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Psychic Distance and the importance of its perception concerning the management of international processes, of internet-operating companies

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We hereby confirm that we have written the accompanying thesis by ourselves, without contributions from any sources other than those cited in the text and acknowledgements. This applies also to all graphics, drawings and images included in the thesis.

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ABSTRACT

In the last decades it has been argued whether psychic distances have lost their importance on the world markets. The access to information through the internet may have reduced them and made them more understandable, but it has also increased the overall world trades leading to more diversity and therefore to more different market segments that have to be considered. This contrary statements are investigated in this master thesis and further evaluates the current importance of psychic distances in relation to the perception of the managers towards it. Therefore it gives an insight into how psychic distances affect the management of a web-based companies called Compare AG. The progress of this work mirrors this discussion along with the development process of the company. It will show how it went from a unexperienced firm, which merely copied their concept to another market expecting it to work, to a company that adapts to the foreign markets and has specialists for every country to cope with any kind of market changes illustrating both opinions on how important psychic distances still are today especially for internet-operating companies.
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1. INTRODUCTION

All world markets differ from each other in a certain way, but some are more similar to each other compared to their psychic distances (Zaheer, Schomaker, Nachum, 2012). Evans, Treadgold & Mavondo (2000) define psychic distances as a way to process information from the cultural and economic environment and their differences, indicating the distances between domestic and foreign markets. This includes economic factors such as business practices, markets and industry structures as well as legal, political (administrative) and also language factors (cultural). Magnani, Zucchella & Floriani (2018) finally concluded that psychic distances exist in four different dimensions concerning cultural, economic, administrational (e.g. legislation and tolls) and also geographical factors. Whenever a company wants to expand to a foreign country it is obligatory that they know precisely about the psychic distances, whether and how they would affect their market strategy and the popularity of their product in order to reduce the risk of the internationalisation (Gervasoni, Kubo & Farina, 2014). According to Zaheer, Schomaker and Nachum (2012), globalisation, compared to 50 years ago, has strongly increased by the connection through the internet, creating modern distribution channels and improving the speed of exchanging products, but a lot of differences can occur on the markets as well. Other literature concerning this topic states that since the invention of the internet and increasing globalisation, the countries adapt more to each other and become steadily closer related, meaning that psychic distances therefore play a less significant role than before (Yamin and Sinkovics, 2006). It is explained that internationalisation processes have become easier to manage because additional know-how is provided through the increasing flow of information of media, especially the internet. They further argue that this is already proven by the increased usage of the born global model in the last decades, which started to replace the Uppsala model as the common internationalisation strategy. These opposite statements of the importance of psychic distances in modern business, has led to a broad discussion.

While on the one hand firms state that they are barely affected by psychic distances, mostly software and born global oriented companies, other companies with mostly physical products, still have various problems entering new markets. The Compare AG, which will be the case-study of this work and is explained further below neither completely orientates towards born global, nor Uppsala model, but both. Their offered product is a service to compare different retailers products in one catalogue, which creates a new narrow field of business. Having such a catalogue for every foreign market they operate in, creates a great amount of different products, which makes the firms services vulnerable towards psychic distances of all kinds. This particular area is what will be investigated in this work. Even though much is known in the literature about Internationalisations and psychic distances, little can be found about the circumstances of firms operating in the internet only. Therefore, the contribution to the current...
literature will be about the still existing importance of psychic distances, especially for internet-based companies like the Compare AG as a new form of firm that has just developed along with the internet and was yet rather neglected by the literature.

The case-study of this work will clarify the discussion about the current relevance of psychic distance by contributing a new argument of its importance through the fact of having internet based firms nowadays. It will be investigated to what extent these contrary statements of psychic distance still can coexist in the literature and whether the Uppsala and born global models are still applicable on internet-based companies.

To conclude, the works purpose is to give insights about the importance psychic distances have on modern companies today. Especially to investigate internet-based firms such as the case study leads to the understanding of how managers perceive and manage psychic distances before and during internationalisation processes. This includes the investigation of the influencing potential of business networks on psychic distances as well as what threats are to be expected from the psychic distance paradox.

Analysing psychic distances means to indicate the differences between the domestic market and the target one (Zaheer, Schomaker, Nachum, 2012). By this understanding, a significant share of psychic distances can be categorised and gives an overview of where the focus of an internationalization process should lay on (Zaheer, Schomaker, Nachum, 2012). Furthermore, psychic distance is the central term of the international management being regarded as one of the key elements in the field of international marketing (Zaheer, Schomaker, Nachum, 2012).

Realising the psychic distance and adapting to it leads to a deeper understanding of the market, making the expanding company able to understand the risks which accompany an internationalisation (Magnani, Zucchella & Floriani (2018). In order to encircle the broad field of internationalisation and psychic distances, an overview of the existing literature will be given in the theory part of our work, followed by theory that was necessary to be able to analyse the empirical data. To briefly summarise the theory that has been used, it contains a basic understanding of psychic distance and the psychic distance paradox, the born global and Uppsala model and finally the network theory.

The Psychic Distance Paradox origin lies within the manager’s perception of psychic distance and rather in its misinterpretation. This paradox basically states that managers are too confident of their work and therefore become trapped by their own ignorance by neglecting important factors they were not aware of (O’Grady & Lane, 1996; Virvilaite & Seinauskiene, 2015). This can cause a misinterpretation of the current situation and interferes with the overall understanding of the foreign market and therefore threatens the internationalisation process (Virvilaite & Seinauskiene, 2015).

A company using the born global strategy plans from the beginning of its activities to expand globally. To obtain this goal it expands rapidly to foreign markets usually within 2 years after
its foundation. The majority of born global companies are rather small companies, which are high technology orientated and therefore seek for higher demand through penetrating many markets at the same time to offer their product to a greater target group (McKinsey & Company, 1993).

The Uppsala model was created by Johanson and Vahlne in 1977 and revised in 2009. It describes an internationalisation process as a four steps model that develops along with the market penetration. Usually this internationalisation process takes several years to accomplish because all steps require important pre-considerations and caution. Therefore, this process proceeds slowly, so the participants of the internationalisation can make use of their growing market knowledge. Johanson and Vahlne (1977) were able to provide a model that minimises the lack of knowledge which is important to develop international operations and make it possible for the company to develop along with its internationalisation process.

A business network is the framework of where the company operates in through additional information and communication channels. This exchange between business partners can lead to additional information flow in a particular market (Forsgren and Johanson, 1992). It will be evaluated, whether and how an established business network can decrease the existing psychic distances on particular markets with a focus on the additional information that can be provided by business partners.

The used theory will be adapted to the internationalisation processes of a German company we call Compare AG, due to privacy reasons and to protect the company's interests. The proceedings in the company concerning their internationalisations are gathered in the empirical data part of this study and will be analysed in combination with the theory. This analysis will provide insights into the international management of Compare AG, how the managers perceived psychic distance and as well as decisions they made.

Therefore and to summarize, this thesis will focus on the following research questions:

**Leading Research Question**: How do managers in international, especially internet-based companies, perceive and manage psychic distance?

**Sub Research Question**: How relevant is the psychic distance paradox for international processes of web-based companies?
2. METHODOLOGY

This chapter will give information about the research approach, the research method, the data collection process and the kind of case-study that has been used during the research.

2.1 General approach

In general there are two kinds of approaches in arranging a research, the inductive and the deductive approach. The inductive approach is based on conclusions from what we have experienced (Walliman, 2011). We take this gained knowledge and set it up as new rules or beliefs (Walliman, 2011). That means that the researcher sets up new theories, based on the findings (Bryman & Bell, 2011). The second alternative is the deductive approach. The deductive approach is based on rationalism, whereas the inductive approach is based on empiricism (Walliman, 2011). Rationalism means gaining knowledge by reasoning (Walliman, 2011). Deductive reasoning normally starts with a general statement and then, through logical argumentation, it comes to a conclusion (Walliman, 2011). To come to the logical argumentation to undergird the conclusion, theories are tested through observation and experiments in the deductive approach (Walliman, 2011).

Within the process of getting familiar with these two approaches we recognised that none of these two really fit as our research approach. According to Alvesson and Sköldberg (2000) it is difficult to force every research into these two opportunities, because they cannot always fit as Procrustean bed. Therefore we needed another approach corresponding our research intention and found it in the abductive approach.

The abductive approach is used in many real practice case-study based researches and is recommended as an innovative approach for theory-driven empirical research (Alvesson & Sköldberg, 2000). According to Alvesson and Sköldberg (2000) a single case is interpreted from a hypothetical overarching pattern and if it is true, it explains the case in question. Afterwards the explanation should be strengthened by new observations (Alvesson & Sköldberg, 2000). Concerning Alvesson and Sköldberg (2000) this method has some characteristics from induction as well as deduction, but should never be seen as a simple mix of these both, rather than as a new approach which adds new and specific elements. The most important new and specific part from abduction for the method as well as for us and our research is that it includes understanding in the whole research process (Alvesson & Sköldberg, 2000). This part was by far the most important advantage for our thesis.

Where induction starts at empirical data and deduction at theory, abduction has its point of departure at an empirical basis, like induction (Alvesson & Sköldberg, 2000). But different than induction it does not reject theoretical concepts and is therefore closer to deduction (Alvesson & Sköldberg, 2000). According to Alvesson and Sköldberg (2000) the analysis within the
abduction method combines analysing the empirical facts with studies from previous theory from the literature. This combination of previous theory and new empirical facts gives us as researchers the opportunity to reinterpret both in the light of each other (Alvesson & Sköldberg, 2000).

As mentioned above we have chosen the abductive approach for this thesis for mainly two important reasons. Firstly, the general structure of the method suits our research intention by far. We are comparing given theory with the empirical data from our personal interviews and the survey we have conducted. We can than reinterpret both in the light of each other and come to new conclusions by answering our research questions, because we want to explore why certain things in our case study happened. Secondly, we wanted to get in-depth knowledge and a deep understanding of our chosen topic and concerning the above mentioned definition, abduction is the only approach that serves our demands.

2.2. Research method

In general, researches have two choices when it comes to the decision of the research method. This division of data refers not to their source, but rather to their characteristics (Walliman, 2011). The characteristics of the data are divided into two areas, whether they are presented in written words, so called qualitative data, or they can be reduced to numbers and are quantitative (Walliman, 2011).

According to Walliman (2011) are there a lot of useful information which cannot be reduced to tables and numbers. For example judgements, ideas and beliefs of people can only be described in words (Walliman, 2011). Words cannot be manipulated and require different techniques to interpret and analyse them, furthermore the quality of the information is more important than the quantity; hence this kind of data is called qualitative data (Walliman, 2011). It was very important for our thesis to get this detailed qualitative data for our single case-study. Despite qualitative data from written words cannot be counted or measured accurately, they are important to investigate humans activities and attributes to get deep insights into ideas, feelings, perceptions and reasons of decisions (Walliman, 2011). Our aim is to carefully define the meaning of the words collected in the interviews and arrange it in a single case-study (Walliman, 2011). According to Walliman (2011) interviews are a good method and a typical example for a qualitative research approach. For our topic and the purpose of this thesis, we decided to do only two interviews, with the current and the former head of the international department.

The numbers based method of research is the quantitative approach, which is used to record detailed information about science and society (Walliman, 2011). For this thesis we gathered quantitative data through a structured survey with the international teams of our examined
company. To formulate the right questions, we conducted the survey with the employees after the interviews, which will be described later in this part. The questions were mainly based on their own perception of risks and opportunities concerning the latest internationalisation processes. The gathered data can then be analysed through a variety of statistic techniques (Walliman, 2011).

When the data from the survey was analysed, we used it to compare the findings of the survey with what we have gathered through the interviews with the head of international as well as the former head of international. Consequently, we used qualitative as well as quantitative data in this thesis, but since our main source of data are the conducted interviews and our purpose is to investigate the perception of managers with the findings of these interviews, the main research method of this study is qualitative.

The company we have chosen for our investigation is an internet company providing a website for its users where they can compare the prices of their desired product and find the cheapest supplier. It is based in Berlin, Germany with more than 700 employees. Currently they provide their website in Germany, France, Italy, Austria, Spain and the United Kingdom. Within the last one and a half years they closed the websites in Poland and India, because they did not manage to be successful within three years. On the other side they had great success in Italy and France. These two different outcomes with almost the same strategy gave us a starting point for our qualitative data gathering through the interviews with the former and the current decision maker. It was a good opportunity to go very deep into detail concerning the perception of psychic distance, the strategy of the internationalisation process within the company, the ideas and beliefs behind it, the criteria and responsibilities and especially the different countries, why they were successful and why not.

2.3 Single Case-Study
The choice which kind of study we will take for this research fell on a single case-study, because we wanted to take a detailed look on one company and its different internationalisation processes within the last years, which have been successful and unsuccessful. Furthermore, as explained earlier we wanted to take a look at a relatively new type of company, namely an internet based company, since the given research contains not many information about this type of firm in relation with psychic distance. According to Bryman and Bell (2011) the case study is an ideal way to make a detailed and intensive analysis of a single case. This could be about a single organization, location, person or event (Bryman & Bell, 2011). The distinction between a single case-study and other research designs is the intense focus on a situation or system (Bryman & Bell, 2011).
According to this definition we have chosen to interview the decision-makers, to create a single case-study and be able to examine, evaluate and analyse the various internationalisations of this company towards India, Poland, Italy and France. Furthermore we added the findings of the survey to the case-study, to have an even more detailed insight into the perception of realised internationalisation processes and psychic distance of the whole international department.

The first reason for choosing a single case-study was, because we desired to get a deeper insight and understanding of our investigated subject. Therefore we decided to investigate only in one company and create a detailed case-study, based on the interviews, survey and the research field. The advantage is, as mentioned, that we got a deep insight through the personal interactions with the interviewees, investigating their behaviour and decisions in critical situations, to understand how they perceived and handled the investigated phenomenon. Compare AG gave us the opportunity to get this insight, since there is only one person responsible for international decisions. But, this also results in a disadvantage of single case-studies, that they are always limited on the investigated subject (Merriam, 2009). Therefore, the findings of this study cannot be generalised, since it is only limited to the chosen topic in the chosen company. But, since our purpose is not to generalise the findings or predict the future, rather than getting a deep understanding of the researched field and enable future researchers to continue our investigation (Merriam, 2009).

The second reason was that Compare AG is an internet-based international company, operating successful in 6 European countries for the last years. But, they also had unsuccessful internationalisation processes, which we knew before since one of the researchers worked as an intern in the HR department of Compare AG from January till July 2017. Therefore we already had information about the company and its international work, including failures, of the last years. With that knowledge we knew before the interviews that Compare AG will perfectly fit as basis for the case-study in this research, because this gave us the opportunity to compare the successful internationalisations with the unsuccessful ones. We could directly compare the perception, decisions, evaluations and structures of the different processes and focus only on the two interviewed managers connected with psychic distance. This was a great advantage in comparison to investigate in more companies with different internationalisation approaches, which would have also taken our advantage gained through the single-case study, namely the deep insight in the phenomenon of psychic distance.

The third reason for choosing Compare AG was the lack of literature about the perception of psychic distance of managers of an only internet-based company without a physical product. For us as researchers it was interesting to investigate whether psychic distance still plays such a big role during the internationalisation, if there is only a non-physical product that has to be sold to customers. Furthermore, it was interesting that the customers are mostly internet-based
companies as well, since they are online shops. On the one hand the outcome of this study could be that psychic distance does not play a big role for these type of company, but on the other hand it could be that even modern internet companies are facing the same degree and risk of psychic distance as exporting and internationalising companies with physical products. However, since the literature is rather less concerning this topic, this study will give insights whether it is one of these two opportunities or even a totally different degree of psychic distance and will therefore give a theoretical contribution concerning the investigated topic of psychic distance and its perception of managers.

The case-study is set up in chronological order from the founding of Compare AG until the end of the internationalisation towards India and Poland, resulting in a retraction from the market. Firstly, the leadership of the former head of international is described and how his internationalisation strategy was. This leads to critical point in the story, were the current head of international takes over. Furthermore it is described what changes have been made in the international strategy and structure. After mentioning the changes, the launch of the Indian website with the new strategy and criteria is in focus, ending with the reasons for the failure in Poland and India. In the last section the results of the survey are presented. The focus here is firstly on the evaluation of the perception of risks regarding psychic distance and the internationalisation processes concerning the different departments, namely marketing, content and international management, and secondly on the perception of risks concerning the length of service with Compare AG.

2.4 Data collection
After we had the basis for our analysis, the theory part of this thesis, we started to collect primary data with two personal interviews with the current and the former head of international at Compare AG and a survey with the employees working in the international department, namely around 90 people. According to Walliman (2011) primary data are the nearest to the truth, because the data has been recorded, observed or experienced near the event. During the preparation of the interviews and the survey we relied on this definition. Since we are going to investigate, and in the end understand, how managers perceive psychic distance and how they manage it, we concluded that we have to interview the managers who were responsible for the international management at our examined company. That were two people, firstly, the former head of international at Compare AG, who was there from 2004 until 2013 and responsible for the internationalisation processes towards Austria, the United Kingdom, France, Italy, Spain and Poland. The second person was the current head of international at Compare AG, who took over the position in 2013 and is since then responsible for the international department. He also initiated and led the internationalisation towards India.
Certainly, we could have done more interviews with the workforce, the people who work under the head of international, hierarchal. But that would not serve our purpose since we are examining the perception of the managers, the decision-makers, and not an overall perception. But we also agreed that only two interviews could be seen as too less as empirical data for an analysed case-study. Therefore, we decided to conduct an additional survey that will give us more information about the perception of internationalising and psychic distance of the employees and even their view on the decisions. We took the survey because we were not able to interview the whole international department within the short timeframe to write the thesis. Furthermore, with the survey we got the overall perception of the workforce, but we were also able to evaluate the different departments and get their perception. After the evaluation and with the average perception of the teams, we could see how they would have assessed the risk of past international processes of Compare AG towards Italy, France, India and Poland. This enabled us to compare the departments and analyse the different degrees of risk and psychic distance perception in average, concerning the international processes of Compare AG. Additionally, the management team of the international department, namely the country managers, which are the next level under the head of international, are included in the survey as well and can be analysed in average to see whether they have a different perception than the head or the teams they are leading.

Although, the survey with the employees does not serve our purpose on the first sight, it is a good source of data which we used in the analyses and to get a more detailed insight in the whole investigated topic.

The survey was addressed to every employee within the international department with the teams of all countries, consisting of marketing, sales, content, technical and international management employees. It was sent with a company intern e-mail distributor.

With the completed interviews and the evaluated survey, we were able to formulate a case-study with our empirical data. The case-study serves as the to be analysed foundation of the thesis. The structure of the interview and survey can be found in the next two sections. The questions from both, interviews as well as survey, can be found in the appendix.

2.5 Structure of the interview

The first interview was with the current head of international. It took part on the 19th of February in Berlin at the headquarter of the Compare AG. The second interview was with the former head of the international department from our chosen company. It took part on the 21st of March via Skype, since he is not working at our investigated company anymore.
We decided to divide the interview into three parts. The first part contained general questions about the position and background of the interviewee, as well as relevant foreign job experience.

The second part got more into detail concerning the preparation of internationalisation. We talked about the concept of psychic distance and whether they considered this concept as an important factor for their internationalisation. Which criteria has been used for the evaluation and market selection and whether there were differences in the criteria between different countries. Furthermore, we talked about the internal processes before and during the internationalisation in new markets and how the responsibilities have been divided. With this questions we mostly followed the argumentation of Schu and Morschett (2017) as well as the description and definition of psychic distance in the Uppsala model from Johanson and Vahlne (1977 & 2009).

In the third and last part we went more into detail concerning the different countries, the progress and the result of the process. It was important to get detailed insights into the strategy of the internationalisation and which plan the process followed. Furthermore, it was important to find the reasons for a successful and an unsuccessful internationalisation. Therefore we asked what has been done, which good and wrong decisions have been made, whether they were aware of the risks and what could have been done better. In this third part we mainly followed the argumentation of the psychic distance paradox and the perception of psychic distance by the decision makers as described in the theory part.

The description of the interview, together with the questions and answers can be found in the empirical data and also in the appendix.

2.6 Structure of the survey

In the beginning of the research, when we conducted the first interview, we had two interviews as the basis for our empirical data and the case-study. After evaluating the findings and information from these two interviews we decided to add an online survey with all employees in our observed company, who are currently working in the international department within the different country specific teams. We could than use these new insights from the employees to compare it with the findings from the interview with the current and former head of international, to see how the perception of internationalisation and psychic distance was inside the affected workforce. These are roughly 90 people who are only working within international teams.

The survey was divided into three parts. The first one for general information about the gender and nationality. Furthermore in which international country team and department of this specific team they are currently working in as well as since when they are working for the company and if they had any international experience before they started working in their position. There
information were needed to assure the reliability of the gathered information. Most important were the information about the team affiliation and the specific department, because we are going to compare the perception of different teams, like marketing and content, since they have a different background and different level of direct contact with the international markets.

The second part is most important for the case-study as well as the analysis itself. We asked the participants how they assess the risk of their companies internationalisation towards Italy, France, India and Poland. We kindly asked them to imagine that they were in the team which has to evaluate the potential of the different countries and in the end assess the risk and make a decision for the next internationalisation. The question was: “How would you assess the risk of [companies name] internationalisation towards [country]?”. They had to appraise the risk on a scale from 1, which means a very low risk, up to 5, which stands for a very high risk. To give all international employees the chance to imagine being in this situation, we decided to keep the survey and its questions as simple as possible, but with the best possible outcome for the case-study. Therefore we arranged the questions as an assessment for the risk of the internationalisation, which gives us the opportunity to draw inferences from the employees perception about internationalisation and mainly psychic distance on the basis of success and failure of past processes of the company. The detailed information about past internationalisation processes came from the two conducted interviews.

In the third and last part only two questions were asked. The first was, whether the employees think that the company’s strategy for internationalisation was right or not. The question was really interesting to summarise the general perception of the workforce concerning the strategy. The last question of the survey was: “What do you think, which country could be a good idea for the next internationalisation?”. It is very interesting to see the different ideas of the employees concerning potential countries and markets in comparison to the decision-makers perception, since we asked this question in the two interviews as well. It gives a small insight whether the employees can put themselves into the managers shoes and imagine being in position, choosing a country concerning its potential.

2.7 Validity, Reliability & Objectivity

Without objectivity, no reliability, without reliability, no validity (Amelang & Schmidt-Atzert). A high reliability is a principal requirement for a high validity (Becker-Carus & Wendt). According to Merriam (2009) the findings must be sufficiently secure to construct legislation and social policy based on it. What makes studies trustworthy is the researchers careful design and the use of well-developed and in the scientific community accepted standards (Merriam, 2009). The sufficiently security of the data and finding can be assured, since one of the
researchers worked for 7 month in the investigated company and has therefore a personal relation to the interviewee and the employees. Furthermore we had the personal working experience and inside information. To further enhance the trustworthiness of the information and data, we strictly kept to accepted standards and methods, like the single case-study and our already described research method.

2.7.1 Objectivity
According to Walliman (2011) scientific objectivity is to be free from bias in research as much as possible. It could happen that researchers reject or ignore evidence which are contrary to their beliefs or they are too selective with the data they use for their results and analysis (Walliman, 2011). To avoid a decreasing objectivity we have tried to leave out our biases in all phases of creating this thesis. If there was a possibility of bias in any aspect of the research, we followed Walliman (2011) and acknowledged as well as explained it. Furthermore it was from personal interest to be objective as possible, besides private relationships to the company, because the more objective and free from biases we as researchers act, the insights and understanding we can produce. Less objectivity and resulting subjective rejection or ignorance of facts, can cost the researchers useful information to understand the whole subject and phenomenon.

2.7.2 Validity
Validity is divided into internal and external validity. The internal validity is based on the question of how the findings of the research match the reality (Merriam, 2009). According to Merriam (2009) human beings are the main source of data for a qualitative research and therefore the interpretation of reality is done directly through their observations and interviews. This brings the researcher closer to the reality and is therefore a clear strength of qualitative research. It is also important to understand the perspective of those who are involved in the phenomenon, to reveal the complexity of human behaviour in certain situations and to present a clear and structured interpretation of what happened. Therefore the internal validity is often seen as the credibility of research (Merriam, 2009). To increase the validity or credibility of a research the researchers should apply the strategy of triangulation (Merriam, 2009). According to Merriam (2009) researchers should apply two or three of the following four parts of triangulation. The first is the use of multiple methods, which was done through the two interviews as well as the survey to get a broader perspective on the investigated subject. The second important part of triangulation is the use of multiple sources of data, what was definitely conducted in the thesis with the interviews, a survey and data gathering for the theory. Thirdly, there should be multiple investigators, which is fulfilled since this thesis was written by two
students, who collected and analysed the data together and separately. The fourth and last point is the use of multiple theories to confirm the findings (Merriam, 2009).

External validity gives indication of the generalisability of the findings. It refers to ability of which the findings can be applied in other situations. The generalisability is probably the most discussed issue of qualitative research. In other words the external validity can be seen as the transferability of the findings (Merriam, 2009).

According to Merriam (2009) researchers can enhance the transferability of the findings with different strategies. The most common and in this thesis applied strategy is the rich and thick description. It refers to an extensive description of the settings and participants and an elaborate description of the findings of the study, which can be underpinned with evidences such as field notes, quotes from interviews or other documents (Merriam, 2009). We followed this strategy by providing a very thick and detailed description of all findings from the interviews and from the survey in the empirical data part of the thesis.

The opinions of researchers concerning validity are divided, because some of them state that it is tough to conclude findings which are applicable for the whole research field (Bryman & Bell, 2011). But this statement is only of low importance for this study, since the objective is to get a deep insight and understanding of the research field and the investigated phenomenon. Therefore the focus of a single case-study should be on the uniqueness of the single case to develop a deep understanding of its complexity, which is the aim of this thesis research (Bryman & Bell, 2011).

2.7.3 Reliability

Reliability refers to the possibility to replicate the findings of the research. In other words it means, if researchers repeat this study, will it give the same results (Merriam, 2009). The problem with reliability and human behaviour, since our study is mostly based on interviews and a survey, is that it is never static. It is based on the assumption that there is only one reality which can be studied, giving the same results every time (Merriam, 2009). But, however, this is not the most important issue since the repetition of a quantitative study cannot bring the same results every time, because there are countless ways of interpreting the gathered data. Most important is that the results are consistent with the collected data (Merriam, 2009). It means that the collected data and the results of the study make sense. Therefore a study is reliable when the results are consistent with the collected data, not only when other researchers get the same results (Merriam, 2009).
According to Merriam (2009) a good strategy to increase reliability and consistency in a study is the same to increase validity - the triangulation. Like already discussed, triangulation is a very common and useful strategy in research to enhance validity as well as reliability with two or three of the following four opportunities. Researchers can chose between the use of multiple methods, multiple sources of data, multiple investigators or the use of multiple theories (Merriam, 2009).

Since we have conducted triangulation to enhance validity, as already described before, we used it for a greater reliability as well. Whereas reliability is very important for us since we are writing a master thesis, we have decided to use all four parts of triangulation, to get the best possible results. We used multiple methods as well as multiple sources of data, we are two investigators who interpret the gathered data separately and together and we used multiple theories for psychic distance and internationalisation.
3. THEORY

This Chapter will present the used theory of this thesis, namely psychic distance and its four dimensions, the psychic distance paradox, the Uppsala as well as the Born Global internationalisation model and the Business Network Theory.

3.1 Psychic distance

In order to understand the theory of this thesis it is necessary to understand the area the topic is located in, which is internationalisation combined with psychic distance. Internationalisation is a wide field of topics and is increasing in its variety and therefore difficult to analyse the more literature and knowledge is added (Cavusgil, 1984).

An economical related internationalisation is the process of integrating an enterprise into markets on an international, intercultural or global dimension (Susman, 2007). This includes export (either through third parties or directly), licensing associations, franchising, production and service contracts, strategic alliances and joint ventures, mergers and acquisitions as well as oversea divisions such as greenfield investment subsidiaries (Cavusgil, 1984). All these topics are affected by psychic distances, because they affect the whole internationalisation process (Johanson & Vahlne, 1977). Therefore, psychic distances will be the main subject that will be investigated in the master thesis.

Psychic distance is a key concept to understand how companies make decisions when they expand into foreign markets and influence the choice of markets significantly (Johanson & Vahlne, 1977). One of the difficulties within the topic of psychic distance is that the common literature provides a lot different definitions. The most used and relevant can be found in the list below:

- Beckermann (1956) was the first one using the term psychic distance and defined it as the perceived distance between country A and B and which consequences it caused for the international trade.
- Johanson & Wiedersheim-Paul (1975) declared that psychic distances are the factors making it either more difficult or even disrupt the flow of information between firms and markets.
- Johanson & Vahlne (1977): As the creators of the Uppsala model, they also took psychic distances into consideration, determining them as the set of factors that hinder the flow of information to and away from the market.
- Ford (1984) stated that psychic distances determine the extent to which the norms and values of two international companies differ from each other (national differences).
• Fletcher & Bohn (1998) describes it as the way the individual sees the economic world.
• Evans, Treadgold & Mavondo (2000) defined psychic distances as a way to process information from the environment, especially from cultural and economic differences, making it easier to understand the distance between domestic and foreign markets. This includes not only economic factors such as business practices, market and industry structures, but also legal and political factors (administrative) and also language (cultural).
• Child & Wong (2002) explained that psychic distances as the perceived distance between domestic and foreign markets.
• Both Evans & Mavondo (2002) as well as Sousa & Bradley (2006) describe Psychic distance generally as the perception of the differences between the domestic and the foreign country and market through the international decision makers.
• Gervasoni, Kubo & Farina (2014) state them as the sum of variables that improve or impair trade relations of companies in different markets.

Those definitions may vary from another, yet still describe the same. None of those definitions are wrong, but rather incomplete yet together they cover the field of psychic distance. Nonetheless, it clarifies the problem of this topic and its difficulty to work with since none of these definitions can be considered as expired.

Finally, there are two definitions we will mainly follow in our argumentation. Firstly, that psychic distances can be assorted into 4 categories, namely the economic, cultural, administrative and geographical dimensions between domestic and foreign markets, that lead to a reduction of the flow of information, which can be considered as market barriers of all kinds (Magnani et al., 2018; Schu & Morschett, 2017). It includes industrial and cultural differences (and their state of development), language differences, education, business practices, which causes irritations, insecurities or even passivity that leads to a fall of performance and efficiency of the company (Child & Wong, 2002).
Secondly, we will follow the argumentation of Johanson & Vahlne (1977), with their definition as a set of factors that hinder the flow of information to and away from the market.

3.2 The 4 dimensions of psychic distances
As mentioned before psychic distances can be split into 4 different categories, which are called economic, cultural, administrative and geographical dimension. The different dimensions are complementary, but have different influences upon the decision making of the company, which depends a lot on the particular situation the company is located in (Magnani et al., 2018).
3.2.1 The cultural dimension

Cultural aspects comprise religions, languages, values, standards and social practices such as art, dance or clothing (Macionis & Gerber, 2011). It is a set of standards, which determines the actions, appearances and attitude of the specified cultural group and that is transferred from previous generations to the younger ones (Gervasoni, Kubo & Farina, 2014).

Compared to the other dimensions, the studies about cultural psychic distances differ the most from each other and can be even controversial. On the one hand it is stated that cultural environment has the least impact on a firm’s decision making (Robertson & Wood, 2001), while on the other hand Edwards & Buckley (1998) conclude that it is the most important one. This can be explained by the fact that this field has such a great variety that the cultural differences of the markets can affect a firm significantly while the other one is barely influenced by it (e.g. different product: selling pig meat in a Muslim country) (Magnani et al., 2018; Schu & Morschett, 2017).

All of those aspects can be a factor that increases or decreases the psychic distance for a specified company that intends to internationalise to a particular market (Gervasoni, Kubo & Farina, 2014). Therefore, it is necessary to be aware of at least the majority of the potential psychic distances that exist in this market before going international (Gervasoni, Kubo & Farina, 2014). Gervasoni, Kubo & Farina (2014) further state that all organisations, which go international need to understand all peculiar characteristics of that market, which includes analysing the social environment and analysing the consumer behaviour. A company can never be sure that they have taken all necessary factors into consideration, but the more research was done the higher the information about the internationalisation process and therefore about the chance of being successful or to fail (Gervasoni, Kubo & Farina, 2014).

3.2.2. The geographical dimension

The geographical aspects of psychic distance are rather few compared to the various factors combined in the cultural dimension, but can still have a great impact to the overall high or low consideration of psychic distances on a particular market (Johanson & Vahlne, 1977). It is the physical distance between the domestic market of the expanding firm and its goal, the foreign market (Magnani et al., 2018; Schu & Morschett, 2017). It includes time differences, which can make it difficult to delegate the workforces for the newly entered market and also the time to react on sudden chances, e.g. traveling times etc. (Grant, 1987); as well as higher transportation costs, which decrease the competition potential with domestic actors (Clark, Dollar & Micco, 2004; Combes & Lafourcade, 2005; Hummels, 2001; Leamer, 1974). It also gives first insights about the overall differences a market has, because markets that are
geographically closer, usually trade with each other on a higher amount and have therefore become closer related to each other (Johanson & Vahlne, 1977). Therefore, the general rule is that the further away the new market is, the greater the psychic distance in general (Johanson & Vahlne, 1977). Of course this has several exceptions and is only useful as an first impression of the market.

3.2.3 The administrative dimension
Administrative psychic distances are legal and political issues, that makes it harder for an organisation to operate on those markets by raising the barriers for foreign competitors (e.g. Russia´s trading embargo, tolls, prohibitions) (Meyer et al., 2009). In general it is the extent to which the legal frameworks of governments differ from each other (Meyer et al., 2009). Those administrative psychic distances need to be considered before going international, but are not part of this master thesis and will therefore be neglected.

4.2.4 The economic dimension
The economical dimension contains along with cultural dimension the greatest pool of information when compared to the other dimensions, but is better to investigate, because of its partial measurability by indicators such as GDP per capita (income), inflation, exports of goods and services (Ellis, 2008; Magnani et al., 2018). Economy is defined as a social area about the practices, discourses, and material expressions associated with the production, use, and management of resources (Paul, Liam & Scerri, 2015). Therefore, the economical dimension includes all aspects that are connected to the markets financial strength and trade potential containing information about production, distribution, consumption, infrastructure, average income [per capita income], gross domestic product [GDP], which gives insights about the markets consumer wealth and income, customer preferences and purchasing power (Hutzschenreuter, Kleindienst, & Lange, 2016; Magnani et al., 2018; Schu & Morschett, 2017). Combined it provides insights into the country´s market potential for a company in an internationalisation process.

3.3 Psychic distance generalised
The basic factor of psychic distances that makes it problematic for the company is that it, no matter which dimension, the higher its degree, the more it increases uncertainty of the outcome of the internationalisation process (Johanson & Vahlne, 1977). Having a high psychic distance on a foreign market means that the outcome of the internationalisation is highly unpredictable and the company can only try to decrease these psychic distances by understanding the market as good as possible in form of researches on the market, forming alliances and networks to gather information etc. (Magnani et al., 2018; Schu & Morschett, 2017).
Therefore, psychic distance means in general that the higher the level of the market’s differences, the higher the uncertainty of the internationalisation process (Virvilaite & Seinauskiene, 2015). It also means that, the more difficult the information collection and interpretation is, the greater is the level of psychic distance and therefore also the uncertainty (Virvilaite & Seinauskiene, 2015).

As it was stated before, having psychic distances between the domestic and the foreign market impede the internationalisation process (Magnani et al. (2018). Therefore, the second part of the theory will be about the Uppsala Theory, which according to Gervasoni, Kubo & Farina (2014) so far is the only theory that truly expresses the correlation between internationalisation and psychic distances.

3.4 Psychic distance paradox in relation to managers experience

As shown before the different definitions of psychic distance apply in different contexts (Håkanson & Ambos, 2010; Virvilaite & Seinauskiene, 2015). Therefore, beneath the previously explained definition of the 4 dimensions from Magnani et al. (2018) and Schu & Morschett (2017), psychic distance is the perception of the differences between the domestic and the foreign country and market through the international decision makers (Evans & Mavondo, 2002; Sousa & Bradley, 2006). This second definition being used in this master thesis connects psychic distance directly to the perception of the managers, leading to the outcome that the perception of psychic distance gets smaller the more experience the decision maker has (O'Grady & Lane, 1996). Therefore, it implies a positive connection between psychic distance and the organisational performance, based on high experienced decision makers (Virvilaite & Seinauskiene, 2015). Virvilaite & Seinauskiene (2015) call this phenomenon the psychic distance paradox. It is stated that high experienced managers tend to underestimate the importance of psychic distances and partially neglect the differences, because of their already great knowledge of the foreign country. Therefore, it is possible that the real psychic distance is greater than the managers perceive through overseeing significant factors (O'Grady & Lane, 1996). The paradox hereby is that especially the experienced managers have a high chance of not being aware of those differences simply, because they feel more secure and optimistic to understand the market already (Virvilaite & Seinauskiene, 2015).

This paradox is an important factor that leads to fallacies in managerial decision - making and preparation and therefore can cause an insufficient or unsuccessful internationalisation (O'Grady & Lane, 1996; Virvilaite & Seinauskiene, 2015). To prevent such a risk it is necessary to previously initiate extensive explorations of the intended market and not to get miss-leded by the feeling of being already aware of the right perception of psychic distance. The better
the market is explored previously the lower the degree of uncertainty will be (O'Grady & Lane, 1996; Virvilaite & Seinauskiene, 2015).

3.5 Uppsala Model (1977) and Born Global Theory (1993)
It is discussed how significant the psychic distances still are nowadays. Companies perceive psychic distances as either being highly affecting their business or barely. In many cases the characteristics of the market, where the particular company is operating on, is causing this phenomenon. Therefore, the general opinion about psychic distances is divided in two controversial opinions. One of the main reasons is that the one side usually exports manufactured goods (being out of matter) and therefore is influenced by psychic distances and the other side rather contains firms which export a services or not-physical goods such as software that can be distributed through the internet, which facilitates and cheapens the export process by far (Gabrielsson, Kirpalani, Dimitratos, Solberg & Zucchella, 2008; Eurofound, 2012; Okoroafo, Gammoh, Koh & Williams, 2015).

3.6 Born Global Theory
The born global theory firstly was mentioned in 1993 in a study by McKinsey & Company about firms, which have already internationalised into different markets, but used 2 different main approaches in order to successfully export. The first group, which was the majority share of the study (about 75%) was rather domestic based and took a long time of consideration and planning before entering new markets, while the other group started their internationalisation processes within 2 years after their foundation. This “born global” group’s strength was the firm’s flexibility and dynamism to market chances and therefore the ability to adapt to the markets easier and faster (McKinsey & Company, 1993). Ever since it was mentioned the first time from McKinsey & Company (1993) the term “born global” was used in several popular articles of similar topics such as from McDougall et al. (1994) or Knight and Cavusgil (1996), who both refer to a number of empirical studies, which appear to contradict the stages theory of internationalisation that the Uppsala model offered so far. In general, the born global concept of doing international business has spread. Within the EU it is estimated that 20% of all ventures of the last 2 decades can be classified as a born global company (Lehmann & Schlange, 2004; Eurofound, 2012; Cavusgil & Knight, 2015). However, even though its increasing popularity and the scientific focus upon this topic, there still has no common definition or a basic model been created yet, which is a great research gap in the literature, making the explanation of this model difficult (Gabrielsson et al. 2008; Rialp A., Rialp J. & Knight, 2015). Therefore, the born global model is explained rather fast. Once the company develops a product they try to expand their business to as many markets as possible at the same time. They differ in their approach from each other unlike in the Uppsala model where a
4 step method has to be followed. For the born global theory it is rather interesting what has caused this new way of entering markets and what has changed in the modern world to make this way of business not only possible, but also highly effective for many firms (Madsen and Servais, 1997).

Companies using the born global method are mostly high tech companies such as medicine or software producers, but can also be found in the rather traditional business areas, e.g. the service sector, furniture or fashion industry (Aspelund, Madsen & Moen, 2007; Eurofound 2012; Gabrielsson et al. 2008; Okoroafo et al. 2015; Rennie, 1993).

In 2003, Knight and Cavusgil referred to the term “born global” and defined it as an organisation that seeks superior international business performance based on knowledge advantages making it able to sell their product in multiple countries. This indicates that this system only works as long as the knowledge advantage exists and is therefore for rather short product life cycles selling their product only as long as the competition lags behind (rather for software products that can be distributed faster through the internet).

According to Welch and Wiedersheim-Paul (1980) it is still necessary for a company to prepare for the internationalisation process similarly to the Uppsala model since also the born global concept requires the manager’s time on foreign markets for, e.g. sales promotions. They further state that this investment of managerial time will also help to allocate the resources to reduce uncertainty and risks on the targeted market and will therefore improve the internationalisation process by reducing costs and efforts.

According to Madsen and Servais (1997) the increasing rise of born global firms can be led back to 3 reasons:

1. new market conditions,
2. technological developments in the areas of production, transportation and communication
3. increased capabilities of human resources concerning international experience (including the founder)

Another reason is the increasing specialization of both, firms and markets and therefore also the increasing number of niche markets, which leads to firms producing more specified parts which then are shipped to all markets demanding it, because the own domestic market is too small (Madsen and Servais, 1997). In general, niche production, or rather specialization and customization have become more attractive mainly because of reduced cost barriers for an international approach (e.g. Transportation of people and goods has become more frequent, reliable and cheaper) making entrepreneurs able to sell high tech products worldwide in order to sustain their business (Madsen and Servais, 1997). Therefore and to conclude, born global companies mostly operate in rather high tech markets and generally in niches, but also in not-
physical productions, which profit from reduced export costs (no distribution costs). Besides, those companies usually are run by well experienced entrepreneurs who manage a company that is dynamic towards market changes and adaptive to the customer needs.

### 3.7 Uppsala Model (1977)

Johanson and Vahlne (1977) explain an internationalisation process as a four steps model, that develops along with the market penetration and usually takes several years to accomplish. The important part hereby is that this process proceeds slowly so the participants of the internationalisation can make use of their growing market knowledge and are able to consider all their market decisions carefully. By doing so, Johanson and Vahlne (1977) were able to provide a model that minimises the lack of knowledge that is important to develop international operations.

According to the Uppsala model the internationalisation proceeds from culturally closer related markets to the ones being further apart in order to keep the psychic distances on a level being as low as possible. Following the procedure will lead to less prework (market research) to operate on these markets and reduces the efforts being taken for an internationalisation process (Johanson & Vahlne, 1977).

The concept of psychic distance combined with the internationalisation was developed in 1977 by Johanson and Vahlne (1977) as a part of the Uppsala internationalisation process model (Magnani et al., 2018; Schu & Morschett, 2017). Johanson and Vahlne (1977) developed an internationalisation model, which focuses on the development of individual firms concerning their growing commitment to foreign countries.

Forsgren and Johanson (2009) have realized that their previous model from 1977 was not sufficient, because it neglected the importance of the business network. Therefore it was modified in 2009 also to cope the significant changes in the competitive and business environment describing an organisation including the business network. In order to do so, two different versions of the model, one from 1977 and the other one from 2009 will be shown to clarify where business network aspects were added.

The part of the Uppsala model, that has not changed yet, are the 4 internationalisation steps a company has to do in order to successfully internationalise.
According to Johanson and Vahlne the more progressed the company is in its market commitment and its market knowledge the more it can be optimistic about doing the next step of the internationalisation process. This means, the better the company's position is in the market concerning their own popularity (e.g. indicated by a high market share) and their knowledge about the market’s characteristics, the lower the risk of doing the next step.

They further state that companies usually start with their internationalisation process, sometimes even before they are aware of it by having small or no export to that market. In the first step of figure 1 it is only relevant to realize that there is another potential market to expand to, to begin with the first step of the Uppsala model.

With the 2nd step the company already has considered regular exports and seeks support through sales agents, which are located on that market already and get a share of the turnover the company does on this market due to their services.

The third step is to take over the agent's responsibility in order to increase the profits and save costs by sharing the turnover with the agents. This step cannot be taken before the particular company has gained an own market share and popularity to do on their own.

In the final, 4th step the company establishes own manufactures on that foreign market in order to produce their own product, to save costs such as for transportation, time and to cope wage differences. Johanson and Vahlne state that with this last step the internationalisation
process is fulfilled, but should be well considered, because it means high investments and risks and should not be considered before actually be secure that this market is worth it. A company should only consider the last step if it is secure that it already has a very high grade of both market knowledge and commitment.

Both models have 2 sets of variables, the state and change aspects, which influence each other showing how commitment, trust and dynamism is built by the network activity. In the following it will be shown how.

![Figure 2: Uppsala Model - State and Change Aspects (Johanson and Vahlne, 1977)](image)

This outdated Figure 2 starts with the market commitment, which necessarily needs to be changed and improved and therefore commitment decisions need to be made. Those current activities and the efforts being made from the company finally lead to an increased market knowledge. However, this is not necessarily about the network and possibly includes it, but it is rather about market explorations and researched in general and not precise enough.

### 3.8 Revised Uppsala model (2009)

![Figure 3: Modified Uppsala Model (Johanson and Vahlne, 2009)](image)

Figure 3 starts with the Knowledge Opportunities, which states that the knowledge a company has about the market and its actors influences the Relationship commitment Decisions. The
right relationship commitment, which is not necessarily the greatest investment (concerning time, money and effort), but the one at the right time and constantly caring for existing contacts, which leads to higher popularity among the network participants and therefore improves the company's own Network Position. It influences the Learning, Creating and Trust Building from and towards other participants of their network and improves the creative process dependent to the level of trust to each other making it possible to grow and achieve a higher market share.

Those 2 change aspects then are the factors that will influence the Network Position the company has, which then again increases the potential of the Knowledge opportunity. It is the product of a successful or unsuccessful commitment towards the concerned parties and whether these efforts have increased or decreased the amount of trust the company's partner have. Therefore, the whole concept can either be positively or negatively and depends on the behaviour of the company and their knowledge. If the outcome is successful it will lead to a better network position and learning, therefore to a progressing internationalisation, or rather an ongoing market penetration process. It however, depends on the business network that was established.

In Johanson and Vahlne’s (2009) revised Uppsala model it is advised that internationalisation processes start at first in close related markets having a short psychic distance, because the responsible managers will be aware of the minimised risk and therefore allow a lack of knowledge, which can accelerate the internationalisation process by far. On the contrary, Virvilaite & Seinauskiene (2015) warn that managers are trusting on their knowledge of having a close related market, have a high chance of neglecting risks, that should have been considered before as it will be explained in the next paragraph.

3.9 Born Global compared to Uppsala Model

As stated before Johanson and Vahlne (1977) explained the slow character of internationalization processes with the four steps programme. In this model the firm goals are growth and long term profit, but attempts to keep the risk taking on a level as low as possible. Even though the Uppsala, compared to the born global model is considered rather contradictory, these basic assumptions overlap. Also the born global contains cautious pre considerations before expanding the business and aims to reduce risks (Madsen and Servais, 1997).

The main differences between these two concepts are in the characteristics of the entrepreneur and the company. The founder of a born global company is supposed to have previous experience in this field and therefore knows already about the international marketplace in his particular industry. He already wanted to internationalise from the
foundations of the company and has previously prepared for such a step. On the contrary, the company, which seeks to internationalise with the help of the Uppsala model had no intention before to go international as soon as possible and is less prepared for it. The stepwise model of Uppsala is rather useful for less experienced entrepreneurs, because they can consider every step carefully and learn while processing the internationalisation (Madsen and Servais, 1997). Therefore, because the entrepreneur of the born global company is prepared better than the average Uppsala model user is the reason why the born global strategy is said to be faster processing than the Uppsala model, but is actually a factor related to the person in charge of the company and the skills he possesses. It implies that internationalisation of both models either can proceed rather slow or fast and is not bound to the method being used (Madsen and Servais, 1997).

3.10 Network Theory - The influence of business networks on psychic distances
Every trade a company does is part of their own, specified network incorporating third-party developers, distributors, suppliers, customers etc. (Word, 2009). These Networks have become crucial parts of any action taken in a marketplace and influence the outcome of the deal significantly (Wilkinson, 2001).

Especially important for companies from the service sector is to have various different partners participating in the business. They do not only provide additional information and experiences by having different perceptions, but also contacts to other potential partners making the company well known and trustworthy (Forsgren and Johanson, 1992). Without a network containing a great share of both, retailers and customers, a price comparing platform, which the case study of this thesis is about, would be incomplete and barely useful simply because there is nothing to compare. Additionally, having a great network also may help to determine the value of targeted markets and support to finally expand the business into markets that are not yet explored well (Wilkinson, 2001).

Therefore, the following part will be about the importance of having a network, namely the Network Theory, only focussing on the business network. The social or personal network will be left out, because the business network is more important for established (middle and big sized) companies, while the social network (involving family and friends) is rather useful for start-ups and entrepreneurial companies to emerge the venture and face the economic growth (Sexton and Landström, 2000).

3.11 Business Network
Forsgren and Johanson (1992) state that Business networks have a non-task character, but they influence the business framework, where the company operates in through additional information and communication channels. Business relationships improve the possibilities a
company has to identify potential markets and simplify the internationalisation process to external markets (Wilkinson, 2001). Furthermore they can be defined as a dynamic system of an organisation's long-term business relationships and their business activities (Ricciardi, 2014). Networks can also work as indicators. Having network contacts to a country that is not penetrated by the company yet, can give insights about the possibilities and risks within that market and reveals opportunities for strategic cooperation (Wilkinson, 2001).

Without the business network, which refers to the Uppsala model, an internationalisation process is almost impossible. Therefore, the network must be already established before the actual internationalisation begins and will then be developed, when the first step of the Uppsala models process is initiated, leading to a full understanding of the newly entered market (Forsgren and Johanson, 1992).
4. EMPIRICAL DATA

In this chapter the empirical data from the two conducted interviews as well as from the survey will be presented in form of a single case-study.

The examined company, we changed its name to “Compare AG” for privacy reasons, is located in Berlin, Germany, with around 700 employees. The offered service is a website which gives its customers the opportunity to compare the price of their desired product on different online shops and find the best offer.

The company was founded in 2000 in Berlin and went online in Germany in 2001. Since then it developed and grew continuously and conducted internationalisations in many European countries and also in India. Today the website is online and successful in Germany, Austria, Spain, Italy, France and the UK. The internationalisations towards Poland and India failed and the websites were shut down after three years. To answer our research questions and get a detailed understanding of what happened and why, we decided to examine the processes of Italy and France as very successful internationalisations as well as the processes of India and Poland.

All information gathered in the empirical part of this master thesis are from two personal interviews with the former and the current head of international of the examined company as well as a survey, which was conducted with all employees which are only working in the international department.

Figure 4: Timeline of the Compare AG
4.1 The leadership of Peter

The former head of international, we call him Peter to protect his privacy, was hired in 2004, the same year the company reached its break-even point in the German market. He came to initiate and lead the first internationalisation towards Austria in the same year. After that he managed the internationalisation processes towards the United Kingdom in 2006, France in 2007, Italy in 2011 and Spain and Poland in 2013. Peter started to set up the business development department with the purpose to find ways to develop the business with two main focuses – national and international. The national team was responsible for the German market, which is still the biggest of the company. The international team was responsible for the evaluation of new markets and their potential as well as the general maintenance of the foreign markets after the internationalisation.

According to Peter the first internationalisation towards Austria was a logical decision, because it is the nearest market compared to Germany concerning similarities like, for example, the same language and cultural background. After the successful internationalisation towards Austria, the international department decided to continue growing in Europe. Within the next years they launched the website in the United Kingdom, France, Italy, Spain and Poland. These internationalisations always went under the same pattern. According to Alex, who is the current head of international at Compare AG, past internationalisations under the leadership of Peter were very unstructured. It was concluded that since they had a successful business model in Germany, it must be successful in other European markets as well. Hence, they had a very small evaluation team, which assessed the basic factors of the market, like national output, internet penetration, presumable potential, competitors and legal requirements. If the evaluation of the factors was positive and reasonable, the company internationalised. They saved the domain, hired new employees, some of them with the language of the new market as native language for sales and content, built the website and launched it online.

The decision for France and Italy was based on a fact, which came up through the evaluation. During the examination of the market, Compare AG came to the conclusion that the French market is about two years behind Germany regarding the local E-Commerce market. The same outcome resulted during the evaluation of Italy. It was obvious that their product had a high potential in this countries and a great growth was forecasted for both, because there was no online price comparison at all. They thought if they enter the market with the same strategy they used in Germany and the very close Austrian market, they have to be successful. They knew that it means a lot of work to introduce a completely new service to the customers, but they saw the potential and decided to internationalise. Therefore, also to save time and money, the strategy was to copy the German business model and the complete layout of the website.
and the product catalogue to open a new website in France and Italy with no significant changes except the language.

In the beginning Peter was right. Every internationalisation went without bigger complications and struggles, the UK, Italy and France turned out to be very successful and were growing very fast, because Compare AG entered the market very early and had the indisputable best product. Nevertheless, after a good start, the sales of the Compare AG started to decrease.

4.2 The takeover of Alex – The current head of international

A few month after the launch of the Spanish and Polish website in 2013 the situation tilted. Compare AG stopped being successful in all international markets, because they lost a significant amount of traffic on their websites. Less traffic means less income, because the profit model is a system called cost-per-click or short CPC. CPC means that the company gets money for their service every time a customer clicks on a link on the website and gets forwarded to the online shop providing the product for the desired price. With this system they get paid a pre-negotiated price for their service, independently whether the customer is buying the product or not. But that means by implication Compare AG gets less money the less traffic they have. That led to financial savings and to the necessity of change. The first step of the change process was that Peter left the company. His replacement was Alex, the new head of international at Compare AG. He was at the company since 2012 as the head of the business development department. His task was to lead the change process to make Compare AG international successful again.

He analysed the international structure of the company and came to the conclusion that Compare AG only had functional areas. For example, there was a team for the online content for country “X”, which worked in its functions. But there was no common roadmap they worked on, no mutual strategy or goals for the country they were working in. His solution was to get away from big teams which are only working in their specific area. Instead he formed country teams with the own responsibility for their country with a specific marketing, content and sales department within the team. Additionally, each team got a country manager, who was responsible for the success of the international market. He brought the workforce of every country close together and created a feeling of solidarity.

Concerning Alex the most important recognition was that the company had grown so fast in the last years that the communication between the department of one country became slow and inefficient. Therefore it was necessary to get back to smaller teams. In addition, he realised that it is more efficient if you have more native speakers in the specific teams to penetrate the market. He said: “A nice aspect of being located in Berlin is that you always find people from other countries, but who have lived in both their native country and Germany, making them
perfect to work in our team. We need native speakers in the Sales Team, because they necessarily have contacts to the local shops of this particular market. We have native speakers in the Content Team, because we need the product descriptions translated perfectly into other languages and we also need native speakers in the Marketing Team, because advertisement needs to be made in this language as well. Besides, native managers also know what kind of advertisement and descriptions reach the targeted customer the best.”

With this new strategy and changes Compare AG was able to get successful again in France, Italy, Spain and the United Kingdom. They are growing in each of these markets again, thanks to their early market entry, their very good product and in the end the new strategy of Alex as the company's current head of international.

4.3 Launch of the Indian website

After Compare AG was successful again and continued the growth, the head of international got the task for a new internationalisation in 2014, although they just launched the website in Spain and Poland. After the struggles with all international markets, Alex insisted on a more detailed country evaluation, to avoid new struggles in the future. In the evaluation of India, Compare AG used a new tool for the first time called balanced scorecard, which will be explained in the excursus.

Excursus BSC Model:

The BSC is a popular model which is used by companies all over the world as an orientation and to set up their strategic management. It originally was created by Kaplan and Norton (1993), but was improved over the years. It contains various different numbers indicating a company’s strengths and weaknesses. Compared to the SWOT - analysis (strengths, weaknesses, opportunities, threats) it contains more information and therefore is more precise, giving the company first impressions of what it can expect from the market. Basically, it evaluates the firms inner system concerning financial, process and innovation factors, but also external factors like customer relationships, national income, current market penetration and growth potential.

Kaplan and Norton (1996) further argue that a Balanced Scorecard is primarily a tool for strategy implementation including both, short and long time (and also financial and non-financial) perspectives and aims. Those numbers that need to be raised for using the BSC consist of both driving and leading indicators, as well as delayed and follower indicators. It means that the BSC takes numbers into account that give information about the future, past and present (e.g. past indicator: customer satisfaction, present: customer attracting programmes / market exploration, future: customer demand prognoses / surveys). In this
way, BSC illustrates future, past and present, but also further investigates the firm's internal and external conditions. Through investigating the cause and effect chain it is possible to show the mistakes precise location in the development process and not only that the results were achieved, but also how they were achieved (Kaplan and Norton 1996). The BSC is build on four different dimensions: the financial perspective, the internal business perspective, the customer perspective and the innovation and learning perspective. Those 4 dimensions lead to the basic 4 questions:

Customer perspective: How does the customer see us?
Innovation perspective: What do we need to excel in?
Financial perspective: Can we continuously improve our ability to create value?
Internal business perspective: How does the owner see us?


BSC focuses on the two most important factors for an organization by providing explicit information about the customer and the stakeholders. All other actors such as employees, vendors etc. are included in other areas of the BSC, but are not considered as an own category (Kaplan and Norton, 1993). By doing so, every factor influencing the company becomes a part of the cause and effect chain that is needed to understand and learn more about the organization's success factors. However, if any of these factors are more important for the company than others, they normally become categorized differently in the BSC (Kaplan and Norton (1993).

They came to the conclusion that on the one hand only about 10 to 15% of the population in India have regular access to the internet, which is still around 100 to 150 million people. On the other hand, India has a great growth potential, especially within the internet and technology market. They recognised that the Indian market has, if it is continuing its growth with the given pace and penetration, a great potential and that with an early market entry Compare AG could grow with the market.

In another part of the evaluation called “e-Commerce”, Compare AG took a detailed look at competitors within the market. The Criteria were already existing competitors and marketplaces, online shops and which price models are possible. That means, they evaluated what they can probably earn in this market with their strategy and product. They took into consideration that the general income of India is much lower than in Europe or the USA. That was a problem, because the higher the income the higher are the potential marketing revenues
for a company. This was, regarding to the cost-per-click price model one of the most important factors.

Another indicator was important as well – the existing market places and big players within the country, like Amazon or eBay, which is important in two ways. Firstly, Compare AG already worked very successful with those companies in Germany and the other international markets. Secondly, if these big players are already in the market, it is easier to build an inventory on the website. Additionally, another factor they took into consideration were different studies about the possibility of starting a business in different countries. It turned out that it is generally easier to establish a business in Europe for a European company, but harder if you are seeking for a market behind the borders. “If you want to internationalise into markets behind the borders of the European Union, you have to take much more political, cultural and economic factors into consideration. For example, if you want to go to China as a foreign company, you need a joint venture. These are very different contractual constructs.”, said Alex.

The last factor was the layout of the website and the language. “We already had the language from the UK market. If it were Russia, this would have been a much bigger challenge. In other words we were able to use the language and our layout and a lot of content from the other websites like backend keys for products.”

After the evaluation Compare AG had detailed and assessed criteria for the Indian market. They saw that there was a big difference in culture and the economy, mostly the income. Also the big distance between these two countries. But they also saw a very big growth potential in the market. Therefore Alex presented the outcome to the board of directors. With his argumentation on the potential, they decided to internationalise towards India.

Once Alex talked about the evaluation of India he said: “After that I would always use a matrix like the balanced scorecard for our evaluation. It is a great model to structure the internationalisation and also really important for the post processing. It enables the company to look back at all those factors after some time and re-evaluate the occurrence.” During the interview Alex mentioned that they eventually assessed a wrong, to high potential and that it would have been better to take a greater look at the cultural and market distance.

By the time the decision was made the second phase started. The first part of this phase was to set up a team for the process which was responsible for the operative management of the country. It starts with the protection of the domain, clarifying legal aspects and deeper analyses. Furthermore, to build up teams with native speakers for the different departments of the Indian country team to start penetrating the market with the sales department and to build the website with the content workforce and additionally to start the first contacts with potential
partners and online shops as well as marketplaces like Amazon. The second part was the product development management, which means the technical requirements for the website to go online. They were responsible for all technical areas of the internationalisation, like for example, server hosting, inclusion of propositions, construction and processing of a product database and of course the frontend.

The big advantage that Compare AG wanted to use were synergies. Through the time they recognised that it is easier to have a regular basis for all international websites. For example, if the company develops a tool for one specific country, they are able to use it for the other websites as well, instead of creating a similar tool for all other countries. That means, India has the same website like all the other markets, except the language. Even after the internal changes, Compare AG was loyal to its international business model.

4.4 The failure of India and Poland

4.4.1 India
After the completed internationalisation and the successful launch of the website in India, Compare AG started to recognise some problems. Concerning Alex one of the biggest issues was the distance to the market, the cultural as well as the geographic distance. The business model of Compare AG was designed to manage and operate the whole business from the headquarter in Berlin. As mentioned before one of the greatest strength is the use of synergies within the markets of the European Union. The use of synergies is important for a digital product, because it saves money and time.

Through the geographic distance the website had problems with the loading time of the pages and elements, because the operating servers are located in Germany. Therefore, the website in India sometime had a lag of up to one second. This sounds not much, but similar like in car racing, seconds could decide between win or lose. But the business model of Compare AG provides that everything is directed from Berlin.

The economic distance was a much bigger issue, because of the completely different working practices in India. Concerning Alex it was really hard to get a commitment of Indian shops and potential partners. One reason was the great difference regarding the income between Germany and India. But another reason was the consumer buying behaviour in India. If you compare India and Germany and what customers look for on price comparison websites or during their general shopping, you recognise very fast that they are looking for completely different things, because they cannot afford the same products. In Germany the most searched product on Compare AGs website was the Samsung Galaxy S8, as well as in other European markets. A smartphone which costs a few hundred euros. In India only a small share of the
population can even afford it. They are looking for much cheaper opportunities from, for example Chinese producers. That extinguished a big advantage of the company, the synergies. Because they were not able to copy the product catalogue anymore and had to develop an almost completely new one, next to the endeavour to extend the website with new shops. But, this was tainted with problems as well, since India and Germany have a great difference in the local time. So, the sales team only had a smaller daily time frame to get personal contact with local shops.

Concerning the lesser income Compare AG faced the problem of much smaller profits through the CPC model. The earnings per click were much smaller than in Germany or the other markets, because of the paying structure in India. But Compare AG had to pay German salaries to their employees, because the headquarter is in Berlin. This was a very big disadvantage opposite to the growing competitors in India. Alex said: “You have to say that the rivalry was very strong in India. You have to know that Indian customers want more “bling bling” on websites what attracts them, elements which make the website attractive. We have clear and easy designs, but that was not what the Indian customers wanted.”

The Indian website never was that successful as Compare AG evaluated and expected it. They could not get enough shops, the earnings were to small compared to the salaries and the costs to maintain the website were too big. After they did not achieve the set goals in multiple terms, the website was closed in 2017 after three years and most of the employees of the Indian international team were dismissed. Alex said: “We knew about the salary issues and the smaller CPC, but we saw the potential and thought we will grow with the market, but for that you need a very long breath.”

4.4.2 Poland

Poland and Germany have a very short geographical distance, since they share a common border. Besides, Compare AG was successful in other countries, which are more further away.

However, the biggest problem in Poland was the rivalry. Due to the small and unstructured evaluation under the leadership of the former head of international, it was not clear that it would be that hard to establish a price comparison website in Poland. The issue was that Amazon did not launch its website in Poland until today, which lacked Compare AG a big player and an important partner for their business. The reason for doing so is that the polish market has its own substitute of Amazon, which is a similar website with the same offers and a big market share. Besides, this big polish marketplace has an affiliated company with the same business model as Compare AG. A website for customers to compare prices and find the best offer on the internet. According to Alex “the Polish provider had a very good product, in some features and in terms of usability even better than ours.”
Therefore, because these two companies were so closely related to each other, Compare AG could not get in contract with the marketplace similar to Amazon, because they already had the same product in their portfolio. This fact made it extremely hard for Compare AG to establish its product in the Polish market, because of the strong competitors and the lack of a big player and long-term business partner.

Another problem was similar to the Indian market, the low paying structure. Since the Polish economy is weaker than Germany’s, the Polish salaries are smaller. Therefore the CPC earnings are smaller, too. But, like in India, Compare AG had to pay their salary in Germany. To get the same earnings with the Polish website and the specific CPC contracts, they needed five times more traffic than the German website. But, this was, especially in the beginning of the process impossible, since they were missing one of the biggest marketplaces and had a strong rivalry. Therefore, after a lot of financial input in the process to cope with the described issues, Compare AG took the decision to leave the Polish market after three unsuccessful years in 2016. Besides Spain, the last two internationalisations of Compare AG were unsuccessful for various reasons. The company is still successful and growing in the other international countries and learned from their mistakes, but a new internationalisation is not yet in sight, according to Alex.

4.5 Perception of the employees
To gain detailed knowledge about our topic, internationalisation and the perception of risks and psychic distance, it was important for our study to get information about the perception of the employees of Compare AG. Therefore we conducted a survey within the international department with 90 people working in it. Of these 90 people 58 answered our questions, which implies a participation rate of almost two-thirds. The questions answered in the survey can be found in the appendix. The participation in terms of gender was nearly equal in the survey, 48% of the participants were male and 52% female. The majority of answers came from three different departments within the overall international department. 27.5% are working in the content team. The content team is furthermore the biggest team within the department, since it is responsible for all product related information on the website. 34.4% of the answers came from the marketing department, which has the greatest connection to the international markets apart from the sales team. The third biggest participation with 10.4% came from the international management department, which includes the country manager, which represent the stage between the head of international and the country teams and the head of international, who is part of the management team in the survey as well.

The biggest part of the participants is working between one to three years at Compare AG, namely 58.6%. The second biggest fraction are the employees who are working in the
company for three to six years with 27,6% and 13,8% of the participants are working for more than six years at Compare AG. Almost 80% of all participants of the study had working experience in other international companies before they joined Compare AG. Only 20,7% of them gained their first international experience there.

During the evaluation of the survey we focused on two different outcomes. Firstly, the perception of the internationalisation risk of the employees towards Italy, France, India and Poland regarding their department affiliation. Therefore we compared the average of the answers from part 2 of the survey with the focus on the marketing, content and international management team. Part 2 of the study contains four questions regarding the perception of Compare AG’s internationalisation towards Italy, France, India and Poland with a scale from 1, very low risk, to 5, very high risk. The outcome of the evaluation and comparison is shown in figure 5.

![Figure 5: Average perception of internationalisation risk concerning the department](image)

The chart illustrates the average of the assessment of the employees from the marketing, content and international management department concerning the risk towards the different countries. It shows that the employees of the marketing department assessed the risk of all
countries invariably the highest. Behind that is the content team with a difference of minus 0,3 in the assessment of Italy and the greatest difference of minus 1,2 in France. The overall highest rate can be found in India with an average of 4,6 in marketing, 4,2 in content and a 3,6 in international management. Moreover, the international management department has throughout the chart the smallest assessment of the risk with 1,6 in Italy, 1,6 in France, 3,6 in India and 2 in Poland.

The second focus during the evaluation of part 2 of the survey was the perception of the risk of Compare AG’s internationalisation processes concerning the length of service of the international employees with the company. The outcome is segmented in three different periods, namely 1 - 3 years, 3 - 6 years and more than 6 years, as shown in figure 6.

![Average perception of internationalisation risk concerning length of service with the company](image)

**Figure 6: Average perception of internationalisation risk concerning the length of service with the company.**

The chart illustrates that the assessment of the risk increased with the length of service in three of four evaluated countries, namely in Italy, India and Poland. The assessment of Italy recorded a continuous increase from 2,36 from over 2,5 to 3 from the employees with the longest length of service. The same outcome can be seen in Poland, where it starts with 2,81 over 3,33 to 4,33.
The risk of the internationalisation towards India is overall seen as the most risky, regardless the length of service. It is assessed with a 3,90 from employees of the first sector and with a 4,66 of the second and third with the longest period of working at Compare AG.

The solitary exception was evaluated in the assessment of France. There the risk was assessed by an average of 2,27 of the 1 to 3 years employees. The second group showed a decrease in the assessment with an average of only 1,83, which is the lowest rate of the whole chart. The employees with the longest length of service assessed the risk of France with a overall 2,66, which is the lowest rate as well, compared to the other countries, but still an increase in relation to the first and second sector with less experience within the company.

From the total of 58 participants in the survey, only 34,5% think that Compare AG used the right strategy for its internationalisation processes. The rest, namely 65,5% think that the chosen strategy was wrong.
5. ANALYSIS

In this chapter the empirical data will be analysed in relation to the stated theory.

In the following the main findings of the empirical part will be analysed in relation to the theories stated in this master thesis. The focus of the analysis is to find insights about how the manager's perception of psychic distance affect their decision making concerning internationalisation processes.

Evans & Mavondo (2002) state that the influence of psychic distance is caused by the perceptions of mostly cultural and economic differences between the domestic and foreign market. It is the company's origin or home country, business strategies and decision-making structure, size etc., which affects the individual's perception of psychic distance on a foreign market. Furthermore, also the individual's own culture (language, education, norms and values etc.), experience and economical understanding are great factors for the different perceptions of psychic distances as it was stated before in the theory part (Evans & Mavondo, 2002; Johanson & Vahlne, 1977).

The empirical part shows several different examples of how the perception affects the internationalisation process either positively or negatively. The chosen company, which serves us as an example and which is the case study of this thesis about, offers a price comparison website, where a great variety of products and services are offered to the website visitors, who can than choose which retailer they want to get forwarded to. The company is located in Berlin and was found in 2000. Today more than 700 people have found employment there and they successfully expanded their business from Germany to Austria, Spain, Italy, France and the United Kingdom. It was also tried to internationalise into the Polish and Indian market, but the processes failed. Why and how it failed will be part of the analysis, which will orientate on the empirical data and the theory being used before. The analysis will proceed in the same chronological order as it was done in the empirical part to clarify the process and to facilitate it for the reader to follow.

The information in the empirical part are directly from the described company containing two different interviews from the head of international as well as a survey that questions the different international teams of the company mentioned above. Furthermore, all information stated in the theory part of this work are known and accepted data from the current literature. Together they create the construct this analysis is built on.
5.1 Austria 2004

The analysis starts with the first internationalisation process of Compare AG, which was in 2004 by expanding into the Austrian market. According to the interview with the current head of international this was a logical decision, since Austria and Germany are very closely related concerning administrative, economic, cultural and geographical factors and therefore had a high chance of only having a small psychic distance there. This first step is completely fitting the given theory from Johanson and Vahlne (2009), from the revised Uppsala model, in which they state that companies mostly tend to internationalise into closely related countries first, because of the reduced risk concerning psychic distance.

In general, Compare AG tends to aim for markets with high similarities in order to adapt to this market faster and being able to use synergies of the previously conducted internationalisation processes to save time and money. Since this was the first internationalisation they just worked to rule and followed the common pattern of internationalisation. Both Peter and Alex stated, that there is no other market more similar than the Austrian compared to Germany. Even though Magnani et al. (2018) and Schu & Morschett (2017) give warning of the psychic distance paradox and that the markets might differ a lot more than perceived from each other. In other market sections the Austrian situation barely contained any risks for the company and it would have been rather surprising if anything would have went wrong in this matter.

Since its foundation in 2000, Compare AG has improved its systems and adapted it to the German market making it highly popular and profitable. It just made sense for Peter that the first market to expand to would be Austria and he was right, since Austria barely has caused
any problems in the development history of Compare AG and was, along with the German market, the only rather stable one. This supports the theory from Johanson and Vahlne (1977) that the first internationalisation should be in a close country, since it minimises the risk because of the similarities. Therefore, the only thing the rather small evaluation team had to do was to evaluate the basic factors of the market, such as national output, internet penetration, presumable potential, competitors and legal requirements, which was positively comparable to the German market. Afterwards the internationalisation started and was processed rapidly. Compare AG saved the domain, hired new employees, partially Austrian, to cope with the new market and to fill the places in the sales and content teams and finally built the website and launched it online within the next year. Firstly, expand to Austria therefore was the right decision, according to the history and the theory. However, the mistake being made was to be too confident due to the success of both markets, Germany and Austria, which led to the overall misunderstanding that the German concept must work on all other European markets as well, totally neglecting the various differences of the markets even within the EU. This successful experience Peter and Compare AG had, was according to the theory the initiation of a psychic distance paradox (Virvilaite & Seinauskiene, 2015). Concerning O’Grady & Lane (1996) the perception of psychic distance gets smaller the more experience a manager has. The influence on the perception of past successful processes could lead to a negative influence on future decisions, for example could it change the perception of managers, especially in this particular scenario, in the wrong direction, thinking that the business model and product is so good and applicable that it will work in any other European market as well.

5.2 United Kingdom 2006
Motivated by the great success and uncomplicated process of the Austrian internationalisation, Compare AG decided to drive the expansion of their company forward. The goal was to gain significant market shares in all rather important markets in Europe. Therefore, 2 years after they entered Austria, the international department started to extend the business into the British market. They copied the German business model and website, as they have done with Austria before and trusted on the still high similarities those 3 markets have in common. According to Knight and Cavusgil (2003) it had to happen this fast, to keep the advantage of international and market knowledge, compared to competitors. Alex, the actual head of international criticised this rather blind procedure by stating that the previous internationalisation processes were rather unstructured and allowed too many mistakes, which was right. The responsible manager was too optimistic that the similarities on that market overweight the small irregularities and that those can be solved later. According to the previous analysis and the theory, this is a great example for the psychic distance paradox (Evans &
Mavondo, 2002; Sousa & Bradley, 2006). Peter’s perception was that the United Kingdom and Germany are related closely enough that deep evaluations or any further adjustments on the business model are unnecessary. As Virvilaite & Seinauskiene (2015) stated it is typical for experienced decision makers to underestimate the foreign market risks. According to the empirical data it is known that the European markets, including the British, will cause problems in the future after this internationalisation.

The overall idea was to get a market share first, save research costs and cope competition by processing the internationalisation fast and then widen the influence on the market by improving the existing product catalogue. Alex stated, that Compare AG at that time trusted too much on the idea of being a pioneer on these markets, since any competition was just about to evolve, but not yet strong enough to compete with an already established company. This fact and the perceived small psychic distance led to the decision of expanding into the United Kingdom. It was the first step of complicating the business structure which led to a fall of traffic in 2012 and 2013. They internationalised without any changes in the business structure, namely forming teams and patterns to determine the responsibilities. The company was growing and new employees were hired, but no adjustments in the business model were done. This could have been an improvement, according to the dimensions of psychic distance, mainly if you focus on cultural differences (Gervasoni, Kubo & Farina, 2014). In this particular situation it was the first time Compare AG expanded into a foreign market with another language. Therefore, it would have been better to form a “UK Team” to oversee the whole internationalisation and the market to react fast to changes and struggles, like they did later.

5.3 France 2007, Italy 2011 and Spain 2013

The decision to enter the French market was taken, because it was estimated that the development concerning the E-Commerce market in France was lagging behind by two years, which also means that Compare AG would be superior to evolving competition if they would hurry to expand to this market. So far each previously taken internationalisation was rather successful and proceeded as expected. Therefore, “it was possible to consider such a step”, Peter said. He stated, that it was the right time even though Compare AG was rather still busy with their other projects, namely improving the German, Austrian and British market. Nevertheless, they had the resources and the timing to be the pioneer on the French market.

In 2007 they started with the internationalisation to France and copied the website and business model, which has proven its worth on the previous markets. This was right, according to the theory they had to make as much use of successful patterns as they could, to keep the competitive advantage (Knight and Cavusgil, 2003) For Compare AG this seemed to be a genius thing at that time, because it worked and was able to save the company a lot of resources such as times and money. For Peter, it was rather simple, that using as much
synergies as possible would mean that they decrease their costs while their profit increases by far. So far it was not necessarily wrong and the success on the markets proved him right. Compare AG trusted in the quality of their product and had barely any competition on these markets yet. Even though the process on the French market was already not progressing as fast as estimated, compared to the previous taken internationalisations, Peter still ordered to start the internationalisation process towards Italy. On the one hand and according to the theory, Peter was right with his decision to internationalise as fast as they can in as many countries as possible (Knight and Cavusgil, 2003). On the other hand and taking Alex critics into consideration, these projects contained a bad or even no structure and that the mere amount of projects overtaxed the employees who were responsible for the internationalisation processes, this led to chaos in the company. Soon after the same concept was adapted to the Italian market, the websites already recorded a fall in sales and an overall decrease of popularity of their websites on several markets. This could have had many reasons and was not necessarily connected to the way Compare AG was doing business at that time and was therefore not seen as a problem, but rather an incident, which happens on newly entered markets and generally in business. Finally, the internationalisation process of 2013 with Spain and Poland at the same time consumed the rest of the company's resources and led to a situation, where too many different projects did not proceed as planned anymore. "Everybody and nobody seemed to be responsible at the same time", Alex explained.

To conclude, the only thing Compare AG has done for those internationalisation processes was, to change the language of their website and adopt the product catalogue, which was in general right, according to Knight and Cavusgil (2003). They trusted in their product, had barely any competition worth mentioning and they were successful with it. The French and Italian markets are by far less similar to the one they copied their concept from. The managers were very occupied by the idea of doing internationalisations as fast as possible, that they became careless towards the risks and neglected research programmes, which could have detected "hidden" psychic distances (Magnani et al., 2018; Schu & Morschett, 2017). Nevertheless, the economical distance of the markets was rather small to each other and many problems were fixed. Nevertheless, after already having problems with the newly entered markets, they even added more markets to their operations. At that time Compare AG’s employees were already too busy to stay successful on the entered markets and to increase their market share, to cope with another internationalisation. Additionally, all websites, especially online catalogues, always need permanent attention in order to stay up to date with the newest products and be secure towards hackers and other threats. Compare AG’s employees had to handle the websites from Germany, Austria, the United Kingdom, France, Italy and then also Spain and Poland. Not even the half of the internationalisations were as successful as previously
estimated at that time, which was an overwhelming workload that had to be done at the same time, while lacking trained employees. According to Alex Compare AG barely had 350 to 400 employees in 2013. The chaotic system compared with the amount of money started to paralyse the company and made it slow in reaction, too slow towards market changes, because of a lack in dynamism. According to McKinsey & Company (1993) a company needs the flexibility and dynamism if they proceed their international processes as fast as Compare AG did.

5.4 Poland (2013)
During the internationalisation process towards Poland, they began to realize that it would not work this way anymore and that the internationalisation was not as easy as forecasted. The problems, the increasing loss of traffic on all websites from the different markets they have entered before, were not solved and started to become a serious problem for the company. According to the empirical data, the great competition and its superior structure with an already existing and strong online price comparing provider and the lack of cooperation with important retailers, like the polish substitute of Amazon on this particular market made it impossible to gain a significant market share.

Concerning the network theory it is especially important for companies in the service sector to have a network before the actual internationalisation. This provides the company with a lot of useful information and contacts to potential partners in the intended market (Forsgren and Johanson, 1992). Since the evaluation of the market under the leadership of Peter was both, insufficient and only focussing on the potential regarding Compare AG’s growth opportunities, they oversaw the great existing competition on the market. If they had evaluated the whole market first, before actually internationalising, they would have seen that their potential was decreasing by far, regarding the fact that one of the most important partners is not present in the market (Hutzschenreuter, Kleindienst, & Lange, 2016; Magnani et al., 2018; Schu & Morschett, 2017). Concerning Johanson’s and Wiedersheim-Paul’s (1975) definition, the perception is influenced by psychic distance, because it make the flow of information between the domestic and the foreign market difficult or even disrupt it.

The continuation of this strategy is the result of the gained experience with past internationalisation processes, according to the psychic distance paradox theory (O’Grady & Lane, 1996; Virvilaite & Seinauskiene, 2015). Peter did not see the necessity to evaluate and “waste” resources for a complete analysis of the market. He trusted on his experience from the past and decided pro the internationalisation, because he only perceived a small risk and psychic distance. This is a teaching book example for the psychic distance paradox what could have been avoided, if Peter had more relied on the given facts instead of his perception (O’Grady & Lane, 1996; Virvilaite & Seinauskiene, 2015).
In the empirical data two main reasons were stated by Alex why the internationalisation was not successful. As already mentioned there was a superior competitor which has been overseen or perceived wrong due to the psychic distance paradox.

The second one was the greater economical psychic distance of an economical less developed country, compared to the previously entered markets. Compare AG earns its money with a cost per click model that has been explained in the empirical data before. For having an equal turnover that can be compared to the German market, the Polish website would have to provide five times the amount of online traffic as it is produced on the German market, neglecting the different amount of inhabitants living in both countries.

The most influencing dimension of psychic distance in this context is the economical dimension. It gives insights about the financial strength of the market as well as average income and purchasing power (Hutzschenreuter, Kleindienst, & Lange, 2016; Magnani et al., 2018; Schu & Morschett, 2017). Again, if Peter’s decision would have been influenced by facts and not his perception, he might have seen the differences in the Polish market (O’Grady & Lane, 1996; Virvilaite & Seinauskiene, 2015). Besides the big competition Compare AG would have seen the lower purchasing power and would have come to the conclusion that they have to have an incredibly higher amount of traffic to be profitable and able to pay the German salaries to their employees (Hutzschenreuter, Kleindienst, & Lange, 2016; Magnani et al., 2018; Schu & Morschett, 2017). This, in combination with the low Polish buying power, is an important fact and part of psychic distance they definitely should have taken into account.

Taking these two important issues into consideration, which, according to Hutzschenreuter, Kleindienst and Lange (2016), Magnani et al. (2018) as well as Schu & Morschett (2017), would have come up in an adequate evaluation of the market and not only on the own potential. These are two arguments speaking against an internationalisation towards Poland in this particular case. Again the market itself was not the problem. If Peter’s perception of psychic distance towards Poland would have been based on evaluated and assessed facts, he could have come to the conclusion that it is not the right time for an internationalisation towards Poland, according to the psychic distance paradox theory (O’Grady & Lane, 1996; Virvilaite & Seinauskiene, 2015). Or, if they had followed the network theory according to Wilkinson (2001) and built up a network first, they would have had much more useful information and maybe even stronger partners to start the business. But in the end, it was the wrong perception and trust on previous experience, which were not comparable at all, that led to the failure and loss in Poland.
5.5 Alex replaces the previous Head of international in 2013

The Polish market expansion along with its problems and the other internationalisation processes finally ended in a loss of traffic and revenue Compare AG has rushed itself into. Resulting of all issues Peter left Compare AG and Alex became Head of International only four months after the internationalisation into the Polish market started. He realized the problems and was aware that these are not short termed and caused by the economy, but rather a problem in the company itself. The first step was to rearrange the company's inner structure by establishing teams for each market. As it was explained in the empirical data, he assorted the employees into country specialised teams with departments for sales, content, marketing and international management, including the country managers, which are responsible for their market only. Furthermore, Compare AG hired new employees, that were native speakers on the particular market or have at least lived there for a long time. It means that Alex hired people, who have a deeper understanding of the market, the culture and its people and can therefore react to its special circumstances and changes (Gervasoni, Kubo & Farina, 2014). Another important argument for native speakers was, especially in the content as well as marketing and sales department, that they are professional in their language and the behaviour of the targeted country (Macionis & Gerber, 2011). On the one hand, the native speakers were able to write perfect product descriptions and other product related texts on the website. On the other hand, native marketing sales agents know the business practices of their country and have therefore an advantage in selling the product, namely the website, and generate new partners for the company. The advantage for the marketing team is comparable to the sales workforce. They know the best what people from their country need to get convinced of the website Compare AG offers (Gervasoni, Kubo & Farina, 2014). It was important for Compare AG to provide a perfect and clear appearance of the website in the language of the country, in order to satisfy the customers and make it easy to navigate through it, to find the perfect fitting product and price.

So, he realised that the difficulties they had on the international markets came from psychic distances, mostly in the economic and cultural dimension and the lack of a proper network as mentioned before. But he also figured out that he can solve the problems by restructuring the international department with specialised teams with grounded knowledge of their country and market. With the combined knowledge, and not only one single perception, they were able to cope the psychic distance paradox and other difficulties in almost all international markets, except Poland. But Poland had different circumstances, since the main reason was a financial background.

Alex was not only aware of the problems, but organised a significant restructuring that finally made the company recover and the traffic on the different international websites increased stable again. Beforehand the company was driven from one internationalisation to the next.
one, missing a lot of carefulness while doing so and rather went on making more problems than solving them. Therefore, the two main changes Alex has done, to rearrange the company's structure and to hire new people, which have a different perception of the markets, made a difference and helped the company to get back to its former success, which in the end can be referred to the importance of the manager's perception of internationalisation processes.

5.6 India 2013
According to the empirical data the markets recovered except the polish one. The competition was too strong to cope with and they lacked the resources to do so. Therefore, Alex stated, the focus was rather on the other markets such as Italy and France, which had a greater potential than Poland due to less economical psychic distance anyway.

It was then time for another try to internationalise. Alex stated that this time Compare AG had something risky in mind. They became aware of the Indian markets potential and wanted to grow along with its economic progress. Compare AG used the balanced scorecard model with economic criteria to evaluate the market. The criteria they used were demography, national output, culture and economic factors like the internet penetration as well as the growth potential of the market in India.

Afterwards the evaluation team came to the conclusion that India contains a huge potential, since approximately 1.3 billion people live there. Even with just 10% to 15% of the population having regular internet access, “the market already would be larger than the population of Germany”, Alex stated. They still saw the high risk to try such a market while there are other European markets with a smaller psychic distance, but they wanted to try anyway. Alex admitted that their perception was influenced by the huge potential India offers and saw the opportunity to be successful and known beyond the borders of the European Union. According to O’Grady and Lane’s (1996) definition, this perception caused through the psychic distance paradox. Even though Alex did not have the experience Peter had, but since he worked in the business development department before and led the company out of the crises, he was really confident regarding his expertise. In the empirical data is shown that Alex focus during the evaluation of India was on the potential this market has for Compare AG. Nevertheless, they discovered a lot of risks, for example the low paying structure compared to the German salaries, the great geographical distance and the cultural differences. But, according to the theory, this could be again related to the psychic distance paradox (O’Grady & Lane, 1996; Virvilaite & Seinauskiene, 2015).

This time they did a more intense evaluation and discovered a lot of risks, also related to the different dimensions of psychic distance. They also saw the big potential of the Indian market. In the process of this critical decision, Alex decided to internationalise towards India, use the
big potential and grow with the market. The fact that he totally underestimated the risks resulting of psychic distance, proofs that the model of the psychic distance paradox is still valid today, even for internet and IT based companies and can lead to failures due to wrong decisions and wrong perceptions (O'Grady & Lane, 1996; Virvilaite & Seinauskiene, 2015).

In 2014 they started with the internationalisation towards the Indian market. Since they already had the language from the website from the United Kingdom, the internationalisation followed the same pattern as before; copying the layout, product catalogue and language and creation of a new domain. Furthermore, according to the recent changes, an Indian team was built up, partly with native speakers and the first contacts were made.

According to the theory, particular the network theory, it would have been the best to build up a network in the targeted country before the actual entry (Forsgren and Johanson, 1992). If they would have used it, it is likely that they would have discovered even more information about the market and its differences. More precisely they would have discovered the great psychic distance in almost all dimensions.

One of the biggest advantages Compare AG had in its past internationalisation processes, was the use of synergies. They saved a lot of time and money by just copying the website, the catalogue and the layout. This time they faced a cultural psychic distance. According to Alex: “Indian customers want more “bling bling” on websites what attracts them, elements which make the website attractive”. This fact hindered the use of synergies. In the theory the discussion is stated that on the one hand the cultural environment has the least impact on a firm’s decision making (Robertson & Wood, 2001), while on the other hand Edwards & Buckley (1998) conclude that it is the most important one. Regarding the Indian internationalisation it is one of the most important issues, because the appearance of the website as it is, is simply not attractive for Indian customers and therefore not interesting (Macionis & Gerber, 2011). This fact, next to the strong rivalry, which served the wishes of the customers concerning layout and appearance, should have been discovered during the evaluation.

Another important dimension that should have been taken into account is the economic. Due to the low income and salaries in India, the first problem was similar to the Polish market, what should have been discovered through the evaluation (Ellis, 2008; Magnani et al., 2018). The CPC earnings were much smaller than in Germany, but Compare AG had to pay German wages. This put a big financial pressure on the company. Regarding this topic, the Indian customers had much lower buying power and different product interests. Alex gave an interesting example during the interview, stating that in Germany the most searched product to that time was the new smartphone from Samsung. Therefore, this and other comparable products were listed on the website. But, most of the Indian customers cannot afford a phone with a price of a few hundred Euro or Dollar. They are looking for much cheaper products from,
in Europe not so well known, Chinese companies. Since these products are not common on the European markets, they are not in the product catalogue of Compare AG. That resulted in a lack of products the Indian customers searched for and to many products which were not interesting, which made, again, the whole website not interesting for Indian customers and unprofitable for Compare AG. In addition to that, Compare AG would have to invest more money than expected to build a completely new and attractive product catalogue to get profitable. According to the theory, an investigation of the economic dimension of psychic distance, would have discovered these significant differences (Hutzschenreuter, Kleindienst, & Lange, 2016; Magnani et al., 2018; Schu & Morschett, 2017).

The geographical dimension of psychic distance produced a rather small problem, but still it was there. Concerning Johanson and Vahlne (1977) the geographic dimension has a great impact on the overall high or low perception of psychic distance. According to the general known theory about psychic distance, it is stated that the greater the geographic distance the greater is the psychic distance between two countries (Johanson & Vahlne, 1977). In the case of Compare AG and the two previously discussed dimensions, this statement can be completely approved.

Through the geographic distance to India and the operating servers located in Germany, the website had a lag of up to one second. This problem could have been solved with the third step of the Uppsala internationalisation model, namely establishing a subsidiary in India (Johanson & Vahlne, 1977). With a subsidiary located in India and corresponding servers, there would have been no lag in loading times. But, this could have solved more problems than the geographical issue. With this solution they could have solved at least a part of the salary problem, if the sales and marketing department would have operated from there. Even if they would have hired locals, they could have brought another expertise and experiences regarding the consumer buying preferences (Macionis & Gerber, 2011).

In the end Alex said: “We knew about the salary issues and the smaller CPC, but we saw the potential and thought we will grow with the market, but for that you need a very long breath.” This closing words from Alex stand vicarious for the outcome of this part of the analysis and the fact that psychic distance and the paradox are still a major issue in the field of internationalisation. Nevertheless, Alex is grateful that Compare AG did these two internationalisations because the company took a lot of learnings from it. For example, they are now using the balanced scorecard as a market evaluation tool and would not do an internationalisation without it anymore. Furthermore, through all these processes they learned a lot about synergies, how to find and how to use them for the companies advantage and also to appreciate and maintain their networks.
5.7 Perception of the employees
Since the aim of this thesis is to investigate and understand the influence and perception of psychic distance of managers during an internationalisation, it is the main part of the analysis. However, in order to gain in depth knowledge it was also important for the researchers to pay attention to the employees of the examined company. Therefore, we conducted a survey to investigate their perception of psychic distance and its risks, regarding the past internationalisation processes of Compare AG.
Firstly, we focused on the perception of the internationalisation risk of the employees towards Italy, France, India and Poland regarding their department affiliation. It showed that the average of the marketing department always perceived the highest risk towards the different countries. It is possible that they assessed it the highest, because they have the most contacts and experience with the targeted market, since most of them are natives and regarding their working field, namely marketing, they know the differences and the resulting risks (Gervasoni, Kubo & Farina, 2014). Furthermore, the psychic distance paradox is not applicable in this context, since it is an average figure and not the perception of a single person (Evans & Mavondo, 2002; Sousa & Bradley, 2006). This can also be related to the network theory, since the employees of the marketing department have an already existing network in the country they are working in at Compare AG. This network gave them insights and information, which could have influenced them during their assessment (Forsgren and Johanson, 1992).
However, it is interesting but not surprising that the international management always perceived the lowest risk. This supports the overall outcome of the analysis.
Secondly, the employees perceived the highest risk for India and the second highest for Poland, which supports the stated argument concerning psychic distance and its resulting risks as well.

In the second part of the evaluation of the survey, the researchers focused on the perception of the risks of an internationalisation concerning the length of service of the employees within the company. It can be seen that the perception of risks is increasing in almost every country team with the length of their working time. The highest risk was assessed for India, the lowest for France, what again supports the outcome of the analysis above.
However, an interesting outcome that can be seen is that the risk perception is increasing. Concerning the psychic distance paradox it should be decreasing due to more experience (O'Grady & Lane, 1996). The only country where this can be found is France. The employees with one to three years of service assessed the risk with an average figure of 2,27. The employees with a length of service of three to six years with only 1,83. The overall increase of the risk perception could again be answered with the network theory. The longer the employees work in the company, the better is their network and experience.
They have an in depth knowledge of the country and the risks concerning an internationalisation (Forsgren and Johanson, 1992). This outcome shows that the company should make use of the overall perception of their employees, to widen their view and discover risks they would oversee or underestimate, due to the psychic distance paradox.

To speak in favour of the paradox, we can again mention that this are only average figures of in total 58 employees, not the perception of one single person.

5.8 Applicability of “old” internationalisation models

In this section the applicability of the Uppsala and the born global internationalisation model related to Compare AG will be analysed to figure out, whether they are completely, only in parts or not at all applicable for Compare AG and similar companies. Both models provide a certain pattern, how a company should proceed its internationalisation process. Whether it is fast and in diverse countries to the same time like a born global company, or it follows the four steps of the Uppsala model, which are slow and elaborated (Johanson & Vahlne, 1977; Madsen and Servais, 1997).

The born global model contains that the company tries to expand their business into as many countries as possible at the same time when they have developed a product (Madsen and Servais, 1997). This is not the way Compare AG did it. They first developed a product and the business in their domestic market, before they initiated the first internationalisation towards Austria. This step rather follows the definition of the Uppsala model, which states that companies usually start their internationalisation into geographically and culturally close countries, to avoid a high degree of psychic distance and keep the risk as low as possible (Johanson & Vahlne, 1977).

Concerning McKinsey & Company (1993) the advantage and strength of born global companies is their flexibility and dynamism in order to adapt to market changes faster. According to the empirical data, Compare AG shows a high degree of flexibility and dynamism, until a certain point were the amount of work was overwhelming and slowed Compare AG. But, they got back to a high degree of flexibility and dynamism when Alex changed the international structure really fast, in order to cope with the decreasing online traffic and sinking profits. Furthermore, Knight and Cavusgil (2003) defined “born globals” as companies seeking for superior international business performance based on knowledge, making them able to sell their product in multiple countries. Compare AG followed this structure through its internationalisation processes and used their previous gained knowledge for the next international expansions, namely that the business model and product is suitable for other European countries as well. Therefore, they were able to make use of synergies several times. Nevertheless, they failed partly due to psychic distance and its perception by those who were
responsible. In conclusion and following the previous argumentation it is clear that Compare AG is on the one hand per definition no company which followed the born global model.

On the other hand it is neither a company following the Uppsala model and its four steps program. For a web-based company like Compare AG with a not-physical product, the first two steps of the Uppsala model are irrelevant, namely sporadic exports and sales via agents, since they have nothing to sell in this particular scenario (Johanson & Vahlne, 1977). But, the third and the fourth step could find applicability. The third step could be relevant to cope with cultural and geographical psychic distance, like it was analysed before. The fourth step is rather a point of interpretation, since Compare AG has no export goods nor a physical product. An argument for the fourth step could be to relocate the headquarter of the company to a country with a lower salary structure, in order to save costs. But, in this particular case it would be a disadvantage, since Compare AG had issues concerning the geographical distance towards India and they would produce the same problems for Europe, if they relocate their headquarter to for example India. An argument for the Uppsala model is the network theory, which could have created an advantage for Compare AG as mentioned before (Forsgren and Johanson, 1992). But, since it is only a small and additional part of the revised Uppsala model from 2009, it is rather unimportant for the question which pattern the company should have followed.

In conclusion, either the Uppsala internationalisation model nor the born global is applicable in this particular case. The Uppsala model is to slow concerning the steps and process and not applicable in all steps for a company without a physical product. The born global model is too fast and diverse to find applicability in this particular case. One can find similarities in the history of Compare AG’s international processes, but these are rather small compared to the differences. In the end, it is left to future researchers to create a model which is applicable for companies like this.
6. CONCLUSION

In order to conclude the outcome of this master thesis, we are going to state the major and most significant results of our analysis in relation to the theory and explain it in detail afterwards.

To sum up, the process we have searched for literature on websites such as Web of Science and the library of Halmstad University to find suitable theory that we can adapt to the case study which has been done to understand the process. The information we gathered are from two interviews, with the former and the current head of international, who is the person being directly responsible for all internationalisation processes. In the following the most outstanding and relevant aspects of our work will be presented and interpreted according to the theory. The case study is about a company we have called Compare AG due to privacy reasons, which compares prices of different retailers on their website and gets a decent amount of money (cost-per-click) for each customer they forward to the particular retailer. Compare AG started to establish their business in Germany in 2000 and further expanded to other markets such as France, Italy, Spain. Finally, several of these internationalisations were rather successful, but Poland and India were not. Three reasons were found which both markets have in common and that are worth mentioning. Despite their overall differences, one problem was the responsible teams for processing the Indian and Polish internationalisation. They were paid in Berlin, because they worked from there, which needed a greater salary than a subsidiary in that particular country would have consumed. Furthermore, they had a smaller profit because of too less traffic and therefore only little income through cost-per-click. This caused more costs to maintain and the website than it produced income. This problem could have been easily foreseen, but at that time the management lacked the right perception of psychic distances leading to a too optimistic internationalisation process. The second problem was the unexpected strong competition, which was a mistake in their pre-work and could have prevented by business contacts to those markets beforehand. Finally, the third problem was about their preparation. Ignoring significant differences concerning psychic distance led to the idea of simply copying the German concept and expected it to be a success on these markets. For Poland it were rather economical differences such as the competition and a financially weaker market compared to Germany and Austria, but concerning India Compare AG was facing a market that is barely comparable to the European Union markets according to their psychic distance.

Both of these problems occurred due to a wrong perception of psychic distance. Neglecting the differences in salaries and also to oversee economic distances like superior competition shows again that the managers completely misinterpreted the situation.
This was caused by the psychic distance paradox, which was investigated in the sub research question. The managers were convinced that Poland compared with the already penetrated markets, especially Germany are not different enough to justify further investigations or changes in the concept, which would have delayed the process. Their wrong perception of the two markets similarity has led to the several mistakes concluded in the previous paragraph, which has finally led to the shutdown of the polish internationalisation. Therefore, the potential of the perception of psychic distance to either improve or worsen the internationalisation can be affirmed making the psychic distance paradox an important aspect that needs to be considered before all international processes of internet-based companies.

For both markets Compare AG copied the internationalisation concept that was originally created for the German market. However, this concept was not able to adapt to market changes. The most important part of having synergies is to save a lot of time for something that has been done already. Having barely synergies meant they had to reinvent the system in order to make it work, but to do so a greater amount of resources was necessary than calculated before. Compare AG was not able to provide these resources having all the other projects running at the same time. As Compare AG copied the German concept and expected it to work, it failed due to high psychic distances on both markets. At that time, they focused on the born global theory and the Uppsala model in fragments and used parts of both, which explains their rather chaotic procedure concerning their first internationalisation processes. They expanded like a born global company, but lacked the fitting product because they misunderstood that it needs a more concrete adaption to the markets than they have expected. Whereas it was the superior competition in Poland, it was the lack of not having a general strategy in India, which led to shutdown of both websites. After restructuring the international department, a new method was established, which still allows synergies, but also to revise them if necessary. Not only that it became possible to keep the success factors of one page, like the appearance, structure, clarity and data collection, but also to adapt to the interests of the particular target customer.

In addition to this aspect, we have further taken into account which difficulties Compare AG was facing on the rather successful markets and how they overcame these. In the empirical data and analysis we have seen that psychic distances have a key role in internationalisation processes, which was also already stated by Johanson & Vahlne in, 1977 and 2009. Compare AG is successful on the European markets, which can be explained with the similarities of the markets and their connections. Even though they have psychic distances according to especially economic (and some cultural) aspects, they are still by far more related than, e.g. India and Germany. Therefore, these psychic distances, which exist within the European Union, do not interfere as much with the internationalisation as with less related markets. Neglecting the temporary loss of traffic, Compare AG was able to find more synergies in the
markets of the European Union, which facilitated the internationalisation, than they could have done on markets with higher Psychic distances. Therefore, it can be stated that the smaller the psychic distance between the markets, the smaller the risk of an internationalisation. The second reason for its success was that these markets are already connected with each other because of trading relations. It was an easy step to improve the business network because the countries are already connected closely. This has led to an overall business understanding of the markets with each other, which means they were part of a business network already before they entered the markets.

To answer the research question about the perception of psychic distances and its influences towards internationalisation processes of web-based firms, it can be concluded that they highly influence web based firms and their internationalisation attempts. The analysis has shown that markets, even when they are closely related concerning their geographical, administrative, cultural and economic distance, can still have psychic distances that differ from another. They can influence an internationalisation approach in an intense extent and result in failure of the internationalisation even though they were successful on markets with similarly low psychic distances before.

This was especially proven in the internationalisation processes of Italy, France and Spain. The website's traffic started to decrease a few years after their establishment and increased after several market adaptations were made under the leadership of Alex. The changing perception of managers towards psychic distance on different markets had influenced the course the company has taken. In the beginning of the internationalisation, the company lacked the resources to cope with the necessary efforts to process the different internationalisation processes at the same time. Since, to be in such a situation cannot have been intended by the company, it can therefore be interpreted that they had a wrong perception, which later was corrected. The higher the psychic distances, the more difficult become an internationalisation. In this case it led to a company being totally overwhelmed by the work that still needed to be done.

The most important thing Alex has done at this time was to restructure the international department by decreasing the amount of countries Compare AG was acting in and to form specialised country teams, which led to more dynamism and clarity of the work that needed to be done. He further employed native speakers to reinforce the different market teams to increase their experiences with psychic distance. Consequently, they were able to focus on each market more precisely and became dynamic to market changes resulting that the different markets, Compare AG already was operating in, recovered. If they would have done this earlier, many internationalisation processes could have been faster and more effective from the beginning. Especially for India, it could have made a great difference on that market in order to reach the targeted customers more precisely.
Concerning the business network and its contribution to prepare and advance internationalisation processes, it was shown that Compare AG lacked such a business network in many cases, because they have tried to internationalise and sell their product on markets, where barely any network connections existed before. This caused a lack of information that could have been compensated by partners, who are experienced in this particular market. It further caused a misinterpretation of the markets and the management expected the processes to be easy, due to the underestimation of psychic distance. Compare AG’s mistake was to rush their internationalisations instead of doing sufficient researches und considerations, which goes along with the aspect of a missing business network. In many cases, a lot of maintaining and correcting mistakes and therefore time and resources could have been avoided and saved if they have acted according to the Uppsala idea of processing an internationalisation. It would have taken more time to follow this stepwise concept, but would have helped this rather inexperienced company to cope with their market expansions without causing so much trouble. As it was stated before, the born global theory rather fits for experienced entrepreneurs, which means that they usually have a good idea of the market before they enter them. If Alex had established his teams of native speakers before the actual internationalisation, things could have come out differently with a greater knowledge regarding market specific information and experience.

In addition to the network theory, it is questionable whether Poland’s internationalisation would have happened. In the analysis it is stated that they faced an unbeatable competitor on this market and lacked an important partner, which would have provided them with customers. It was therefore barely able to gain any market share from the beginning. Nevertheless Compare AG has tried to enter the market, lost a lot of money and finally withdrew from the market after 3 years. From our point of view, Compare AG took many of those internationalisation processes lightly because they were rewarded with a lot of success in the beginning, which later faded. However, it kept them motivated to keep on processing internationalisations, until they struggled to handle the amount of work and the caused difficulties.

These mistakes were only possible, because the management was not aware of the importance of their business network. According to Wilkinson (2001) it strongly influences the manager's decisions, when expanding into different markets, which makes sense considering its additional flow of information. Knowing that there is a strong competition, which will try to block the market for other competitors, would show that it is barely possible to establish a well-functioning network at this particular market. Not only that partners on this market could provide information that would have warned Compare AG to do such a thoughtless step, but also not to find any partners would show that it is a rather pointless idea to enter the Polish market. It would have been better to firstly investigate where the establishment of a network
would be successful, secondly set up teams with a share of native speakers from that market in order to operate on this market more closely and then finally set up the price comparing website, after it is clear what kind of products would be profitable to be offered. Concluded, this would mean not to only take the network’s importance more into account, but even let its potential strength decide the next market the company chooses to operate in. This could have improved the Indian internationalisation by far, leading to a market share that is considered profitable.

From our point of view, in the process of our work we have seen how Compare AG started with a messed up system and did not do much more, but copying a system that has proven its worth on the German market. Their internationalisation merely was the attempt of doing the exact same thing again and it barely had anything to do with an internationalisation process. It worked for Austria due to the lucky incident that both countries are very similar to each other, but it did not work for the others. We have concluded that internationalisation processes usually do not fail, because of minor mistakes caused by a lack of carefulness, but factors like superior competition or an incompetent management. Summarized, the mistakes Compare AG made, were lacking preparation, too many international projects at the same time, psychic distance and risk ignorance along with its misinterpretation and underestimation, inexperienced managers unfitting for the particular markets and no pre-established network. Most of these mistakes were fixed in the progress of internationalisation Compare AG has processed, proving that they have managed to learn from their mistakes. It was therefore highly interesting to see the problems the company faced since its foundation in 2000 and how they developed, because it has shown their learning process and how their system was improved making them very popular in the majority of the European Union markets. It can be seen very clearly how they became experienced and aware of the importance of psychic distances and what they have done to become the company they are nowadays.

Referring back to the contribution, it was already mentioned in the introduction that this field of study concerning internet-based firms still needs further investigation to clarify all relevant aspects. It is a rather new field and during the working process it became obvious that the current literature lacks details and is neglected in the overall discussion of the still existing importance of psychic distances. The case study has shown how the learning process of Compare AG has changed the firm’s management as summarized in the previous paragraph. It became obvious how important it was for this company to carefully investigate the different markets and along with it the market related psychic distances. The restructuring Alex has done after becoming the head of international and the outcome of the learning process of Compare AG has finally brought back the company’s success, which shows how important it can be to alternate the managers perception and working habits in order to create a different way of seeing and approaching problems. All the changes were made to adapt more precisely
to the market situation and to gain a better understanding of it. To stress this importance for internet-based firms is the theoretical contribution to the current literature and might lead to further investigations of internet operating firms, which promises to give new insights to a not yet completely penetrated field of research.

Left to say is that an internationalisation is too complex to make them 100% secure. It depends on the company, the product, the network, the market and so on, which in total are too many factors that need to be taken into consideration. However, it is necessary to be aware of the majority, but a company can never be secure that all important aspect were taking into account. Therefore, besides all management strategies including the marketing mix, an internationalisation also contains a certain amount of luck and timing that cannot be foreseen. The pre-work highly influences the result, but all internationalisations will contain risks, no matter which preparation was done, which only can be coped with experience of handling such a situation and a decent amount of luck. It is important to be aware that an internationalisation’s success never can be taken as granted, but has to be taken care of in the whole process. Nevertheless, in this uncertainty also lies potential for a company. It is argued that psychic distances have a high influence on the manager’s decision making and therefore on a successful internationalisation. But, from our point of view, they can also positively influence the situation the company is in, by becoming a competitive advantage. If the company is better informed about the market than their competitors it is most likely that they can operate closer to the customer’s interests and become more popular than even superior competitions could be, regardless their resources and size.
7. LIMITATIONS

In this chapter the limitations of our research are presented as well as the reason why we were limited.

Like every research also this has limitations which limit the outcome of the study. The first is the limited amount of time and resources. Since the researchers are two students, there were no financial capital to support the research of the study. Furthermore, the giving time for conducting the research and coming up with a complete study was just five month. Another limitation is that we decided to do a single case-study. Therefore, the findings and the outcome of this master thesis are not generalisable or applicable in daily business practice. Furthermore, within the investigated company were only two relevant people to interview, regarding our topic, namely the current and the former head of international as relevant decision-makers. If this study would be conducted in a bigger international working company, there would be a much broader and maybe deeper insight and understanding of the chosen topic. As stated in the analysis, it is also a limitation that there is no fully applicable pattern, how international internet based companies should internationalise. If it was there, it would have been the undisputed basis of our theory. The limitation that led us to our actual purpose of the study, is the lack of previous studies on the investigated research field, namely the international processes of web-based companies and their perception of psychic distance. But, the theory concerning this topic, namely psychic distance, was very broad and therefore sometimes hard to differentiate which theory is useful and important and which not. Therefore the choice of theory is logically influenced by the researchers perception. If we would have chosen other theories as our basis, there would definitely be another outcome and conclusion. The last but still important limitation is the choice of countries we investigated. There would be another analytical outcome and a different conclusion, if we had chosen to examine other countries for the analysis.
8. FUTURE RESEARCH

In this chapter opportunities for future research are presented, to extend our research or even the knowledge of the researched field.

Psychic distances are scientifically a rather penetrated topic already, but the area of internet based business is not and even lacks previous studies due to being new in the field of research. Especially because of this, the further research can be extended providing a lot of different approaches such as more countries to be taken into consideration or the amount of companies, which can be tested for their management´s perceptions.

Concerning our work, it is possible to extend the research due to our limited time and resources. Also here more companies of a similar background can be taken into consideration to broaden the outcome and to make it more valid as well. As it was mentioned before in the limitations, it was only possible to gather 2 significant interviews and a survey of the employed teams. Therefore, adding more companies with a similar case could also broaden the knowledge gained from this. This will also benefit to deepen the knowledge and understanding of the affection psychic distances have on internationalisation processes of all kinds (close or further related markets) and the responsible management. Generally, a chart of the market differences and similarities could be created to show their potential for internationalisations from the firm’s perspective. Additionally, a model which provides guidelines for young, web based enterprises to process their internationalisations would lead to more control and success as well as reduces the risks for companies expanding into new markets.

In addition a more intensive analysis of the managers could lead to a better understanding of their perception and in relation also about the psychic distance paradox. It could further show how the different perceptions of psychic distance are actually formed. All in all companies could benefit a lot from extending this particular field of research, allowing them to gather more and better information before actually doing their own internationalisation and to plan their international marketing strategies more precisely.
9. REFERENCES


10. APPENDIX

10.1 Interview Questions for Compare AG

Position and Background
What kind of education and studies did you do before you started working?

Did you have any job-related foreign experience before you started at Compare AG?

Since when are you working at Compare AG and in which positions?

What is your current position?

Interview questions related to internationalisation and psychic distance
1. Which criteria were adduced before the internationalisation to a foreign country? Why exactly these criteria? Are there any differences in the criteria concerning the different countries?

2. Did you consider the topic “Psychic Distance” before an internationalisation?
   If yes, in which way?
   If not, why not?

3. How was the segmentation of the processes and tasks concerning the internationalisation? Single or team responsibility?

4. What were the crucial factors for the successful / unsuccessful internationalisation towards ... ?
   Italy:
   France:
   India:
   Poland:

5. What was the strategic concept / the plan the internationalisation process followed?

6. Have you been aware of the fact that the internationalisation towards Italy and France will be a success? If yes, why or why not? What went well? What could have been done better? Why did Italy and France came out as success stories?
7. How long did it last until you closed the website in an unsuccessful country? What were the reasons and criteria?

8. Have you been aware of the risks in India and Poland or did the failure surprise you?

9. In general, what went wrong? Was it an internal problem or was it in the foreign county?

10. What could have been done better or was there no reasonable chance from the beginning? Would you say, there were (grave) misdeterminations before or during the process, which depended on lacking experience or understanding of the specific country?

11. Does the failure in Poland and India prevent you from further internationalisations in risky countries? Which new criteria have you learned from your failures that you include in your country selection and evaluation now?

12. Could you imagine to internationalise again towards India or Poland with a new strategy?

13. There are more developed countries than India or Poland, which do not have price comparison as well, so why did you chose India? Why not China or Russia for example?

**10.2 Questions used in the survey**

**Part 1**

What is your gender? (male/female)

Which nationality are you? (individual answer)

In which international country team are you currently working? (individual answer)

In which department of your country team are you currently working? (individual answer)

Since when are you working at Compare AG? (1-3/3-6/more than 6 years)

Did you have any experience in international teams before you came to Compare AG? (yes/no)
Part 2
For the questions in part 2 an answering scale from 1 to 5 was given, were 1 meant “very low” and 5 “very high”.

How would you assess the risk of Compare AG’s internationalization towards Italy?

How would you assess the risk of Compare AG’s internationalization towards France?

How would you assess the risk of Compare AG’s internationalization towards India?

How would you assess the risk of Compare AG’s internationalization towards Poland?

Part 3
Do you think Compare AG had the right strategy for its different internationalizations? (yes/no)

What do you think, which country could be a good idea for Compare AG next internationalization? (individual answer)
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