

International Trajectories of Brazilian Companies: Empirical Contribution to the Debate on the Importance of Distance

ABSTRACT

It has been argued in the international business literature that companies start their internationalization trajectories by entering markets from countries that are geographically and psychically closer before entering more distant markets. This work aims to analyze if this assertive is correct among Brazilian companies; if this is accurate, then they would be expected to begin their international expansion in countries from the Latin America region, which is not only the closest region, not only geographically, but also in many other important dimensions, the most similar region to Brazil. Exploratory and quantitative research undertaken with a sample of 109 companies among the 1000 largest Brazilian companies reveals that the most frequently chosen countries for their first international market expansions are those from Latin America. Nevertheless, certain companies chose divergent trajectories, entering markets that are geographically and psychically more distant.

1 – THEORETICAL REFERENCE

The concept of psychic distance

Logistic issues related to distances have long dominated foreign trade studies. The notion of geographical distance and its impact on cost have been important issues to consider when making business decisions in international markets. The progress of transportation technology, logistics, and communications has significantly changed the current settings by reducing distances between countries and the respective costs of gaining access to markets. The advent of e-commerce and integrated logistics has led some experts to proclaim the “death of distance” (Doz *et al.*, 2001) while other scholars argues that this premise is not only incorrect, but also dangerous (Ghemawat, 2001).

Although it is a fact that geographical distances have become less important, the same cannot be said about the cultural, institutional, administrative and economic aspects. (Ghemawat, 2007). Instead, their importance has been gaining strength in both practical and theoretical terms within international business activities.

Those dimensions mentioned by Guemawat are included in the notion of psychic distance. This concept has in reality changed significantly in the literature on international business. Vahlne and Wiedersheim-Paul (1973) initially defined psychic distance in terms of factors that hinder the flow of information between suppliers and clients. Later, Nordstrom and Vahlne (1994) conceptualized the term as “...factors that hinder companies’ learning process about an international environment, or make it difficult for companies to do so...” More recently, O’Grady and Lane (1996) defined psychic distance as “...the degree of a company’s uncertainty in regard to an international market, which results from differences and other business-related difficulties that create barriers for learning about the market and for the establishment of international operations”.

It is worth noting that the definitions above express the term “psychic distance” as broader than mere “cultural distance”, considering that it includes not only cultural differences, but also structural elements (or business elements), such as those that arise from different administrative, economic and legal systems, as well as language and religion -related differences. Alternatively, according to Freire and Rocha (2003), some authors (Lee, 1998; Swift, 1999; Gomes and Ramaswamy, 1999) prefer to use the expression “cultural distance” to encompass all of these aspects, considering that all of these phenomena are associated with, or included in, the concept of culture.

For this study, we use the term “psychic distance” among countries as broader than the “cultural distance” term, according to the definition that includes both cultural and business elements in the psychic distance concept.

Cultural distance has been a key aspect of literature on international business (Agarwal, 1994; Kogut and Singh, 1988; Li and Guisinger, 1991; O’Grady and Lane, 1996; Swift, 1999; Gomes and Ramaswamy, 1999; Lee, 1998).

Most of the studies on this subject are based on the five dimensions of national culture defined by Hofstede (1980, 2001) in his pioneering and widely accepted studies on the relation between work values and national culture: power distance, uncertainty avoidance, individualism vs. collectiveness, masculinity vs. femininity, long-term orientation vs. short-term orientation.

For example, using the first four dimensions of Hofstede, Kogut and Singh (1988) developed a compound index to determine the cultural distance between two countries. Later, a number of studies used the formula developed by Kogut and Singh (1988), or an adapted version of this formula as a parameter, to measure cultural distance (Agarwal, 1994; Fletcher and Bohn, 1998; Padmanabhan and Cho, 1996).

While cultural distance has often been the focus of literature on international business, the dimension that refers to business practices and attitudes included in the psychic distance concept has been less explored by researchers (Evans and Mavondo, 2002; Ghemawat, 2001).

This dimension is included in the studies about psychic distance conducted by Vahlne and Wiedersheim-Paul (1973; 1977), Luostarinen (1980); Klein and Roth (1990); Nordstrom and Vahlne (1994); Evans and Mavondo (2002); and Ghemawat (2001).

Vahlne and Wiedersheim-Paul (1973) basically used objective indicators to measure psychic distance, including the levels of economic development and education, differences in the “business language,” and the existence of trade channels. In his study of the international business operations of Finnish companies, Luostarinen (1980) measured psychic distance similarly, using data concerning economic development, language and level of education. Another study conducted by Klein and Roth (1990) used, as a starting point, a number of factual indicators (language, standard business practices, economic environment, legal system and communication infrastructure), measured by a Likert scale.

Another analysis of the differences, as studied by Ghemawat (2001), suggests that the distance between two countries can be manifested in four distinct dimensions. They are (1) cultural dimensions (different languages, ethnic groups, religion and social rules), (2) administrative dimensions (lack of colonial ties, lack of shared monetary and political institutions, political hostility, government policies, and institutional weaknesses), (3) geographical dimensions (physical isolation, absence of common borders, lack of access by sea or river, size of the country, inadequate transportation and communication infrastructures, and climate differences) and (4) economic dimensions (differences in consumers' incomes, in the costs and the quality intermediary inputs, natural, financial and HR, in information and knowledge, and differences in infrastructure).

Dow and Karunaratna (2006) developed and tested potential indicators of psychic distance. The majority of the indicators, such as the differences between languages, political systems, industrial development and educational level, proved to be statistically significant factors for predicting the flow of trade among countries. This study also noted that geographical distance is an important factor for predicting the trade flow between countries. However, the most frequently used component for measuring distances between countries, an index comprised of Hofstede's cultural dimensions (1980, 2001), proved to be statistically insignificant. This study contends that it is inappropriate to use an index that comprises the Hofstede scales as the only indicator of psychic distance because the cultural factor is only one component of a much broader set of psychic distance factors that hinder successful intercultural management.

Psychic distance between Brazil and other regions

A number of studies have identified groups of countries that have psychic similarities. Ronen and Shenkar (1985) revised empirical papers and included the results of eight studies conducted on this subject. Five groups consistently emerged in a number of research projects that studied beliefs and attitudes about work and management. They were the Anglo-Americans, the Germanics, the Latin Europe, the Latin America and the Nordic group. Some countries, however, have low affiliation to any of these groups. They may belong to different clusters within the studies that were analyzed and were classified as independent countries by Ronen and Shenkar. Geography, language, religion and level of economic and technological development are, according to Ronen and Shenkar (1985), the factors that have the greatest influence on the classification of countries into groups in their studies.

Brazil was classified as an "independent country" because it was not a part of any group in most of the mentioned studies. In some studies, such as that conducted by Hofstede (2001), Brazil was included in the group of countries that were classified as Latin Europe. Other studies, such as those conducted by Leite (1981) and Inglehart (1997), showed that Brazil is closer in culture to Latin American countries. This is explained in more detail below.

Leite (1981) used a seven-point scale, of the Likert kind, ranging from "very similar" to "very different," to measure the psychic distance between Brazil and other countries. In general, no country was considered to be "very similar" to Brazil. Three countries from the thirty-five countries that were analyzed stood out and were seen as being culturally close to

Brazil. They were Portugal, Uruguay and Argentina. Next after these countries, albeit a bit distant, were other countries that comprise a Latin culture. They were Venezuela, Colombia, Spain, Mexico, Paraguay, Bolivia, Peru and Chile. Canada and the USA head the list of countries perceived to be “different.” Syria, Hong Kong, India, Japan and Kuwait were perceived to be “very different.”

Brazil was also seen as being culturally close to Latin countries in a study on modernization and post-modernization that was conducted by Inglehart (1997). The author analyzes the values of 43 societies across two dimensions. The first dimension concerns orientation by traditional authorities (family or religious institutions) or by a rational, secular authority (political institutions), while the second dimension indicates whether the values concern survival (motivation for economic achievements) or well-being (concerns about the sense and purpose of life). The results point to the existence of eight similar groups. These are Catholic Europe, Protestant Europe, former Communists, South Asia, Confucianist countries, Latin America, and English-speaking countries. Brazil is part of the Latin American group, together with the other South American countries. The author suggests that, from a global perspective, Latin American countries have similar value systems.

Measuring psychic distance

In order to analyze the relationship between psychic distance and the Brazilian companies' selection of foreign markets, we developed a multidimensional instrument to calculate the psychic distances between Brazil and a list of countries studied by Hofstede (2001).

This multidimensional instrument was composed of seven dimensions: culture, language, religion, education, administration, economic/industrial development, and geographical distance.

We used Kogut and Singh's (1988) composite index to measure cultural distance and an adaptation of Dow and Karunaratna (2006)'s methodology to measure differences among languages and religions. In order to guarantee reliable data for most of the countries of the sample, in the administration and economic/industrial development dimensions we adopted indicators defined by the World Economic Forum (2007), along with democracy indicators defined by Dow and Karunaratna (2006). The administrative dimension measured differences in terms of democracy and institutions, while the economic and industrial development dimension included differences in indicators of infrastructure, macroeconomic stability, goods market efficiency, labor market efficiency, financial market sophistication, technological readiness, business sophistication and innovation, according to the World Economic Forum's definitions and data.

The countries' scores in each indicator were calculated as a percentage of the highest distance in relation to Brazil. Apart from the cultural distance dimension, which was calculated as Kogut and Singh's (1988) composite index, the dimensions were formed by the average of their indicators.

The calculation of the average psychic distance in relation to Brazil by region allowed us to adopt a nominal increasing scale of psychic distance in relation to Brazil as follows: Latin

America, Europe, Africa, North America, Middle East, Oceania and Asia. (TAB. 1) It is interesting to notice that our measures place Latin America as the closest region in relation to Brazil in all dimensions, but the cultural and administrative ones. The closeness between Brazil and Europe derive mainly from the cultural heritage first from Portugal, its former colonizer and later by the immigration flows from other European countries, which influenced educational practices and administrative institutions. Africa stands out as the closest region to Brazil in terms of culture and also relatively similar in terms of economic/industrial development. (TAB. 2)

TAB. 1 – Psychic distance in relation to Brazil

Psychic distance in relation to Brazil	
Latin America	23,1%
Europe	47,2%
Africa	47,8%
North America	49,8%
Middle East	54,2%
Oceania	54,3%
Asia	59,7%

TAB. 2 – Dimensions of psychic distance by region in relation to Brazil

Dimensions of psychic distance							
Country	Culture	Language	Religion	Education	Administration	Economic / industrial development	Geographical
Latin America	19%	38%	24%	11%	28%	24%	18%
North America	45%	63%	40%	59%	27%	73%	41%
Europe	39%	80%	44%	38%	32%	51%	47%
Africa	12%	82%	71%	49%	48%	25%	48%
Middle East	10%	99%	93%	20%	65%	33%	60%
Asia	24%	93%	85%	25%	50%	49%	91%
Oceania	53%	67%	47%	48%	35%	58%	73%

2 - METHODOLOGICAL ASPECTS

Design issues

This work was based on a research conducted over a sample of 109 national capital companies from the 1000 largest Brazilian companies in 2001. One of the sections focused on the sequence of entries by Brazilian companies in international markets (year of entry and chosen market), using open questions in order to obtain answers. The computation of the qualitative answers forced the researches to sacrifice the categories precision (by country) for the benefit of representation (by region). Thus, the regions among which the

figures were grouped are: Latin America, North America (the USA and Canada), Europe, Africa, Asia and Oceania. (Mexico's answers were included in the Latin America group, even though we recognize that this country is considered to be located in North America in strictly geographic terms).

Research Hypotheses

For analytical purposes, psychic distance should be understood as the level of difference between countries in aspects that might hinder or facilitate continued business relations between producers and consumers. The dimensions used in this study are in accordance with the empirical studies mentioned in the literature review, which classify the distances according to similarity/familiarity/promptness in accessing zones.

The main goal of this work is to examine Brazilian companies' path in entering international markets. This goal can be translated into some research hypotheses, which we identified in the extensive psychic distance literature.

The first hypothesis, formulated below, concerns the entrance sequence of companies in international market:

1. The companies' paths into international markets begin with countries with a smaller psychic distance.

The second hypothesis comes from the idea of knowledge and learning accumulation, which is acquired with time and experience. Thus:

2. Given the knowledge and learning accumulation among different countries, companies enter markets that are successively more distant in relation to the home market.

These two first hypotheses are coherent with the finding of Johanson's and Vahlne's (1990) behavioral theories of internationalization, as well as with the findings of Shoham and Albaum (1995).

The third hypothesis refers to divergent paths of Brazilian companies. It is believed that when companies first entered markets other than those of Latin America, the choices were in accordance with the industry type or the sector to which they belonged. Consequently:

3. Companies that entered culturally distant markets enjoyed structural features of certain sectors (commodities or global sectors), in which the importance of psychic distance is smaller in face of economic transactions.

Studies concerning distance have not taken into account, at least explicitly, the impact of moderator factors related to the industry structure to which the company belong. In the commodities sectors (iron, agribusiness), where the companies' products are standardized and markets function well, goods are easily negotiated between countries, even between those that are culturally distant. Conversely, companies that belong to more sophisticated and technologically complex segments of industrial goods and services, such as

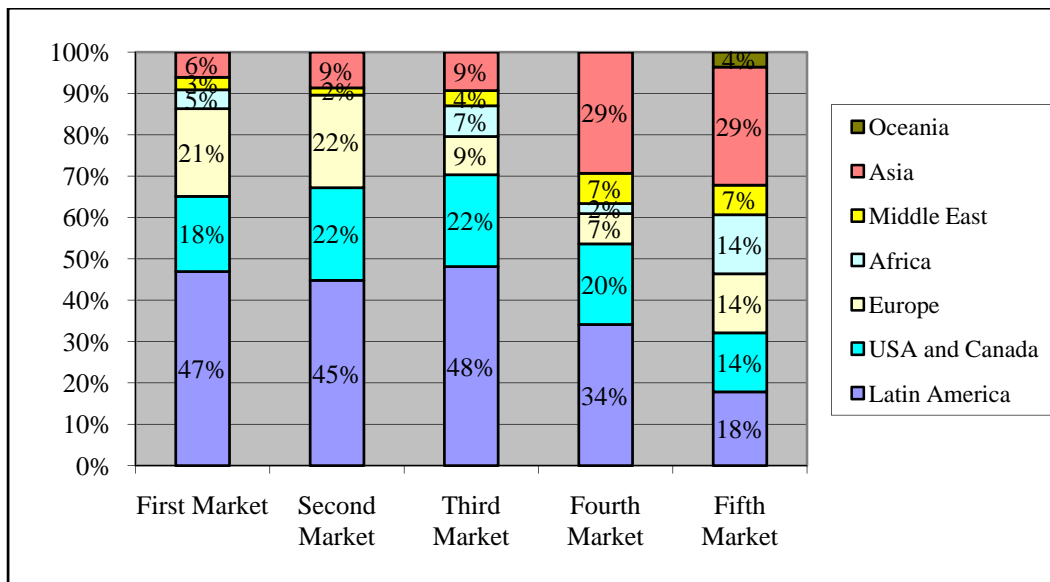
aeronautics, naval, biotechnology, softwares, and others are structurally linked to international markets in order to outlive since their conception.

3 - FINDINGS

Regarding the companies' paths, the findings corroborate hypotheses 1 and 2. Thus, 47% of the companies started their international expansion in Latin American countries, 21% in European countries and 18% in North America (the USA and Canada). Only 14% of the companies started their international expansion in other continents, such as Africa (5%), Middle East (3%) and Asia (6%). (GRAPHIC 1)

Considering the level of the distances, most of the companies chose the first market entry in Latin American, European and North American countries, which are, respectively, the first, second and fourth psychically closest regions in relation to Brazil. Only a few of them began their internationalization by entering more distant regions, such as Asia and Middle East. However, although our study reveals that Africa's psychic distance in relation to Brazil is almost the same as Europe's, the percentage of companies that chose African countries as their first markets is much smaller than the percentage that first entered in European countries. This may be explained by the importance of the market size for the entrance decisions, besides psychic distance.

GRAPHIC 1: Investigated companies' entrance sequence by region

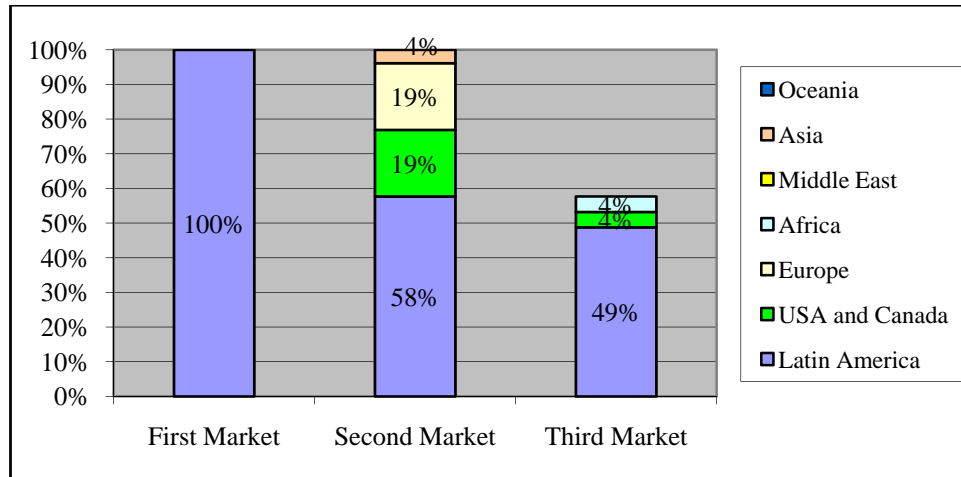


Source: Research findings.

In general, Brazilian companies' paths in international markets are coherent with the gradualist perspective of the behavioral approach of internationalization, which states that companies choose to enter countries which are closer in terms of psychic distance in order to accumulate experience in those markets before entering successively more distant countries. Thus, among the companies that began their international operations in Latin

America, 58% of them chose Latin America in their second entry, and 49% in their third market entry.

GRAPHIC 2: Market entry sequence by region of the investigated companies that first expanded to Latin America.



Source: Research findings.

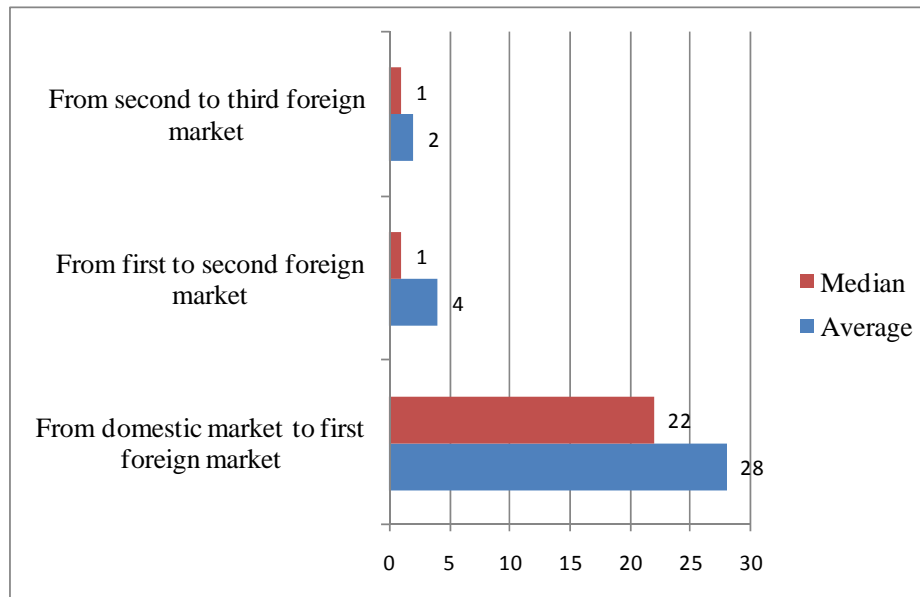
On average, the companies that first expanded to Latin America have chosen two countries of this region before entering other regions. In the case of companies that have not yet left Latin America to other regions (35.5%), we considered the number of countries that they entered until 2001 (the year of data collection). The time spent by the companies in the region is also an indicator of the learning and experience idea. The average time spent in Latin America before leaving to other region is five years. In the case of companies that have yet to leave Latin America to other continents, we considered the length of time from their entrance until 2001.

The findings also corroborate the second hypothesis, given that, as companies were consolidating their experience in closer markets, they were prone to run greater risks, entering countries progressively more distant. The percentage of Asian countries as international markets of Brazilian companies grew up from 5% in the first market to 29% in the fifth market, whereas the percentage of Latin America countries as international markets decreased from 47% in the first market to 18% in the fifth market. After the first entrance, African and Middle East countries also started to represent a greater percentage in terms of Brazilian companies' markets.

Through the analysis of the period between the companies' entrance in different international markets, one can observe the expression of the experience effect, due to the learning accumulation and its impact on the development of competences to operate internationally. Therefore, the time spent from the companies' foundation to their entrance in the first foreign market (average of 28 years and median of 22 years) is significantly bigger than the period between the entrance in the first market and the entrance in the second market (average of 4 years and median of 1 year). This numbers decrease even more, to an average of 2 years and a median of 1 year, between the entrance in the second

market and the entrance in the third market, demonstrating that the companies feel more confident and capable after their first international experience, so that they become more audacious in their international performance. (GHAPHIC 3)

GRAPHIC 3: Period between entrances in foreign markets of the investigated companies (years).



The nature of the learning process is also emphasized when one compares the international market entry pattern with the entry mode. The behavioral school of international business points out the incremental style of the internationalization process, which starts with a lower level of commitment (in general, exportation) and moves to a higher level of commitment (for example, production facilities by means of mergers and acquisitions or through greenfield). A research concerning the entry modes of Brazilian companies in foreign markets confirms the assumptions of the northern school (Cyrino and Oliveira Júnior, 2003).

Our study also demonstrates that 86% of the investigated companies used indirect or direct exports to enter international markets. This proportion is virtually the same for companies that entered Latin America or other regions. Besides, the great majority of companies that evolved for the establishment of commercial or production subsidiaries abroad are part of the companies that first internationalized in Latin America, showing that those companies started with psychically closer markets in order to gain experience before moving to more committed forms of internationalization.

The figures also confirm the third hypothesis, since the companies that have diverged from the gradualist pattern and have chosen to enter psychically more distant countries are part of the agribusiness or the commodities industries. Such companies used exports as part of their internationalization strategy, usually dealing directly with local importers of psychically more distant countries. In general, the negotiations were made by means of institutions or universal market methods, which reduce the need of interaction, communication and adaptation between producers and consumers. Thus, all of the

companies from the sample that first entered Asia (6%), for example, are part of the agribusiness or the commodities sectors.

4 – DISCUSSION AND CONCLUSION

The findings of this work sustain the gradualist thesis proposed by the northern school (Johanson and Vahlne, 1992; Shoham and Albaum, 1995) with respect to the entrance pattern of Brazilian companies in international markets. The concept of psychic distance was strong enough to explain the investigated companies' behavior in international markets, even though the data were not useful to generate a more granular analysis of the differences among different countries.

The conclusions of this work are that most of the Brazilian companies first develop their competitive advantages in the domestic market and then, after many years of resources and competence accumulation, move to international markets, usually via exports. Companies first choose to enter similar markets in terms of culture, language, religion, education, administrative and economic aspects, as well as geography. In this manner, companies reduce the risk of failure in international initiatives. After learning to act within psychically close markets, companies start to progressively expand to more distant countries, integrating their experience and know-how accumulated through their international performance. More psychically distant markets are, in general, the last to be approached – only when past international experience is big enough to outweigh the risks involved in entering new markets.

The divergent behavior identified refers to companies of commodities and agricultural sectors, which generally negotiate products in stock exchange houses. Among these segments, specifications and commercial rules are well disseminated, which facilitate market transactions with or without the help of mediators. The impact of local features on the decisions seems to vary when companies intensify their relations in international markets via more committed forms of internationalization, with the setting up of commercial subsidiaries or foreign direct investment (FDI).

The importance of psychic distance when choosing among markets is emphasized when one compares the companies' motivation to internationalize. Our research shows that the main motivations to internationalize of the Brazilian companies are:

- to get economies of scale (in a scale of 1-Strongly Disagree to 6-Strongly Agree, 70% agree, with a rate of 4 to 6);
- to explore location advantages (50% agree, with a rate of 4 to 6);
- to learn in order to develop competences to act in new international markets (52% agree, with a rate of 4 to 6).

Comparing the companies' alleged motivations and their market choices, one can identify a contradiction: if the goal is to get economies of scale, why most of the companies first internationalized through Latin American countries, which are so much more modest in terms of market size in comparison to the USA, Europe and Japan? Similarly, if Brazilian companies wanted to explore location advantages, why did they first choose to

internationalize by exporting to Latin America, where countries benefit from similar comparative advantages, such as low labor costs?

A likely explanation can be found in the smaller psychic distance between Brazil and other Latin America countries. Given the fact that most companies want to learn, it seems that they also recognize the challenges of managing an internationalization process. This can favor the preference in entering similar markets before adventuring through more psychically distant regions.

Another fact that corroborates this hypothesis is that some companies tend to consider neighboring countries alike given the proximity in terms of geography, but also of language structure – such as the case of Brazil and Argentina. This can lead companies to underestimate other important dimensions of the psychic distance concept. These companies may experience the “psychic distance paradox” (O’Grady and Lane, 1996). For example, while operating in South America, they are compelled by the psychic proximity of those countries in relation to Brazil. Some Brazilian companies of the cosmetics, agribusiness and industrial sectors were surprised by their failure in their first experience of international expansion to neighboring Latin American countries. One of the possible explanations to this failure is that Brazilian decision-makers presumed that countries such as Paraguay, Uruguay and Argentina, close to Brazil in terms of geography and cultural background, could be considered a type of extension of the Brazilian market. As a result, cultural differences and different consumer preferences, as well as business practices were underestimated, hindering the expansion through neighboring countries. Conversely, many Brazilian companies were very successful in expanding to psychically distant markets, such as agribusiness and construction companies in the Middle East. In this case, the effort of adapting products and processes to the countries’ reality, cleared identified as different, demonstrated the importance of psychic differences between countries in international business.

This work also identifies some unanswered questions that came up from the analysis given the sample limitations and the initial focus of the research. Although internationalization studies have used the concept of psychic distance as a fundamental explanatory variable of companies’ behavior in their internationalization path, the effect of moderators was left to second plan. Thus, the impact of certain industry’s and sector’s features, as well as market size, can exceed the impact of psychic distance to facilitate or hinder the internationalization process. Certain “global” segments have consumers with a variety of preferences and expectations concerning global trademarks. This could stimulate the access of companies to markets culturally distant, such as the luxury, franchising, fast food, agribusiness, and semi-industrialized commodities sectors. This could also motivate companies to consider other features to enter international markets (for example, the market economic potential) other than the psychic distance. In this case, the importance of the psychic distance as an explicative factor could be moderated by these industry factors. Alternatively, sectors with a strong local characteristic (restaurants, specialized retailing, services) would be more sensitive to institutional and cultural factors- thus potentializing the psychic distance construct as a possible explanation.

On the other hand, dynamic sectors that enjoy a high level of technology – such as naval, aeronautics and software – compel companies, since the beginning, to enter global markets (Moen and Servais, 2002; Rennie, 1993). Accordingly, the selection criteria for foreign markets can be other than psychic distance. Hence, the importance of the different variables discussed above will vary, showing that the process is indeed dynamic.

One important limitation of this research was the impossibility to test the hypotheses in terms of specific countries or markets. We were forced to analyze the psychic distance effect among regions, revealing possible future research options. This limitation reduced the precision of the findings, although it didn't affect the conclusions.

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