

‘Country of Origin’ and ‘Psychic Distance’ : separate constructs or two sides of the one coin?

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ABSTRACT

One of the major contributions of the IMP approach to international marketing has been the concept of interaction. Often concepts that in international marketing are treated as discrete, are in fact interrelated if the notion of interaction is taken into account. This will be illustrated in the case of ‘country of origin’ and ‘psychic distance’, and it will be argued that these are in fact two sides of the one coin when the notion of interaction between importer and exporter is taken into account.

‘Country of origin’ refers to ways in which a buyer perceives doing business with an overseas market in terms of its attractiveness as a source of supply whereas ‘psychic distance’ refers to ways in which a seller perceives the overseas market in terms of its attractiveness as a place with which to do business. Both are perceptual constructs.

The interactions between country of origin and psychic distance are discussed in this conceptual paper in terms of both the network paradigm and the application of marketing in the international domain. They are also discussed in relation to network maps of transactions between exporters and importers. These discussions indicate the possible existence of dualities between ‘psychic distance’ and ‘country of origin’ and that the network in which the negotiation and consequent transaction are embedded, may need to take this duality into account if the potential of the international business outcome is to be achieved.

Introduction

The traditional approach to marketing (e.g. Kotler, 1988) views it in terms of actions by producers that cause buyers to react. More recent approaches to marketing (e.g. Peck et al, 2000; Quester et al, 2001) recognise that it is more complex and focus more on interaction and cooperation between buyer and seller rather than on the reaction of the buyer to the offerings of the seller. Concepts such as buyer loyalty, customer relationship management, customisation as well as new technologies for communicating with the customer such as the Internet, point to the fact that the traditional approach to marketing is increasingly irrelevant and that regardless of whether it is an offering directed at consumers or industrial buyers, it is interaction rather than reaction that operates in markets where buyers have choice.

One of the major contributions of the IMP approach to international marketing has been the concept of interaction. Unfortunately, there are still hangovers from the traditional approach, one of which is the treatment of a number of marketing concepts as discrete when in fact they are interrelated as far as the practice of marketing is concerned. In part this is due to a focus on the marketing activity rather than on the markets themselves and as Cravens (2005) argues, this requires market sensing involving monitoring market trends, learning from them and proactively responding to opportunities and threats. There is a need for the potential for interaction between such discrete marketing concepts to be explored so as to better portray how marketing actually takes place as opposed to how it ought to take place. This issue highlights the Conference theme of dualities. In this paper, this will be illustrated in the case of two concepts in international marketing that have previously always been treated as discrete, viz 'country of origin' and 'psychic distance', being in fact two sides of the one coin when the notion of interaction between importer and exporter is taken into account. Both psychic distance and country of origin will be treated as perceptual constructs – viz they reflect the way individuals perceive markets or products/services identified with those markets regardless of whether the individual is a manager representing an organization or someone making a purchasing decision on their own account..

Psychic Distance

Psychic distance is basically the perception of the differences between the home and the foreign country (O'Grady and Lane, 1996). It has been defined 'as the sum of factors preventing or disturbing the flows of information between firm and markets' (Johanson and Wiedersheim-Paul 1975) or as 'the distance between the home market and a foreign market, resulting from the perception of both cultural and business differences' (Evans and Mavondo 2002). Chetty and Campbell-Hunt (2004) specify these differences as language, culture, political system, business practices, industrial development and educational system. In international marketing, for the seller (exporter/overseas joint venture partner etc) psychic distance impacts on the desire to undertake business with a specific country and the form of involvement in terms of the extent of commitment of resources.

Psychic distance is also viewed as a measure of the uncertainty that results from cultural and business difficulties that create barriers to learning about overseas markets. As such, it is a perceptual construct. It is often measured using indices of cultural distance (Fletcher and Bohn 1998) and this is rationalised on the grounds that other factors causing psychic distance are also influenced by culture. Recently this has been challenged on the grounds that whereas psychic distance should be measured at the individual level due to it being a perceptual construct, the indices used based on Hofstede (1980) are indices of cultural differences at the national level (Sousa and Bradley 2004). These authors also found that psychic distance is a function of cultural distance, experience in dealing with the market and similarity in espoused values between the home country and the overseas market.

Brewer (2004) argues that familiarity operates as a moderating variable on psychic distance as a perceptual construct. He points out that despite major cultural differences, Japan is Australia's major export market, China is growing as a market for Australia faster than any

other overseas market and there has been a major swing to east and south-east Asian countries as markets for Australian goods and services over the last 30 years. None of these markets are close to Australia in psychic distance terms as measured by Fletcher and Bohn (1998). Brewer explains this apparent contradiction as being due to familiarity which includes commercial ties, political ties, historic ties, geographic ties, social ties, information ties and levels of development which he measures via a 16 item index.

Apart from national culture, according to Evans and Mondavo (2002) business factors also impact on psychic distance. These indicators of business distance include:

- politics (factors such as membership of regional trade groupings; stability within the state and within local areas of the state)
- economics (Gross National Product level; economic stability; degree of government control over business; extent of currency fluctuations)
- business practices (the structure of the market, difficulties of access; differences in business practices such as attitude to bribery)
- language differences (the script, the extent of tonality; how the language is written; the pattern of discourse).

The above authors measured cultural distance using the five dimensions of Hofstede and Bond (1988) – power distance, individuality, masculinity, uncertainty avoidance and long-term orientation. They found a very high correlation between measures of cultural distance and business distance. Their overall conclusion was that psychic distance as a summary construct explained a significant proportion of the variance for financial performance and strategic effectiveness in distant markets.

Country of Origin

Country of origin has been the subject of a large volume of research (Al-Sulaiti and Baker, 1998). Originally regarded as a reflection of the country in which goods were wholly manufactured (Holzmuller and Lenz, 2004), it has now acquired a broader currency and can embrace the country of assembly, country of design (Acharya and Elliott, 2001), country of ownership (Mort and Duncan, 2000) or even country associated with the original brand (Tse and Gorn, 1992). Regardless of the form it takes, there will still be, apart from truly global products and global brands, a perceptual linking with a country with which the product is associated in the mind of the buyer. Its effect is the influence that the country of association has on the positive or negative perception of the product or service. It serves as a signal for product quality and performance. It can be a marketing asset as when the captious cues of a country of origin are used for a product or service with no direct association with that country (see Fletcher and Bell 2002 ref the case of the US Outback Steakhouse Restaurant chain). In essence, country of origin refers to ways in which the buyer perceives an overseas source of supply in terms of its attractiveness. In international marketing, the buyer is the importer/local joint venture partner etc.

Country of origin is often used as a substitute in the decision making process when there is lack of specific information about a product or service as offered from overseas. Its influence is likely to vary in inverse proportion to the extent that information about the attributes of a product or service is available to the buyer (Acharya and Elliott 2001). Han and Terpstra (1998), assert that country of origin plays a major role when the buyer is unfamiliar with the foreign source of the product. There is strong evidence (Peterson and Jolibert 1995) that country of origin can influence buyer's perceptions and as such it is a perceptual construct. They show that beliefs about a product and its country of origin can be descriptive and based on direct recent experience with the product; inferential based on past experience with the product and informational based on external sources of information such as friends/relatives or advertising. Buyers often have stereotypes about countries in relation to products and services that are based on experience, hearsay and myth.

Another issue is whether the country image comes first followed by attitudes (termed halo construct) or whether beliefs or attitudes come first and lead to an evaluation about products and services from that country (termed summary construct) (Han, 1989). The 'halo' construct

operates where consumers are unfamiliar with the product and the 'summary' construct operates where consumers know the product or service and then form conclusions about the country of origin based on their experience with the product.

Evaluation of products or services from a country can be influenced by how the culture, politics, application of laws, economic situation, adequacy of infrastructure and other aspects of the environment in that country, such as language, are viewed. This may be reflected in Australian buyers being more receptive to products from developed countries, less receptive to products from developing countries and negative towards products from the least developed countries, depending on the level of sophistication of the product concerned. Country of origin can change over time both with experience of products and services from a country or because the country moves to a higher stage of development with a consequent increase in expectations as to quality and performance. For the global or trans-national company, country of origin may influence location decisions and the degree of value adding to be undertaken in a specific overseas market. Acharya and Elliott (2001) found that a well known brand can incur a lowering of consumer confidence by the shifting of the production location to a country having a lesser image.

Country of origin can be viewed as a moderating variable between the overseas supplier of the goods/services and the perception of likely performance of those goods/services in the marketplace. La, Patterson and Styles (2004) argue that in the service industry, country of origin impact will be moderated by the image held of people from that country, the image of the skills associated with that country and the image of that country as a provider of services overall.

The impact of country of origin on decision-making may also vary according to the extent of ethnocentrism in a market. Patriotism, a value that reflects a willingness to love, support and defend one's country has been shown to be linked towards attitude towards foreign products (Pullman et al 1997). Crnjak-Karanovic et al (2005) in their analysis of country of origin effects in Croatia, argue that it is a function of animosity/friendship feelings, quality judgements and strength of purchase intention.

The Network Paradigm

The network paradigm is based on co-operation between importer and exporter rather than competition. It is anchored in the concept of relationships where the driver is co-operation to create value for both importer and exporter. There is the notion of continuous interaction between importer and exporter to create mutual advantage and the viewing of the importer as a relationship partner.

Each relationship is part of a network of relationships. The principal relationship between the importer and the exporter is linked to the other relationships both parties have. It is the totality of these relationships that form the wider network. It is within this wider network that the

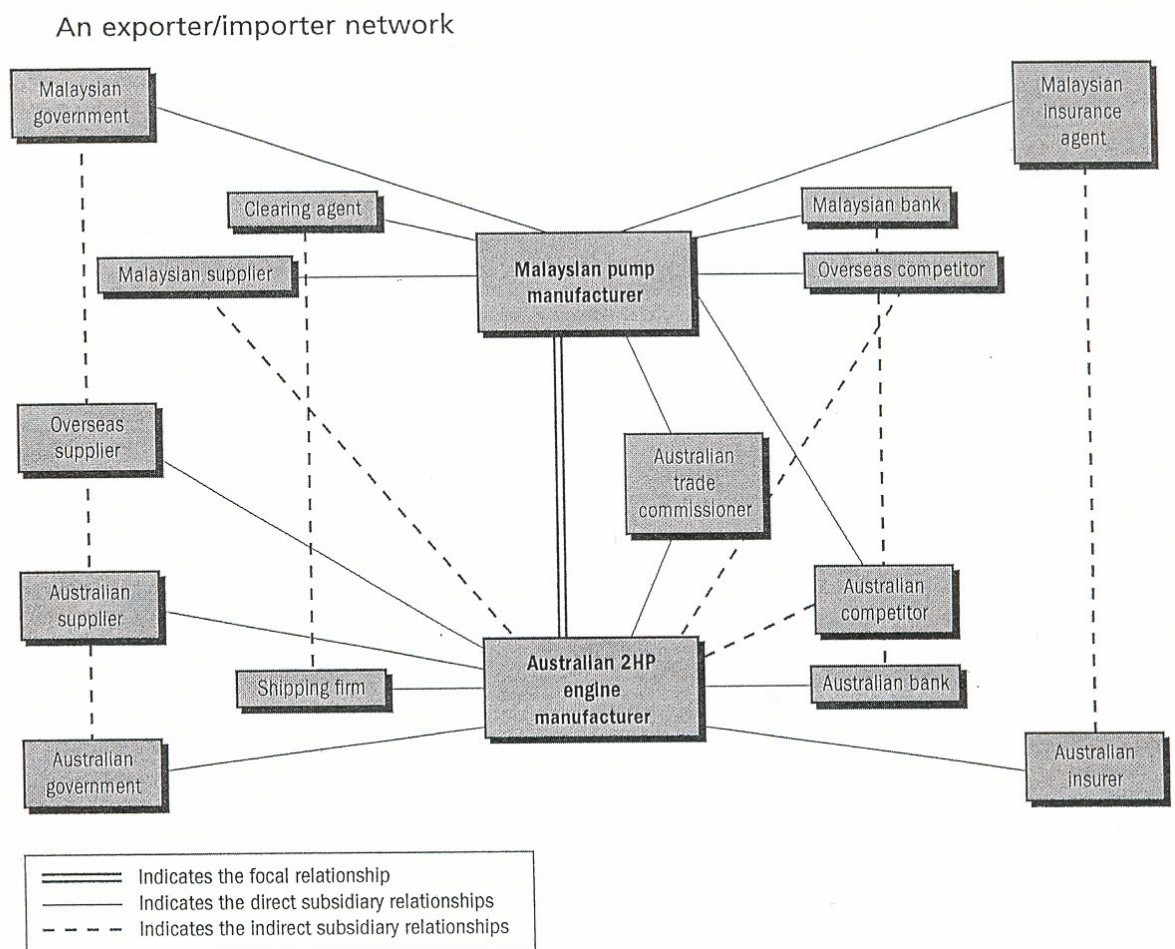
"offerings of each company are developed, bought, sold, added to, refined, combined and sold onto others until they reach a final customer. The relationship between a single customer and supplier in the network will be affected by that customer's relationships with its own customers and the supplier's relationships with its own suppliers" (Ford et al 2003).

This would suggest that a concept impacting on the importer will be related to a concept impacting on the exporter and that this is likely to be reflected in the network paradigm – especially when both parties to the focal relationship have elements in common.

As an example, it is in the context of the issue under discussion in this paper that the networks of relationships in which exporter and importer are embedded may be may be useful for addressing the question as to whether country of origin and psychic distance are separate constructs or two sides of the one coin.

Figure 1 shows a network map of a typical export/import transaction between an Australian producer of 2 hp engines for pumps and a Malaysian manufacturer of pumps. In this figure, not only the Malaysian pump manufacturer, but indirectly all other parties located in Malaysia (government, suppliers, facilitators, financial institutions, competitors etc) are likely to be influenced by perceptions of Australia as a country of origin for pump engines. Likewise, not only the Australian engine producer, but also other parties located in Australia (government, competitors, suppliers, facilitators, financial institutions etc) are likely to be influenced by perceptions of Malaysia's attractiveness as a market in terms of its psychic distance from Australia. There are in addition, mediating influences. As an illustration, the views of other parties in Malaysia who have had experience dealing with Australia and conversely the views of other parties in Australia who have had experience dealing with Malaysia, may influence the opinions of the parties to the focal dyadic import/export relationship as far as country of origin and psychic distance are concerned.

FIGURE 1

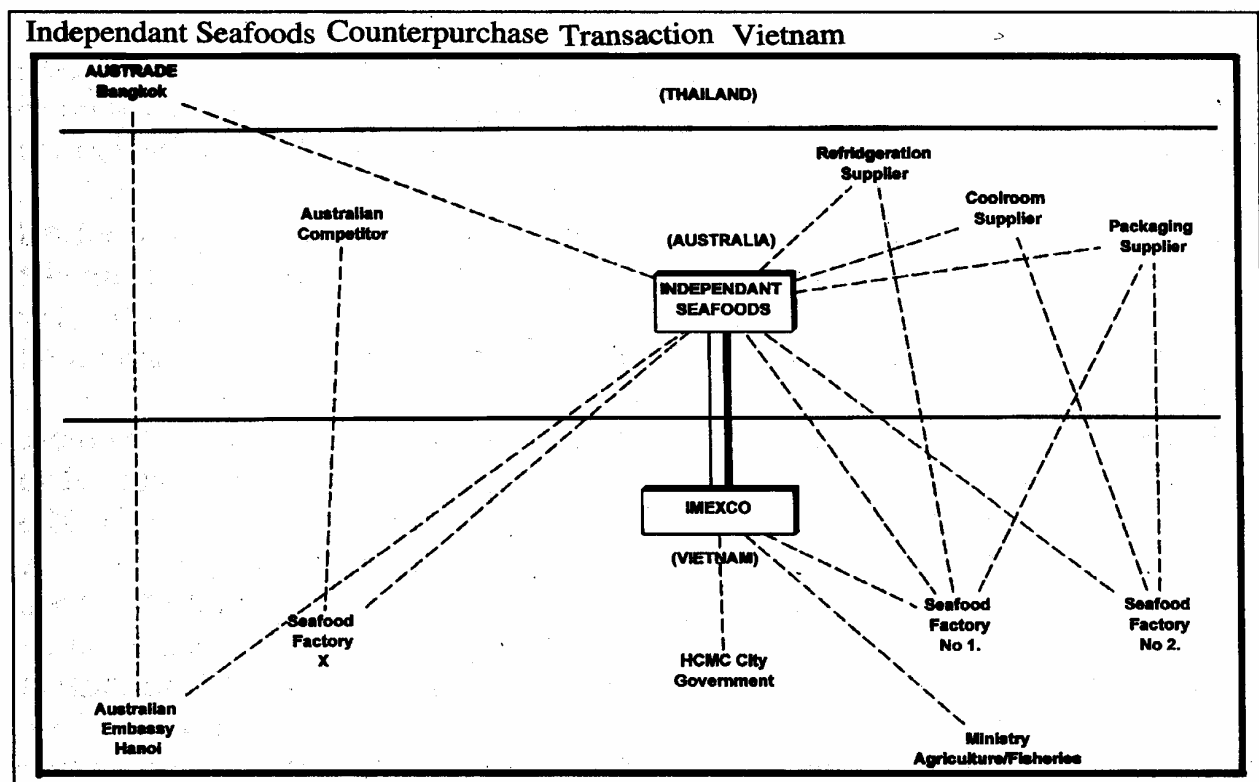


(Fletcher and Brown 2005, p.413)

Figure 2 shows that one way of overcoming problems of both country of origin and psychic distance may be to move to a more resource intensive mode of international involvement beyond the import/export transaction. It illustrates a countertrade transaction between a Vietnamese seafood producer and an Australian seafood importer. When circumstances in the overseas market do not permit the free flow of trade, often devices such as countertrade are employed whereby reciprocal obligations are formalised into a conditional arrangement without which the business cannot occur. In this case, Vietnam was an unknown source of supply of seafood in the Australian market and had a negative country of origin image compared to other current sources of supply such as Malaysia and Thailand. From the

perspective of the Vietnamese seafood producer in 1987, Australia was psychically distant from Vietnam and not considered as an export destination. These issues were addressed by the Australian firm (Independent Seafoods) establishing an operation in Vietnam that oversaw the catching of the shrimp and the handling and packaging of the output in a way that would reduce country of origin concerns when the seafood was sold in the Australian market.

FIGURE 2



(Fletcher, 1996)

Commonalities Between Concepts of Psychic distance and Country of Origin

A review of the literature on both psychic distance and country of origin reveals that over time there has been a move away from defining these constructs in concrete terms to defining both these constructs in perceptual terms. Psychic distance is a seller decision making variable whereas country of origin is a buyer decision making variable. Both are perceptual constructs and a positive dyadic relationship will depend on these two perceptions being harmonised. If psychic distance influences perceptions on the part of the seller or exporter and country of origin influences perceptions on the part of the buyer or importer in a dyadic international relationship, then the issue for consideration is whether the same factors are driving the perceptions of each party to the relationship.

The literature review reveals that there are a number of underlying factors that are common to both psychic distance and country of origin. These are language, culture, business customs and practices, the political system and its operation, the financial condition of the market, economic indicators, infrastructure and its availability, level of education and training, prior experience with the country or market for the product category, and availability of information. Another issue for consideration is that of information asymmetry in a proposed international transaction. Country of origin is a substitute for information not readily available on a country and psychic distance is driven by lack of information. Both constructs are substitutes for information and both diminish in importance when factual information is available. There are also some factors that research to date has shown apply to either psychic distance or to country of origin. Such as ethnocentrism and country of origin. It may well be that these factors could apply to the other concept - for example that ethnocentrism underlies psychic distance – but this has yet to be researched.

According to the literature, both concepts are heavily influenced by culture which in turn reflect the values of the society (Low and Fletcher, 2004). The values of the importer re country of origin will interact with the values of the exporter re psychic distance. Values can be measured by scales such as that developed in the US by Rokeach (1968, 1973) or for the Chinese market by Bond (Hofstede and Bond, 1988).

Research Proposal

In order to explore whether psychic distance and country of origin are separate constructs or two sides of the one coin, it is proposed to construct a research instrument consisting of relevant elements of scales that have been used in previous research associated with psychic distance and country of origin (e.g. the CETSCALE developed by Shrimp and Sharma, 1987), to test for ethnocentrism. The instrument would also include questions related to the application of various marketing mix variable to see whether the following applies:

- **PRODUCT:** Are any of the factors that influence the perceived benefits of the product being offered, the same as those that influence the perceived attractiveness of doing business in the particular market ?
- **PRICE:** Are any of the factors that influence the attractiveness of the price offered, the same as those that influence the required level of compensation for doing business with that market ?
- **DISTRIBUTION:** Are any of the factors that influence the attractiveness of obtaining goods/services through a distribution channel linked to a supplier in an overseas country, the same as those that influence the selection of distributors and agents in that market.
- **PROMOTION:** Are any of the factors that influence the perceived attractiveness of a promotional approach by an overseas party, the same as those that influence the firm when deciding upon a promotional strategy for a specific overseas market.

Two research programs are proposed in order to ascertain whether the same factors underlie psychic distance as underlie country of origin perceptions – the first quantitative and the second qualitative. It may be that the results of the former may influence the form, content and conduct of the latter.

The quantitative research will take the form of two surveys (1) directed at Australian exporters and (2) directed at Australian importers. Both groups will be asked a common set of questions embodying issues that are hypothesised as being common to both groups such as perceptions related to culture, economic circumstances, technology orientation, language differences, political systems, legal systems and enforcement and financial constraints. In addition, there will be a series of questions designed to explore other issues that might be unique to either country of origin or psychic distance, as well as the relationship between

familiarity with a market and psychic distance or country of origin. This bracket of questions will be followed by a set of questions designed to explore the value orientation of respondents to see whether there are common values that underlie both country of origin and psychic distance. In addition questions will be included concerning the impact of psychic distance on the need to adapt marketing mix variables and the impact of country of origin on the importer requiring adaptation of marketing mix variables. The questionnaire will conclude with a range of demographic variables including ethnic origins and affiliations of respondents. In order to provide a relative measure for comparative purposes, 7 point Likert scales will be employed.

The qualitative phase will take the form of separate focus groups of (1) exporters and (2) importers who will be given scenarios and netmaps of international business transactions and asked to discuss psychic distance issues (the exporter group) and country of origin (the importer group) in respect of all parties to the transaction as depicted in the netmaps. This phase is intended to tease out issues of relevance that might not emerge in the quantitative phase of the research.

Conclusion

In this paper it has been argued that the network paradigm with its focus on relationships and interaction, is an ideal framework for exploring commonalities between discrete concepts that are often viewed as being at opposite ends of the spectrum. Indeed international marketing involves dualities based on interactions and cooperation rather than discrete concepts separately influencing the buyer (eg. importer) and the seller (eg. exporter). If the international marketer applies the underlying variables that influence his perceptions of the potential transaction to the likely perception of the transaction from the perspective of the importer, then he will have a better appreciation of the interaction involved and an improved prospect of bringing the international transaction to a successful conclusion.. The potential for doing so has been illustrated in the case of the normally discrete concepts of psychic distance and country of origin.

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