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The locus of psychic distance

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Abstract

Purpose – This paper argues that longstanding inconsistencies in psychic distance research arise from a fundamental locus problem: the construct has drifted away from its original definition as barriers to information flow between the firm and the market. The purpose is to re-establish the correct locus of psychic distance and identify the multilevel antecedents that shape firm–market information flow.

Design/methodology/approach – The paper develops a conceptual analysis grounded in Johanson and Wiedersheim-Paul's (1975) definition. It synthesizes macro-, meso- and micro-level perspectives to build a multilevel framework that traces how country-level differences, firm-level characteristics and individual-level perceptions jointly influence firms' psychic distance.

Findings – The analysis shows that prior empirical inconsistencies stem from operationalizations that equate psychic distance with national cultural or institutional differences or with individual perceptions detached from firm–market interaction. Psychic distance emerges instead from the alignment or misalignment, between firm and market-specific information barriers. The framework clarifies that psychic distance is neither symmetrical nor stable, and that it varies across firms within the same country and across markets within the same host environment.

Originality/value – The paper introduces the notion of a locus problem and provides a clarified conceptual foundation for understanding psychic distance. By re-centering the construct on the firm–market relationship and specifying its multilevel antecedents, it offers a coherent explanation for mixed empirical results and a more precise basis for future operationalization and theory development.

Keywords Psychic distance, Locus, Internationalization, Firm-market interaction, Multilevel

Paper type Conceptual paper

Introduction

The concept of psychic distance plays a crucial role in international business (IB) and international marketing (IM) (Dow, 2000; Durand *et al.*, 2016; Griffith *et al.*, 2021), shaping market entry decisions, adaptation efforts, uncertainty assessments, and resource allocation strategies for internationalizing firms. Since Beckerman (1956) introduced the concept, it has been defined and operationalized in a variety of ways (Johanson and Wiedersheim-Paul, 1975; Kogut and Singh, 1988; O'Grady and Lane, 1996; Child *et al.*, 2002; Evans and Mavondo, 2002; Dow and Karunaratna, 2006; Child *et al.*, 2009; Prime *et al.*, 2009; Safari, 2024). Over the years, some scholars have questioned its continuing relevance and argued for the death of distance (Stöttinger and Schlegelmilch, 1998), while others have gone further, proposing that home and host country contexts should replace distance constructs altogether (Harzing and Pudelko, 2016).

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We find it too radical to claim that distance has lost its relevance and usefulness. Yet any construct is only as valuable as its conceptualization and operationalization are accurate. In their pioneering study, Johanson and Wiedersheim-Paul (1975, p. 308) defined psychic distance as "factors preventing or disturbing the flow of information between firm and market." An essential feature of this definition is its relational anchor, where the *firm* in the home country and the *market* in the host country constitute the two ends of information exchange. Over time, however, scholars have deliberately or otherwise abandoned this specification, gradually misplacing the construct's locus [1].

By the locus problem, we refer to a shift in the level and relational anchor at which a construct resides. In its original formulation, psychic distance was situated at the interface between a specific firm and a specific foreign market, capturing barriers to information flow between them. Subsequent research relocated the construct in two directions. Some studies displaced it upward to the country-country level, operationalizing psychic distance through objective difference measures, including not only cultural distance indices but also broader proxies such as institutional, linguistic, religious, and economic differences (e.g., Kogut and Singh, 1988; Klein and Roth, 1990; Dow and Karunaratna, 2006). While these measures capture important cross-national differences, equating them directly with psychic distance conflates antecedent stimuli with the meso-level informational barriers that the construct was originally designed to capture. Other studies displaced the construct downward to the individual level, measuring managers' perceptions of national differences and treating these assessments as equivalent to the firm-level construct (Håkanson and Ambos, 2010, Håkanson *et al*., 2016; Sousa and Bradley, 2006; Ambos *et al*., 2019). In both cases, the firm-market interface central to the original definition becomes obscured, and what is measured reflects cross-national differences or individual perceptions rather than informational barriers in a particular firm-market relationship. Firms, constituted by but not identical to the individual decision-makers within them, are the primary subjects of the international expansion process and the key decisions it entails. Relocating psychic distance away from the firm-market interface, therefore, renders the construct less suited to explaining the decisions it was originally designed to explain.

The core idea we advance in this paper is that country-level differences matter for internationalization only insofar as they affect how easily a specific *firm* can interpret and act on information from a specific foreign *market*. We frame psychic distance as an informational barrier, since, by definition, the construct captures impediments to the flow of information between a firm and a foreign market. We recognize that prior research has sometimes associated psychic distance with enabling effects such as opportunity recognition, learning potential, and strategic differentiation. We argue, however, that these effects are more accurately attributed to cross-national differences rather than to psychic distance properly defined. Differences between countries can create opportunities by enabling firms to exploit institutional voids, leverage comparative advantages, or target underserved markets precisely because of cross-national heterogeneity. Psychic distance, by contrast, refers specifically to the informational barriers that arise when such differences impede the flow of information between a firm and a market.

Furthermore, we argue that various forms of distance are relevant to internationalization primarily because they contribute to the psychic distance firms experience when entering foreign markets. Because it operates closer to firm decision-making than country-level or perceptual constructs do, psychic distance has greater explanatory power over firms' choices (e.g., market selection, entry mode, resource commitment, and adaptation strategy). This causal ordering justifies granting psychic distance conceptual primacy within our framework. We contend that the field has largely failed in this endeavor. The crucial distinction between structural country differences and psychic distance has been reduced to a choice between objective indicators and subjective perceptions of cross-national differences (Sousa and Bradley, 2006). The resulting gulf between the construct's original definition and its contemporary operationalizations is what we term the locus problem of psychic distance, which our paper addresses.

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To address the locus problem and adhere to Johanson and Wiedersheim-Paul's (1975) original definition, we reposition psychic distance as a meso-level construct at the firm-market interface. Rather than treating country-level differences or individual perceptions as psychic distance itself, we conceptualize them as antecedents that shape the extent to which information flows are facilitated or hindered between a particular firm and a particular foreign market. This repositioning allows us to reconcile macro- and micro-level perspectives without conflating them with the construct. Our meso-level focus enables examination of top-down (macro-to-meso) and bottom-up (micro-to-meso) antecedents, identifying causal connections among multiple entities (i.e. home country, firm, individuals, host country, and market) and the within- and cross-level linkages among them.

The relevance of the locus problem extends beyond conceptual clarification. Repositioning psychic distance at the firm-market interface helps address several longstanding questions in international business research that country- and individual-level conceptualizations have struggled to answer. First, it explains why firms from the same home country entering the same foreign market often experience different levels of uncertainty and achieve different internationalization outcomes, despite identical macro-level conditions. Second, the variable findings on psychic distance effects on entry mode choice, market selection, and international performance become theoretically tractable once informational barriers are understood to vary across firms even when country-level distance remains constant. Third, the psychic distance paradox (O'Grady and Lane, 1996) finds a natural resolution in the recognition that informational barriers arise from the interaction between a particular firm and a particular market rather than from country-level similarities alone. The framework also speaks directly to contemporary IB conditions, including digital internationalization, AI-assisted market intelligence, and heightened geopolitical uncertainty, where firms differ substantially in their capacity to access, interpret, and act on foreign market information.

This paper makes three primary contributions. First, it restores conceptual clarity by identifying and correcting the locus problem: the gradual relocation of psychic distance away from the firm-market interface toward country-level proxies or individual perceptions. Second, it advances theory by repositioning psychic distance as a meso-level construct shaped by both top-down (macro-to-meso) and bottom-up (micro-to-meso) antecedents, and by establishing its conceptual primacy over alternative distance constructs. Third, it provides a multilevel framework that explains why psychic distance is neither inherently symmetrical nor stable, but varies across firms, markets, and contexts. These contributions offer a more precise theoretical foundation for future empirical operationalization and a coherent explanation for the inconsistencies that have accumulated in prior research.

Antecedents of psychic distance

Central to the Johanson and Wiedersheim-Paul (1975) definition of psychic distance is the flow of information between the firm and the market. Before developing our multilevel framework, it is therefore important to clarify what we mean by information flow and how it operates within our model. We conceptualize information flow as the transmission, interpretation, and use of market-relevant cues between a firm and a foreign market. These cues may include regulatory changes, competitive dynamics, customer preferences, institutional norms, and relational expectations. Such information may be codified (e.g., formal regulations or published market data) or tacit (e.g., informal business practices and culturally embedded norms). The interpretation and use of these cues depend on firms' absorptive capacity, prior experience, and relational embeddedness in the target market context. Psychic distance arises when these cues are difficult to access, interpret, or integrate into organizational decision-making. Clarifying the nature of information flow is therefore foundational to understanding how macro- and micro-level antecedents shape the firm-market interface, the focus of the sections that follow.

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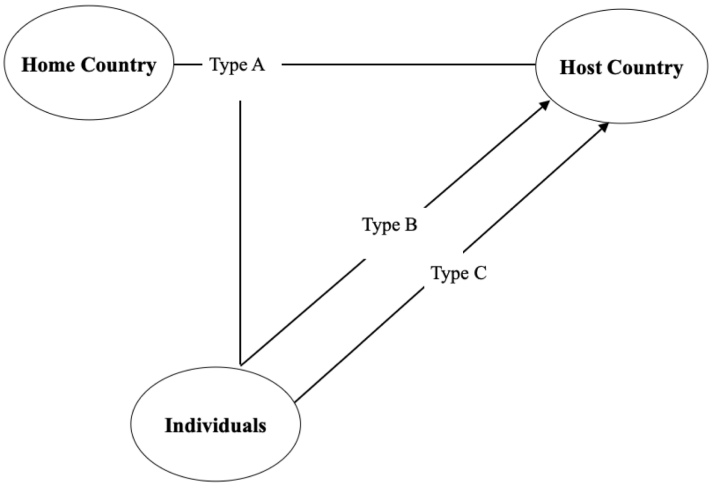
As noted in the introduction, past research on psychic distance has drifted from the construct's original definition. To illustrate this point, we organize prior studies into three categories (Figure 1). Type A studies use objective macro-level differences as a surrogate measure of psychic distance (e.g., Brewer, 2007; Dikova, 2009; Dinner *et al.*, 2019; Dow and Karunaratna, 2006; Hutzschenreuter *et al.*, 2014; O'Grady and Lane, 1996). Type B studies take this approach one step further by using macro-level differences as inputs and stimuli for individuals' perceptions of the differences between home and host countries (e.g., Håkanson and Ambos, 2010; Håkanson *et al.*, 2016; Håkanson and Dow, 2012), treating psychic distance as a subjective phenomenon. Lastly, Type C studies adopt a more stylized approach by examining subjective perceptions of individuals without considering objective indicators as inputs to those perceptions (e.g., Baack *et al.*, 2015; Ellis, 2008; Evans and Mavondo, 2002; Liu *et al.*, 2021; Yildiz and Fey, 2016; Zeng and Xu, 2020).

While these approaches incorporate country-level or perceptual inputs, they typically conceptualize psychic distance either as cross-national differences or as individual-level perceptions of those differences, rather than as a relational construct emerging from the interaction between a specific firm and a specific foreign market. The disunity between definition and operationalization therefore extends beyond a methodological issue — it reflects a set of untested theoretical assumptions that each approach carries implicitly. In Type A studies, objective country-level indicators, such as composite cultural distance indices (Kogut and Singh, 1988) or distance stimuli (Dow and Karunaratna, 2006), are assumed to translate into informational barriers for firms in a relatively uniform manner. Such an assumption overlooks variation in firm capabilities, prior experience, and network ties that mediate how country-level



Type A Studies: Using macro-level (e.g., cultural, institutional, economic, political etc.) differences between home and host countries as a proxy for psychic distance (e.g. Brewer, 2007; Dikova, 2009; Dinner *et al*., 2019; Dow & Karunaratna, 2006; Hutzschenreuter *et al*., 2014; O'Grady & Lane, 1996).

Type B Studies: Using macro-level (e.g., cultural, institutional, economic, political etc.) differences between home and host countries as the stimulus that affects individuals' perceived distance between home and host countries (Håkanson & Ambos, 2010; Håkanson *et al*., 2016; Håkanson & Dow, 2012).

Type C Studies: Using individual-level measures that directly captures perceived differences between home and host countries or the macro-level operating environments of interacting/partnering firms (e.g., Baack *et al*., 2015; Ellis, 2008; Evans & Mavondo, 2002; Liu *et al*., 2021; Yildiz & Fey, 2016; Zeng & Xu, 2020).

Figure 1. Existing approaches to the conceptualization and operationalization of psychic distance. **Source(s):** Authors' own work

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differences become consequential for a specific firm. In Type B approaches, macro-level differences are filtered through individual perceptions (Håkanson and Ambos, 2010), who aggregate individual perceptual scores into country-level estimates of psychic distance. This implicitly assumes that such aggregation adequately reflects firm-level informational barriers, without modeling the mechanisms through which individual perceptions shape organizational decision-making or information flows. While Type B studies do incorporate market-level or country-level characteristics as contextual inputs, the market enters these studies as a background condition shaping individual perception rather than as one of two relational anchors between which informational barriers emerge and are measured. Type C studies, such as Sousa and Bradley (2006), rely primarily on subjective managerial assessments and assume that aggregated individual perceptions represent firm-level psychic distance without explicitly modeling how these assessments connect to information flows between the firm and the target market. Across all three approaches, the firm-market interface, where informational barriers materialize, remains largely unexamined. An important implication of this perspective is that firm capabilities should not be equated with psychic distance itself. Rather, firm capabilities, prior experience, and relational resources shape the extent to which structural differences between countries translate into informational barriers between a specific firm and a specific foreign market. More precisely, psychic distance arises from the interaction between external conditions and the firm's ability to access, interpret, and use market-relevant information. This distinction is important because it preserves the original emphasis on information flows while acknowledging that firms differ in their capacity to engage with those flows.

The consequences of this locus misalignment are both conceptual and empirical. When psychic distance is operationalized using country-level indicators, firms from the same home country are implicitly assumed to face comparable informational barriers in each foreign market. Yet internationalization research repeatedly shows substantial variation among firms operating under similar country-level conditions. This mismatch may help explain why studies report inconsistent findings on the effects of psychic distance on market selection, entry mode choice, and international performance. The psychic distance paradox identified by O'Grady and Lane (1996) offers a particularly instructive illustration. If objectively similar markets are assumed to generate low psychic distance, firms should encounter relatively few informational barriers when entering them. However, empirical evidence suggests that some firms still face considerable difficulties even in seemingly proximate markets. From our perspective, such findings do not necessarily challenge the relevance of psychic distance itself; rather, they highlight the limitations of locating the construct at the country or individual level rather than at the firm-market interface, where informational barriers emerge.

In contrast, we propose that psychic distance emerges and evolves through top-down and bottom-up causal relationships that operate across multiple levels of analysis. By top-down effects, we refer to macro-level contextual factors (e.g., home and host country institutions, political systems, and bilateral relations) that shape firms and markets and thereby influence the flow of information between them. These effects operate from broader structural environments toward the firm-market interface. By contrast, bottom-up effects originate at the individual level, reflecting how the human, social, and relational capital of individuals within firms and markets shape organizational capabilities, knowledge stocks, and interactions. These micro-level influences aggregate upward and affect the flow of information between the firm and the target market. Our model also incorporates within-level relationships, in which interactions between countries or between individuals can independently shape psychic distance. These antecedents collectively shape the firm, the market, and the informational flows between them, as detailed in the sections that follow and summarized in Table 1.

The causal linkages in our model are not presented in any specific sequence or order of primacy. Rather than constructing an exhaustive account of every antecedent's evolution, we highlight key country- and individual-level factors that shape psychic distance as a meso-level phenomenon, focusing on identifying these antecedents rather than delineating their precise inner workings. We acknowledge that some relationships could be bidirectional. For instance,

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Table 1. Characteristics of the key antecedents shaping psychic distance

Direction	Levels	Key concepts and themes	Relevant studies
Top-Down Antecedents	Home Country-Firm	Comparative (dis)advantages, country-of-origin (dis)advantages, government support	Cuervo-Cazurra *et al.* (2018), Elango and Sethi (2007), Eddleston *et al.* (2019), Yan *et al.* (2024), Ciravegna *et al.* (2014)
	Host Country-Market	Institutional environment, Political decision-making system, political administration	Gaur *et al.* (2019), Nenonen *et al.* (2019), Cuervo-Cazurra *et al.* (2023), Robock (1971), Fisman (2001), Berry *et al.* (2010), Henisz (2000), Boddewyn (2016), Devinney and Hartwell (2020)
	Home Country-Host Country	Bilateral relationships, Home country-host- country Economic distance, Institutional distance, Geographical distance, Educational system, Political system, Industrial development, Legal system, Religion, Historical ties, Time zones	Dow and Karunaratna (2006), Ambos *et al.* (2019), Johanson and Wiedersheim-Paul (1975), Kogut and Singh (1988), Kostova (1999), Evans and Mavondo (2002, Ghemawat (2001), Berry *et al.* (2010), Elia and Santangelo (2017), Brewer (2007), Beugelsdijk *et al.* (2018), Cuervo-Cazurra *et al.* (2023)
Bottom-Up Antecedents	Individual-Firm	Microfoundations, TMT and CEO competencies and demographics, Decision-makers risk return perceptions and propensities, Executives' international and cross-cultural experience and skills, CEO narcissism	Ambos *et al.* (2020), Barner-Rasmussen *et al.* (2014), Békés *et al.* (2021), Biru *et al.* (2023), Buckley *et al.* (2018), Elia *et al.* (2021), Kumar *et al.* (2021), Liu *et al.* (2021), Li *et al.* (2022)
	Individual-Market	Competitors, Consumer, Demands, Non-commercial-Firms	Jaworski *et al.* (2000), Narver *et al.* ((2004), Dolbec and Fischer (2015), Martin and Schouten (2014), Scaraboto and Fischer (2013), O'Grady and Lane (1996), Mountford and Geiger (2020)
	Individual-Individual	Information exchange,Network relationships,Bridge-makers	Child *et al.* (2009), Ciravegna *et al.* (2014), Arenius (2005), Safari and Chetty (2019), Puthusserry *et al.* (2021), Safari (2024)

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firms may exert top-down effects on individuals, or individuals may exert bottom-up influences on home and host country conditions. Nevertheless, we maintain a parsimonious model with unidirectional causal links. We also do not systematically address aggregation and emergence in bottom-up antecedents. While we align with the microfoundations perspective and recognize potential non-linear effects, we refrain from specifying a particular form of aggregation in order to keep the core argument clear.

A further clarification concerns the temporal scope of our framework. Psychic distance carries its greatest explanatory weight in the pre-entry and early-entry phases of internationalization, when firms must evaluate foreign markets and make consequential decisions under conditions of informational uncertainty and without the benefit of direct market exposure. These are precisely the conditions that psychic distance is designed to capture, and the construct is most analytically tractable at these stages because firms have not

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yet accumulated the experiential knowledge that would otherwise attenuate informational barriers over time. The bulk of our theoretical discussion is therefore anchored in the pre- and early-entry phases. We do, however, retain a qualified claim about post-entry relevance. Because the multilevel antecedents shaping psychic distance (e.g., institutional conditions, bilateral relations, competitive dynamics, and firm- and individual-level capabilities) continue to evolve after entry, informational barriers may persist, shift, or intensify post-entry, with consequences for strategic adaptation and performance. We present this, however, as a secondary and contingent claim rather than a core theoretical commitment.

Top-down effect of macro-level contexts

The role of the home country context in shaping internationalizing firms

The IB literature has long recognized the formative influence of the home country on firms' internationalization trajectories and performance in foreign markets (Buckley *et al.*, 2012; Cuervo-Cazurra *et al.*, 2018). A central mechanism through which this influence operates is the comparative advantages (and disadvantages) that home countries bestow on their firms. Countries differ in the resource endowments they generate, including knowledge, technologies, infrastructure, and innovation capacity, and these endowments are not solely natural but can be actively cultivated through government support, R&D investment, and the development of advanced financial systems (Freeman, 1995; Beck, 2002; Cuervo-Cazurra *et al.*, 2018). At the same time, home countries can impose comparative disadvantages on firms, constraining their strategic options through resource scarcity, institutional weakness, or limited market sophistication (Cuervo-Cazurra *et al.*, 2018). The home-country context, whether advantageous or disadvantageous, significantly influences the types of information a firm can produce, communicate, and analyze when operating in foreign markets. This informational mechanism serves as the conduit through which home-country factors impact psychic distance.

There are several specific mechanisms through which home-country advantages and disadvantages shape information flows. As documented in research on home-country institutional effects on firm capabilities (Cuervo-Cazurra *et al.*, 2018), firms originating from innovation-intensive home economies tend to develop stronger absorptive capacity and more refined analytical routines, which enhance their ability to decode and act on foreign market signals. Exposure to sophisticated domestic competition similarly sharpens firms' capacity to interpret competitive dynamics in unfamiliar markets, as firms accustomed to demanding home environments develop more transferable competitive intelligence practices. High-quality home-country institutions facilitate knowledge codification and standardization, thereby making information more transferable across borders and reducing the interpretive barriers firms face in foreign markets. Conversely, firms embedded in weaker institutional environments may struggle to develop transferable organizational routines, limiting their ability to access and process foreign market information effectively. In this way, home-country context influences not only competitive strength but also the firm's capacity to generate, interpret, and transmit market-relevant knowledge. Such capabilities, in turn, determine the level of informational barriers between the firm and a foreign market.

Beyond capability formation, the home country also shapes how the firm is received in foreign markets through country-of-origin effects. Country-of-origin perceptions reflect buyers' associations with a firm's home country rather than the intrinsic attributes of its products (Brouthers *et al.*, 2000), and may encompass assessments of technological sophistication, quality, and reliability (Steenkamp *et al.*, 2003). These perceptions affect the informational environment facing the firm in the target market. In particular, a favorable country-of-origin image can increase the receptivity of local partners and customers, facilitating information exchange and reducing barriers to market access, while an unfavorable image may generate skepticism that impedes the firm's ability to gather and interpret reliable market intelligence. Country-of-origin perceptions are not static; they evolve as firms and countries develop over time (Suzuki, 1980; Samiee, 1994; Bilkey and Nes, 1982), which

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means their effect on psychic distance may change across different periods of internationalization.

The home-country context also provides firms with experiential resources that bear directly on their informational capabilities in foreign markets. Cuervo-Cazurra *et al.* (2018) show that firms can draw on experience accumulated in demanding or weak home-country institutional environments and apply it to deal with comparable conditions in host countries. Relatedly, vicarious experience, as reflected in the number of prior entries by compatriot firms in a given host market, enables the focal firm to access secondhand knowledge about that market's informational environment, reducing uncertainty before direct exposure (Jiang *et al*., 2014). Governmental and non-governmental organizations, including chambers of commerce, further support this process by providing networks and resources that facilitate access to information in foreign markets (Pannier, 2020).

It is also important to acknowledge that psychic distance reflects how a firm interprets and evaluates foreign market information relative to the knowledge base and organizational routines developed in its home environment. This comparative aspect has an important implication that deserves explicit acknowledgment. A firm strengthened by a competitive, institutionally sophisticated, and innovation-intensive home market may develop capabilities that reduce the informational barriers it faces in foreign markets. In this sense, home-country advantages may lower psychic distance. At the same time, the cognitive frames and organizational routines shaped by a particular home environment may render information from a substantially different foreign market harder to access or interpret, even for a capable firm. The overall impact of home-country strength on psychic distance hinges on which mechanism is more influential within a particular firm-market relationship. If enhanced capability has a greater effect, it can outweigh the interpretive constraints that arise from home-country cognitive frames. Conversely, if these constraints are more powerful, they can limit the benefits of increased capability. Recognizing this contingency prevents the conflation of home-country advantage with automatically reduced psychic distance and adds precision to how we understand the home country as an antecedent of the construct.

Based on the preceding discussion, we propose that.

P1. The comparative advantages and disadvantages of a firm's home country affect the level of psychic distance between the firm and its target market by influencing the firm's ability to access and interpret relevant market information.

The role of the host country context in shaping foreign markets

Just as home-country conditions shape the firm's informational capabilities, host-country conditions configure the informational environment of the target market itself. The political decision-making system and the quality of political administration are the primary host-country factors that characterize the host-country environment (Cuervo-Cazurra *et al.*, 2023). These are objective, country-level phenomena, but their relevance to psychic distance lies in the concrete informational barriers they generate for firms seeking to understand and engage with a specific foreign market. When regulatory frameworks are opaque, inconsistently applied, or subject to sudden revision, the flow of reliable market information is disrupted, and firms face greater difficulty interpreting the conditions they must cope with. It is through this informational channel that host-country political and administrative characteristics become antecedents of psychic distance at the firm-market interface.

Political decision-making systems and the quality of political administration are closely tied to broader institutional conditions, yet they warrant distinct treatment as antecedents of psychic distance because of the specific informational mechanisms they activate. Political decision-making systems influence how rules are formulated, while the quality of political administration determines how those rules are implemented and communicated (Henisz, 2000; Cuervo-Cazurra *et al.*, 2023). These dimensions shape the transparency, predictability, and accessibility of market-relevant information available to internationalizing firms in ways

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that broader institutional quality indices tend to obscure (Boddewyn, 2016; Ghemawat, 2001). The framework developed here focuses on these political-administrative mechanisms precisely because they operate most directly on the informational environment firms encounter at the firm-market interface (Cuervo-Cazurra *et al.*, 2023).

The political decision-making system influences the informational environment in several interconnected ways. Governments vary considerably in how they regulate foreign firms, and the degree to which political institutions constrain discretionary decision-making determines how predictably information about regulatory requirements and market conditions can be accessed. Political risk research shows that sudden regulatory changes generate uncertainty that disrupts firms' ability to plan and interpret market signals (Cuervo-Cazurra *et al.*, 2023). Where institutional checks are weak, discretionary decisions by political actors can alter the rules of market engagement without warning, making it difficult for firms to maintain reliable knowledge of the market environment (Henisz, 2000). Political turnover compounds this uncertainty, as changes in government often bring ideological shifts that alter regulatory priorities and market conditions (Robock, 1971; Boddewyn, 2016). When the ideological orientation of the host country's government diverges substantially from that of the home country, the interpretive gap facing the firm widens, increasing psychic distance (Berry *et al.*, 2010; Ghemawat, 2001). In response to these conditions, firms may seek local partners with political access or market knowledge, though this strategy introduces its own informational dependencies and uncertainties.

The quality of political administration (i.e. the consistency and integrity with which policy decisions are implemented) constitutes a second, distinct mechanism through which host-country conditions affect psychic distance. Even where regulatory frameworks are formally clear, poor administrative quality can render them unpredictable in practice. Local officials may apply rules selectively, delay permits for foreign entrants, or create informal requirements that are difficult to anticipate or interpret (Cuervo-Cazurra *et al.*, 2023). These conditions generate informational barriers that are particularly consequential at the pre-entry stage, when firms must form judgments about a market they have not yet directly experienced. When administrative behavior is hard to predict, the reliability of available market information deteriorates, increasing the difficulty of forming accurate assessments of entry conditions and market dynamics. Related to this, Gani (2007) finds that low administrative quality reduces foreign investment precisely because it increases the informational distance potential entrants face.

Accordingly, we formulate the following proposition.

P2. The host country's political decision-making system and the quality of political administration affect the level of psychic distance between the firm and the target market.

The role of differences and the bilateral relationship between home and host countries

A foundational argument in the extant literature is that differences between countries create psychic distance because they affect the flow of information between home and host market environments (Johanson and Vahlne, 1977; O'Grady and Lane, 1996). These differences have been captured along multiple dimensions, including cultural distance (Hofstede, 1980, 2001; Kogut and Singh, 1988), institutional distance (Kostova, 1999; Håkanson and Ambos, 2010), economic distance, geographical distance, and differences in political systems, legal frameworks, language, norms, and values (Johanson and Wiedersheim-Paul, 1975; Evans and Mavondo, 2002; Dow and Karunaratna, 2006). Regardless of dimension, variations across countries are treated in this literature as an inherent source of uncertainty for internationalizing firms.

Recent IM scholarship has extended this logic to encompass both country- and business-level factors (Safari and Chetty, 2019; Safari, 2024). At the country level, scholars have examined cultural dimensions such as power distance, uncertainty avoidance, individualism,

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and long-term orientation, as well as broader macro-level factors including economic development, communication infrastructure, legal regulations, and market competitiveness (Evans and Mavondo, 2002; Sousa and Bradley, 2006; Sousa and Lages, 2011; Durand *et al.*, 2016). At the business level, relevant factors include market structure, business practices, customer preferences, purchasing power, and industry-specific norms (Evans and Mavondo, 2002; Griffith and Dimitrova, 2014; Durand *et al.*, 2016). Together, these country- and business-level factors configure the target market's informational environment. When they differ substantially from those familiar to the firm, the flow of information between the firm and the market is disrupted.

Our perspective departs from prior research in a theoretically important way. Earlier studies have tended to treat country- and business-level differences as direct proxies for psychic distance, implicitly assuming that the same difference generates equivalent informational difficulty across all firms. Our framework rejects this assumption. Differences between home and host markets do not constitute psychic distance in themselves. Instead, their relevance lies in what they do to the informational interface between a specific firm and a specific foreign market. When regulatory systems differ substantially from those familiar to the firm, obtaining reliable information about compliance requirements becomes more difficult. When consumer preferences or industry norms diverge from home-market patterns, interpreting market signals and anticipating competitive behavior becomes harder. In each case, it is not the difference *per se* but the informational barrier it generates at the firm-market interface that constitutes psychic distance.

What determines the magnitude of that barrier is the firm's capacity to bridge home-host country differences. A firm with substantial prior experience in markets with similar institutional or cultural profiles will have developed interpretive routines and knowledge stocks that make the informational environment of the target market more legible, even where objective differences are large (Johanson and Wiedersheim-Paul, 1975; Eriksson *et al.*, 1997; Puthusserry *et al.*, 2021). Relational resources work through a related but distinct pathway, as network ties with host-market actors provide access to tacit knowledge that formal channels rarely surface. Conversely, a firm with limited international experience, narrow network reach, and organizational routines calibrated exclusively to its home environment may face substantial informational barriers even in markets that appear objectively close. Country- and business-level differences set the structural conditions of the informational environment, but it is the firm's capabilities, experience, and relational resources that determine how those conditions translate into actual barriers to information flow. This is why two firms from the same home country, facing the same foreign market, can experience different levels of psychic distance. It also helps explain the psychic distance paradox identified by O'Grady and Lane (1996), whereby firms entering ostensibly close markets perform unexpectedly poorly. If psychic distance is measured at the country level, objectively similar markets appear straightforward to interpret and engage with. Yet a firm lacking the experiential knowledge, network access, or interpretive capacity to read that market effectively may encounter informational barriers far greater than structural proximity would predict. The paradox finds a more coherent explanation once psychic distance is located at the firm-market interface, because it is the firm-specific translation of structural conditions into informational barriers that determines the difficulty of engaging with the market.

Network ties represent a distinct mechanism through which firms access foreign market information and reduce informational barriers. Through relationships with customers, suppliers, distributors, industry associations, and other market actors, firms gain access to tacit knowledge that may not be available through formal channels (Agndal *et al.*, 2008; Child *et al.*, 2009). These relationships improve a firm's ability to interpret local business practices, understand customer preferences, identify emerging opportunities, and engage with unfamiliar institutional environments. Network ties therefore influence psychic distance not by eliminating underlying country- or business-level differences, but by facilitating the

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acquisition and interpretation of market-relevant information (Puthusserry *et al.*, 2021; Safari and Chetty, 2019).

The broader implication of the preceding discussion is that psychic distance is not a relative property of country pairs but of firm-market relationships. Structural differences set the informational conditions of the target market, but whether and to what degree those conditions become barriers depends on what the firm brings to the foreign market encounter, its experiential knowledge, relational reach, and interpretive capabilities. This firm-specificity is most consequential before and during early market entry, when these resources either equip the firm to read the market or leave it informationally exposed. This leads to the following proposition.

P3a. Differences in country- and business-level factors between home and host markets affect the level of psychic distance experienced by the firm by generating informational barriers whose magnitude depends on the firm's capabilities, prior experience, and network ties.

We further argue that the bilateral relationship between home and host countries constitutes a distinct macro-level antecedent of psychic distance. The character of this relationship can range from minimal contact to close strategic partnership (Ben-Josef Hirsch and Miller, 2021), and its nature directly shapes the informational environment within which firms operate across borders. Bilateral relations pursued by governments encompass military and security concerns, cultural exchange, and economic goals, and in doing so they establish both the boundaries for information flow between the two countries and the opportunities available for firms to access and engage with the host country's market (Cuervo-Cazurra *et al.*, 2023). In this sense, bilateral relationships do not merely set the geopolitical backdrop for internationalization. Instead, they actively configure the informational conditions that determine how accessible and interpretable the target market is for the internationalizing firm.

The informational implications of bilateral ties operate through several interconnected channels. Favorable bilateral relationships reduce barriers to information flow by creating institutional frameworks (e.g. trade agreements, mutual recognition arrangements, and diplomatic channels) that make market-relevant information more accessible and reliable for firms on both sides. Where bilateral ties are strong, firms benefit from greater regulatory predictability, more open access to local networks, and a more receptive reception from host-market partners and institutions, all of which reduce psychic distance. Favorable ties also encourage firms to explore business opportunities in each other's markets, generating a stock of vicarious knowledge that further reduces informational barriers for subsequent entrants (Yoon *et al.*, 2021). Conversely, deteriorating bilateral relations (i.e. trade disputes, diplomatic tensions, or sanctions) can restrict information flows, reduce market accessibility, and increase the uncertainty firms face when trying to understand and engage with the target market, thereby increasing psychic distance.

Bilateral relationships are shaped by historical ties, cultural exchange, and patterns of military and economic collaboration, all of which influence how the focal firm and its home country are perceived in the target market (Brewer, 2007; Brammer *et al.*, 2009). These matter for psychic distance because they affect the willingness of host-market actors to share information, enter partnerships, and engage openly with the internationalizing firm. While bilateral relationships tend to be relatively stable, they are subject to change, and such changes alter the informational interface between firms and foreign markets. The evolution of the relationship between the United States and Japan offers a clear illustration of this evolution. What began as near-complete informational closure during the Second World War gradually gave way to deep economic, military, and political ties in the decades that followed (Chanlett-Avery, 2011), progressively transforming the informational environment facing firms on both sides and reducing psychic distance in ways that no country-level cultural or institutional index could have predicted. Changes in bilateral relationships can therefore increase or decrease psychic distance depending on their direction and intensity. We thus propose that.

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P3b. The bilateral relationship between the home and host countries affects the level of psychic distance between the firm and the target market by determining the openness of information flows, the accessibility of market-relevant knowledge, and the receptivity of host-market actors to the internationalizing firm.

Bottom-up effect of individuals

Individuals as the microfoundations of internationalizing firm

Although the home-country context strongly influences a firm's ability to enter and succeed in the target market, firms from the same home country do not face identical levels of psychic distance toward that market. Accounting for firm-level heterogeneity is therefore essential for a theoretically complete psychic distance framework. Earlier IM research has primarily examined firm-specific resources and capabilities to understand how firms cope with distance and knowledge gaps in foreign markets (Klier *et al.*, 2017). While we acknowledge these contributions, we focus on the understudied role of individuals within the internationalizing firm, their knowledge stocks and their capacity to develop and sustain information flows to and from the target market. Our approach follows the microfoundations perspective in international business research (Chittoor *et al.*, 2019; Foss and Pedersen, 2019), which locates the sources of firm-level heterogeneity in the properties and interactions of the individuals who constitute the firm.

As an analytical framework rather than a formal theory, the microfoundations perspective challenges the collectivist assumption that individuals are uniformly shaped by social context (Felin and Hesterly, 2007). Recognizing agency and heterogeneity, microfoundations emphasize individual and group actions that shape firm capabilities and performance (Morris *et al.*, 2014). Rather than inferring causality from macro-level patterns, explanations should be rooted in the properties of constituent components (Foss and Pedersen, 2019). While individuals are the causal starting point, their interactions with each other and organizational contexts are equally critical. These interactions are not merely additive but can produce emergent effects that defy reductionist explanations. As noted by Barney and Felin (2013, p. 141), "reducing, or attempting to reduce, everything to individuals is only 'micro', not micro*foundational*. In other words, the foundations portion of microfoundations is important in that it emphasizes the need to specifically understand the unique, interactional, and collective effects that are not only additive but also emergent."

A central premise of this perspective, and one we develop explicitly here, is that individuals within organizations differ meaningfully in their expertise, organizational position, and experiential knowledge, and that these differences influence how market-relevant information is accessed, interpreted, and acted upon at the firm level. For example, a senior executive with extensive host-market experience will interpret foreign market signals very differently from a recently appointed manager with no prior international exposure. Similarly, a boundary-spanning employee with deep network ties in the target market will access forms of tacit knowledge that remain invisible to colleagues without such connections. These differences in informational access and interpretive capacity aggregate upward to shape the firm's overall ability to read and engage with the target market, and therefore the level of psychic distance the firm experiences. Recognizing this heterogeneity as a theoretical premise, rather than treating it solely as a measurement challenge, is essential for understanding why firms from the same home country can face substantially different levels of psychic distance toward the same foreign market.

Various streams of past research converge on the importance of individuals as carriers of the knowledge that shapes psychic distance. Johanson and Vahlne (1977) identify experiential knowledge as tacit and non-transferable, residing in individuals rather than organizational systems. Eriksson *et al.* (1997) similarly argue that firm knowledge is embedded in individuals and their networks, making personnel composition a direct determinant of the firm's

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informational reach. Language skills enable firms to access market information that would otherwise remain inaccessible (Child *et al.*, 2009), while prior market experience equips individuals to interpret foreign signals against a richer interpretive background (Håkanson and Ambos, 2010). Founders, managers, board members, and employees with target-market knowledge all contribute to the firm's capacity to close knowledge gaps and reduce informational barriers (Ambos *et al.*, 2019; Puthusserry *et al.*, 2021; Safari, 2024).

Recent microfoundations research reinforces and extends these findings. Market entry decisions are influenced by decision-makers' human and social capital as well as their risk orientation (Ambos *et al.*, 2020; Buckley *et al.*, 2018). Managers' and board members' relational capital helps close knowledge gaps, facilitating information flows that reduce psychic distance and increase the likelihood of foreign market entry (Ang *et al.*, 2018; Yildiz *et al.*, 2023). Research drawing on upper-echelons theory further shows that TMT composition (i.e. including members' demographics, social and human capital, and patterns of interaction) shapes strategic choices such as market selection and entry mode (Cuypers *et al.*, 2022), with psychic distance operating as a key mediating construct between individual-level knowledge and firm-level internationalization decisions.

Collectively, these findings establish that the firm's informational interface with the target market is not uniform but varies with the composition, experience, and relational reach of the individuals within it. Differences in expertise, hierarchical position, and market familiarity mean that individuals contribute unequally to the firm's capacity to access and interpret foreign market information. Based on this, we propose that.

P4. The human, social, and relational capital of individuals within the firm reduces psychic distance between the firm and the target market by enhancing the firm's ability to access and interpret market-relevant information, with the magnitude of this effect varying according to individuals' expertise, organizational position, and depth of market familiarity.

The role of individuals in shaping the foreign market

Both individuals and organizations in the host country contribute to shaping the market environment through which the internationalizing firm must operate. Research across multiple theoretical traditions has examined who influences market dynamics and through what mechanisms (DiMaggio and Powell, 1983; Penrose, 1959; Giddens, 1984; Schumpeter, 1947; Vargo and Lusch, 2016). For our purposes, the relevant question is not who shapes markets in general but how the actions of individuals within host-market organizations configure the informational environment that the internationalizing firm encounters, and through what mechanisms those actions affect the accessibility and interpretability of market-relevant information.

Firms in the target market are central actors in this process, operating through their products, services, and strategic behavior (Jaworski *et al.*, 2000). Beyond focal firms, competitors, partners, public sector organizations, and customer firms all actively shape market conditions through innovation, strategic positioning, and regulatory engagement (O'Grady and Lane, 1996; Safari and Chetty, 2019; Dolbec and Fischer, 2015). What ties these actors together, from the perspective of psychic distance, is that each of them determines not merely what information exists in the market but how accessible and interpretable that information is to a firm approaching from outside. This is the pathway through which host-market individuals affect psychic distance, and it is worth tracing for each actor category.

Competitors influence the availability and reliability of information about market positioning and competitive dynamics through their strategic behavior and signaling practices. When competitors engage in transparent competitive signaling (e.g. through pricing, product launches, or public communications) the internationalizing firm can more readily interpret the competitive environment of the target market. Where competitive

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behavior is opaque, coordinated to exclude outsiders, or deliberately misleading, the informational environment becomes harder to read, increasing psychic distance. Furthermore, partners and distributors occupy a particularly consequential position in this informational setting (Safari, 2024). They mediate the flow of information about customer preferences, regulatory expectations, and industry norms, and their willingness to share such knowledge openly or to withhold it strategically directly determines what the internationalizing firm can access and act upon. A partner who facilitates open information exchange substantially reduces informational barriers, whereas one who behaves opportunistically or selectively withholds market knowledge can increase psychic distance beyond what structural country-level differences would predict. Public institutions also shape the informational environment through their administrative practices, determining the transparency, consistency, and predictability of regulatory information. If institutions publish clear and consistently enforced regulatory requirements, firms can access reliable information about the rules of market engagement (Safari, 2025a, b). On the other hand, when administrative practices are opaque or discretionary, this information becomes hard to obtain and interpret. Customer firms generate signals about preferences and purchasing behavior that may be more or less legible to an outsider depending on how deeply those preferences are embedded in local cultural or institutional norms. To the extent that customer behavior is transparent and responsive to standard market signals, psychic distance is reduced. However, if preferences are tacit, locally specific, or mediated through cultural practices unfamiliar to the internationalizing firm, the informational gap widens.

In sum, aforementioned mechanisms operate not on the existence of market information but on its accessibility and interpretability for a firm that does not yet have direct market experience. The informational environment of the target market is therefore not a fixed structural feature but an outcome of the actions of the individuals and organizations that constitute it. The behavior of these actors that can either open or close the informational interface between the market and the internationalizing firm. Based on this, we propose that.

P5. The actions of individuals within host-market organizations affect the level of psychic distance between the internationalizing firm and the target market, with the direction of the effect depending on whether those actions facilitate or impede the flow and interpretability of market-relevant information.

Individual-individual relationships

Firms rarely possess the full spectrum of knowledge required to interpret and engage with a foreign market. To address this gap, they frequently draw on relationships within their broader networks to access critical insights about the target market (Agndal *et al*., 2008; Child *et al*., 2009; Puthusserry *et al*., 2021). These network connections are activated and sustained through individuals. Personnel within the internationalizing firm forge relationships with counterparts in other organizations (i.e. agents, distributors, suppliers, or contacts embedded in the host country through personal or professional ties) and through these relationships, information flows in both directions where the firm shares knowledge about its own offerings and capabilities while receiving insights about market conditions, customer expectations, and competitive dynamics in return (Agndal *et al*., 2008; Tolstoy and Agndal, 2010).

The informational value of these relationships is most clearly embodied in the role of bridge-makers. Bridge-makers are individuals or organizations embedded in the host market who possess deep familiarity with local regulations, business practices, cultural norms, and institutional frameworks, and whose willingness to share this knowledge with the internationalizing firm makes otherwise inaccessible market information available (Child *et al*., 2002; Ojala, 2015; Puthusserry *et al*., 2021). Bridge-makers reduce psychic distance by making tacit, locally embedded knowledge accessible to a firm that would otherwise have no direct means of obtaining it (Safari, 2024, 2025a, b). Through sustained interaction, they help

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the internationalizing firm interpret market signals, assess product fit, and identify opportunities that would remain invisible without their intermediation (Child *et al.*, 2009; Safari and Chetty, 2019). Such collaboration can also generate broader value, enabling joint ventures and partnerships that benefit both the focal firm and its local counterparts (Safari and Chetty, 2019).

The effectiveness of bridge-making relationships is not unconditional, however, and this contingency has direct implications for psychic distance. Where relationships are characterized by mutual trust and commitment, the flow of market-relevant knowledge is open and reliable, substantially reducing informational barriers. Where trust is absent or where bridge-makers behave opportunistically, by withholding information, misrepresenting market conditions, or pursuing their own interests at the expense of the focal firm, the relationship can increase rather than reduce psychic distance (Ojala, 2015; Safari and Chetty, 2019). Effective bridge-making also requires that the bridge-maker understands the focal firm's capabilities, strategic intent, and operational requirements; without this mutual understanding, the knowledge exchanged may be poorly calibrated to the firm's actual informational needs (Safari and Chetty, 2019). Firms must therefore invest in cultivating and supporting these relationships rather than treating bridge-makers as passive conduits, recognizing that the quality of the informational bridge depends on the quality of the relationship that sustains it. Building on this reasoning, we predict that.

P6. Relationships between individuals within the focal firm and those in organizations in the target market, particularly through bridge-makers, reduce psychic distance by facilitating access to and interpretation of market-relevant knowledge.

Discussion

In the preceding sections, we developed a multilevel framework of the antecedents shaping psychic distance between the firm and the target market. Figure 2 graphically represents the

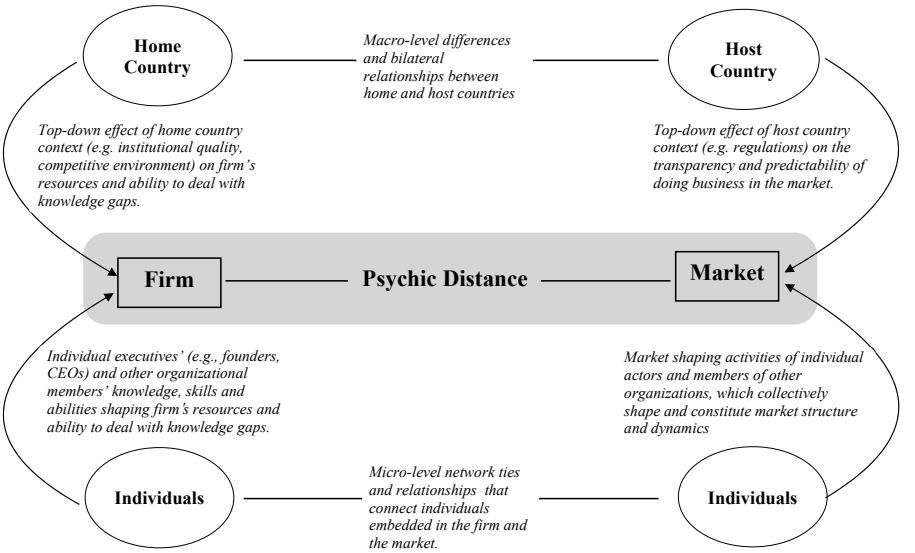

Figure 2. Proposed model to delineate causal antecedents and relationships that shape psychic distance.
Source(s): Authors' own work

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causal structure of this framework, illustrating how top-down and bottom-up effects collectively determine the ease with which information flows between the firm and the market. A change in any of these antecedents alters the informational interface between the firm and the market, and the consequences of such changes depend critically on the phase of internationalization in which they occur.

In the pre-entry phase, information flows are largely prospective and indirect. Firms rely on available signals about the target market (e.g. regulatory conditions, competitive structure, institutional norms, and business practices) without the benefit of direct market exposure. Psychic distance at this stage shapes market choice by determining which foreign markets appear informationally accessible and actionable. Markets where relevant information is harder to access or interpret are more likely to be passed over or approached with greater caution, influencing both the selection of target markets and the sequencing of international expansion. The antecedents in our framework (i.e. home-country capabilities, bilateral relations, country- and business-level differences, and the human and social capital of individuals within the firm) jointly determine this informational accessibility before the firm has committed to entry.

Information flows take on a different character during the entry process itself. As firms begin to interact directly with market actors, the quality and accessibility of these interactions shape entry mode decisions. Where information flows are thin or unreliable, firms tend to prefer higher-control entry modes that reduce their dependence on local partners whose behavior is difficult to anticipate. Where bridge-makers and relational networks facilitate richer and more open information exchange, more collaborative entry modes become viable. The level of psychic distance a firm experiences at this stage therefore has direct implications not only for whether it enters a market but for how it enters, a connection that prior research has addressed incompletely by treating psychic distance as a uniform predictor of entry behavior rather than as a construct whose informational logic varies across phases.

Theoretical implications

The proposed framework offers several theoretical implications for understanding psychic distance, its antecedents, and its effects on internationalization. By re-centering the construct on the firm-market interface and realigning it with its original definition, the framework addresses a foundational gap in the IB and IM literature, moving away from national-level proxies toward a meso-level construct that integrates both macro and micro influences.

In his widely cited essay, Shenkar (2001) critiqued the distance literature for its illusion of symmetry and stability. Our framework addresses both. Regarding symmetry, positioning psychic distance as a meso-level construct at the firm-market interface renders the assumption of symmetry theoretically untenable. The psychic distance a firm experiences toward a target market is not necessarily reciprocated, because firm-level and market-specific factors disrupt any structural symmetry that country-level measures might imply. Country-of-origin effects and comparative advantages generate asymmetric informational positions across firms (Cuervo-Cazurra *et al.*, 2018; Yan *et al.*, 2024), and firms' experiential knowledge, capabilities, and relationships with bridge-makers introduce further asymmetry, making psychic distance fundamentally directional (Eriksson *et al.*, 1997; Dikova, 2009; Puthusserry *et al.*, 2021).

On the illusion of stability, traditional distance measures rely on static, single-point assessments that overlook the temporal evolution of firm-market relationships. Our framework highlights the conditions under which such stability is illusory. Some antecedents (e.g. geographical distance) are relatively stable over time. Others are not. A firm's experiential knowledge can shift rapidly through personnel changes or the acquisition of new competencies, altering its psychic distance toward a market. Competitive dynamics and regulatory conditions in the host country can evolve in ways that reshape the informational environment firms must deal with. These changes are most consequential in the pre-entry and

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early-entry phases, when firms are forming their initial assessments of market accessibility and making resource commitment decisions. Post-entry, the informational interface between the firm and the market may continue to evolve, but the construct's primary analytical value lies in explaining the decisions made before and during entry rather than in tracking ongoing post-entry adaptation.

Furthermore, the framework contributes to conceptual clarity by sharpening the distinction between differences and difficulties. Psychic distance is not a function of country-level disparities *per se* but of the informational barriers those disparities create for a specific firm engaging with a specific market. This distinction provides a foundation for re-evaluating how psychic distance is operationalized, encouraging future studies to move from static, country-based measures toward assessments that capture the firm-specific informational challenges of market engagement. This reorientation also addresses what Shenkar (2001) terms the illusion of discordance by directing attention to actual informational barriers rather than structural differences that may or may not create difficulty for any given firm.

The framework speaks directly to ongoing debates about the sources of heterogeneity in internationalization processes. Locating psychic distance at the firm-market interface suggests that firms differ substantially in their informational capabilities, experiential knowledge, network embeddedness, and access to bridge-makers, and these differences produce divergent levels of psychic distance even when firms enter the same foreign market from the same home country. This firm-specificity helps account for the variable findings reported across studies on the relationships among psychic distance, entry mode choice, market commitment, adaptation strategies, and performance outcomes. It also offers a more grounded explanation for emerging internationalization phenomena, including digitally enabled market expansion, AI-supported international decision-making, and internationalization amid geopolitical fragmentation, where informational access and interpretation vary across firms rather than across countries alone.

Relocating psychic distance at the firm-market interface also clarifies its appropriate scope relative to other distance constructs in international business research. Cultural, institutional, economic, and geographical distances remain analytically valuable because they capture structural differences between countries. Our argument is that psychic distance serves a distinct analytical purpose rather than a competing one. Structural distance constructs are most appropriate when the objective is to explain broad cross-national variation in institutional environments, cultural norms, economic conditions, or locational characteristics. Psychic distance becomes the relevant construct when the research objective shifts to explaining how such differences translate into firm-specific informational barriers that shape market interpretation, uncertainty assessment, and internationalization decisions. In this sense, cultural, institutional, economic, and geographical distances are best understood as potential antecedents of psychic distance rather than as interchangeable alternatives. Preserving this distinction prevents psychic distance from becoming an overly expansive construct and keeps each framework conceptually tractable.

A further implication concerns how psychic distance influences strategic decisions across the phases of foreign market expansion. Because psychic distance reflects firm-specific informational barriers, firms confronting similar foreign market conditions may reach different assessments of market attractiveness, uncertainty, and opportunity, producing variation in market selection, entry mode choice, resource commitment, and the sequencing of international expansion that country-level distance measures cannot account for on their own. The construct carries its greatest explanatory weight during the pre-entry and early-entry phases, when firms have limited direct experience with the target market and depend heavily on available information to guide consequential decisions. At the pre-entry stage specifically, the level of psychic distance a firm experiences shapes not only its assessment of market uncertainty but also its perception of opportunity. Firms with lower informational barriers are better positioned to identify viable market opportunities and form accurate assessments of entry conditions, while those facing higher barriers may either avoid the market altogether or

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enter with miscalibrated expectations. Linking informational barriers directly to these decision points clarifies how psychic distance shapes entry behavior and subsequent adaptation in ways that prior operationalizations, anchored at the country or individual level, could not.

In addition, the framework introduces bilateral relationships and country-of-origin effects as foundational antecedents of psychic distance, extending beyond the traditional focus on cultural and institutional differences. Bilateral relations provide the relational backdrop for internationalization, with strong diplomatic or trade ties facilitating information flow and market access. Country-of-origin effects shape how the firm is received in the target market, influencing local actors' willingness to share information and engage in collaborative exchange. Together, these factors deepen our understanding of how geopolitical context and national reputation shape the informational conditions facing internationalizing firms (Cuervo-Cazurra *et al.*, 2023; Yoon *et al.*, 2021).

Finally, by incorporating top-down and bottom-up influences within a single multilevel framework, our model aligns psychic distance research with the microfoundational perspective in international business. It establishes that psychic distance arises from the interaction of country-level institutional, political, and economic factors with individual-level actions, knowledge, and relational capital. The bottom-up influence of individuals, both within the internationalizing firm and within host-market organizations, underscores the role of human agency in determining whether informational barriers between the firm and the market are reduced or amplified.

Methodological implications

Our framework offers methodological insights for future studies. A foundational premise is that country- and business-level differences are not psychic distance *per se* but contextual indicators of conditions that may generate informational and operational challenges for firms interacting with a target market. The indices and measures we propose below should therefore be understood as operationalizations of challenge-generating conditions rather than as measures of difference in themselves. Directly measuring informational barriers at the firm-market interface is empirically difficult, and the proxies we recommend are included on the grounds that they reliably approximate the conditions under which such barriers arise. This framing resolves the tension between our theoretical argument (i.e. that psychic distance reflects difficulties rather than disparities) and the practical reality that observable difference-based proxies remain the most workable means of empirical approximation. Where possible, operationalization should focus on the degree of difficulty firms experience in accessing and interpreting market-relevant information, rather than on structural differences alone.

Meso-level operationalization offers important advantages over traditional country-level approaches. In particular, it enables researchers to capture firm-specific informational barriers that country-level distance measures cannot adequately explain. Firms entering the same foreign market from the same home country may differ substantially in experiential knowledge, network embeddedness, interpretive capabilities, and access to market-relevant information. By focusing on the firm-market interface, researchers can more directly assess the informational challenges that shape internationalization decisions and outcomes, improving alignment between the construct's original theoretical definition and its empirical measurement.

Realizing these advantages, however, requires confronting genuine methodological demands. Unlike country-level distance measures that can be calculated from secondary data, the meso-level conceptualization requires researchers to capture firm-specific informational processes and relational resources that secondary data rarely provide. Such an approach may require multi-informant designs, longitudinal research, qualitative methods, or the development of firm-specific measurement instruments. While these requirements increase empirical complexity, they also improve alignment between the construct's theoretical definition and its operationalization. The additional complexity should therefore be viewed not

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as a weakness of the framework but as a necessary consequence of measuring psychic distance at the level where informational barriers emerge.

At the same time, meso-level operationalization carries inherent limitations that researchers should recognize. Firm-level data on informational processes and relational embeddedness are harder to obtain and more susceptible to common method bias than secondary country-level indices. The weighted aggregation approach we propose introduces subjectivity in weight assignment that robustness checks can reduce but not eliminate. These constraints mean that the indices we propose are approximations rather than direct measures, and findings based on them should be interpreted accordingly.

These considerations inform how future empirical studies should approach data collection. As a meso-level construct influenced by macro- and micro-level factors, survey-based studies should collect data from multiple informants to capture firm-level perceptions. Since psychic distance reflects organizational rather than individual views, survey questions should assess firm-level challenges rather than personal experiences. As established in the preceding theoretical discussion, individuals within firms differ significantly in their expertise, organizational position, and experiential knowledge, and these differences influence how market-relevant information is accessed and interpreted at the firm level. When feasible, gathering insights from informants across diverse functional roles enhances the measurement of market challenges. Informants' functional backgrounds shape the aspects of psychic distance they are most attuned to. For instance, marketing managers may emphasize cultural and consumer-preference barriers, while operations managers are more likely to focus on regulatory and logistical obstacles. Differences in experience levels similarly shape the depth and specificity of insights, as those with extensive prior exposure to the host market are better positioned to identify concrete informational barriers than those with limited experience. These variations should be accounted for when aggregating responses into a firm-level measure.

Hierarchical status and power within the firm further influence how psychic distance is reported and interpreted. Senior executives, given their strategic vantage point, often shape the firm's overall assessment of market challenges, and their perspectives may carry disproportionate weight (formally or informally) in defining the firm's informational stance toward the target market. Power dynamics can also create deference among lower-ranking employees, affecting how challenges are surfaced and communicated. Researchers should carefully account for these dynamics when synthesizing firm-level perceptions.

Building directly on the individual heterogeneity argument developed in the theoretical section, aggregating individual responses into a firm-level measure of psychic distance benefits from a weighted approach, where each informant's contribution is adjusted to reflect their informational role within the firm. Each informant's response may be weighted according to the relevance of their functional expertise, their level of experience with the focal foreign market, and the influence of their organizational position on international decision-making. To reduce the subjectivity inherent in such weighting, future empirical studies could operationalize weights through several structured approaches. To reduce subjectivity in the weighting process, future empirical studies could operationalize weights through several structured approaches, including expert panels, Delphi techniques, survey-based assessments of informational role relevance within the firm, or statistical estimation of the relative influence of respondents' positions and experience on international decision outcomes. The choice among these approaches should be guided by data availability and the organizational context of the study. Regardless of the approach adopted, researchers should report weighting criteria transparently and conduct robustness checks with alternative weighting structures to assess the sensitivity of their findings. This weighted aggregation can be expressed as follows:

$$PD_{firm} = \sum_{i=1}^{n} \left(\omega_{func,i} \times \omega_{exp,i} \times \omega_{power,i}\right) \times PD_i$$

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where PD_i represents the psychic distance perceived by the *ith* informant, $\omega_{func,i}$ is the weight assigned based on the relevance of the informant's functional background, $\omega_{exp,i}$ accounts for the informant's level of experience with the host market, and $\omega_{power,i}$ reflects the influence or authority of their position within the firm.. Determining these weights could involve qualitative assessments of each role's strategic importance or historical data on decision-making influences within the firm. By capturing the varied perspectives across roles, this approach provides a more precise measure of psychic distance reflecting collective organizational perception.

To reduce subjectivity in the weighting process, future empirical studies could operationalize weights using several structured approaches. For instance, weights may be assigned based on respondents' hierarchical position, functional expertise, or level of experience with the focal foreign market, reflecting their relative involvement in international decision-making. Future research may also derive weights through expert panels, Delphi techniques, or survey-based assessments in which organizational members evaluate the informational relevance of different roles. Alternatively, statistical approaches, such as estimating the relative influence of respondents' positions or experience on decision outcomes, may be used to inform weighting schemes. By transparently reporting weighting criteria and conducting robustness checks with alternative weighting structures, researchers can minimize subjectivity while capturing the heterogeneity of informational roles within the firm.

Another important consideration for future survey studies is the distinction between business-level and country-level aspects of psychic distance (Azar and Drogendijk, 2014; Griffith and Dimitrova, 2014; Puthusserry *et al.*, 2021; Safari, 2024). Business-level distance captures factors such as industry-specific norms, competitive intensity, and customer expectations that may differ from home-market conditions. Country-level distance encompasses broader societal factors including cultural, institutional, and political conditions. Capturing these dimensions separately is important, as they jointly but distinctly shape the informational challenges firms face and the adaptation strategies they adopt.

For studies using secondary data, traditional proxies such as cultural or economic distance capture structural differences between countries but do not directly reflect the informational and operational challenges those differences generate for the firm. The sub-indices proposed below are designed to address this gap by serving as proxies for the conditions that generate such challenges, rather than as measures of difference in themselves. The components included in each index are illustrative rather than exhaustive, and different indicators may be appropriate depending on firm and market characteristics.

The *Firm-Specific Psychic Distance Index* (F-PDI) assesses a firm's capacity to access and interpret foreign market information by evaluating the resources and capabilities it brings to the encounter. Resources and Capabilities (RC) reflect the firm's adaptability and competitiveness, measured through R&D and advertising expenditures as well as brand value, with a Market-Specific Adjustment Factor (MSAF) available to align these indicators with host-market conditions. International Experience (IE) measures the firm's familiarity with foreign markets, refined through context-specific and mode-specific sub-components. Context-specific experience captures similarities between the host market and markets the firm has previously engaged, ensuring that relevant knowledge is transferable. Importantly, context-specific experience also encompasses any prior direct exposure to the focal target market itself. Where a firm has previously operated in, transacted with, or otherwise engaged the focal market, this experience is captured within the context-specific component as the most proximate form of market familiarity, one that most directly reduces the informational barriers between the firm and that specific market. Mode-specific experience accounts for familiarity with particular entry modes and assesses preparedness for host-market operational demands (Schwens *et al.*, 2018). Risk Tolerance (RT) captures managers' risk propensity, overconfidence, and regulatory orientation, each of which influences how informational

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barriers are assessed and responded to (Ambos *et al.*, 2020; Buckley *et al.*, 2018; Lai *et al.*, 2017; Biru *et al.*, 2023).

Based on the above, the formula for F-PDI can be expressed as:

$$F - PDI = \alpha_1(RC) + \alpha_2(IE) + \alpha_3(RT)$$

where each component is weighted (α_i) based on its strategic importance and/or relevance to the nature of foreign market entry under consideration. The weighting of F-PDI components should reflect the strategic context of the entry decision and the characteristics of the target market. In technologically advanced markets, for example, R&D capability within RC would carry greater weight via the MSAF. In markets where prior relational exposure is limited, IE may warrant higher weighting. Researchers should justify their weighting choices explicitly and conduct robustness checks to assess sensitivity.

The *Business-Specific Psychic Distance Index (B-PDI)* captures the alignment between the firm's home and host markets at the business level, which can influence the extent to which a firm can understand and respond to host market conditions. Each component is included not because divergence between home and host markets constitutes psychic distance but because such divergence generates concrete informational and operational challenges for the firm. For example, Consumer Preferences Divergence (*CPD*) indicates how consumer tastes in the host market align with home market tastes. A high divergence in consumer preferences can increase psychic distance by creating challenges in predicting local demand and adapting products effectively. Relatedly, Regulatory Dissimilarity (*RD*) would capture how closely the regulatory standards in the home and host markets align, which is especially relevant in highly regulated sectors. Proxies to capture this might include the number of shared industry-specific certifications or compliance standards, though different metrics may be needed depending on the industry's regulatory environment. Greater regulatory dissimilarity can widen knowledge gaps and increase psychic distance by introducing compliance and operational standards complexities. Lastly, Competitive Structure (*CS*) reflects the competitive dynamics in the home and host markets, typically measured by the Herfindahl-Hirschman Index (HHI) or other indicators of market concentration. A higher level of competitive structure in the host market can increase psychic distance by requiring the firm to adapt its competitive strategies to suit more intense market demands and requirements. Based on this, B-PDI can be formulated as:

$$B - PDI = \beta_1(CPD) + \beta_2(RD) + \beta_3(CS)$$

where each component is weighted (β_i) to reflect its relevance to the industry. Weights within B-PDI should reflect the industry context of the internationalization move. For instance, in highly regulated sectors, RD would carry greater weight. In consumer-facing industries, CPD may be more consequential. As with F-PDI, transparent reporting of weighting rationale and robustness checks are recommended.

Lastly, the *Country-Specific Psychic Distance Index* (C-PDI) assesses macro-level factors concerning the home and host countries, focusing on both impediments and facilitators of market entry. A key component is Psychic Distance Stimuli (PDS), a combined indicator that includes differences between the two countries in terms of cultural values, economic development, institutional (formal and informal) differences, and geographic distance (Dow and Karunaratna, 2006; Håkanson and Ambos, 2010). These stimuli are widely recognized among IB and IM scholars and have been thoroughly examined within the academic literature. However, as noted earlier, these factors were often used erroneously as direct, simplified measures of psychic distance itself, rather than as indicators of the underlying antecedents that shape it.

In addition to PDS, several other factors play a role in influencing psychic distance. Sanctions directly impede market entry, as they restrict or entirely block trade and business

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operations with the host country. Unlike cultural or economic differences, sanctions are explicit barriers, increasing psychic distance by legally constraining the firm's ability to enter or operate in the market (Meyer *et al.*, 2023). Positive Country-of-Origin (COO) effects can facilitate the flow of information between the firm and the market. A favorable country-of-origin perception may enhance trust and credibility in the host market, making local consumers and partners more receptive to the firm's offerings, thereby reducing perceived barriers (Durand *et al.*, 2016). Bilateral Trade Agreements (BTA) between the home and host countries can reduce the psychic distance by simplifying trade processes, lowering tariffs, and creating a more predictable regulatory environment. These agreements encourage smoother information flow and reduce market entry obstacles, aligning both regulatory and economic expectations between the countries. Lastly, Cumulative Foreign Direct Investment (CFDI) from the firm's home country into the host market indicates a history of investment and presence by firms from the home country. This familiarity can instigate a self-reinforcing cycle that reduces psychic distance by establishing a foundation of shared market knowledge, business practices, and potentially supportive local networks that ease adaptation to the host market.

Based on the discussion above, we propose the following formula C-PDI for:

$$C - PDI = \frac{\gamma_1(PDS) + \gamma_2(S)}{\gamma_3(COO) + \gamma_4(BTA) + \gamma_5(CFDI)}$$

where each component's weight (γ_i) reflects its strategic importance in evaluating distance between the home and host country environments. Similar to the previous indices, weights within C-PDI should reflect the geopolitical and institutional context of the entry decision. Where sanctions or bilateral tensions are relevant, these components would carry greater weight. Where country-of-origin effects are strong, COO may be weighted more heavily. Researchers are again encouraged to report weighting criteria explicitly and test alternative specifications.

To integrate these dimensions into a single measure, we combine the Firm-Specific, Business-Specific, and Country-Specific indices into a *Composite Psychic Distance Index (PDI)*, creating a unified measure of anticipated challenges in the new market. This combined index is defined as:

$$PDI = \frac{w_i(B - PDI) + w_c(C - PDI)}{w_f(F - PDI)}$$

where w_f, w_i, and w_c represent the weights for the Firm-Specific, Business-Specific, and Country-Specific indices, respectively. The sum of these weights $(wf + wi + wc = 1)$ ensures proportional contributions from each index. Weight selection reflects the unique strategic priorities of the firm, attributes and strategic rationale behind the internationalization move and the market context. For example, if the target market has substantial cultural and institutional differences, a higher weight may be assigned to the Country-Specific Psychic Distance Index (C-PDI). Conversely, the Business-Specific Psychic Distance Index (B-PDI) might carry greater significance for firms entering, for example, a highly regulated market. It is also important to note that F-PDI is placed in the denominator to reflect the firm's internal ability to overcome or mitigate external psychic distance challenges. A stronger F-PDI, thus, indicates greater readiness or adaptability, reduces the overall PDI, highlighting that firms with strong internal resources experience lower psychic distance when entering foreign markets.

Future research directions

Past studies have contributed to developing and measuring psychic distance at both the macro and micro levels. Our meso-level framework opens new research avenues at this intermediate level, and we outline the most promising directions below. The most immediate priority is

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empirical testing of the propositions developed in this paper. The seven propositions we advance should be tested with generalizable samples, drawing on the operationalization guidelines outlined in the methodological implications section. Such tests will either confirm or refine the conceptual contributions of the framework, and both outcomes would advance the field's understanding of psychic distance at the firm-market interface.

The effects of bilateral relationships on psychic distance, the role of bridge-makers as intermediaries that facilitate information flows between firms and foreign markets, and the indirect pathways through which home- and host-country environments shape the firm-market informational interface are all theoretically tractable and practically important questions. Future studies could examine the conditions under which bilateral relationships and bridge-makers reduce informational barriers, as well as situations in which they amplify uncertainty or create informational dependencies. For instance, dyadic studies comparing firm-market pairs with and without active bridge-maker relationships, or longitudinal designs tracking how bilateral relationship shifts alter informational access, would provide direct empirical traction on these mechanisms.

The distinction between country- and business-level dimensions of psychic distance also merits dedicated empirical attention. Future research should gather data from firm-level decision-makers about the specific challenges their organizations face when entering foreign markets, assessing the relative difficulty posed by country- and business-level factors separately. Building on prior work identifying relevant factors at both levels (Sousa and Lages, 2011; Azar and Drogendijk, 2014; Griffith and Dimitrova, 2014; Safari, 2024), such studies should collect and analyze data at the firm level rather than aggregating individual-level responses, consistent with the meso-level positioning of the construct.

The dynamic nature of psychic distance represents another underexplored area. Our framework treats psychic distance as a construct shaped by antecedents that evolve over time, yet empirical research has largely treated it as static. Qualitative longitudinal studies and conceptual models that examine how psychic distance fluctuates across different phases of internationalization would help explain the variable findings that have accumulated in prior research. Understanding how and why informational barriers between firms and markets change over time is consequential for explaining post-entry performance variation and strategic adaptation.

Finally, applying our framework to digital internationalization represents a promising and timely avenue for future investigation. Digitalization is reshaping the conditions under which firms access foreign markets, enabling market engagement without physical presence and altering the informational barriers firms encounter. The rise of artificial intelligence and other digital technologies introduces new mechanisms through which psychic distance may be reduced by enhancing firms' ability to access, interpret, and act on foreign market information, or amplified, where algorithmic mediation introduces new forms of informational opacity. A particularly pressing question is whether digitalization attenuates the firm-specificity of psychic distance, that is, whether AI-assisted market intelligence narrows the informational gap between firms with rich international experience and those without, or whether it introduces new asymmetries that replicate older informational hierarchies in digital form.

Conclusion

The psychic distance construct has accumulated decades of empirical attention without achieving the conceptual clarity its theoretical importance warrants. This paper argues that the source of this difficulty is the locus problem: the construct has drifted from its original specification as a barrier to information flow between a specific firm and a specific foreign market toward country-level proxies or individual-level perceptions. Addressing the locus problem restores the construct to its original conceptual properties, course-correcting what psychic distance captures, what generates it, and how it should be measured.

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By repositioning psychic distance as a meso-level construct at the firm-market interface, we draw attention to a form of variation that prior research has largely set aside. Country-level indices and individual perceptual measures have made important contributions to the psychic distance literature, and we do not argue against their continued use where the research objective is to explain broad structural differences or aggregate perceptual patterns. What they cannot adequately capture, however, is the firm-specific dimension of informational barriers. Indeed, this is the dimension that Johanson and Wiedersheim-Paul's (1975) original definition placed at the center of the construct. Two firms from the same home country, facing the same foreign market, may experience different informational barriers depending on their capabilities, experiential knowledge, and relational networks. This firm-market interface has been present in the construct's original conceptualization since its inception, yet it has received comparatively little scholarly attention. Our framework aims to redirect attention to it.

This firm-specific variation matters because internationalization decisions are made and implemented by heterogeneous firms rather than by countries. While country-level indicators capture broad structural conditions, they do not adequately explain why firms operating under similar national environments often make different entry decisions, face different levels of uncertainty, and achieve different internationalization outcomes. By incorporating firm-specific informational capabilities, experiential knowledge, and relational resources, our framework helps account for this variation and advances understanding of internationalization processes at the level where strategic decisions are actually made. We admit that introducing firm-specific factors increases analytical complexity and creates additional operationalization demands, as we discuss in greater detail in the methodological implications section. This complexity reflects the underlying reality of internationalization rather than a limitation of the framework. The objective is not to replace macro-level explanations but to complement them by attending to forms of heterogeneity that country-level approaches cannot fully reach.

The multilevel framework we develop traces how this firm-market informational interface is shaped from above, by home and host country contexts and bilateral relations, and from below, by the human, social, and relational capital of individuals within and around the internationalizing firm. Psychic distance, in this account, is neither symmetrical nor stable. 1t is directional, contingent, and subject to change as its antecedents evolve. These properties are not complications to be managed but theoretically meaningful features of the construct that prior research has largely treated as unexplained variance.

For managers, the practical implication follows directly from the theoretical argument. The relevant question is not how distant a target country appears on a composite index but whether the firm has the informational capabilities to read and engage with that specific market. Developing individuals with relevant market experience, cultivating relationships with local partners and bridge-makers, and attending to the institutional and competitive conditions that shape market accessibility are the managerial levers that matter, precisely because they operate at the level where psychic distance actually resides.

Note

1. In our choice of terminology, we found inspiration in the work of Kaplan (1964) who defines the locus problem as "that of selecting the ultimate subject-matter for inquiry in behavioral science, the attribute space for its description and the conceptual structure within which hypotheses about it are to be formulated" (1964, p. 78).

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