Perceived psychic distance and export market selection: Influence and strategies of the Chilean fresh fruit export sector

by Luis Losilla, Alejandra Engler, and Verena Otter

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1. Abstract

Increasing globalization trends have led export firms into a maelstrom of strong competition and rapid internationalization. As a result, firms' managers are daily facing the need to select markets to remain competitive. The literature had emphasized the relevance of the distance to the market as a key issue for such decisions; however, more recently there is an ongoing debate about the role of perceived psychic distance when firms select new target markets. By employing the cultural, administrative, geographic and economic (CAGE) distance framework proposed by Ghemawat (2001), this paper individually analyzes the influence of the perceived psychic distance dimensions on export market selection by firms' managers and the strategies employed to cope with such distances. This empirical research is based on 30 in depth interviews with managers in the Chilean fresh fruit export sector. Results indicate that distance still matters. Economic and administrative distance dimensions are the ones with higher influence on market selection. The most recurrent strategies to cope with distance are the development of relationships based on trust and commitment with the clients, and to take advantage of the opportunities offered by both public organizations and private export associations. Based on the findings, managerial and policy implications are recommended.

Key Words:

[1] Universidad de Costa Rica, Costa Rica
[2] Pontificia Universidad Católica de Chile, Chile
[3]; Wagenigen University., Netherlands

2. Introduction

Increasing globalization and open world markets resulting from the successive removal of trade barriers in the past decades has delivered important changes in food and agricultural value chains, and an exponential increase in the number of companies[4] internationally expanding into new countries (Swinnen and Maertens 2007; Reardon and Barrett 2000; Otter and Theuvsen 2014). Thus, managers across countries and sectors are nowadays frequently confronted with the critical decision of selecting new target markets, with the awareness that strategically disadvantageous decisions may bring long term consequences for the firms (Malhotra, Sivakumar and Zhu 2009).

In this regard, the literature has emphasized the relevance of the distance to markets as a key issue for such decisions; however, there is an ongoing debate about the role of perceived psychic distance[5] when firms select new markets (Stöttinger and Schlegelmilch 1998; Dow and Karunaratna 2006). This concept has been extensively employed over the last four decades to study aspects such as foreign market selection, international entry mode choice, joint ventures, international performance, knowledge and/or capability transfer and expansion patterns (Hutzschenreuter, Kleindienst and Lange 2016; Hutzschenreuter, Kleindienst and Lange 2014; Sousa and Bradley 2006; Avloniti and Filippaios 2014). Nevertheless, in most of these cases, the perception of the psychic distance has been neglected, inadequately incorporated or captured from the incorrect individuals which do not make the decisions regarding firms' international expansion (Evans, Treadgold and Mavondo

[4] The terms "company", "firm" and "exporter" are interchangeably used in this study.

[5] Psychic distance refers to those factors obstructing adequate information interchange between foreign companies and local markets, such as language, development levels and political systems, among others (Johanson and Vahlne 1977; Johanson and Wiedersheim-Paul 1975). While perceived psychic distance refers to the individual's perception of those factors, reflecting subjective differences (Hutzschenreuter et al. 2016).

2000; O'Grady and Lane 1996; Child, Rodrigues and Frynas 2009; Hutzschenreuter et al. 2016; Nebus and Chai 2014; Dow and Karunaratna 2006).

Although some studies have pointed out the importance in considering more than one distance measure to avoid misleading results (Ambos and Håkanson 2014; Hutzschenreuter et al. 2016; Berry, Guillén and Zhou 2010; Dow and Karunaratna 2006), most of the empirical literature available up to now examines one distance dimension at a time (mainly the cultural).

Additionally, most research regarding psychic distance has mainly been based in North America and Europe, while emerging economies remain underrepresented with the few existing studies focused on Asia, particularly India and China (Brewer 2007; Malhotra, Lin and Farrell 2016). According to Malhotra et al. (2009, p.668), emerging economies are underrepresented in international business literature related to distance and have been considered "mostly based on… anecdotal evidence, and deduction and inference from the history of North-South capital flows, rather than a body of systematic research". Thus, the relevance of the psychic distance for firms located in such countries it is still an open question (Beddi and Mayrhofer 2013; Malhotra et al. 2009; Ghemawat and Hout 2008; Malhotra et al. 2016; Brewer 2007). Finally, the literature examining distance effects in the case of food products is even more scarce (Filippaios and Rama 2011).

Considering the aforementioned gaps, the objective of this paper is to answer the following research questions: Which is the most important perceived psychic distance dimension influencing firms' export market selection? What are the factors denoting the influence of the perceived psychic distance on firms' export market selection? Which strategies do firms implement to cope with the perceived psychic distance? To answer these questions, we selected a case study of fresh fruit exporters in Chile.

This study contributes to the literature in three ways: first, by employing a multi-dimensional approach that considers the cultural, administrative, geographic and economic distances, this study offers a more comprehensive and insightful analysis of the influence of psychic distance on export market selection than those employing uni-dimensional approaches. Second, by considering the perceived psychic distance from the managers' perspectives, we can thoroughly examine not only the factors influencing export market selection strategies but also it allows us to explain the strategies employed by the managers to cope with these psychic distances, an aspect that has not received enough attention in the international business literature (Child et al. 2009). Third, by focusing on the Chilean fruit export sector, this study would be one of the first attempts offering evidence of the effect of psychic distance on export market selection for firms from the agricultural sector. in Latin American.

The remainder of this paper is structured as follows: section 2 reviews the literature of the psychic distance concept and, thereafter, introduces the CAGE framework. Section 3 describes the data and the methods employed in the study. Section 4 provides the main findings. Finally, section 5 presents the conclusions and implications of the study.

3. The concept of psychic distance and its measures

The concept of psychic distance was first introduced in the international business literature by Beckerman (1956). However, the commonly accepted starting point for research on this concept is attributed to a group of researchers from the Uppsala University (Sousa and

Bradley 2006; Dow 2000). According to these authors, psychic distance refers to the factors that hamper an adequate information interchange between companies and foreign markets, such as language, development levels and political systems, resulting in a lack of knowledge about a country (Johanson and Vahlne 1977; Johanson and Wiedersheim-Paul 1975). A lack of information or transparency in foreign markets increase transaction costs for firms, which is also related to higher risk. Imperfect information about a foreign market leads to a higher degree of uncertainty when doing business which may discourage decision-makers to target that specific market (Child et al. 2009; Brewer 2007).

There is a strong disagreement in international business literature regarding the best way to measure psychic distance. While some authors claim that it should be based on the objective differences between two countries, others argue that it should be based on the reflection of individual's perceptions, knowledge and familiarity, reflecting subjective differences (Hutzschenreuter et al. 2016; Håkanson and Ambos 2010).

Dow and Karunaratna (2006) make a clear distinction between these two concepts: where objective distances reflect the pure psychic distance and corresponds to the factors preventing the correct flow of information between companies and foreign markets, while subjective differences are the perceptions of the psychic distance from the decision-marker's perspective, which reflects the perceived psychic distance. Therefore, the perceived psychic distance is a function of the psychic distance.

However, international business literature has focused more on the objective distance, leaving the subjective aspect with less attention (Nebus and Chai 2014; Håkanson and Ambos 2010). Even if this approach is of greater convenience for empirical studies covering a large number of firms, objective distance based on national indicators (such as Gross Domestic

Product, official language, religion, etc.) hides variations among individuals within countries and sectors. Thus, perceived psychic distance is the most precise approach for investigating distance differences, while additionally allowing for conclusions on respective influences on international business decision (Hutzschenreuter et al. 2014; O'Grady and Lane 1996). To correctly address the effect of the psychic distance, it is imperative to capture this perception from firms' managers who are the final individual responsible for decision-making in the firm (Hutzschenreuter et al. 2016; Nebus and Chai 2014; Dow and Karunaratna 2006). However, as Child et al. (2009) argues, such focus has not been frequently employed in the available literature. Additionally, to fully understand the effect of psychic distance, it is important to identify not only the factors that create these perceptions, but also the strategies implemented to cope with them in order to derive concrete management and policy implications (Evans et al. 2000; Dow and Karunaratna 2006; Child et al. 2009).

3.1. Psychic distance, a multi-dimensional concept

As previously mentioned, since its original conception in the Uppsala model, psychic distance considers aspects from different dimensions such as geographical, economic and cultural among others. In this regard, previous studies have shown that different distance dimensions may have distinct effects on firm internationalization. Dow (2000) and Dow and Karunaratna (2006) identified the geographic distance as the main driver while the cultural distance showed poor or no influence. Berry et al. (2010) found a negative influence of cultural, administrative, geographic and financial dimensions when the firms have no previous experience in the host country, but no influence when they have it. Child et al. (2009) found that culture, language and regulations were the most important factors. Malhotra et al. (2009) found that cultural and geographic distance dimensions have a negative impact on market selection while administrative and economic distance have a positive effect. Such differences confirm that the psychic distance should be considered as a multi-dimensional concept (Beddi and Mayrhofer 2013; Berry et al. 2010; Child et al. 2009; Hutzschenreuter et al. 2016). Therefore, to avoid misleading results and fully understand the effects of psychic distance, it is important to employ a multi-dimensional approach which offers a more comprehensive, holistic and insightful perspective of different distance dimensions in comparison to an uni-dimensional measure (Malhotra et al. 2009; Hutzschenreuter et al. 2016; Child et al. 2009).

3.2. The CAGE framework

Based on the work of Johanson and Vahlne (1977), Ghemawat (2001) developed the CAGE framework which offers a more comprehensive perspective of the psychic distance concept. He argues that the distance between two countries emerges from their differences in terms of four basic dimensions: cultural, administrative, geographic and economic.

Cultural distance: Culture refers to a "collection of assumptions, values, and normative behaviors of a group of people" (Ojala 2015, p.827). These characteristics determine the behavior of people among each other as well as inside organizations and firms (Ghemawat 2001). Therefore, cultural distance is defined as differences between two countries regarding characteristics such as religion, values, beliefs, social norms, religion, stereotypes, languages and ethnicities, among others (Ghemawat 2001; Hutzschenreuter et al. 2014; Azar and Drogendijk 2016; Ojala 2015). Cultural distance can lead to a misunderstanding of information and losses of important insight in doing business (Ghemawat 2001). The wider the cultural distance, the harder to collect and interpret information about foreign markets (Håkanson and Ambos 2010), resulting in more misunderstandings and communication problems (Hutzschenreuter et al. 2014). This lack of information and transparency creates difficulties in doing business due to higher transaction costs for firms.

Administrative distance: Administrative distance can be interpreted as the differences between two countries regarding aspects such as political and institutional associations, trade agreements, colonial ties, currency, political hostility, institutional weakness (corruption or social conflict), and the regulatory governance system of policies and customs (Ghemawat 2001). Thus, higher administrative distance is supposed to create an environment of uncertainty for firms regarding the relationships with governments, customers, and other firms, in which managerial decision making is harder and more costly (Hutzschenreuter et al. 2014). Administrative distance generates higher coordination and transaction cost, which some exporters may prefer to avoid (Malhotra et al. 2009).

Geographic distance: It refers to the physical separation between the home country and a foreign country, which typically has been an indicator of trade resistance mainly due to higher transportation costs (Ojala 2015; Hutzschenreuter et al. 2014). However, there are additional factors that need to be taken into consideration such as time, access to waterways, port facilities, topography, and average distances to borders inside the country (Ghemawat 2001). In this regard, costs increase as distance increases, especially when transporting perishable products or heavy goods. Even when some costs related to geographic distance such as transport and communication costs have been reduced substantially in the last decades, cross-border businesses are still being affected by higher geographic distance, mainly due to limitations in market knowledge, and monitoring and coordination difficulties exacerbated by time zone differences (Hutzschenreuter et al. 2014; Håkanson and Ambos 2010).

Economic distance: The level of economic development of a country is considered a proxy for market potential (Hutzschenreuter et al. 2014). Countries with similar economic development share similar conditions such as market structures, transport and communication infrastructure, distributions channels, and consumption patterns which facilitates cross-border business. Therefore, higher economic distance may discourage foreign market entry (Hutzschenreuter et al. 2014; Malhotra et al. 2009). However, higher economic distances may be also related to a higher opportunities for firms to exploit certain advantages such as access to higher income markets (Hutzschenreuter et al. 2014),.

By simultaneously examining these four distance dimensions (cultural, administrative, geographic and economic), the CAGE framework provides "the most comprehensive framework for examining the role of distance on firms' internationalization strategy" (Malhotra et al. 2009, p.654). Very similar dimensions and definitions were also included in the studies of Berry et al. (2010), Brewer (2007), Dow (2000) and Håkanson and Ambos (2010). The CAGE framework is widely accepted in the international business literature (Hutzschenreuter et al. 2014; Hutzschenreuter et al. 2016) and has been employed in previous empirical studies (Child et al. 2009; Makino and Tsang 2011; Malhotra et al. 2009; Beddi and Mayrhofer 2013; Campbell, Eden and Miller 2012; Gilbert and Heinecke 2014; Hutzschenreuter et al. 2014; Lavie and Miller 2008). However, to the best of our knowledge only the studies of Child et al. (2009) and Beddi and Mayrhofer (2013) have employed this multi-dimensional framework to analyze the perceived psychic distance of managers.

4. Methods and data

By learning about informants' experiences and perceptions, qualitative research provides in-depth explanations to understand aspects of social and cultural phenomena that are not possible using quantitative methods (Myers 1997; Ritchie and Lewis 2003; Neves, Gustavo and Bordonal 2013; Bitsch 2005). As stated by Bitsch and Yakura (2007, p.9) "The use of qualitative case studies has been advocated to increase methodological pluralism in agribusiness and agricultural economics research". Additionally, through qualitative methods it is possible to answer explanatory questions about the "how" or "why" of specific issues or events, which have to deal with operational links over the time (Yin 2003). Since it also allows the capture of in-depth knowledge about subjective psychic distance at the individual level (Ojala 2015), the qualitative case study approach is considered appropriate to answer the research questions addressed in this study.

Fruit export companies in Chile are selected as the case under research in this study for two reasons: first, due to an ambitious agricultural policy based on export strategies in the past decades, the agricultural sector of this country has immensely contributed to its economic development (Otter, Engler and Theuvsen 2014; Engler et al. 2012; Otter and Theuvsen 2014; Losilla Solano et al. 2019; Losilla, Engler and Otter 2019). This especially holds true for the fruit sector, which accounts for 50% of the country's total agricultural and forestry exports (Klerkx, Villalobos and Engler 2012). Additionally, Chile is one of the most open economies worldwide with twenty-six free trade agreements in sixty-four markets (DIRECON 2018). As a result, this country is nowadays considered one of the most stable and prosperous countries in Latin America (Bianchi and Wickramasekera 2016). And second, despite the highly perishable nature of the fruits and considering that Chile is geographically distant from most of the main fruit markets of the world, this country is the largest grape exporter in the world, the second largest of blueberries and cherries, and the most important fruit exporter of the Southern Hemisphere (ODEPA 2017). To avoid possible cross-industry variances, this study is focused in the Chilean fruit sector as single industry case.

To obtain the data, thirty in-depth semi-structured with close and open-ended interviews were conducted with managers and/or owners of export firms in Chile of different sizes who were responsible for final decision-making concerning market selection, as suggested by previous studies (Dow and Karunaratna 2006; Hutzschenreuter et al. 2016; Nebus and Chai 2014). This kind of interviews permits the acquisition of more detailed information by allowing the interviewee to express their perspective more freely (Neves et al. 2013; Sonntag et al. 2016). The questions and definitions of the CAGE distance dimensions were based on previous psychic distance literature (especially Azar & Drogendijk, 2016; Berry et al., 2010; Dow, 2000; Ghemawat, 2001; Hutzschenreuter et al., 2014; Ojala, 2015; Sousa & Bradley, 2006).

To draw conclusions on size differences, the sample of thirty interviews included ten small companies, ten medium-sized companies, and ten large companies[6]. One of the sample selection criteria is that firms must have reported uninterrupted exports over the seven-year time period from 2009 till 2015, to ensure that none of the firms acts as a sporadic exporter. As a second selection criterion, firms must have been located in the Valparaíso, Metropolitana, Bernardo O'Higgins, and Maule regions, where most of traditional and non-

[6] To classify firms according to the size, we follow expert criteria (Yuri 2016) and categorize them according to their export volume measured as the average number of boxes of fruit exported per year over the period between 2009-2015. Thus, a firm is classified as large when it exports on average more than 800 thousand boxes per year, as medium size when it exports on average between 800 thousand and 250 thousand boxes per year, and as small firm when it exports on average less than 250 thousand boxes per year. To obtain the averages of exports, we excluded the year with the lowest quantities to avoid biased averages caused by an abnormal year, which are mainly related to bad climatic conditions.

traditional fruit is produced primarily due to ideal soil and weather conditions (Fleming and Abler 2013). The corresponding information was obtained from the database Eximfruit (2009-2015)[7]. The companies were purposefully selected to include information rich cases in the research (Bitsch 2005). Thus, we selected firms with different geographic diversification and internationalization strategies to avoid including only firms highly concentrated in specific geographic markets. For confidentiality reasons, the identities of the informants and the companies' names are not disclosed.

All interviews were conducted in Spanish by the same interviewer in person between September and December 2016 in Chile. The interviews were tape-recorded and transcribed. The transcriptions were coded and analyzed using the software ATLAS-ti. The process of codification consists of organizing data in a systematic order, classifying and creating categories that permit a comparative analysis of the interviewees' responses within and between interviews (Saldaña 2013; Bitsch and Yakura 2007). This process allows data to be separated, gathered, coded, recoded and relinked with the purpose of concentrate meaning and explanation (Grbich 2007). The coding process was based on a deductive pre-coding of the interviewees responses into main categories according to the four CAGE distances, and then establish subcategories to compare the comments within the categories (Sonntag et al. 2016; Saldaña 2013). The coding process is "iterative" (Bitsch and Yakura 2007, p.10) or "cyclical" (Saldaña 2013, p.8); thus, the interviews and codes were reviewed and recoded several times before achieving the final results.

[7] Eximfruit is a database of Inglobo which gathers secondary data of export reports from fresh fruit exporters in Chile.

5. Findings

Table 1 presents key characteristics of the sample.

Table 1. Characteristics of the firms

Characteristic	Mean	Minimum	Maximum
Number of fulltime employees	95	1[a]	1,100
Number of temporary employees [b]	362	1	2,700
Share of fruit plantations owned by firms (%) [c]	66.05	6.00	100
Age (years)	23	7	63
Export experience (years)	19	7	56
Annual exports (boxes of fruit)	1,141,414	20,917	9,269,333
Share of total sales exported (%)	81.33	40	100
Number of fruit varieties exported	4	1	12
Number of export countries	13	2	43
Number of export geographic regions	4	1	6

Notes: [a] Corresponds to unipersonal firms.
[b] Only firms with temporary employees were considered.
[c] Only firms that are vertically integrated were considered.

The wide difference on fulltime employees stems from differences in governance structures in the supply chain. Those export firms that are vertically integrated and also comprise the production stage (which is highly labor demanding) have a higher number of employees in comparison to those that are only involved in the commercialization of the fruits. Nine firms were not vertically integrated, so they do not possess orchards. The remaining 21 firms were vertically integrated, where on average they owned 66.05% of the orchards, and the remaining 33.95% is owned by suppliers. The difference in the lowest and highest annual exports quantity show the wide spectrum of export capacity of the firms. The companies are relatively young, highly export-oriented and well diversified in terms of products and geographic markets. Additionally, 24 firms are family businesses and the remaining six are open capital firms, from which only two were subsidiaries of a foreign firm.

During the interview, all four CAGE distance dimensions were described to the interviewees[8]. Then, in order to answer the first research question of this study about the most important perceived psychic distance dimension influencing firms' export market selection, respondents were requested to rate the importance of each dimension on a seven-point Likert scale (from 1 = "not important at all" to 7 = "extremely important"). Table 2 shows that the economic and administrative distance dimension were perceived as the most relevant barrier when exporting with an average of 5.24 and 4.59 points, respectively. The cultural distance was considered the least important with an average of 3.41.

Table 2. Importance of the psychic distance dimensions for export market selection

Distance dimension	Mean	Minimum	Maximum
Cultural	3.41	1	6
Administrative	4.59	1	7
Geographic	4.14	2	7
Economic	5.24	2	7

Additionally, to identify the number of firms influenced by the perceived psychic distance, the respondents were requested to indicate if the different dimensions influence, do not influence, or partially influence the market selection of the firms. As shown in Table 3, the distance dimension more frequently perceived as influencing market selection is the economic dimension with twenty-five cases, followed by the administrative dimension with twenty-one cases. This information confirms the results of Table 2 showing that the economic and administrative distances are the most important dimensions. There were no strong differences in this distribution when considering the firms size.

[8] Based on the definitions given in section 2.3.

Table 3. Distribution of firms according to the influence of the psychic distance dimensions on export market selection

Distance dimension	Firms influenced by distance	Firms partially influenced by distance	Firms not influenced by distance	Total
Cultural	5	2	23	30
Administrative	21	0	9	30
Geographic	12	1	17	30
Economic	25	5	0	30

To answer the second research question of this study, we analyzed the factors on each CAGE distance that denoted the influence of psychic distance on the export market selection (See Table 4).

In the remainder of this section, we present and discuss the most important factors mentioned by the managers in each CAGE dimension as well as the strategies that they have implemented in the firms to cope with those factors, which is the third research question of this study.

Table 4. Factors denoting the influence of psychic distance on export market selection.

Distance dimension	Factor	Description
Cultural	Business cultural behavior	Behavior of foreign companies when doing business
	Information and market signs	Market information available on foreign countries.
	Languages	Main language spoken in foreign countries.
	Social Norms	Values, beliefs, social norms, religion, stereotypes among other cultural factor in foreign countries.
	Consumers' tastes and preferences	Taste and preferences of consumers in foreign countries.

Distance dimension	Factor	Description
Administrative	Corruption	Level of corruption of entities in foreign countries.
	Export regulations	Difference in export regulations (especially sanitary and phytosanitary) in foreign countries.
	Political stability	Level of political stability of a country.
	Protection of markets	Degree of market protectionism in favor of local producers in foreign countries.
	Tariffs and quotas	Level of taxes, tariffs and quotas to export to foreign countries.
	Trade agreements	Existence of trade agreements with foreign countries.
	Bureaucracy	Level of bureaucracy in the institutional system in foreign markets.
Geographic	Fruit characteristics	Organoleptic characteristics of the fruits.
	Business Networks	Ease of building local business networks due to physical proximity to the foreign country.
	Physical distance	Physical distance in kilometers to the foreign country.
	Transport time	Time necessary to transport the fruit to the foreign country.
	Transport cost	Cost related to the transport of the fruit to the foreign country.
	Time difference	Difference between time zones with respect to the foreign country.
Economic	Economic development	Gross Domestic Product (GDP) per capita in the foreign country.
	Currency exchange rate	Currency exchange rate related to $USD in the foreign country.
	Infrastructure	Level of infrastructure in the foreign country.
	Willingness to pay	Consumers' willingness to pay for the fruits in the foreign country.

- **Cultural distance dimension:**

Influencing Factors

The difference in the idiosyncrasy, religion, traditions and beliefs were specified as the most important social aspects affecting market selection in the cultural distance: *"Culturally, the Asians are very different than us Occidentals. They have a concept that the fruit is a very precious gift… The fruit there has a different social background from what we have here in Chile; therefore, I would say that this is the most important cultural difference"* (Exporter 24). Such aspects need to be considered even for supposedly insignificant aspects like packaging design for different markets: *"Asian countries are very superstitious… This is very significant in terms of colors, numbers, symbology, animals, so you learn and add this to the design of the boxes, creating a plus"* (Exporter 10).

Regarding the cultural behavior of the business, this factor is perceived to affect the way of doing business with clients: *"The person that goes there* [to Asia] *needs to understand the oriental mentality to do business. If we are two Occidentals, we greet, give the business card, we go to the grain and we seat to talk about business. Asians are not like that, they may even do the tea ceremony first"* (Exporter 24). In some cases, these cultural differences result in lack of trust when doing business because some managers consider that they are not serious enough or it is perceived they will not stick to the agreements: *"In the experience we have had with China, the agreements previously made are not respected, and at the end they do not pay for the fruit as it was agreed. There is a lack of clarity and transparency with them"* (Exporter 14). This lack of trust is perceived to be more significant in some countries: *"In Russia the system works very differently. In Russia, I have heard many times that Chileans have been told: well, here is the money, they give it in cash and they have a gun at the table* *and people leave scared to death. And they accept what they give them because they do not want to argue"* (Exporter 17).

In comparison to Chile, the consumer's tastes and preferences in some countries can be very different, especially in Asia: *"In a fruit we consider the technical properties such as firmness, color and flavor. In China for example (which is the most distant market because is totally different for us), they pay more attention to the visual aspect of the fruit. If it has a different shape, for them it is not the same fruit, even if it has the best flavor of the world"* (Exporter 15). Also, the changes in preferences in some countries over time opens new market opportunities for firms; thus, influencing the market selection and the kind of fruit that is exported: *"With students, young people that went out of South Korea realized that there was seedless grape that was good. Thus, when they went back* [to South Korea]*, and they had the purchasing power to request these things, they started to demand those grapes. This* [the change] *was super strong and fast in Korea"* (Exporter 26).

All these factors result in longer time periods to develop relationships based on trust and commitment with clients located in countries that are perceived as more culturally distant, especially China, Saudi Arabia, Russia, India and South Korea.

Coping strategies

The most important strategy mentioned by the interviewees is to develop a relationship with the clients based on trust and commitment, and sometimes even with their families (Exporters 01, 03, 04, 06, 11, 22, 25, 26, and 30). This is accomplished by maintaining the relationship over a long period of time and frequently visiting each other: *"We believe that when you invite someone to your house, it means that your house is in order and you are sure to show it. Then, when the client feels that transparency, he will feel more trustful, so you shorten the* *cultural distances"* (Exporter 11). *"There is a saying: "When in Rome, do as the Romans", basically, that is it. The success of this firm is that, by applying that, we have ended up being friends of our clients. We indeed built trustful relationships"* (Exporter 03). According to the managers, having this kind of relationship facilitates the business and helps to tackle any problem that may emerge over time. "*When the fruit arrives with a problem, we say: let's help each other, I did not send the fruit with a problem and you did not want to receive it with a problem; so, let's fix this like a marriage"* (Exporter 01). When there is no trust and commitment, some exporters usually require payment in advance or use credit insurances (Exporters 1, 5, 07, 11, 17, 25, and 30). Additionally, most of the managers expressed that they constantly travel to participate in business trade fairs and visit markets to obtain better knowledge of what is happening (Exporters 09, 10, 17, 18, 22, 26, and 30). Some companies have a foreign owner, so they already have the know-how of the culture and the customers' tastes and preferences in some foreign countries (Exporters 04, 06, 15, 17, and 20).

Finally, most of the fisme work with Chilean intermediaries and brokers already established in other countries (Exporters 07, 09, 10, 15, 16, 18, 21, 25, 26, 27, and 30). This strategy is less expensive and allows firms to take advantage of third-party cultural knowledge of the country and networks, reducing the lack of transparency and increasing information accessibility in more psychically distant markets. Large companies also implemented a strategy of training programs to teach people how to deal with different cultures and establish business relationships with foreign people, especially from those that are more culturally distant (Exporter 22). Language was not identified as a problem because almost all business is conducted in English and when this is not the case, translators are employed. However, to speak the language of the importer seems to be a plus when doing business in some countries

"I have noticed that even when nowadays English is the international language for business, it is incredible how the doors open (especially with Asians and French people) if you make an effort to speak their language" (Exporter 24).

- **Administrative distance dimension:**

Influencing Factors

Regarding the regulations that firms must abide by to be able to export to some countries, the interviewees mostly referred to sanitary and phytosanitary norms as the most problematic. All the managers mentioned that regulations vary across countries, consequently exporting to different markets become more difficult. European countries have stringent requirements regarding pesticide residues while Latin-American and Asian countries have higher controls regarding plagues and diseases. Thus, exporting to one country could end up being an auto-restriction to export to other markets: *"If you want to enter the more specialized supermarkets* [located in Europe]*, you have more limitations of pesticides residues and that stuffs. And to achieve that, you must have a phytosanitary program prioritizing health, which goes against the philosophy of Mexico which to fulfill, you cannot have any plague or anything. Thus, by choosing Europe, Mexico is immediately out"* (Exporter 23).

Trying to accomplish higher requirements is perceived as costlier and riskier due to the necessary changes in the production and packaging systems, which at the same time, do not diminish the risk of having the fruit rejected: *"I would say that Taiwan is one of the most complex markets from the phytosanitary point of view. Complex in the sense that here in the packaging, we implemented a number of measures only thinking about that market, which are very strict, and if we do not fulfill them and we are inspected, we are under the risk of being closed down as a packaging plant"* (Exporter 17).

In some countries the regulations imposed are so stringent that are considered as non-tariff trade barriers or protectionist measures in favor of home producers or particular interests of that country, especially when supply is high (Exporters 4, 6, 12, 18, 22, and 30). The countries that were most frequently indicated as having the strictest regulations were Mexico, Colombia and China.

With respect to the political stability of foreign markets, this factor is considered as very important: *"For some years we exported to Argelia and the next year there was a civil war in Libya, so we do not export. The political issues have influences. Look at Venezuela!"* (Exporter 21). When exporting to unstable countries, the risk of not getting paid by clients is higher: *"Generally, in unstable countries the market is not good and does not pay. If there is instability, then, there are economic problems, people cover first the main physiological needs and then eat fruit. This is an issue, since imported fruit is considered a luxury good"* (Exporter 30).

Even when this factor is relevant for most of the firms, the risk and consequences assumed in the case of small firms can be more severe as their financial and operational resources are more limited in comparison to large firms: *"We do not enter risky markets. Maybe there are big exporters that have more contacts, more power and they can manage the financial risk, but we are not big and cannot allow this"* (Exporter 02). The most politically unstable countries mentioned by the managers were Venezuela, Argentina, Libya and Algeria.

With respect to the existence of trade agreements with foreign markets (which has an influence in the two previous factors), it is considered by most of the managers when selecting export markets: *"Normally when a new trade agreement is established between governments, we are obviously aware of all these signals that let you say: OK, if before I did* *business there totaling 20%* [of revenue], *then probably with the agreement I will increase it to 50% or 60%"* (Exporter 05). Trade agreements improve exporter competitiveness in comparison to firms in other countries and in some cases determines if they can compete in some markets or not: *"*[The existence of a trade agreement] *makes a difference when setting prices… For example, Australia has 0%* [tariff] *in Thailand but we have 35%; so, buyers will obviously prefer the Australian fruit"* (Exporter 10).

The existence of a trade agreement is also considered to be related with a higher security or stability when doing business: *"The rules are clearer when there is a trade agreement, you go with more security in knowing what to expect. New markets without a trade agreement eventually have a higher level of risk because you do not know what is going to happen if there is a problem"* (Exporter 19). In some cases, the only way to export directly to foreign markets is if a trade agreement exists. Otherwise the existence of a sanitary protocol between the two countries is necessary.

Another important factor is the level of corruption of governmental entities, especially customs agencies, which can generate a difficult environment to export (Exporters 3, 9, 11, 14, 15, 16, 17, 20, 22, 27, 28, 29, and 30):*"Mexico is a country where you have to work in a way that we are not willing to work, so we do not go to Mexico"* (Exporter 11). *"In Colombia there are issues with the bribes… We have sent people there to fix the problems in a good or a bad way, meaning that the bad is to see if you can offer something. We know these markets sometimes work like that, and it is not nice to say this, but sadly it is the reality"* (Exporter 17). The most frequently mentioned countries in this regard were Mexico, Colombia and Russia.

Coping Strategies

In the case of regulations, there are some strategies that have been implemented at the national level. Chile has a good and strict regulation system implemented by the Agriculture and Livestock Service (SAG) which, in the opinion of managers, assures the quality of the fruit that is exported to foreign markets. At the same time, the SAG also negotiates the sanitary protocols for the export and import of fruits; therefore, at the same time, prevents the entry of new plagues and diseases to Chile (Exporters 22 and 29).

Another strategy is to take advantage of the support offered by the Chilean Governmental Export Promotion Agency (ProChile) in the continuing negotiation of trade agreements with other countries, and their support for exporters through organizing business meetings with clients and trips to different markets (Exporters 09, 10, 13, 16, 20, 22, and 26). Similar support was mentioned by firms affiliated to private export associations such as the Chilean Fresh Fruit Exporters Association (ASOEX)*: "To open markets, the prospecting tours organized by ASOEX and ProChile have helped a lot. We have participated almost every year visiting a different country like Indonesia and Malaysia. There you meet people, and even if you do not make a deal, you get to know the market, what they want and what they look for"* (Exporter 26). ASOEX also supports exporters with technical assistance to help them to comply with international regulations (Exporters 1, 26 and 27).

The investment in better quality controls and voluntary private standards to assure access to stricter markets was also mentioned as a strategy (Exporter 17 and 18). Finally, in the case of unstable countries, some managers request advance payments or employ credit insurance (Exporters 3, 5, 17, 22, 23, and 26).

- **Geographic distance dimension:**

Influencing Factors

Transportation time is a critical factor in the case of the fresh fruit since it has a direct influence on the quality and organoleptic conditions of the fruits at the final destination, due to their highly perishable nature: *"You have to consider the harvest, then the packaging, the transport, and then* [the fruit] *has to be commercialized, and most importantly, that at the end the consumer likes it. The distance for sure limits this"* (Exporter 23). Longer transportation time can be a limitation to the volumes or varieties that can be exported to specific countries because it is not possible to reach them with the fruit in good conditions: *"Some years ago India was viewed as the future China for Chile. With more than a billion vegetarian's inhabitants, you said: this is a potential niche. But unfortunately, we have some restrictions that in the short and middle term, will be difficult to solve, which is the transit time due to the distance. You cannot reach India in less than 45 days, which is too long"* (Exporter 05).

Longer transportation time is also related to a higher risk given the possible changes that the markets can experience (in prices or supply) while the fruits are being transported: *"With a 35 day's journey, week after week I could have sent several ships, so it is a lot of money in the water before you receive the first dollar"* (Exporter 11).

The characteristics of the fruit are closely related to transportation time since it determines the markets where specific fruits can be sold: *"The distance is limiting when you have a fruit that does not have the condition or as we call it* [in the fruit sector], *it does not have the "legs" to reach those destinations"* (Exporter 06). *"Many times, you have a precious fruit, but it takes too much time after harvest and you see that it will not resist* [a long transportation time]. *Then the decision more than the distance or the shipping is because of the conditions of the fruit"* (Exporter 01).

Concerning transportation costs, in the case of closer markets such as South American countries, the exports are mainly made by land which can be costly as well: *"For example a shipment to Europe costs $6,000 USD and Venezuela costs $6,000 USD"* (Exporter 03). *"The cost of exporting from Chile to Brazil by truck could be higher than getting with a container via ship to the US. The truck is more expensive for a shorter trip, but it is a land trip with many other associated issues"* (Exporter 22).

Coping Strategies

Even when transportation costs can be higher, many managers prefer to use the most direct transport to reduce delivery times. Sometimes the price of the fruit is high enough that it allows the exporter to send the fruit as air-freighted fruit, especially at the beginning of the season. In the case of other fruits with lower prices or which are bulkier such as apples, companies look for better routes with the shipping companies (Exporters 01, 04 and 24).

The use of technological advances was another strategy mentioned by managers to reduce the geographic distance (Exporters 05, 10, 15, 21, 23, 24, 29, and 30). In the case of communication, the use of the applications of instant messenger for mobile phones was mentioned as the new way of doing business and keep the communication fluid with clients in foreign countries. *"Nowadays, the businesses are done via WhatsApp, so it is not even from one day to the other, it is right away. Let's say that the client asks you to look for two fruits, you send him a photo, he asks you how much [the price], you say this much, and he says send me one container, and the deal is closed, that is it! I do not need an order or anything, it is done!"* (Exporter 05).

In the case of transportation technology, the new cold systems in the containers, cold storages and the implementations of modern packaging systems were mentioned by exporters to extend the life of the fruits during their transport, reducing the influence of geographic distance in the export market selection: *"The cherry, which is one of the most perishable products, nowadays with the technological advances the post-harvest life went from five to 50-60 days. Here, with the system of controlled atmosphere in the bags, you multiply ten times the life of the cherries"* (Exporter 30).

- **Economic distance dimension:**

Influencing Factors

A factor in the willingness to pay of the markets is the purchasing power of the consumers of specific niches: *"Small exporters like us work more with niches. In this concept, if you consider China for example with cherries, they are a very pricy product, you perfectly know that you will target a very low percentage of the population which has high incomes and is capable of buying the Chilean cherry"* (Exporter 19). However, these small niches represent large markets for exporters when they are located in very big countries.

Variations in the exchange rate between currencies is considered to have a significant effect on exports because when it drops in the destination markets, the relative agreed price will increase for the importer. When this happens, the importers are incapable to pay for the fruit products that were already exported: *"With Brazil there is a devaluation, also Russia was almost out* [of the market] *with the devaluation they had. It was impossible for them to buy fruit"* (Exporter 26). As a result, almost all the managers preferred not to export to markets that do not have a very stable currency to avoid payment failures. The most mentioned countries regarding this aspect were Brazil, Russia, Colombia Venezuela, Argentina and Mexico.

Even when the exchange rate in Chile has been relatively stable in the last years, a significant decline in this rate combined with other factors may severely affect exporters: *"If there is a combination for example of a significant drop in the dollar from one year to the other with a significant drop in the export volume in one year, the exporter will be in red number and we will need from one to two seasons to recover"* (Exporter 20).

Regarding the infrastructure in foreign countries, the lack of cold storage facilities represents one of the key aspects in selecting the market, client or product that can be exported, especially for more sensitive products: *"India is a good market where a lot of apples are sent… Breaking the cold chain for an apple is not that serious, as it will resist a couple of months more, but you cannot do that to a cherry"* (Exporter 30). *"In China we prefer the client that has infrastructure over the client that does not have it"* (Exporter 08). The risk of exporting to a country without the correct conditions is very high: *"Even if they pay gold in a country where there are not cold storage facilities, there is no way because the risk is too high"* (Exporter 13). In the case of some countries in Latin America, the poor condition of many roads was mentioned as well as a big problem (Exporters 27 and 29).

Coping Strategies

Similar to the cultural and administrative distance, the relationships based on trust and commitment are very important to solve problems when significant changes in exchange rates occur (Exporters 1, 4, 5, 6, 22, 25 and 30). However, when this is not the case, some managers use to request payments in advance or use credit insurance or even currency exchange insurance (Exporters 1, 5, 17 and 23). In the case of big firms, they possess the resources to have a better analysis of market situation and exchange rates in many different countries, which reduces their risk. *“*[The exchange rate] *is part of the evaluation process. Usually, the bigger a firm is, the better market situation analysis they will have”* (Exporter 22).

Another strategy mentioned by the interviewees was to visit the markets to see if there is good infrastructure to assure the quality of the product in the destination market, which decreases the possibility of having claims afterwards due to fruit damage (Exporters 09 and 30). Also, this allows the opportunity for the exporter to know more about the conditions of the country and the market as well as the final prices of the products, which reduces the uncertainty when selecting export markets.

Finally, in the last few years many exporters have been moving their exports from more economically stable countries to economically growing but not very stable ones, as they offer higher prices. However, according to a manager, this is not considered a good strategy in the long term: *“We have diminished the volumes to Europe and have opened the window to other countries to supply there. If we would like to go back to export to Europe, they will say no because I am with this client now who has been fantastic and has been here and you have not”* (Exporter 11).

6. Discussion and conclusions

This study examines the influence of the perceived psychic distance on firms’ export market selection as well as the strategies implemented by the firms to cope with the main factors denoting this influence. By employing the multi-dimensional CAGE framework (Ghemawat

2001) in the case study of Chilean fresh fruit exporters, this research demonstrates distance still matters and plays a role in the selection of export markets by these firms.

This study contributes to the literature on psychic distance in three ways that have been rarely covered: First, by employing the CAGE multi-dimensional framework developed by Ghemawat (2001) it offers a more comprehensive and holistic understanding of psychic distance than the single dimension approaches. This allows for an individual assessment of the effects of the four distance dimensions on export market selection. Second, by capturing the subjective distance qualitatively at the individual-level instead of the objective distance at the country-level, it gives a better understanding on how the decisions are taken by managers and how distance really influences those decisions. For example, from an objective distance point of view, the cultural distance is large with Middle East and Asian countries. However, as we showed, when the owner of the firms or the manager comes from those countries, the cultural difference dissipates, but this cannot be captured with an objective measure. The approach employed also permits the determination of the direction of the effect of distance on a firm's decision, which is usually preconceived as negative (Ambos and Håkanson 2014; Malhotra et al. 2009). However, as we showed in the case of the willingness to pay, a higher economic distance or a higher willingness to pay in foreign markets in comparison to Chile attract exporters. Finally, by capturing the perceived psychic distance through a qualitative method allows going beyond simply determining the influence of the psychic distance on the export market selection, to additionally shed light in the strategies implemented by managers to cope with the factors driving that influence (Child et al. 2009). Third, this study extends the literature on psychic distance by adding evidence on emerging economies with the analysis of firms from the Chilean fruit export sector as a prime example of agricultural firms from Latin America.

The results of this study have some practical implications: Firms should be aware of the existing differences with foreign countries given that it will allow the identification of which distance dimension is heavily affecting their business. In this way, managers or employees in a firm can undertake appropriate measures to reduce the perceived psychic distance (e.g. by having training regarding sanitary and phytosanitary measures in specific markets or receiving intercultural training) and its effect on their strategic decisions such as market selection (Sousa and Bradley 2006). In the same way that the advantages perceived by firms when having a foreign owner, the selection of managers that have previous experience with some foreign markets may result in lower psychic distance and lower negative effects when penetrating unknown or more distant markets. These kind of management skills are an important intangible asset for firms to face the rapid and constant changes experienced in food and agricultural markets (Reardon and Barrett 2000). Even when firms have implemented strategies to cope with the psychic distance, a significant number of managers reported that it still influencing export market selection, at least partially. Therefore, our results shed light on the factors affecting the influence of each distance dimensions on firms' market selection. This is very important due to the current globalization trend affecting firms of different countries and sectors, especially in the case of a country highly open to international trade such as Chile. In this regard, such aspects should be considered by public organizations and private export associations to develop policies and programs to support firms in overcoming psychic distance, especially in more distant markets and in new countries where firms may lack sufficient experience. Particularly, the role of the SAG was found to be very important for the sector. According to the interviewees, this institution should receive more funding from the government to be able to provide more support to exporters, something that should be considered by Chilean policy makers.

This study faces some limitations. Even when Ghemawat's (2001) CAGE framework provides a good multi-dimensional approach, there are many additional factors that may affect the knowledge of a market and the psychic distance. Therefore, more factors should be considered when operationalizing this concept, especially those affecting managers' familiarity with markets (Brewer 2007). Despite that, we offer new evidence of agricultural firms from emerging economies. This study is focused on the Chilean fruit export sector only, and in this regard, even when we claim that using one single industry to avoid cross-industry variances, including more export-based activities will permit a comparison to assess if the influences and strategies implemented are specific to an activity or a country. Additionally, the results of the qualitative case study should in the future be complimented with quantitative measures of psychic distance more extensively to supplement, verify and generalize our findings (Bitsch 2009; Ojala 2015). Finally, further research should capture the perceived psychic distance from importers of Chilean fresh fruit to test its asymmetrical nature.

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