question. Although case study results won’t be used in predicting future behavior, they do contribute in structuring future research and advancing a field’s knowledge base trough offering insights and illuminating meanings expanding the reader’s experiences (Merriam, 2009).

All the above mentioned characteristics of a case study speak in behalf of choosing it as the research strategy for this study. The research question of the study is based on a “how” question and the main idea is to describe and analyze a real-life contemporary phenomenon, psychic distance and its effect on organizational performance in a foreign market. The study focuses on a single business organization, the Bufab Group, and the people within the organization. The reason why Bufab Group is chosen for this research is because it is a multinational company operating in 24 different countries. They are dealing with different countries and cultures daily and have a long experience of it. This makes Bufab an interesting company to study. They are operating in countries that are psychically close and distant; however the perceptions of the psychically close country are of interest in this study. The countries that are chosen for this research are Sweden and Finland. The main reason why these two countries were chosen is because they are perceived as psychically close. Despite the perception of Sweden and Finland being rather similar, Bufab Group has faced difficulties when entering the Finnish market and in their organizational performance later on in the Finnish market.
5.4 Data Collection

There is a combination of primary and secondary data collection in this study. The primary data consists of personal interviews conducted with management of Bufab and is used to identify and describe Bufab’s management’s perceptions of psychic distance between Finland and Sweden. The secondary data consists of information collected regarding actual cultural differences between Finland and Sweden in accordance to Hofstede’s (1980) cultural dimensions. Information regarding Bufab Group is gathered by using both primary and secondary data.

Primary Data

Primary data is information gathered through interviews, observations and experiences. This data collected are the nearest the researchers can get to the truth. Because of it closeness to the event recorded is can be defined as primary or secondary data (Walliman, 2011).

The most common way to collect primary data is through direct communication. It can be through different types of interviews. Personal interviews are considered to be the best method for data collection (Ghauri & Grönhaug, 2005). In this research information has been gathered through personal face to face interviews, telephone interview and email interviews. There has been a personal interaction with the respondents through the interviews.

In this research the semi-structured interview method has been used. In semi-structured interviews the topic, issues and who to interview have been covered beforehand. When performing a semi-structured interview the interviewer can control the respondents by asking different questions and lead in to different topics. Semi-structured interviews involve open ended questions which gives a clearer picture of the respondents’ perceptions and the answers in accordance with their own thinking (Ghauri & Grönhaug, 2005). According to Ghauri and Grönhaug (2005) there are some preparations to be done before performing interviews to make the most out of the interviews. The preparations done were to analyze the research problem, understand what information is needed and to decide who can provide the information needed. Two of the respondents were interviewed face to face at Bufab Group’s head office in Värnamo, Sweden. The third respondent was interviewed by telephone. Since he is located in Finland a telephone interview was the best alternative for conducting an interview.

By conducted semi-structured interviews the respondent had the possibility to explain more and to give well developed and explanatory answers during the interviews. Meanwhile, the interviewers were able to ask supplementary questions that occurred. To increase the validity and reliability there were two interviewers present at the interviews. During the interviews a recorder was used and at the telephone interview the speaker was on. This made it possible for the interviewers to listen to the interview again to make sure what has been said and to avoid misunderstandings.

The primary data is gathered from three respondents who are shortly presented below;

- **Karin Sandén** work as an Education Manager at Bufab Sweden. She has worked at Bufab since 2008. Her main task is to educate and get the employees to understand and to work according to the Bufab model.
Reijo Niska is the Area Manager and sales manager at Bufab Sweden. He has worked at Bufab since 1983 and has a daily contact with Bufab Finland.

Sakari Tulla is the Managing Director of Bufab Finland. He was originally employed by Mercantile, but has been working at Bufab Finland since 2000.

These respondents are carefully chosen because of their background and experiences. All of them are in daily contact with Sweden and Finland and have a lot of experiences from the two different countries.

**Secondary Data**

Secondary data is written sources that interpret or record primary data (Walliman, 2011). According to Ghauri and Grönhaug (2005) secondary data are information that is gathered and is linked to another purpose than ours. However, to better understand and explain a research problem, secondary data are useful. Secondary data include external sources such as online data sources (firms’ web pages), books, articles and internal sources such as catalogues and companies’ annual reports. According to Walliman (2011) this data tends to be less reliable than primary data. To increase the reliability an evaluation of the sources and its usefulness can be made (Ghauri & Grönhaug, 2005). Ghauri and Grönhaug (2005) argue that there are more useful secondary data than believed and to find the data relevant for the purpose the researcher must gather a lot and then evaluate it. Bryman and Bell (2011) highlight that documents coming from the organization can provide the research with valuable information.

Ghauri and Grönhaug (2005) consider time saving as the foremost advantage of secondary data. The researchers only have to go online or go to the library to find it. Another advantage is that it broadens the base to better understand the research problem and from which conclusions can be drawn. In some research the combination of primary and secondary data is needed to answer the research question. However, there are some disadvantages. The researchers have to be aware of the fact that the information is gathered for another purpose. To eliminate this, the researchers have to identify what they are studying. When the research question is decided the secondary data can be gathered.

Secondary data used in this research is gathered using books, journal articles and Bufab’s web page. To increase the reliability the sources were evaluated in accordance with the purpose of the research (Ghauri & Grönhaug, 2005).

**5.5 Quality of the Research**

Reliability and validity reflect the quality of a research and they should be considered throughout the research process. Paying careful attention to the conceptualization of the research including data collection, analysis, interpretations and way of presenting findings is essential when approaching reliability and validity. In qualitative research it is also important to conduct the research in an ethical way (Merriam, 2009).
5.5.1 Validity

The validity of a research can be measured by internal and external validity. Internal validity refers to the credibility of the research and external validity to the transferability of the research. It is essential to strive to reach a high level of both internal and external validity when conducting research in order to increase the quality of the research (Merriam, 2009).

**Internal Validity**

The way research findings match reality, how harmonious they are with reality, do they capture what really exists and whether researchers are observing and measuring what they believe they are measuring are all aspects of internal validity, also called credibility, of a research (Merriam, 2009). Internal validity refers to the extent to which there exists a causal relationship and correlation between variables (Ghauri & Grönhaug, 2005).

Since qualitative research focuses on people’s perceptions of reality and people are the main tool of data collection and analysis, reality is accessed through the researcher’s observations and interviews which bring the researchers closer to the research participants’ reality. Thus, internal validity is considered to be a clear strength of qualitative research (Merriam, 2009). However, the human aspect also proposes a problem that the qualitative researchers’ are never able to really catch objective truth or reality. In order to increase the credibility of the findings of a qualitative research, researcher can use triangulation in the research (Stake, 1995; Merriam, 2009; Walliman, 2011). Triangulation can be conducted by using multiple methods, multiple sources of data, multiple investigators or multiple theories to confirm emerging findings (Stake, 1995; Merriam, 2009).

Triangulation was employed in the research by using multiple methods, multiple sources of data as well as multiple investigators. The participants of the case study were first sent a preliminary questionnaire by email as well as a model of the interview guide. Thereafter they were interviewed personally. Interviews, and therefore observations, data collection and analysis were conducted by two people. This ensured a higher degree of credibility regarding the findings, due to different perspectives and more thorough speculation as both researchers independently analyzed data and then compared the findings. Multiple use of data collection was employed by comparing and cross-checking collected data through interviews, observation and documents.

In addition to triangulation, member checks are commonly used in qualitative research in order to increase internal validity or credibility. In member checks some of the people that have been interviewed are asked for feedback of the emerging findings. Member checks are a beneficial way of ruling out researcher’s misinterpretations and biases (Merriam, 2009). Preliminary findings of the research were sent to the respondents Karin Sandén, Reijo Niska and Sakari Tulla for inspection and feedback in order to rule out misunderstandings or misinterpretations.

**External Validity**

External validity refers to the extent to which the findings of a research can be applied to in other situations. In other words, to what extent the results can be generalized (Merriam, 2009; Ghauri &
Grönhaug, 2005). It refers to whether the outcomes of the study can be generalized or not (Bryman & Bell, 2011).

When it comes to case studies, the external validity has posed a major disadvantage in many critics’ minds due to its lack of generalization. However, it is stated that instead of universal generalization case studies rely on analytic generalization and are striving to create an in depth understanding of a particular phenomenon. That is, to generalize a particular set of results on a theory and transfer what is learned in a particular situation to generalize similar situations (Yin, 2009; Merriam, 2009).

External validity can be enhanced by using highly descriptive, detailed presentation of the setting, participants and especially the findings of the research. The findings should be presented with comprehensive evidence, including for example field notes, documents and quotes from interviews (Merriam, 2009).

The psychic distance is a well-known theory and every organization with international operations deals with it when planning market entry or operating in foreign markets. As the research is based on a single case study, universal generalization can’t be used. Instead, as the purpose of the study is to investigate a phenomenon within a certain organization, an in depth understanding of the phenomenon can be created. Therefore, after investigating a particular situation, the knowledge gained can be generalized in similar situations. In order to increase the external validity of the study, highly descriptive presentations are provided and the findings are presented with comprehensive evidence.

5.5.2 Reliability

Reliability of a research generally reflects to what extent the findings can later on be replicated on (Merriam, 2009). The objective is that in case the research was repeated, it would generate same findings and conclusions. In addition, when approaching reliability, the goal is to minimize errors and biases in the research. In order to ensure as high repetition as possible, it is important to document all the procedures of the research and make as many steps as operational as possible (Walliman, 2011). An exact replication of a qualitative research is not possible due to the human behavior and experiences of different people never being static. This does not, however, discredit the results of a qualitative research (Merriam, 2009). Instead of replication, the more important aspect of reliability in qualitative research is that the findings are consistent with the data presented (Merriam, 2009).

Triangulation, for example in the form of using multiple sources of data, is also a useful strategy when talking about reliability. Since the qualitative data rely greatly on human interpretation and perceptions it can’t be measured in an exact way. In order to increase its reliability and completeness, the researcher can obtain additional or conformational information from various sources that are related to the data (Stake, 1995; Merriam, 2009; Walliman, 2011).

As mentioned before, in context of validity, triangulation was thoroughly employed during the research in form of multiple sources of data as well as multiple researchers. Comparison of data collected as well as researchers’ interpretations was conducted in order to increase the reliability of the research.
6. **Empirical Data**

This chapter will give an overview of the case study company Bufab and outline the significant empirical data collected from both primary and secondary data. After the company introduction, primary data regarding the management’s perceptions are presented followed by actual cultural differences that are presented in accordance with Hofstede’s (1980) cultural dimensions.

6.1 Bufab Group

Bufab Group was established in 1977 in Värnamo, Sweden and is today one of the world’s leading supplier of fasteners and small parts. Bufab’s business concept is to develop, manufacture, purchase, market and handle a wide range of fasteners and small parts. The group has a turnover of approximately 210 million Euros and around 750 employees. The owner of the Bufab Group is Nordic Capital, a private equity company, which acquired Bufab in 2005 (www.bufab.se, 2012-01-27; Bufab, 2012; Bufab, 2010).

Since its establishment Bufab Group has had a focus on growing the business in both the domestic and international markets. The internationalization of Bufab Group started in the 1990’s, first with operations in Germany and the UK, following with Denmark, Finland and Norway. Nowadays, Bufab Group consists of more than 31 companies in 24 countries world-wide. Bufab acquired or established 24 companies between years 2000-2010 and is planning to expand their international business even further following its vision of becoming the leading fastener and small part supplier around the world (www.bufab.se, 2012-01-27; Bufab, 2012; Bufab, 2010).

Bufab Group sees itself as a true global company with its more than 30 companies in Europe, Asia and the US. To Bufab being a global company means taking advantage of cost benefits from consolidated volumes. In addition to cost benefits, having a local perspective on logistics, stockholding and support in native language which are all guided by a Global Account Manager, are essential parts of Bufab’s global operations. Bufab’s motto “Think Globally – Act Locally” is based on its global footprint, global account organization and a non-bureaucratic way of working (www.bufab.se, 2012-01-27; Bufab, 2012; Bufab, 2010).

Bufab has created a Global Platform to guide their international business and to reach the full benefits of global contracts. In short terms it means that the Global scope of the co-operation is outlined on the corporate level and the implementation of the contract is ensured locally by Key Account Managers. The Global Platform of Bufab is explained in more detailed in figure 3 (www.bufab.se, 2012-01-27).
Bufab Group outlines several benefits to its customers stemming from its Global Platform model, like reduced amount of suppliers and administration, better developed logistics and lower shipping costs. The cost efficiency of applying a global view, benefits the customers when it comes to prices. One global contract/pricelist enables also advantage-of-scale pricing. There is also a Global Account Manager looking after a global contract and in co-operation with a local Key Account Manager they promise to do their best in order to optimize the customer’s costs. The Global account organization is presented in figure 4. One consolidated quality level ensures the same quality level in all the subsidiaries, which allows the customers to re-locate production if needed without worrying about the quality changing. Other benefits to the customers are the company’s experience and knowledge of fasteners and small parts as well as multiculturalism with awareness of the local needs and requirements, legislation, customs and tax regulations (www.bufab.se, 2012-01-27; Bufab, 2012; Bufab, 2011; Bufab, 2010).

Figure 3. Global platform. (www.bufab.com, 2012-01-27)

**BUFAB’s Global Account Organization**
- A “business area” within Bufab
- Guides activities towards global/international accounts

Figure 4. Global Account Organization (www.bufab.com, 2012-05-02)
6.1.1 Bufab Sweden

Bufab Sweden AB is the largest company in the Bufab Group with 85 employees. In 2011 Bufab Sweden had a turnover of 73.5 Million Euro. The head office and central warehouse are located in Värnamo and they also have local offices in Gothenburg, Hallstahammar, Oskarshamn and Örnsköldsvik. Bufab Sweden is the largest wholesaler on the market. Their stock always consists of at least 100,000 different articles, of which more than 50% of the range consists of special fasteners. In Bufab Sweden the customer’s needs always come first. They emphasize the importance of good relationship with both customers and suppliers and strive to do their very best in ensuring that both stakeholders are satisfied. In order to live up to their goal, Bufab Sweden’s sales personnel consist of 20 people whose responsibility is to give the best possible service to their customers (www.bufab.se, 2012-01-27; Bufab, 2012; Bufab, 2010).

6.1.2 Bufab Finland

Bufab Finland has 51 employees and in 2011 they had a turnover of 19.8 Million Euro. However, the last years Bufab Finland has shown bad numbers (Karin Sandén, 2012-03-23). As a part of the Bufab Group, Bufab Finland is a part of an international network. They also work in close cooperation with Bufab Sweden. Bufab Finland’s customers are comprised of a large number of mostly Nordic industrial companies and their main business areas are engineering, electrical and furniture industry. Bufab Finland’s promise towards it customers is high level of personal commitment and high standard of service. They also believe that being part of the international network of the Bufab Group provides a number of benefits to their customers. In addition Bufab Finland promises a rational and cost-effective handling of products, competitive prices and a broad product range (www.bufab.se, 2012-01-27; Bufab, 2012; Bufab, 2010).

6.2 Perceptions of Psychic Distance

Reijo Niska has a long history and experience of both the fasteners industry and with Bufab. He has been working with these types of products since 1978 and he has been working in Bufab since 1983. Niska has been traveling a lot ever since he started as CEO at Bufab Finland in 1998 and has a lot of experience both from Sweden and Finland. He is working in Sweden but travels to Finland every third or fourth week and is in daily contact with Bufab Finland (Niska, 2012-03-23). Bufab believed Niska was the right person to be the head of the acquisition in 1998, partly because he is Finnish but also because of his vast experience and history in the company. Karin Sandén also has a lot of international experience. She has been working for Bufab Sweden for four years now. She also travels a lot related to her work. More or less every second week she is working abroad. She is working not only with the Finnish market but also the different European countries that Bufab Group operates in (Sandén, 2012-03-23). Sakari Tulla started working in Mercantile and in 2000 he started working in the sale department of Bufab Finland. In November 2011 he became a managing director for Bufab Finland. While working in Mercantile he became familiar with Bufab because it was one of Mercantile’s greatest competitors.

Sandén, Niska (2012-03-23) and Tulla (2012-05-02) informed that the corporate language of Bufab Group is English and it is used daily in all the subsidiaries. All of the employees are in contact with
people from subsidiaries from other countries and therefore have to speak English. Even though Swedish is the second official language in Finland and Swedish is thought in schools, the communication between Bufab Sweden and Finland is in English. This is mostly due to the fact that majority of employees in Bufab Finland are not fluent in Swedish and prefer to speak English. Niska (2012-03-23) believes it depends on the fact that the Swedes get the upper hand. By talking English it puts both of them on the same level. Sandén (2012-03-23) mentioned that in Bufab Sweden the employees working in the industry are able to take English classes to improve their English skills and to make the communication easier, but she is not sure if the employees in Finland have the same opportunity.

National Culture

When Sandén first came in contact with Finland she believed that there were no apparent differences between Finland and Sweden. “I thought they were very similar to Sweden. That was my perspective of the whole thing before we started with the merge. I did not think that we would be so different“ (Sandén, 2012-03-23). Today, she realizes that there are several differences between the two countries as well as between Bufab Finland and Bufab Sweden. Despite acknowledging the differences, Sandén (2012-03-23) is not sure whether they are general differences between the countries, differences in mind-setting of people or if the differences occur just within Bufab. According to Sandén (2012-03-23), the most obvious differences between Finland and Sweden are related to national culture. She states that there are differences both in the mind-setting of people as well as differences within markets. When it comes to mind-settings and individual differences, Sandén (2012-03-23) says that Finns are more quiet compared to the Swedes. Again, she is unsure whether it is due to general cultural differences or not, but at least this is the perception she has of the people working in Bufab Finland. She perceives them as less talkative and with a calmer and quieter work area and sales office. In Sweden there is a more open perspective on communication and people are in general louder. She also gets the feeling that the Finns sometimes feel afraid and insecure: “Of course they are unsure and wants to take care of their business and are a little bit afraid of course of their own jobs. We did quite a lot of changes, so maybe their fear is not so strange in that sense“ (Sandén, 201-03-23). Sandén (2012-03-23) mentions “little brother – big brother complex” between Finland and Sweden as a reason that can be a factor affecting the Finns behavior. She said that it is never easy to have someone telling you what to do and she believes that maybe the Finns are looking after their own interest and are afraid of change and having people making decisions for them (Sandén, 2012-03-23).

When Niska first started working in Bufab, he didn’t notice any differences between Finland and Sweden: “There are not that many differences between Bufab Sweden and Bufab Finland. They are the same thing. However, there are cultural differences between the two countries even if they are not too obvious.” (Niska, 2012-03-23). Today he can see that there are a lot of apparent differences. “As time passing more and more differences become visible and today there are quite a lot of big differences.” (Niska, 2012-03-23). However, he thinks that the differences should not be highlighted too much. He believes it is important not to pay too much attention to general cultural differences due to the risk of making the differences even bigger. It is said that Swedes have a hard time making decisions, but Niska (2012-03-23) does not agree. In his opinion Swedes are able to
make decisions the same way as the Finns. A difference he has noticed is that the Finns do not speak as much as the Swedes. In Bufab Finland people do not talk about unnecessary things, instead they focus on what is important and the task at hand. Finns prefer to speak in smaller groups and one by one rather than in larger groups or in front of a lot of people. Niska (2012-03-23) believes that history has affected the behavior of the Finnish people and their mind-settings. Finland was suppressed for a long period and he thinks it is still reflected on the Finnish people’s behavior and mind-setting. “The history of course reflects on who you are and how you behave” Niska (2012-03-23) concludes. Tulla (2012-05-02) agrees with Sandén (2012-03-23) and Niska (2012-03-23) in that Finns are less talkative. Another difference he points out is that he sees the Swedes as more positive individuals. “In Sweden it is more common to have a positive approach towards different things” (Tulla, 2012-05-02). He also believes that the differences between Finland and Sweden may partly be based on history of, and between the countries.

Organizational Culture

According to Sandén (2012-03-23) Bufab Finland is nowadays more similar to Bufab Sweden than it was before, and especially in the beginning. Even though Bufab’s aim is to implement the same structure and ways of operating in Finland as in Sweden, Sandén (2012-03-23) points out that maybe some adaptation of the strategy could be in order. She believes it might be beneficial to have some deviations between the two organizations and the way they operate. The way Bufab operates in Sweden may not work as well in Finland (Sandén, 2012-03-23). Tulla (2012-05-02) also mentioned that there were some differences after the merge but today Bufab Finland and Bufab Sweden have similar organizational cultures. He mentions local decision making as important and necessary in both Bufab Sweden and Bufab Finland: “Everyone working in Bufab has to be able to make decisions” (Tulla, 2012-05-02).

Niska (2012-03-23) says that the fact that Bufab Finland is a subsidiary of Bufab Sweden naturally affects the way they people in Bufab Finland work and operate as well as their attitudes towards Bufab Sweden. According to Niska (2012-03-23) Bufab Group tries to have the same organizational culture and way of operating in all the countries they have subsidiaries or agents in. “We try to follow the Bufab way in every county we operate in” (Niska, 2012-03-23). He points out that there of course are different ways of perceiving things and they have to pay attention and adapt to the different countries and cultures. Tulla (2012-05-02) also mentioned that there are differences between Bufab Finland and Bufab Sweden, both in the way the employees act and behave but also in the way they work. Bufab Finland has a different organizational culture and the differences are believed to originate from history. When Bufab first bought Mercantile in 2008, it was then double the size as Bufab Finland and they faced a lot of difficulties in the Finnish market. Mercantile had a completely different organizational culture compared to Bufab Finland and especially Bufab Group. In 2009 Bufab Finland was moved into Mercantile’s facilities and Mercantile’s management was kept in place. The general belief in Bufab Group was that Mercantile was operating the same way as Bufab Finland previously did (Sandén, 2012-03-23; Niska, 2012-23-03). They sold the same products to the same manufacturing industry and they had the same type of customers but the ways of operating were completely different. “They were completely different from Bufab Finland” (Niska, 2012-03-23). The biggest difference was that Mercantile followed their ‘old’ way of
structure and operating instead of adapting to the Bufab Group way. There was a strong hierarchy and a clear structure of who was responsible of what in Mercantile. Bufab faced a lot of difficulties after the merge in the Finnish market. Due to the difficulties there is no one from the old Mercantile’s management left. In contrast, Tulla’s opinion is that Bufab Finland and Mercantile were rather similar and had a rather similar organizational culture. However, Bufab Finland has been tried to be turned into more like Bufab Sweden with for example a flatter organization structure. After four years the organization structure and way of operating in Bufab Finland is almost the same as in Bufab Sweden but there are still some differences (Sandén, 2012-03-23; Niska, 2012-23-03). In Niska’s (2012-03-23) opinion there is still a stronger hierarchy in Finland compared to Sweden. In Sweden the organization is flatter without specifically clear roles and rules and sometimes the employees in Bufab Sweden don’t even know exactly who is responsible of what. Niska (2012-03-23) argues that it is easier to build a company from scratch instead of buying a 30 year old company with a strong well-established culture. “You can then from the start build your own culture” (Niska, 2012-03-23).

According to Sandén (2012-03-23) one of the key factors for Bufab’s success is having a flat organization and not to have people focusing only on one area. The employees should have a very broad perspective of operations, meaning that a sales person is also aware of the other aspects than just selling of products. This is what Bufab believes in and try to implement in the different countries around the world. Sandén (2012-23-03) mentioned that in the past they, however, have had organizations with a strong hierarchy. This was the case when they merged Bufab Finland and Mercantile in 2008. “I would say then that the old Bufab Finland was more working as we do here and of course there was a collision between those two companies when we merged them together. Mercantile had their own way” (Sandén, 2012-03-23). Today Sandén can, however, see the changes. The present Managing Director of Bufab Finland, Sakari Tulla, is working with the rest of the employees in an open business landscape. She believes this makes the employees feel more equal. She argues that it is important not to categorize people and put them into different levels, such as top and down (Sandén, 2012-03-23). In contrast to Bufab Sweden, in Bufab Finland the employees are working more individually and are responsible for their own orders and there is a clear structure over the following of orders (Sandén, 2012-03-23).

Research and Preparations

According to Niska (2012-03-23) there was not much preparation or research made before the acquisition in 1998 and the merge of Mercantile and Bufab Finland in 2008. He argued that Bufab already knew the Finnish market and the companies that were operating within the industry. “We had an idea of how they worked since they were our competitors. But the way Mercantile worked was a surprise for us and more problematic than what we expected” (Niska, 2012-03-23). Due to these unexpected differences Bufab faced difficulties and suffered from poor performance in Finland. Tulla (2012-05-02) was not involved in the merge but he states that he can’t remember that any research or preparations would have been made before the merge with Mercantile. “Almost no preparations and research was made, that I am aware of. The merge didn’t go very smoothly but today the situation is much better” (Tulla, 2012-05-02). He believes that one of the reasons for the difficulties they faced was that they had a wrong Managing Director at the time. All in all Bufab’s
management believed they knew the Finnish market and the existing customers before entering. “We wanted to establish on the Finnish market and we didn’t give it too many thoughts of how it would happen or what potential difficulties that might occur. It was only to ‘tuta och köra!’ (Honk and drive!)” (Niska, 2012-03-23), meaning that the market entry was conducted with no deeper reflections on how and with which strategies. They were determined to enter the Finnish market as fast as possible and didn’t pay too much attention to how and with which strategies. The desire to enter and to merge was so great that they didn’t even consider whether the Finnish market and the two merging companies were the right choices (Niska, 2012-03-23).

Sandén (2012-03-23) says that some research was conducted before entering the Finnish market, but that it was long time ago and not comprehensive. She points out that they also did some smaller preparations before the merge with Mercantile 2008. However, now looking back she admits that not enough was done. Sandén admits that the merge could and should have been done in another way and that Bufab should have been better prepared. Bufab relied too much on their previous experiences and assumed knowledge of the Finnish market and though they would carry them out through the merge successfully and were not expecting to face any major setbacks. Unfortunately this wasn’t the case (Sandén, 2012-03-23).

**Upcoming Changes**

According to Niska (2012-03-23) there will be some upcoming changes in Bufab. In this summer there will be a new executive management who will be responsible of different workshops. These workshops will deal with identification and analysis of how Bufab is working in the different countries. It will show the differences and there will probably appear some new questions about the different cultures and way of operating which has not been noticed and considered before. These workshops will increase Bufab’s awareness of the differences in their subsidiaries around the world (Niska, 2012-03-23).

**6.3 Cultural Dimensions**

When conducting a comparison of Finland and Sweden according to Hofstede’s cultural dimensions, the two countries score rather similar points and can therefore easily be perceived as psychically close. The smallest differences between the countries are in power distance (Finland 33, Sweden 31) and individualism (Finland 63, Sweden 71). Both countries have low power distance and is seen as individualistic cultures (Hofstede, 1983). Both Finland and Sweden are classified as feminine cultures, but there is a rather big difference in the scores. Finland scores 26 whereas Sweden scores only 5, making Sweden more strongly a feminine culture. The most noticeable difference between the countries comes up in the scores of uncertainty avoidance. Finland scores 59 and is therefore considered to have a medium high preference for avoiding uncertainty. Sweden on the other hand scores only 29 and is considered to have a low preference for avoiding uncertainty (www.geert-hofstede.com/finland, 2012-04-05; www.geert-hofstede.com/sweden, 2012-04-05).
As stated above, it is easy to perceive that Finland and Sweden are psychically close. However, there are underlying, essential differences between the countries. These differences are studied below according to the Hofstede’s four cultural dimensions; Power Distance, Individualism, Masculinity and Uncertainty Avoidance.

Power Distance and Uncertainty Avoidance are the dimensions primarily affecting organizational structure and way of operating as they provide answers to (1) who decides and what?, and (2) what rules and procedures are set to be followed? Power Distance provides the answer to the first question and Uncertainty Avoidance to the second question. The reason formal structures vary between countries is based on the differences in Power Distance and Uncertainty Avoidance, since they measure the informal, subjective mental programming within a country. The formal structures created are meant to serve the informal cultural needs. Individualism and Masculinity, on the other hand, explain principally the way people function within the organization (Hofstede, 1998).

### 6.3.1 Power Distance

Sweden is among the countries that have the smallest power distance (score of 31) and the concept is mainly replaced by personal responsibility. This means that the employees are allowed to make decisions on their own without being controlled by the managers (Herlitz, 1995). There is a high degree of independence, a flat hierarchy, a direct communication and the management facilitates and empowers the employees. The attitudes towards the managers are on first name basis and informal. Excessive control is disliked and the managers rely on the experiences and skills of the employees (Hofstede, 1983). Mole (2003) argues that in Sweden the employees have freedom to make decisions on their own and solve problems without agreement from the managers. In Sweden power is decentralized, there is equality between employers and employees and the managers are coaching and leading instead of being commanders giving absolute orders (Ekwall & Karlsson, 1999). The management style in Sweden is democratic by its nature. There is a horizontal structure in business organizations and the clear hierarchical levels are almost impossible to distinguish.
(Tixier, 1996). In Sweden responsibility is shared within the group. Nearly everyone is involved in the decision making process and everyone is encouraged to express themselves. Decision making is a simple and direct process as the Swedish companies have a team oriented structure (www.sverigeturism.se, 2012-02-23). Status is not important within the Swedish companies and everyone has a chance to be a manager (Herlitz, 1995). Characteristics for Swedes are that they are group oriented, social, diplomatic, honest, talkative and outgoing.

Finland also score low on power distance dimensions (score of 33) (Hofstede, 1980). Hofstede (1980) argues that characteristics of Finland are independency, coaching leaders and equal rights. The power is decentralized and control is disliked like in Sweden. However, there are some conflicts within the findings of the research. According to Lewis (1997) the Finnish individuals are keen on keeping order and Finnish organizations tend to be more of a linear type. They prefer to work individually and within the Finnish organizations teamwork is not as usual as in Sweden. According to Mikluha (1998) the Finnish organizations are lacking team spirit, open communication and discussions. These factors can be the reason why open confrontations are avoided and motivation within the employees is low. The decision making process is quick and there are no deep discussions about the matters being decided on. In addition when the decision is made it is difficult to change it afterwards (Lewis, 1997). According to Tixier (1996) the Finns prefer going straight to the point and the decisions are put in action without wasting time. Occasionally this may result in errors due to lack of comprehensive thought process. Authority is more concentrated rather than collective. Senior people are usually the core of decision-making, the power and often have the responsibility for the organization and its’ actions (Mole, 2003).

6.3.2 Individualism

Both Sweden and Finland are considered to be individualistic countries. Sweden scores a rather high score of 71, whereas Finland scores a little less with 63. This means that individuals in both countries are supposed to first and foremost take care of themselves. There is no personal relationship between the management and employees. The business relationships are more contract based, which involves an exchange of knowledge and promotions being mainly based on merits and success (Hofstede, 1983).

According to Herlitz (1995) Sweden is characterized as an individualistic culture. Some factors that make Sweden individualistic is the industrialization, legal redistribution of land and the migration to the cities and finally the development of the Social Democratic welfare policy. Swedes can be seen as independent individuals based on the fact that they depend on themselves. There is also a clear distinction between the families and the immediate family. According to Lewis (2005) Swedes do not mix work and social life. In the work force the Swedes have a high level of security. The security is based on the unions and laws which protect the employees. This indicates that Sweden is a highly individualistic culture. Sweden highly value honesty which is one of the characteristics strongly related to individualistic cultures (Lewis, 2005). According to Lewis (2005) Finland is also seen as a individualistic culture. Finns have a strong desire for solitude which is related to the values and characteristics of an individualistic culture. The Finns are hard-working people and they are very intelligent. These traits and characteristics are also related to individualistic cultures and individualism.
6.3.3 Masculinity

Sweden is a feminine culture. It scores 5 on this dimension. Swedes look for balance between home and work not wanting to sacrifice the quality of life due to working too much. Managers in Sweden are supportive and decisions are made through involvement of employees. The Swedish people value equality and strive for consensus. They prefer high quality in personal lives and therefore flexible work hours and places are preferred. Conflicts are solved by negotiations and long discussions until consensus through agreement is reached (Hofstede, 1983). It is important to the Swedish people that there is a mutual agreement among the people involved in the decision making process and it is important that everyone is willing to compromise if needed (Ekwall & Karlsson, 1999). The Swedish culture is based on the expression “lagom”, meaning that no one possess too much or too little (Hofstede, 1983). According to Ekwall and Karlsson, (1999) the Swedish organizational landscape is less political and the relationships are open, easy and friendly. In general, there is a lot of listening and exchange of ideas and a lot of confidence and trust between the management and the employees. An important quality within the Swedish culture is to be a good listener and be able to give guidance (sverigeturism.se, 2012-02-23). Typical for the Swedes is to treat people with equal respect and they expect to be treated the same way (Hofstede, 1983). The Swedes take criticism personally and this is the reason why discussion that might result in conflicts is preferred to be avoided (Ekwall & Karlsson, 1999). The Swedes are neither risk takers, straight forward, rued nor temperamental (Ekwall & Karlsson, 1999).

Finland scores relevantly higher than Sweden in masculinity with 26 points, but is still considered to be a feminine culture. They also value equality and quality in their working lives. They work in order to live instead of living to work. Conflicts are also solved by negotiations as in Sweden and people are expected to be able to compromise if needed. However, the Finnish managers are more outspoken than Swedish and are not afraid of conflicts, though still trying to avoid them if possible (Ekwall & Karlsson, 1999). In contrast to Swedes, Finns prefer efficiency and the communication is clear and they go straight to the point. There are no visible status differences and the decisions are made through involvement of employees (Hofstede, 1983).

6.3.4 Uncertainty Avoidance

The most noticeable differences between Finland and Sweden appear in the uncertainty avoidance dimension. Finland scores a rather high 59 whereas Sweden scores only 29, meaning that Finland is characterized as having medium high uncertainty avoidance and Sweden having low uncertainty avoidance. Sweden is more open and tolerates changes better. The Swedish people believe that there should not be more rules than absolutely needed and if some rule doesn’t work it should be changed. Innovation is encouraged in working places and the working schedules are flexible. Punctuality and precision don’t come naturally to Swedes (Hofstede, 1983). However, according to Mole (2003) structures and processes in Sweden are designed to minimize the need for improvisation and to reduce the level of uncertainty. Meaning, there is a genuine systematic approach in organizations (Mole, 2003). The Swedish intercultural competence for change is low. This means that the Swedish culture have some difficulties to accept social cultural changes. The Swedish culture is time controlled and there are expectations of clear time tables. If deadline is
ignored, it is seen as a lack of respect and as a sign of poor management and inefficiency. This can result in low self-confidence and high uncertainty (Hofstede 1980; Hofstede 2001).

The Finnish people are more intolerant of changes in behavior and the environment. They have a strong need for rules, they work hard and believe that time is money. In contrast to Sweden the Finnish people prefer precision and punctuality. They limit innovation and an important element in the individual’s motivation is security (Hofstede, 1983). They like to be prepared for possible problems by having clear structures and they distribute the responsibility among employees (www.via-web.de, 2012-04-06). Ekwall and Karlsson (1999) argue that in Finland the method is to just do it. The Finns don’t see the point of trying to predict what will happen; instead they believe it is easier to just try and see what will happen rather than try to solve potential up-coming problems. The Finnish people rather make use of the money they have instead of saving it for later (Ekwall & Karlsson, 1999).
7. ANALYSIS

In the following chapter the effect of perceived psychic distance on Bufab’s international performance is analyzed based on the empirical data gathered together with the literature review theory and conceptual framework.

As specified in the introduction, the relevance of the research is based on the increasing amount of attention and interest within the literature and research field of international business towards the psychic distance concept and it being one of the most used construct in research of multinational’s internationalization. In addition the psychic distance concept is argued to be a key factor explaining international expansion and trade and it is extensively used to present and evaluate differences between the home and foreign market. Also, a company’s management’s perceptions of psychic distance and actual differences between countries have a great impact on companies’ organizational performance in foreign markets.

Therefore, the overall purpose of this dissertation is to contribute in the research of the psychic distance concept regarding the existence of the psychic distance paradox and how it appears in the international business. The aim is to find out whether the management’s perceptions of psychic distance have influenced a company’s organizational performance in a foreign market and to study whether psychic distance paradox plays a role in the organizational performance of an international company. The purpose and aim of the dissertation is accomplished by addressing the overreaching research question:

How does management’s perception of psychic distance affect a company’s organizational performance in a foreign market?

Here, the main findings presented in the empirical data chapter are analyzed in accordance to the literature review and theory of psychic distance and cultural dimensions.

7.1 Perceptions of Psychic Distance

Psychic distance consists of individuals’ perceptions of cultural and business similarities and differences between the home and foreign country/market (Evans et al., 2000; Evans & Mavondo, 2002). The company’s home country, its business strategy, size, ownership and decision making structure affect the management’s perceptions of psychic distance (Evans et al., 2000). In addition the individuals’ own culture, language, education and international experience among other things shape how individuals perceive psychic distance (Johanson & Vahlne, 1977; Evans et al. 2000; Evans & Mavondo, 2002; Dow & Karunaratna; 2006; Ojala & Tyrväinen, 2009; Dowling et al., 2011).

Bufab Group is a Swedish multinational organization. The organization is owned by private equity firm Nordic Capital, that acquired Bufab in 2005 (www.bufab.com, 2012-05-07). Bufab Group has a global account organization and their strategy is based on the “Think Globally – Act Locally” – attitude. Bufab strives to have a similar, non-bureaucratic way of working in all its subsidiaries around the world (www.bufab.com, 2012-05-07, Niska, 2012-03-23).
Both Niska and Sandén have a long and comprehensive international experience. Tulla however has not the same level of international experiences. Niska has in addition extensive experience of working in Bufab and its products. Sandén is Swedish, whereas Niska and Tulla is Finnish. Niska has, however, lived and worked in Sweden for many years (Sandén, 2012-03-23; Niska, 2012-03-23; Tulla, 2012-05-02). Sandén’s native language is Swedish and she speaks fluent English, which is Bufab’s corporate language. Niska and Tulla’s native language is Finnish but they also speaks fluent Swedish and knows English as well. Based on their language skills, home countries and culture, education, history in Bufab and international experience, one might believe that the interviewees’ perceptions of the psychic distance between Finland and Sweden would be rather close to the actual differences. Despite the perceptions are not that far from the truth, there are still some essential differences between the interviewees’ perceptions and the national and organizational cultures between Finland and Sweden. The interviewees’ perceptions and the perceptions’ effect on the organizational performance of Bufab in Finland will be presented and discussed in the following chapters.

National Culture

Countries that are perceived as psychically close may in fact have significant and essential differences in reality and be more distant than they appear to be on the surface (O’Grady & Lane, 1996). There was a general perception within Bufab’s management that Sweden and Finland are very similar both when the acquisition of Bufab Finland and the merge with Mercantile was made. Nowadays, however, several differences between the countries are acknowledged. There is a realization of cultural differences and especially differences in the mind-setting of Finnish and Swedish people (Sandén, 2012-03-23; Niska, 2012-03-23; Tulla, 2012-05-02). The biggest differences are said to be between the countries and not that much between Bufab Finland and Bufab Sweden, and according to Niska (2012-03-23) the differences shouldn’t be highlighted too much in order to avoid making them even bigger.

Perceived similarity between countries can lead to unexpected and unforeseen entry barriers and ultimately to unsuccessful performance in the foreign market resulting from managers overlooking or not being prepared to the possible differences (O’Grady & Lane, 1996). Assumed similarities may result in underestimating or overlooking subtle, but crucial differences which in return may lead to poor organizational performance in the foreign market (Evans & Mavondo, 2002). It is quite evident according to the interviews that Bufab’s management perceived Finland as psychically close to Sweden. Sandén (2012-03-23) stated: “I thought they (Finland) were very similar to Sweden. ...I did not think that we would be so different“ and Niska (2012-03-23) was in agreement with Sandén by stating that “There are not that many differences between Bufab Sweden and Bufab Finland. They are the same thing.” Later on, however, as the acquisition and merge had been conducted and operations in Finland had been going on for a while, both admitted to having noticed differences between the countries. As Niska (2012-03-23) pointed out: “As time was passing more and more differences become visible and today there are quite a lot of big differences”. National differences were clearly not acknowledged and therefore also not taken into account when entering the Finnish market nor the merge. The underlying differences were detected only later on after the market entry and the merge. The differences were, however, overlooked or maybe not really
acknowledged even after the initial market entry and thus the perception of similarities existed even at the time of the merge and appropriate research and planning of strategies was not conducted.

Organizational Culture

The values of a culture guide companies’ organizational and managerial practices. Core values of a culture can be considered to form the company’s management practices. The perceptions of cultural differences have an essential effect on companies’ international performance and therefore, it is important to take national culture as well as organizational culture differences into account when managing multinational companies (Fenwick et al., 2003; Hofstede, 1998). As stated before, Bufab perceived Finland and Sweden to be quite similar and no big differences were acknowledged at the time of the acquisition or the merger. Some differences between the companies and especially organizational culture are nowadays detected (Sandén, 2012-03-23; Niska, 2012-03-23; Tulla, 2012-05-02). Since the perception within Bufab’s management was that Finland and Sweden are psychically close and rather similar, the company failed to consider the underlying national and organizational differences and plan and conduct their strategies accordingly.

Differences in management style and business practices occur even between psychically close markets and they can result in cross-cultural conflicts. Mistakes and difficulties resulting from managerial differences are especially common in countries that are perceived to be psychically close (Fenwick et al., 2003). Psychic distance affects people’s behavior, communication and how information is received as well as interpreted, which increases management’s risk and uncertainty of understanding and communicating with the foreign market (Dow & Karunaratna, 2006). The acquisition of Mercantile and merge with Bufab Finland caused a lot of problems for Bufab (Sandén, 2012-03-23; Niska, 2012-03-23; Tulla, 2012-05-02). Even though the product, industry and type of business were the same, the way of operating was rather different. There was stronger hierarchy, more clear structure and precise roles of employees and management in Mercantile at the time of the merge (Niska, 2012-03-23).

The cultural and behavioral differences between Finland and Sweden are nowadays acknowledged within Bufab (Sandén, 2012-03-23; Niska, 2012-03-23). In addition to the organizational structure and differences in hierarchy, Finnish people are perceived as less talkative, calmer, quieter and more prone to work individually compared to the Swedish people (Sandén, 2012-03-23). The perception is also that Finns focus on the important things instead of the general and prefer to talk in smaller groups (Niska, 2012-03-23). There is a notion in Bufab that the differences between Finns and Swedes stem from history and the big-little-brother complex between the countries. Finland and Sweden have throughout history competed with each other and it is especially important for Finns to be able to beat Sweden. All this is perceived to affect the way people behave and the mind-setting of Finns and therefore cause the differences between the countries (Sandén, 2012-03-23; Niska, 2012-03-23; Tulla, 2012-05-02).

Even though the differences are nowadays acknowledged, they were overlooked in the past and the company seems to keep overlooking them, or at least trying not to bring them out too much, or as Niska (2012-03-23) states that the differences should not be highlighted. However, since the organizational culture has an essential impact on a company’s organizational performance (Fenwick
et al., 2003; Hofstede, 1998) it is important that the strategies today are at least on some level adapted according to the different national and organizational cultures. Bufab is, in fact, planning on making an effort in increasing their awareness of the differences existing between Sweden and their subsidiaries around the world. According to Niska (2012-03-23), Bufab will be arranging workshops in order to identify and analyze Bufab’s way of operating in different countries. Niska (2012-03-23) expects the workshops to bring out the differences between countries as well as probably raise questions such as how to cope with different cultures and how to find the best ways of operating within different cultures that has not been considered before. The workshop may provide Bufab useful information and give more insight in how to implement their motto “Think globally – Act Locally” (www.bufab.se, 2012-05-07) more appropriately in different countries. So far, despite their motto, the general aim in Bufab has been to standardize the Swedish organizational culture in their subsidiary in Finland, which has led to difficulties and proven to maybe not be the best way of operating in Bufab Finland (Sandén, 2012-03-23).

Research and Strategies

Lack of knowledge of foreign markets is an essential barrier to the development of international operations (Johanson & Vahlne, 1977) and the international marketing strategy are greatly influenced and determined by psychic distance between the home and foreign market (Sousa & Bradley, 2005). Perception of psychically distant markets regarding cultural and business differences is likely to result in high uncertainty within the mother company. Uncertainty and risks resulting from it pushes the company to do more thorough and comprehensive research on the foreign market and to plan their market entry strategy more carefully. Knowledge gained through extensive research and planning leads to improved decision making and therefore to better organizational performance (Evans et al., 2000; Evans & Mavondo, 2002).

Bufab’s management’s perceptions of Finland and Sweden being similar can be seen to result in low uncertainty regarding market entry and therefore the company conducted almost no research of the Finnish culture or market prior the acquisitions or merge. There was also lack of planning and strategizing the market entry. Some, very few and rather superficial, research was conducted before acquiring Bufab Finland but not for the acquisition of Mercantile and the merge with Bufab Finland. The perception within Bufab’s management was that they already knew the Finnish market and competitors there. There was a strong desire to just enter the market instantly after the decision was made and the strategies were not planned (Sandén, 2012-03-23; Niska, 2012-03-23; Tulla, 2012-05-02). The management in Bufab believed they had enough experience and knowledge, which points to overconfidence and overlooking potential differences. Several differences between Finland and Sweden were discovered after the market entry and merge, which surprised Bufab’s management (Niska, 2012-03-23). This is a clear indication of the management’s perception of Finland and Sweden being psychically close countries which lead the company to have a low level of uncertainty and not see the risks resulting from differences. The management’s overconfidence in the existing knowledge and experience of the Finnish market can be concluded to have resulted in inadequate research and planning prior entering the market as well as later on at the time of the merge.
Since management practices are culturally dependent what works in one country may not work in another. Culture assessment and research of the foreign market should always be conducted in case of acquisitions and mergers, in order to identify potential differences and to be able to determine the right amount of adaptation or differentiation of strategies and practices (Hofstede, 1998). Psychic distance and especially the management’s perception of psychic distance determine largely the degree of standardization and adaptation. Therefore the management’s decision making regarding internationalization strategy should be based on thorough analysis and assessment of similarities and differences between the home and foreign market (Sousa & Bradley, 2005).

There is a general idea in Bufab that the key to success is flat organization and broad knowledge of all areas among employees (Sandén, 2012-03-23). Bufab’s strategy is to try to implement the strategy in all the countries around the world they operate in (Sandén, 2012-03-23; Niska, 2012-03-23; Tulla, 2012-05-02). There is, however, some adjustments and adaptation in the strategies used in different countries and cultures (Niska, 2012-03-23). When Mercantile was merged with Bufab Finland the aim was for the subsidiary to become the same as Bufab Sweden regarding operations and organizational structure. Nowadays Bufab Finland and Sweden are said to be more similar, however with some deviations in the way of working and operating and especially in the mindset of employees (Sandén, 2012-03-23). It is also acknowledged that what works great in Bufab Sweden might not be the best solution in Bufab Finland and some adaptation is needed (Sandén, 2012-03-23; Niska, 2012-03-23). The lack of research of differences in Finnish and Swedish culture may have caused the difficulties Bufab faced during the merge of Mercantile. Had the differences been studied, Bufab could have planned a more appropriate strategy to operate in the Finnish market and adapt Bufab Finland’s way of operating to the Swedish way more smoothly.

7.2 Cultural Dimensions

Different countries have different cultures. Cultures differ mainly because of different values, affecting both national and organizational cultures within countries. In addition organizations, their strategies, structures and management are all largely determined by the values of a culture. Differences between countries and cultures need to be taken into account when managing international companies (Hofstede, 1998). Hofstede’s cultural dimension model consists of four dimensions and is used when identifying and analyzing cultural differences (Minkov & Hofstede, 2011). By using this model as a base to find cultural differences between Sweden and Finland, the result is that the two countries are rather similar and can easily be perceived as psychically close. The management of Bufab first perceived the two countries as similar which influenced their decision making and the actions they have taken. Later on their perceptions have changed and they have realized that though the countries are quite similar, there are some differences between the two countries as well as the organizational cultures of Bufab Finland and Bufab Sweden. These differences become visible when comparing Bufab Sweden with Bufab Finland and their different organizational structures, cultures and the working processes as well as the differences between the two countries in accordance with Hofstede’s (1980) cultural dimensions model.
Power Distance

Power distance deals with the unequal distribution of power among employees in an organization. It also deals with the degree of acceptance and the expectations of unequal power distribution. High power distance speaks of a strong hierarchy and an unequal distribution of power among employees (Minkov & Hofstede, 2011). Neither Finland nor Sweden score high on this dimension and are both seen as countries with low power distance. They have, in accordance with what Hofstede (1980) defines as a low power distance culture, a decentralized structure and a flat hierarchy. Although their scores are almost the same, there are in fact clear differences between Sweden and Finland. In Sweden companies often have a high degree of independence, direct communication and empowerment. The organizations are team oriented and the responsibility is within the group. In Bufab Sweden the responsibility is within the group and sometimes the managers are not sure who is responsible of what. Other factors that confirm Sweden as a low power distant culture is the horizontal structure, coaching and leading managers and finally a shared responsibility (Tixies, 1996; Ekwall & Karlsson, 1999). In Bufab Sweden there are no clear roles or rules (Niska, 2012-03-23). This indicates and results in a low power distance culture.

Although Finland scores low on this dimension and is supposed to be a culture with low power distance, they have a culture with a more linear and vertical structure (Lewis, 1997). Bufab’s management’s perceptions also indicate a higher power distance in Finland. There is a more linear structure with clear roles in Bufab Finland than there is in Bufab Sweden (Niska, 2012-03-23; Tulla, 2012-05-02; Sandén, 2012-03-23). This may be one of several reasons why Bufab faced difficulties in their Finnish subsidiary and even poor organizational performance. Finnish organizations are less group-oriented and the employees are less motivated by their managers. There is a lack of open communication and the employees prefer to work individually (Lewis, 1997; Mikluha, 1998). The management in Bufab Sweden experienced that Mercantile had a strong hierarchy which after the merge affected negatively the performance of the new Bufab Finland. Today Bufab Finland is nearly the same as before the merge but there is still a stronger hierarchy compared to Bufab Sweden (Niska, 2012-03-23; Sandén, 2012-03-23; Tulla, 2012-05-02). This also shows that even though the two countries score rather similar they do in fact have a different approach to power and hierarchy.

Individualism

Individualism describes the relationship between an individual and a group, as well as the individuals within a group. It deals with the interdependence, the individual or collective achievements and the interpersonal relationships (Hofstede, 1980; Hofstede, 2001; Minkov & Hofstede, 2011). Both Finland and Sweden are considered to be individualistic countries and cultures. The employees in Sweden and Finland are expected to take care of themselves and there are no interpersonal relationships between them (Hofstede, 1993). Since both Sweden and Finland have a culture that is considered to be individualistic, it may be an explanation of why there are differences. Finns are less tolerant of changes in the behavior and environment and this might be another potential reason why there have been difficulties between the two companies (Hofstede, 1983). This also might have led to the problems Bufab Finland faced after the merge in 2008. Mercantile had difficulties to adapt to the organizational culture of Bufab. Because of the
individualistic culture and individualistic thinking it affects the ability to adapt to cultural differences. Sweden’s ability to adapt to intercultural changes is low and reflects on the behavior and the decisions made (Hofstede, 2001). Both Bufab Finland and Mercantile had some difficulties to adapt and combine the differences within the organizational cultures (Niska, 2012-03-23). Both wanted to maintain their own organizational culture, which lead to difficulties. These factors indicate that even if Bufab Sweden and Bufab Finland belong to the same organization, they work independently and look for the good of their own company.

**Masculinity**

Masculinity describes how cultures differ based on which values are dominant. It deals with the motivation behind individuals’ actions and behavior. Individuals in a masculine culture strive to be the best. Meanwhile in a feminine culture, individuals prefer to do what they like and look out for the best of the group (Hofstede, 1980; Hofstede, 2001; Minkov & Hofstede, 2011). Sweden scores 5, which means that it can be linked to what Hosftede (1980) calls a feminine culture. Sweden is a feminine culture based on the values within the culture. In Bufab Sweden people are group-oriented and caring about each other (Niska, 2012-03-23; Tulla, 2012-05-02; Sandén, 2012-03-23). Other factors that make Sweden feminine are the desire for equality and consensus. As many as possible are involved in the decision making process. The managers and employees experience a high level of trust within the company. Finland is also seen as a feminine culture, even though it scores considerably higher in this dimension compared to Sweden (Hofstede, 1980). Finland shows sign of more masculine culture by preferring efficiency and going straight to the point (Hofstede, 1983). The employees in Bufab Finland are less talkative and do not talk about unnecessary things which indicates on efficiency in their communication (Tulla, 2012-05-02; Niska, 2012-03-23; Sandén, 2012-03-23). In turn, this points on a masculine side which is in contrast of what Hofstede’s research says about Finland and its culture.

**Uncertainty Avoidance**

Uncertainty avoidance describes the tolerance for uncertainty within a culture. It shows how individuals feel and behave in situations that are uncertain. It also deals with the need of having a clear structure (Hofstede, 1980; Hofstede, 2001; Minkov & Hofstede, 2011). Sweden is considered to be a culture with low uncertainty avoidance. This means that Swedes have a high tolerance towards uncertainty which results in a high level of flexibility and innovation. The low uncertainty avoidance was apparent in Bufab when they merged Bufab Finland and Mercantile. The just went on with it without any preparations or planning (Niska, 2012-03-23; Tulla, 2012-05-02). Lack of research before the acquisition and merger also speak on behalf of having high tolerance for uncertainty. Disregarding both research and planning can be seen to have caused culture conflicts between Bufab Finland and Sweden and might as well be one of the reasons for Bufab Finland’s poor performance. However, there is a conflict in the perceived and the actual differences. According to Mole (2003) Sweden minimizes and reduces the level of uncertainty by clear structures and processes. However, Bufab Sweden’s organizational culture is not in accordance with Mole. There are no clear structures within the organization that would point to and be linked to a need to decrease uncertainty (Niska, 2012-03-23). Although Sweden is defined as a culture with
low uncertainty avoidance Ekwall and Karlsson (1999) state that Swedes are not risk takers. This contradicts the definition of low uncertainty avoidance and the unplanned strategies and actions taken by Bufab. One reason an explanation behind Bufab’s incline to take risks when entering and operating in the Finnish market is that the management perceived Sweden and Finland to be psychically close countries.

In contrast with Sweden, Finland is characterized as a culture with medium high to high uncertainty avoidance. In Finland individuals are not as tolerant towards uncertainty and there are clear structures of how to work and who is responsible of what in Finnish organizations. Finns are not as open towards innovation as the Swedes are. However, there are some conflicts within the research of Finland’s uncertainty avoidance. Even though Finns prefer structure and certainty some research has shown that Finns prefer to take action instead of trying to predict what might happen (Ekwall & Karlsson, 1999). In Bufab Finland problems are dealt with as they appear instead of trying to predict potential ones (Niska, 2012-03-23). However, in some situations they try to decrease the risk of facing uncertainty by having clear structures. For example in the process of incoming orders from customers Bufab Finland have a clear structure in order to be prepared and avoid uncertainty and unexpected situations (Sandén, 2012-03-23).


8. CONCLUSIONS

This chapter concludes the dissertation by summarizing the results of the analysis and their nexus to the research question concerning the effect of perceived psychic distance on a company’s performance in a foreign market. Therefore, an essential reflection and discussion of the study are provided followed by recommendations for further research and limitations of the study.

8.1 Reflection and Discussion

In this dissertation it is argued that psychic distance plays a key role in explaining companies’ international business and expansion. The concept is also and used to present and evaluate differences between the home and foreign market. Furthermore, it is argued that especially management’s perceptions of psychic distance between the home and foreign country, determine the market research conducted, planning made and the international marketing strategies chosen. Therefore, the management’s perceptions of psychic distance largely determine the result of organizational performance in the foreign market. The general idea has been that companies succeed in psychically close countries. However, there is a growing number of evidence of a negative relationship between psychic distance and organizational performance. Meaning, that operating in psychically close countries may also result in poor organizational performance or even failure in the foreign market. There is still seems to be a lack of knowledge of the management’s perceptions’ effect on organizational performance in psychically close countries, even though various studies highlight the importance of the management’s perceptions when it comes to psychic distance. The findings of this study will be contributing to the research of psychic distance, especially the affect perceptions of psychic closeness between the home and foreign country have on a company’s organizational performance. The studies of psychic distance so far seem to have attracted more attention to psychically distant countries and there has been a lack of research of the organizational performance in psychically close countries.

The first conclusion relates to Bufab’s management’s perceptions of psychic distance between Finland and Sweden and how the perceptions have influenced the company’s organizational performance in Finland. According to previous studies (O’Grady & Lane, 1996; Evans et al., 2000; Evans & Mavondo, 2002; Fenwick et al., 2003; Sousa & Bradley, 2005) of psychic distance, the management’s perceptions have an essential influence on the organizational performance in a foreign market. Bufab’s management’s perceptions of psychic distance between Finland and Sweden have been that there are no apparent differences and that the countries as well as markets are rather similar. However, it is evident based on the research of cultural dimensions of Finland and Sweden that there actually are essential differences. There are differences in both national and organizational cultures. The most obvious differences are that Finland has higher uncertainty avoidance and a higher level of power distance compared to Sweden. Another difference is that in Sweden responsibility is shared within a group instead of the individual taking all responsibility. Despite the existing differences, Bufab’s management didn’t recognize or acknowledge them neither prior the market entry nor the merge later on. Nowadays they do admit that there were some differences to be seen already when they initially entered the Finnish market, yet, the differences weren’t taken into account when planning the acquisition of Mercantile and the following merge with Bufab Finland. Bufab’s management can be argued to having had a low level of uncertainty
regarding the market entry and merge. They were maybe overconfident in their experience and knowledge of the Finnish market and were not anticipating facing difficulties. The very low level of uncertainty within Bufab’s management and them not expecting risks resulted in that needed research was not conducted and appropriate international strategies were not planned prior the market entry and merge. The management didn’t, therefore, have adequate knowledge of the Finnish market to make appropriate decisions regarding suitable strategies or the level of standardization and adaptation in their subsidiary in Finland. Since the decisions were based on notions of perceived psychic closeness between Finland and Sweden, and not on thorough analysis and assessment of the Finnish national and organizational culture, it can be concluded that Bufab’s poor organizational performance in Finland has resulted from the management’s inaccurate perceptions and their failure in decision making regarding appropriate strategies. This strengthens the notion of the importance of management’s perceptions of psychic distance in international marketing decision making. The findings differ from previous studies in that they provide more information on management’s perceptions effect on psychically close countries.

The second conclusion presents additional proof to previous studies (O’Grady & Lane, 1996; Fenwick et al., 2003; Dikova, 2008) of the psychic distance paradox concept. The management’s perceptions of the Finnish market and the psychic distance to Sweden resulted in lacking of research and poor decision making regarding the international marketing strategy in Finland. Thus, Bufab experienced unexpected and unforeseen national and organizational differences between Finland and Sweden resulting in difficulties with the Finnish subsidiary. The psychic distance paradox can be argued to be apparent and applied in Bufab’s case. Although this phenomenon is well known the management of Bufab ignores to pay any attention to it. The overconfidence of their knowledge of the Finnish market made Bufab’s management overlook potential differences between Finland and Sweden, leading the management to disregard the need for market research. Furthermore, resulting in the management’s failure in the decision making regarding international marketing strategy. This has most likely caused Bufab Group’s poor organizational performance in Finland. Thus, the findings provide theoretical extension especially on the psychic distance paradox trough management’s perceptions in psychically close countries.

8.2 Managerial Implications

There are essential managerial implications that can be derived from the previously presented findings and conclusions. First and foremost, it is of great importance for the management of an international company to acknowledge possible underlying differences in a foreign market they are about to enter, even if the home and foreign market can be perceived as psychically close. Appropriate marketing research and planning should be conducted prior to entering a foreign market. It is the management’s responsibility to ensure that the needed measures are taken and that nothing is overlooked simply due to the management’s own perceptions. Thereafter, the decisions made and strategies followed need to be chosen according to the research conducted and possible differences that are detected. An essential part of the internationalization strategies is the decision between standardization and adaptation of strategies in the foreign market. These decisions must also be based on actual facts of the differences between the home and foreign market and therefore the importance of market research is even greater. An international company should also be willing to learn from their mistakes in case they have done some in their internationalization process and
thereafter conduct additional research in order to correct the mistakes made and to enhance their organizational performance in the foreign market.

8.3 Limitations

As in all research, there are some limitations in the research conducted for this dissertation. One limitation is that the research is based on a single case study. Regarding the results found and conclusions made from a single case study research can’t be universally generalized. The outcomes and conclusions can, however, be used to learn about a specific situation and then be generalized to similar situations. Another limitation is the choice of the study and the comparison of only two countries, Sweden and Finland. This means that there is a possibility that the results and consequences may differ when studies and comparison of other countries are carried out.

8.4 Recommendations for Further Research

The concept of psychic distance is extensive and this dissertation focuses on one part of the concept. There are still a variety of possibilities for further research within this area in order to deepen knowledge and understanding of the psychic distance concept and how it affects different aspects of internationalization, international marketing strategies and organizational performance in foreign markets. A more in depth research on how the different elements affect an individual’s perception of psychic distance would provide with more insight on how the perceptions are actually formed. Additional research on the effect of psychic distance on organizational performance would also be beneficial for international business research. The affects as well as aspects influencing them would improve understanding of different causations and therefore enable companies to prepare and plan their international marketing strategies more appropriately. In addition it would be beneficial to conduct more research on other psychically close countries than Finland and Sweden and their organizational performance in order to get more comprehensive results of psychic distance concept and the existence of psychic distance paradox.
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**INTERVIEW GUIDE**

The purpose of the research is to study management’s perceptions of psychic distance and their effect on organizational performance in a foreign country. Therefore, reflecting to the conceptual framework the interview questions presented below were created to discover the management’s perceptions of national and organizational culture in Sweden and Finland. Interviews are conducted by using semi-structured interview method. The semi-structured interviews involve open-ended questions, which gives a clearer picture of the respondents’ perceptions and the answers in accordance with their own thinking. Interviewers are also able to ask supplementary questions if needed. The interviews are tape-recorded and then later on transcribed for analysis.

**Interview questions:**

1. What are your (the decision-maker’s) international experience, cultural background, education and command of foreign language?

2. What is the corporate language?

3. What is the national culture like in Sweden / Finland? Why do you think these differences exist and what are they resulting from?

4. What kind of differences in the organizational culture do you see between Bufab Sweden and Bufab Finland? Why do you think these differences exist and what are they resulting from?

5. Have Swedish managers found the business environment in Bufab Finland to be as familiar and similar to Bufab Sweden as they had expected?

6. What were your (the executives) pre-entry, entry and post-entry perceptions of the Finnish culture and were these perceptions incorporated into the decisions made?

7. What kind of differences are there in behavior and business practices between Bufab Finland and Bufab Sweden?

8. How is the cooperation / relationship between Bufab Sweden and Bufab Finland?

9. What is the management style in Sweden / Finland? And Bufab Sweden / Bufab Finland? Are there differences? What are the differences? If so, have these differences led to problems managing in the Finnish environment?

10. What kind of strategic planning and research was conducted before entering the Finnish market?

11. Were cultural and other differences between Finland and Sweden as well as Bufab Sweden and Bufab Finland taken into account in the strategic decision making process? If yes, how did this occur? If no, why not?