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Published in:
Journal of International Business Studies

DOI:
[10.1057/s41267-018-0183-3](https://doi.org/10.1057/s41267-018-0183-3)

IMPORTANT NOTE: You are advised to consult the publisher's version (publisher's PDF) if you wish to cite from it. Please check the document version below.

Document Version
Publisher's PDF, also known as Version of record

Publication date:
2018

[Link to publication in University of Groningen/UMCG research database](#)

Citation for published version (APA):

Maseland, R., Dow, D., & Steel, P. (2018). The Kogut and Singh national cultural distance index: Time to start using it as a springboard rather than a crutch. *Journal of International Business Studies*, 49(9), 1154-1166. <https://doi.org/10.1057/s41267-018-0183-3>

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COUNTERPOINT

The Kogut and Singh national cultural distance index: Time to start using it as a springboard rather than a crutch

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Abstract

This Counterpoint investigates the continued relevance of the 30-year-old Kogut and Singh (KS) index of cultural distance. KS was a seminal contribution, highlighting the relevance of cultural differences in IB. However, since then, simplistic replications of the original arguments and index have prevented us from progressing towards a better understanding of *how* cross-national differences matter. We discuss the mechanisms underlying the construct and how they relate to the algorithm, data, and its critiques. We call for more theoretically informed approaches, highlighting the underlying mechanisms, and specifying which data and algorithms best capture those mechanisms in each research context.

Journal of International Business Studies (2018) **49**, 1154–1166.
<https://doi.org/10.1057/s41267-018-0183-3>

Keywords: cultural distance; psychic distance; institutional distance; transaction cost theory; transaction cost economics or transaction cost analysis; institutional theory; internationalization theories and foreign market entry; new internalization theory

INTRODUCTION

As most people within the international business (IB) community would be aware, 2018 is the 30th anniversary of one of the most highly cited papers in the field: the 1988 Kogut and Singh (KS) article that gave birth to the concept of national cultural distance and the associated index. We are honored to write this Counterpoint article to mark the occasion. However, before going into detail, we want to make two overarching comments.

The first comment pertains to the overall focus of our article. In the accompanying Point article (Cuypers, Ertug, Heugens, Kogut, & Zou, 2018), the authors use the headings *concept*, *data* and *algorithm* as their organizing framework. However, they devote a great deal of their attention to the debates about the algorithms and data. In addition to that, much of their discussion of *concept* concerns the appropriate definition and attributes of the concept of distance. In contrast, we emphasize a different aspect of the issue of *concept*—specifically, the underlying theories that potentially explain why particular forms of distance matter. We think that choices of algorithm and data should follow conceptualization. Debates about

how to best operationalize distance are likely to be sterile without clear ideas about what distance is, and why it matters. Moreover, numerous past commentaries have already dealt with the methodological side, highlighting issues ranging from ‘threatening possibilities’ to ‘serious weaknesses’. We gladly refer to those contributions rather than repeating their criticisms (e.g., Hutzschenreuter, Kleindienst, & Lange, 2016; Shenkar, 2001; Tung & Verbeke, 2010; Zaheer, Schomaker, & Nachum, 2012). In our view, the formulation, operationalization and application of cultural distance, and the issue of cross-national distances in general, have been systematically under-theorized.¹

Our second comments is that, while this article, as a Counterpoint, focuses on weaknesses and limitations, we still view the original KS article as a seminal contribution to the IB literature. It was pivotal in highlighting the role that cultural differences can play in IB research, as well as demonstrating that such differences might be measured and incorporated into empirical analyses. Indeed, many of our comments and criticisms included in this article are aimed more at the subsequent stream of research that has been inspired by KS. Whether one considers the delineation and development of the underlying theory, or the data and algorithms used, the vast majority of subsequent literature appears to have used the KS contributions more as a crutch than a springboard. Rather than building on KS to develop more precise and insightful theories as to when, how, and why cross-national differences matter, or to develop more effective and relevant techniques with which to operationalize the distance constructs, the vast majority of authors have simply chosen to embrace what we shall refer to as ‘justification by citation’. In effect, they have used exactly the same arguments and techniques as the original KS article, thus entrenching its weaknesses and limitations. As a result, these weaknesses and limitations have actually become established practice, which is notoriously difficult to correct. Only a small number of authors have actually deviated from this unfortunate practice. For this reason, we find the Harzing’s (2003) chapter title—“*Cultural distance: From neglect to myopia*”—is still an apt description. KS were the first to break through the ‘neglect’, but the majority of subsequent authors have been ‘myopic’ in their application of the construct.

To address these issues, our Counterpoint first briefly summarizes the findings of the relevant meta-analyses to set the scene. This is then followed by a more extensive discussion of the potential theoretical mechanisms underlying the effects of cultural differences in IB, and how they relate to the distance construct. Informed by this discussion, we briefly address algorithms and data respectively, thus following the same overall structure as the Point article to which we respond. Given the broad range of critical IB research questions related to the distance construct, and the need for an individualized approach in most cases, we cannot address all the linkages between theory and method within this Counterpoint. However, we do hope to have enriched the intellectual debate on the need to establish such precise linkages.

THE EMPIRICAL RESULTS

Over the past two decades, there have been at least seven different meta-analyses that have investigated the role of cultural distance in various IB contexts (Beugelsdijk, Kostova, Kunst, Spadafora, & van Essen, 2018; Magnusson, Baack, Zdravkovic, Staub, & Amine, 2008; Morschett, Schramm-Klein, & Swoboda, 2010; Stahl & Voigt, 2008; Reus & Rottig, 2009; Tihanyi, Griffith, & Russell, 2005; Zhao, Luo, & Suh, 2004). Across these meta-analyses, six of them have found small and largely non-significant effect sizes for the relationships between cultural distance and various dependent variables (e.g., market selection, entry and establishment mode, and performance). In these studies, the effect sizes have ranged from a mean correlation of 0.016 to 0.140. In fact, only the most recent of these meta-analyses (Beugelsdijk et al., 2018) has found consistently significant effect sizes and, even then, this is largely due to greater statistical power. The effect sizes found by Beugelsdijk et al. (2018) are essentially of the same magnitude as the previous studies. Thus, we conclude that, while there is broad agreement that cultural distance is an important issue (e.g., Zaheer et al., 2012), the effect sizes are surprisingly modest at best. Given this mismatch between expectations and observations, a wide variety of commentators have followed the lead of Shenkar (2001) and have enumerated various concerns regarding how cultural distance has been imperfectly operationalized. However, we

believe that it is critical to first address the underlying theory before dealing with methodological issues.

DEVELOPING THE UNDERLYING THEORY

Even when we accept that cultural distance indices appear to be empirically relevant for many questions in international business (Beugelsdijk et al., 2018), we still lack clear answers as to why. The sad reality is that most studies treat the underlying mechanisms largely as a black box. At best, authors, as in the case of Kogut and Singh (1988), loosely evoke a theory such as transaction cost economics (TCE) or possibly mention the Uppsala school of literature; however, they rarely spell out in detail the mechanisms involved. This is even more alarming given that numerous authors (e.g., Gaur & Lu, 2007; Rickley & Karim, 2018) have employed the KS index as an indicator of institutional distance, thus evoking institutional theory (Kostova & Zaheer, 1999; Scott, 1995). Similarly, one could take the New Institutional Economics (NIEs) perspective (North, 1990) and consider how differences in culture might weaken the faith of parties in the institutions that facilitate anonymous and impersonal exchange. Yet virtually none of the distance-related IB literature even debates the relative merits of these possible underlying mechanisms, let alone attempts to discriminate amongst them. We thus subscribe to the assessment of Zaheer et al. (2012: 19) that “most distance constructs have been used in a fairly superficial manner in research, without much attention paid to exactly what mechanisms are at play in the influence of distance, or to its underlying conceptualization”.

Framing the Debate within the Coleman’s Boat Metaphor

The sequence of how and why cultural differences matter for IB can be framed in a metaphor introduced by Coleman (1994), colloquially known as Coleman’s boat. Figure 1 is an adaptation of that framework applied to distance research in IB (Dow, 2017). In the upper left corner (A_c) are cultural differences at the national-level. In the upper right corner (D_f) are the outcome variables, which are mostly at the firm or subsidiary level. The vast majority of empirical distance studies have simply tested the dotted line from A_c to D_f . We feel that such an approach seriously neglects a number of issues.

The fundamental point of the Coleman boat metaphor is that most relationships between two

aggregate level variables actually run through a chain of individual actions and events (i.e., the bottom of the boat). Applied to the issue of cultural distance in IB, cultural differences (A_c) are related to firm-level outcomes (D_f) because they affect the individual’s perceptions of distance (B_i). In turn, these individual-level perceptions of distance (B_i) influence a mediating variable (Med_{BC}), which has consequences for the individual’s preference for a particular course of action (C_i). Finally, these preferences, particularly if the individual is a member of the top management team, influence the firm or subsidiary level choices and outcomes (D_f).

This metaphor illustrates the gaps in our theories as to how and why cultural distance affects various IB decisions. First is the issue of *what is the dominant mediating factor?* As already noted, the ‘bottom of the boat’ (i.e., B_i to Med_{BC} to C_i) can be framed in terms of a number of different theoretical perspectives, such as transaction cost economics or institutional theory. However, is one of these explanations truly dominant in all situations, or is it possible that some mediators (Med_{BC}) dominate under particular circumstances, or in relation to particular outcomes (D_f)? Second, *how do cultural differences affect the mediating factor(s)?* In general, each theoretical perspective has done a reasonable job in explaining how their respective mediators (Med_{BC}) influence a preference for a particular alternative (C_i), but what the literature typically lacks is a sufficiently detailed description of the mechanisms by which cultural differences (A_c) affect these mediating constructs (Med_{BC}). How do cultural differences cause transaction costs, create obstacles to information flows, and/or raise legitimacy challenges? If we want to move the literature forward, we need to address these questions.

This Counterpoint does not provide definitive answers to all these issues; however, in the next section, we briefly discuss five theoretical perspectives, indicating directions for answers by relating the mediating mechanisms more clearly to cultural differences.²

The Flow and Interpretation of Information, and the Uppsala Perspective

The first of these perspectives focuses on *obstacles to learning and information flows*. This perspective is strongly associated with the Uppsala internationalization process model (Johanson & Vahlne, 1977), although it can also be framed in the context of the

Figure 1 Coleman's boat applied to the issue of distance in IB (Dow, 2017).

new internalization theory (Verbeke & Kano, 2015) as the need for tacit local knowledge (i.e., a country-specific asset). Cultural differences, as one source of psychic distance, are framed as a key driver of early market selection, as well as the degree of commitment to the local market (Johanson & Vahlne, 1977). The Uppsala model perceives internationalization as a process of experiential learning, suggesting that firms will first move to easier (e.g., more culturally similar) locations before turning towards more challenging ones (Barkema & Drogendijk, 2007; Johanson & Vahlne, 1977, 1990; Hutzschenreuter & Matt, 2017).

The underlying argument is that the cross-national differences create difficulties in effectively communicating, which can hurt the performance of the firm in a distant market. The management may misunderstand the needs and desires of the customers in a distant market, resulting in them missing new opportunities and losing existing customers. Similarly, the miscommunication may be with the local employees and agents, resulting in lower productivity, lower quality, industrial unrest, and/or higher employee turnover (Merkin, Taras, & Steel, 2014). The miscommunications might also be with other local stakeholders and could result in a range of problems from slower approvals for required permits to bad publicity and negative effects on the firm's local brand reputation. These obstacles to information flows induce firms to avoid such markets until the problem has been reduced, or to alter their entry (Tihanyi et al., 2005), establishment (Klier, Schwens, Zapkau, & Dikova, 2017), or governance modes (Choi & Contractor, 2016; Lew, Sinkovics, Yamin, & Khan,

2016) to compensate for such disadvantages. This is the context in which KS originally invoked the concept of psychic distance in their seminal article.

Within this perspective, cultural differences are posited to be one of several sources of obstacles to information flows (Håkanson & Ambos, 2010), which create information asymmetries that disadvantage foreign firms (Dai & Nahata, 2016). Thus, applying Coleman's boat to this argument, the mediating factor (Med_{BC}) is essentially *the perception that information asymmetries may disadvantage the firm* in terms of operating effectively in the local market. In turn, these asymmetries influence the manager's preferences for particular markets and entry modes (C_i), and ultimately the actual choice the firm implements (D_f). That part of the theory (i.e., from Med_{BC} to D_f) is arguably well developed. Unfortunately, the link from cultural distance (A_c) to concerns about information asymmetries (Med_{BC}) is largely an underdeveloped and untested assumption. How and why cultural differences disturb information flows is rarely discussed, let alone tested.

The Flow and Interpretation of Information, and the TCE Perspective

A second perspective that also views cultural distance as an obstacle to information flows, but with a different mediating mechanism, is Williamson's (1985) *transaction cost* perspective. This approach has been extremely prominent in the entry mode and establishment mode literature within IB (e.g., Hennart, 1988; Hennart & Park, 1993). It views the communication difficulties arising from distance as a source of internal

uncertainty (Anderson & Gatignon, 1986). The communication difficulties make it more difficult for the parent firm to monitor opportunistic behavior and shirking in their foreign operations. As a result, more hierarchical structures are preferred in order to internalize transactions and reduce those risks (Anderson & Gatignon, 1986; Morschett et al., 2010).

In terms of Figure 1, this reasoning interprets the mediating factor (Med_{BC}) as *concerns that opportunistic behavior may go undetected*. In turn, these concerns influence the preference for particular solutions (C_i), and ultimately the mode adopted by the firm (D_f). Unfortunately, once again, the link from the national-level cultural distance (A_c) to concerns about opportunistic behavior (Med_{BC}) is often only loosely theorized.

Issues Common to Both the Uppsala and TCE Perspectives

While these Uppsala and TCE perspectives do rely on different mediating mechanisms, they both build on the idea that cross-national distances may disrupt the flow and interpretation of information; thus, they share some common issues. In particular, an awkward and largely unaddressed issue in both perspectives is how and why differences in cultural values create communication problems. As already alluded to, most of the literature in this area simply relies on the fact that Johanson and Vahlne (1977) nominated cultural differences as one factor contributing to psychic distance. Now we ourselves can imagine a few of these mechanisms. For example, the inadvertent behavior of a person from a high individualism culture (e.g., the USA) may accidentally offend people from a more collectivist culture (e.g., Indonesia) because people from a more collectivist culture may view such individualistic behaviors in a negative light (e.g., arrogance), rather than a positive light (e.g., highly motivated). However, our main concern is that most authors do not even go that far. They simply cite Johanson and Vahlne (1977) and/or Kogut and Singh (1988) and then move on with no further comment. A more fine grained understanding of these issues is critical for at least three reasons.

First of all, a granular treatment of the issue should inform *which* dimensions of culture, or possibly dimensions beyond culture, are most relevant. Not all dimensions are likely to have the same impact, or any impact at all. The relevance of dimensions are likely to be contingent on the

outcomes under investigation (e.g., entry mode choice) and the research setting. Differences in Power Distance may be more relevant for human resources management policies, while other dimensions (e.g., uncertainty avoidance) may be more clearly associated with other outcomes (e.g., risk taking). We will return to this issue later in our discussions of the weaknesses in the algorithm and model specification.

Second, a more nuanced development of the underlying theory should also inform us of *when* these differences should matter most. Are the effects context-dependent? For example, Nebus and Chai (2014) argue that a manager's *awareness* of various dimensions is a neglected issue. This is particularly true in the case of cultural values, which may not be obvious until after one has had substantial interactions with a different culture. Subtle cultural differences are less likely to be a major factor in initial entry mode choices. However, cultural differences may play a greater role in subsequent subsidiary performance, post-entry decisions and market exit decisions. In these later circumstances, there will have been sufficient time and interaction for differences in culture to become salient.

Third, one needs to take into consideration not only the existence of differences but also the underlying nature of those differences. For example, if two people disagree on the position of individualism versus the collectivism in society, this represents a difference, but along a dimension that both parties recognise. Even within a highly individualistic country, there will be variance along this dimension, allowing people to be more aware of the issue and, at the very least, to engage in debate about it. In contrast, some cultural differences may be along a dimension that does not have a direct parallel in another country—Williams and Grégoire (2015) nominate *guanxi* in China as one such example. For this latter type of difference, the respective parties do not even share a common frame along which to initiate a discussion. As a result, it may have a substantially different impact on the resulting communication hurdles and obstacles to information flows. Williams and Grégoire (2015) describe these as alignable and non-alignable differences, respectively. Alignable differences are those elements that are different between countries, but on dimensions shared across countries (e.g., individualism vs. collectivism), making them differences of degree (Maseland & van Hoorn, 2017). In contrast, non-

alignable differences refer to differences in kind. They are dimensions that apply in one context but not the other. It is this last category that presents genuine obstacles for communication, as a common vocabulary is lacking. Yet it is only the first category of alignable differences that features in the KS index (Maseland & van Hoorn, 2017).

In summary, when these perspectives are invoked, greater effort and precision is needed in terms of developing how, when, and why these differences will affect the ability of people to effectively communicate with each other. Indeed, one novel suggestion is that greater insight might be gained by focusing directly on communications styles (e.g., directedness, self-promotion, face saving), rather than broader measures of cultural values (Merkin et al., 2014).

Legitimacy and Organizational Institutionalism

The third perspective concerning the impact of distance on international business outcomes focuses on *legitimacy* and organizational institutionalism (Kostova & Zaheer, 1999; Scott, 2013). In this perspective, organizational survival depends on continued support from stakeholders. Such support is dependent on the organization's conformity to the norms and beliefs prevailing in its institutional environment (DiMaggio & Powell, 1983).

When moving abroad, firms face pressures to conform to the host institutional environment, requiring them to adapt. There are two reasons why this adaptation might be challenging in culturally distinct environments. First, firms need to learn the local norms and beliefs prior to conforming to them. Legitimacy costs may result from the initial lack of knowledge about what is legitimate behavior in a foreign context. Unfamiliarity with the host environment makes it harder to gain acceptance relative to local firms (Zaheer & Mosakowski, 1997). This reason relates back to cultural differences as a source of information obstacles, which has been discussed above. Second, multinational enterprises (MNEs) may know how they should behave, but face constraints because they are embedded in multiple institutional contexts, each exerting different institutional pressures (Kostova & Zaheer, 1999; Meyer, Mudambi, & Narula, 2011). The resulting institutional costs are an important part of the liability of foreignness (LOF) MNEs face (Zaheer, 1995), and are thought to increase with cultural distance, as well as with other aspects of institutional distance (Eden & Miller, 2004).

In terms of Coleman's boat, the mediating mechanism (Med_{BC}) is a *concern about legitimacy*, which, via preferences for particular strategic decisions (C_i), may influence the ultimate outcome (D_i), be it location choice, entry/establishment/ownership strategy, integration/practice transfer or performance. In contrast to the other arguments, there is some development of the link between (A_c) and (Med_{BC}) in this perspective. Institutional differences (of which cultural differences are one component) create potentially opposing isomorphic pressures for MNEs simultaneously embedded in multiple institutional contexts (Kostova & Zaheer, 1999; Meyer et al., 2011). Legitimacy becomes a problem for a subsidiary when the demands from the organization conflict with the demands from the local context. Since such multiple embeddedness is the defining condition of the MNE, the legitimacy perspective offers a mechanism why cultural differences influence the internationalization process. However, very little work has been carried out on which dimensions are most critical to legitimacy, while the idea that opposing institutional pressures, legitimacy challenges and the LOF increase with distance is mostly assumed, not theorized.

Transaction Costs and New Institutional Economics (NIEs)

In the fourth perspective, we return again to transaction cost arguments, this time framing cultural differences in terms of NIEs (North, 1990). In this view, the core reason why institutions matter is that they facilitate anonymous and impersonal exchange (North, 1990; Wallis, 2011), and exchange necessarily involves incomplete contracts. In a world of (bounded) rational optimizers, incomplete contracts are problematic because they invite opportunistic behavior. The resulting risk of being cheated gives rise to search, measuring, monitoring and other agency costs, or, in other words, transaction costs. These transaction costs easily become prohibitive when exchange involves strangers, although this is the rule in modern markets. Doing business with agents one does not know, has never met before, and will likely never meet again makes it difficult to trust the other party. Such lack of trust causes agents to forgo transactions that are otherwise profitable.

According to North (1990), the anonymous exchange that characterizes markets is only possible because of the shared rules that institutions provide, and which govern the behavior of agents.

When such rules are clear and reliably enforced, trust in the institutions substitutes for trust in each other. Enforcement can occur by formal, hierarchical organizations such as states, formulating and implementing laws and regulations. Alternatively, societies enforce informal constraints by applying peer pressure or withholding legitimacy to agents not acting in accordance with societal norms (North, 1987). Thus, in addition to formal laws, “culture serves as a check on opportunism” (Williamson, 1993: 476).

There are two ways in which cultural differences matter in this argument. First, transaction costs relate to the quality of the cultural and institutional framework of a country. A growing literature in economics shows that economic growth and institutional quality are associated with certain cultural norms and values, notably individualism (Gorodnichenko & Roland, 2011; Klasing, 2013; Maseland, 2013; Tabellini, 2010). That suggests that some cultures offer a worse environment for doing business than others, raising transaction costs for firms operating in them (Zaheer et al., 2012). Technically, this is a profile effect not a distance effect (i.e., a characteristic of one country rather than the difference between two countries). However, it is frequently mistaken for a distance effect, given the nature of the datasets often investigated within the IB literature. This issue is discussed in more detail in our section on model specification and distance–profile conflation.

Second, cultural differences may create ingroup–outgroup effects (Brewer, 1979; Tajfel & Turner, 1985), inhibiting the ability, or perceived ability of institutions to check opportunism and transaction costs. This arises because social norms are group-specific in the sense that they are enforced by and limited to the social group (Bernhard, Fehr, & Fischbacher, 2006), and cultural differences may cause foreign firms to be viewed as outsiders. In such circumstances, the absence of norm enforcement beyond the social group means that transactions between groups, an inherent part of international business, may be more prone to opportunistic behavior (Chen, Peng, & Saporito, 2002). As a result, in terms of the Coleman boat metaphor, the mediating mechanism (Med_{BC}) here is a *lack of trust in the ability of the institutions, formal and informal, to moderate opportunism*. Technically, this mechanism too is not a distance effect, but rather an outsider effect—i.e., differences may cause one to be categorized as an outsider, but the impact of increases in differences beyond that are

debatable. It is telling that Maitland and Sammartino (2015) refer to ‘outsider information deficits’, or Johanson and Vahlne (2009) to ‘liability of outsidership’, rather than distance effects. In short, new institutional economics provides reasons why cultural differences may cause foreign firms to be viewed as outsiders, increasing transaction costs, but it fails to provide a compelling argument as to why the magnitude of the differences (beyond the boundary of the ingroup) matter—a key aspect of any distance metaphor.

Once again, with respect to this perspective, very little work has been carried out on which cross-national differences are most critical. The links between these differences and trust in institutions are mostly assumed instead of theorized and tested.

Differences as a Source of Synergies, Innovation, and Learning

The fifth and final perspective takes a completely different view on cross-national differences, and views them as potential assets rather than liabilities (e.g., Stahl, Miska, Lee, & De Luque, 2017; Stahl & Tung, 2015). Cultural differences can be a source of synergy, innovation and learning. In particular, this perspective has been explored and tested at the level of teams (e.g., Stahl, Maznevski, Voigt, & Jonsen, 2010) and the individual (Fitzsimmons, Liao, & Thomas, 2017), but it fits equally well at the firm level within the context of the resource-based view (Barney, 1991) and organizational learning theory (Barkema & Vermeulen, 1998). Cultural differences can expand the diversity of the firm’s resources, and in particular they can enhance the firm’s innovation effectiveness, organizational design and new product development, resulting in superior performance (Morosini, Shane, & Singh, 1998).

As a result, in this perspective, the mediating mechanism (Med_{BC}) may be *greater innovation* if one is linking it directly to firm performance, as Morosini et al. (1998) did, or it may be *perceptions that greater innovation may result* if one is linking it to decisions such as market selection or entry mode choice. Either way, greater thought and precision needs to be applied in the theory development stage to understand how cultural differences are linked to innovation or other positive synergistic outcomes. Again, the relevant factor seems to be the complementarity and compatibility of cultures, rather than simply the degree of dissimilarity between them (Halaszovich, 2017). Also, we need to specify which dimensions of cultural differences

are most relevant. In addition to that, as Stahl et al. (2017) note, more research explicitly attempting to explore such positive links is desperately needed. While ideally researchers should be agnostic and 'let the data speak for itself', it is also true that, when one is investigating a particular phenomenon, one tends to look where it is most likely to be found. Thus, our choice of theoretical framework inescapably influences our research design, and our results.

But Which Mechanism is It?

This plethora of potential theoretical perspectives highlights a key underlying issue—*which mechanism is it?*³ However, we are not arguing a 'winner takes all' situation here. From among the five theoretical perspectives that we have mentioned, each may have an element of truth, but different mechanisms may be more important in particular circumstances than others. Similarly, it may matter whether one is investigating optimal choices or actual choices (i.e., normative vs. descriptive models). Unfortunately, very few research efforts have even acknowledged these alternative explanations, let alone devised a method for discriminating between them.⁴ Indeed, given that the theoretical mechanisms potentially relating cultural differences to various IB decisions are all conceptually distinct, the empirical pattern of the KS index may be described as "jack of all trades but master of none". It appears that the index is broad enough to partially capture many of the effects described above, but captures none of them well. It is for this reason that we argue that further conceptual refinement needs to be the first step. We need to open the black box and explore what is inside it.

A second conclusion emerging from our preceding discussions is that the various mechanisms invoked do not always imply a form of cultural distance as it is typically conceived of in the current literature—i.e., a linear measure of dissimilarity resulting in a LOF. Instead, the observed effects may represent profile effects, or relationships of a more categorical nature, as implied by insider-outsider status. Indeed, non-alignable differences, by definition, cannot be measured using a linear scale. Thus, what we are looking for may not be a simple linear relationship. And as our fifth perspective implies, the direction of the effects may even be in the opposite direction to what we expect. All of this increases the complexity of the challenge, preventing us from distinguishing between different perspectives and blocking us from identifying

which mechanisms are driving the results in any given circumstance. To ameliorate this situation, we not only propose that researchers pay more heed to the underlying theoretical mechanisms guiding their questions or hypotheses but we also encourage them to actively consider alternative data, algorithms, and model specifications to match their theory. In short, the theory and the methods should match. This logically leads us on to our final section.

CONCERNS ABOUT THE ALGORITHM AND MODEL SPECIFICATION

We believe that a more thorough treatment of the underlying theory, and a clearer identification of the relevant mechanisms, will go a long way to improving the quality of the research concerning cultural distance, but improvements are also needed in terms of the data, algorithms and the model specification. As foreshadowed in the "Introduction", numerous critiques of the KS index and of the developments in the cultural distance literature have already focused on methodological concerns. In particular, numerous commentators, from Shenkar (2001) and Tung and Verbeke (2010) right up to and including the accompanying Point article (Cuyppers et al., 2018), have commented on the age and biases inherent within the original base data, as well as concerns about the specific algorithm (see Berry, Guillen, & Zhou, 2010 for an alternative approach). Similarly, numerous commentators, led principally by Håkanson and Ambos (2010), have explored the assumption of asymmetry. More broadly, this represents the field acknowledging the long established weaknesses with difference scores in general (see Edwards, 2001, 2002, 2008). In light of this prior body of literature, we have chosen to just briefly comment on four particular methodological issues. The first three of these we would describe as 'low hanging fruit'. In essence, they are issues for which all the necessary information and techniques are already available; thus, it is particularly frustrating that most researchers continue to repeat the same errors over and over again when solutions are readily available. The fourth and final issue we acknowledge is a challenging one, and not typically featured prominently within the IB literature, but we feel needs to be addressed.

Bundling Dimensions Together

The first of the low hanging fruit is the bundling of multiple dimensions into a single index. Related to

the Bandwidth–Fidelity problem (Steel, Schmidt, Bosco, & Uggerslev, 2018), this issue has been criticized by numerous commentators (e.g., Harzing, 2003; Kirkman, Lowe, & Gibson, 2006; Shenkar, 2001; Tung & Verbeke, 2010). The assumption behind this technique is that each dimension contributes equally to the effect on the outcome variable. This assumption is questionable given that we suspect most researchers have not even confirmed whether each dimension is even contributing to the observed effect, let alone equally. In the case of the KS index, the Beugelsdijk et al. (2018) meta-analysis indicates that only the individualism dimension has a significant relationship with entry mode choice. The other three dimensions are not contributing to the overall effect. Conversely, with respect to predicting performance, the same meta-analysis finds that only uncertainty avoidance has a significant effect size. In practice, the vast majority of studies using the KS index not only do not attempt to explain differences in distance effects between dimensions but we suspect that they are completely unaware of them.

To address this, at a bare minimum, researchers should test and confirm the relevance of the underlying dimensions before combining them into a single index. However, in our eyes, a better approach would be not to combine dimensions at all. It is only when one is using the index purely as a control variable that a composite index is justified, otherwise we are just hiding valuable information. The bottom line is that each author should have a tailored conceptual framework stating which distances are relevant to include in an index for the purpose of a specific question, and how each of these distances contributes to an overall effect on the outcome of interest.

Distance–Profile Conflation and Asymmetry

A second methodological concern that is common, yet relatively simple to address, is what we refer to as distance–profile conflation. The primary problem is that, due to poor model specification, researchers are often unable to distinguish between distance and country-specific effects. These two are by definition mathematically related to each other due to the way in which distances are calculated. This is particularly a problem when only a single host or home country is taken as the reference point for the distance calculations (Brouthers, Marshall, & Keig, 2016; van Hoorn & Maseland, 2016). Cultural distance and cultural

‘quality’ are theoretically quite distinct concepts, referring to different mechanisms; however, these types of research designs do not allow us to discern which mechanism is driving the results. Harzing and Pudelko (2016) even take this issue one step further by arguing that such conflation can occur even in multi-host, multi-home country samples. While we are more cautious about the empirical evidence that Harzing and Pudelko use to illustrate their point,⁵ we agree with the overall sentiment.

Distance–profile conflation is also arguably one of the fundamental factors underlying the issue of asymmetry in distance research (e.g., Håkanson & Ambos, 2010; Shenkar, 2001; Tung & Verbeke, 2010; Yildiz & Fey, 2016; Zaheer et al., 2012). As Shenkar (2001: 523) notes in his discussion on symmetry, “distance, by definition, is symmetric”. A key reason why there may appear to be asymmetry is the impact of country profile differences. Observed asymmetric effects may be a result of direct profile effects being mistaken as distance effects. These, by definition, will be asymmetric. Conversely, country characteristics may also be moderating distance effects (Brouthers & Brouthers, 2001; Dow, Cuypers, & Ertug, 2016), and, providing the moderators also vary across countries, this will appear as a form of asymmetry.

As a result, for distance-related empirical research, we make two recommendations. First, we strongly echo the call by van Hoorn and Maseland (2016: 380) that studies include “a minimum of seven reference countries as well as seven partner countries, [and] reference countries should rank both below and above partner countries on the institutional indicator of interest.” Second, even then, researchers need to carefully consider whether there are any country profile characteristics which may confound their distance-related hypotheses, either by their direct effect or by moderating the effects of distance.

More Than Just Cultural Values

The third and final of the ‘easy-to-resolve’ set of concerns is the almost myopic focus on ‘cultural values’ as the only form of distance. Numerous commentators over time (e.g., Harzing, 2003; Hutzschenreuter et al., 2016; Shenkar, 2001; Tung & Verbeke, 2010) have echoed this concern. Within the confines of a single study, such as KS, a narrow focus on one dimension may be justified, especially when accompanied by a clear theoretical argument.

However, it is of greater concern when the vast majority of the subsequent literature continues to blindly reinforce this bias for a further three decades with minimal theoretical arguments as to why these dimensions are the most relevant. This narrow and unmotivated focus on cultural values is doubly disappointing given that there have been several responses in terms of developing broader measures of distance, such as Dow and Karunaratna (2006) and Berry et al., (2010). As a result, when a researcher is investigating the role of distance in an IB issue, we insist that they need to motivate their choice of distance, and strongly recommend they consider a much broader range of distance constructs in their study, thus not falling into the trap of adopting the KS index by default.

The Reliability of Difference Scores

An issue which has not been extensively discussed to date with respect to the IB distance literature, and which we admit is not as easily resolved, is the fundamental weaknesses inherent in using difference scores. The main problem is simply a matter of psychometrics. The reliability of a difference score is a compound of the reliabilities of its components. Thus, difference scores tend to have extremely low reliabilities themselves (Edwards, 2001). In this instance, the already low reliability of each Hofstede dimension, on average 0.68 (Taras, Rowney, & Steel, 2009), is magnified when converted into a difference score. This low resulting reliability effectively reduces the statistical power. Indeed, this issue alone may play a major role in explaining the weak empirical results mentioned earlier.

It is informative to note that, over the last three decades, in parallel to IB, the field of organization behavior (OB) has been grappling with similar issues. One frequently adopted solution in the OB literature is the use of polynomial regression and the surface response method, as opposed to the use of difference scores (Edwards, 2002). However, within the IB literature, Brouthers et al. (2016) have argued that such a technique is highly problematic given our aforementioned desire to incorporate multi-dimensional forms of distance into our analyses, not to mention the greater difficulty of acquiring international datasets. Nevertheless, it is instructive to see the benefits of taking a more sophisticated approach, as revealed by recent OB fit reviews (e.g., Edwards, 2008; Kristof-Brown,

Zimmerman, & Johnson, 2005), and we encourage further investigation into the issue.

CONCLUDING REMARKS

In summary, what can we as the IB research community conclude from 30 years of use of the KS index? Given all the concerns that have been highlighted, if we are still able to produce significant results, it speaks to the strength and importance of culture. Since we have established such significance, most recently in Beugelsdijk et al. (2018), it is safe to say that we know that cultural distance is relevant in a broad range of contexts. However, it is disappointing that a great deal of the literature inspired by KS has not used that opportunity to truly advance our understanding of the situation. Sadly, much of the blame lies with ourselves. After Kogut and Singh's (1988) seminal contribution, the majority of researchers wanting to explore the role of distance in IB, or control for it, followed the path of least resistance. Rather than using it as a springboard to develop new and ever better techniques and a greater understanding of the role that distance plays in IB decisions, we largely used KS as a crutch to just 'replicate and cite'.

In response, we do make some comments about particular methodological issues, and we think that these recommendations could significantly improve prevailing research practice; however, our fundamental message is that the choices we make *need to be informed by theory*. It is the absence of clearly specified mechanisms through which cultural differences affect the various outcomes in IB that underlies most of the problems and challenges on the operational side. Most authors cite a theoretical perspective with respect to distance, but it is often more akin to 'invoking a theory' rather than actually making in-depth use of a theory. This is a practice we want to change, and we are convinced that it will spark entirely new research agendas and rejuvenate the field. We need to be more explicit about: (1) the mechanisms involved in each specific research question, (2) which data best capture those mechanisms, and (3) what kind of algorithm or metric most accurately reflects the mechanisms invoked. This means that different questions and different research contexts may require different constructs and operationalizations to reflect the effects of cultural differences. While generic distance measures such as KS have been immensely valuable in showing in general that cultural

differences matter in IB, it is now time for us to move to tailored and sophisticated concepts and algorithms that best fit the research questions. The KS index may still play an important role in such a changing field. However, we will not come closer to a genuine understanding of the impact of cultural differences by continuing to simply pick the KS index off the shelf regardless of the context.

NOTES

¹Note that while the paper that initiated this debate (KS) was concerned with 'cultural distance', most of the related issues are equally relevant to almost all forms of cross-national distance. As a result, most of our discussions will be framed in terms of the broader set of cross-national distances.

²By limiting our discussion to the links between cultural distance and the mediating mechanisms, we do not mean to suggest that the linkages between the mediating mechanisms and firm behavior are beyond dispute. However, we feel that

that part of the discussion lies outside the scope of our Counterpoint.

³We acknowledge here that there will be differing views as to how many perspectives there should be. Many authors may argue that some of our five perspectives heavily overlap, and should be collapsed together. Similarly, others may argue that we have inappropriately bundled distinct ideas together, and that we should separate them. Our view is that both concerns have merit, but will only be resolved by us all dedicating more time and effort to developing the underlying theory(ies).

⁴Although a paper by Dow, Baack and Parente (2018) explores the contrasting predictions of new internalization theory and classic TCE.

⁵Testing a model with both distance measures and fixed effects for all host and home countries inevitably creates extremely high levels of multicollinearity, thus making interpretation of the results problematic.

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Accepted by Stav Fainshmidt, Guest Editor, 15 September 2018. This article has been with the authors for two revisions.