

Is the glass half full or half empty? Underestimating versus overestimating institutional distance and the importance of managerial cognition

Goudarz Azar^a, Georgios Batsakis^{b,c}, Rian Drogendijk^{d,*}, Carlos M.P. Sousa^e

^a Middlesex Business School, Middlesex University London, London, NW4 4BT, United Kingdom

^b Alba Graduate Business School, The American College of Greece, Athens, 115 28, Greece

^c Brunel Business School, Brunel University London, Uxbridge, UB8 3PH, United Kingdom

^d Department Global Economics and Management, University of Groningen, Groningen, 9747 AE, Netherlands

^e Faculty of Business Administration and Social Sciences, Molde University College, Molde, NO- 6410, Norway

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ABSTRACT

This study draws on a microfoundational view of international business to examine how managerial misperceptions of institutional distance, specifically, the underestimation and overestimation of formal and informal institutional differences between home and host markets, shape expansion strategies, in particular, location choice. Further, using the cognitive appraisal theory as a lens, it examines the moderating role of managerial cognitive styles, focusing on how traits, e. g., sensing versus intuiting and judging versus perceiving, influence these managerial misperceptions and their impact on foreign location choice. Using data from a vignette experiment with 208 international managers, the findings reveal that misperceptions of institutional distance can significantly skew managers' perceptions of a foreign location, with cognitive traits playing a crucial role in mitigating these biases. By exploring the role managerial cognition plays in international strategic decision-making, this research contributes to understanding the microfoundational underpinnings of foreign location choice and provides practical implications for achieving managerial decision objectivity in complex institutional environments.

1. Introduction

As internationalization increases, the complexity of navigating foreign markets also grows, leading to increased challenges for managerial bounded rationality (Rugman et al., 2011) and bounded reliability (Kano and Verbeke, 2019). Thus, understanding managers' perceptions is essential for firms to successfully navigate the complexities and challenges of operating in foreign markets. Despite its importance, existing research in this domain has primarily focused on macro- and organizational-level factors, neglecting the critical role of microfoundations such as managerial perceptions in the internationalization processes of the firm (Ambos et al., 2020; Foss and Pedersen, 2004; Felin et al., 2015). Unsurprisingly, the empirical results on the link between foreign market differences (i.e., distance) and choice of foreign location are still, to a large extent, inconclusive (Bailey, 2018; Zhang et al., 2023). Scholars maintain that such inconclusiveness can be partly attributed to the underplayed and therefore under-researched role of managerial

* Corresponding author.

E-mail addresses: g.azar@mdx.ac.uk (G. Azar), gbatsakis@alba.acg.edu, georgios.batsakis@brunel.ac.uk (G. Batsakis), rian.drogendijk@rug.nl (R. Drogendijk), carlos.sousa@himolde.no (C.M.P. Sousa).

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cognition in distance (Buckley et al., 2018; Donnelly and Manolova, 2020).

Distance is a multifaceted concept in the literature on international expansion, often used to capture challenges and barriers firms encounter when operating in foreign markets. Traditionally, various 'distance' concepts have been studied, including geographic, cultural, institutional, and psychic distance. We specifically focus on *institutional distance*, which is defined as the differences in formal rules (e.g., legal and regulatory systems) and informal norms (e.g., cultural and societal values) between home and host countries (Kostova, 1999). These dimensions of distance, i.e., formal and informal institutional distance, are crucial as they influence managerial perceptions and strategic decision-making processes, particularly in the context of foreign market entry and location choice (Azar and Drogendijk, 2019; Griffith and Dimitrova, 2014). Differences in informal institutions (e.g., cultural distance) represent a barrier to the international transfer of information, influencing both the collection and interpretation costs of critical management information. As a result, this increases the liability of foreignness and uncertainty in the new foreign market (Håkanson and Dow, 2012; Ojala, 2015). Differences in formal institutions, such as political and economic systems and regulations, may likewise increase uncertainty for firms that are unfamiliar with such systems in the host country and discourage entry by foreign firms or lead to companies' withdrawal from the foreign market (García-Canal and Guillén, 2008; Henisz, 2000). The concept of perceived distance may be more relevant in strategic decision-making than 'actual' distance, mainly grounded on the argument that managers formulate strategies for responding to environmental demands based on the perceptions of the firm's (external) environment (see Jackman et al., 2020; Olshavsky et al., 1975). Research indicates that managers in multinational corporations, being boundedly rational and reliable (Rugman et al., 2011; Kano and Verbeke, 2019; Georgakakis et al., 2023), may underestimate (or overestimate) the differences between their home and host countries (O'Grady and Lane, 1996; Pillai, 2010).

The question, however, is how often managers' perceptions of foreign market differences align with reality. Evidence suggests that such misalignments are surprisingly common. This is a significant cause for concern, as managerial misperceptions of distance can lead to suboptimal outcomes (Azar and Drogendijk, 2019; Weber et al., 2020). A notable example is the US retail chain Target's problematic expansion into Canada in 2013, where underestimated market complexities and cultural differences by the firm's leadership, which were later acknowledged by then-CEO Gregg Steinhafel, resulted in a \$2.5 billion loss and a complete market withdrawal two years later (Dahlhoff, 2015). Managers, due to having incomplete or falsified information about the host market or being overconfident (or underconfident) about their own and their firm's capabilities, sometimes underestimate (or overestimate) the challenges that lie ahead. Extant research suggests that successful strategic decision-making requires perceptual accuracy regarding the firm's environment (Pillai, 2010). Building on recent calls for studies of the microfoundations of managerial decision-making in internationalizing firms (Ambos et al., 2025; Georgakakis et al., 2023), we focus on the perceptual and cognitive foundations of location choice. We draw inspiration from real-world challenges, advancements in the cognitive appraisal and decision-making literature, and the increasing interest towards managerial misperceptions, aiming to extend the existing knowledge on the effect of managers' misperceptions of country differences on foreign location choice. More specifically, we examine the impact of managers' underestimation and overestimation of formal and informal institutional distance between the home and host country on the appraisal of a foreign location for a firm's future investment.

We argue that the underestimation or overestimation of institutional distance to a foreign market shape how managers assess that market, decreasing or increasing their perceived uncertainty and, consequently, their evaluation of its potential for the firm's expansion strategy. In addition, previous research has studied the effect of factors such as confirmation bias (managers' past experiences and existing beliefs) (Baack et al., 2015), awareness (Nebus and Chai, 2014) and emotions (Wang et al., 2023), which arguably shape managers' perceptions of distance from foreign markets. We draw on cognitive appraisal theory (Folkman, 1984; Skinner, 1995) to contribute to this strand of research. Specifically, we propose that managers' cognitive traits—particularly sensing vs. intuiting (reflecting tolerance for ambiguity and risk propensity) and judging vs. perceiving cognitive styles (reflecting decisiveness and adaptability in decision-making)—shape their (mis)perceptions. These traits may mitigate or amplify biases and, consequently, influence managerial decisions and strategic outcomes (Hambrick and Mason, 1984; White et al., 2003).

This research contributes theoretically and methodologically to a deeper, microfoundational understanding of how managerial cognition interacts with institutional contexts to shape strategic decision-making (Santangelo et al., 2024). Firstly, from a theoretical perspective, this study empirically examines the highly relevant effect of distance misperceptions in terms of underestimation and overestimation of institutional distance on foreign location choice. Previous research suggests that managers may misperceive the differences between their home and host countries (O'Grady and Lane, 1996; Pillai, 2010). Furthermore, it posits that managerial misperceptions of foreign market differences can lead to suboptimal performance outcomes (Azar and Drogendijk, 2019; Weber et al., 2020). However, thus far, no attention has been paid to studying the effect of distance misperceptions in terms of underestimation and overestimation of institutional distance on foreign location choice. Secondly, by examining contingencies in the form of managers' cognitive styles, this study contributes to the discussion on how cognitive traits, experience, and biases shape managerial knowledge and perceptions of foreign markets, and, consequently, firms' location choices (Aharoni et al., 2011; Elia et al., 2021; Håkansson et al., 2012; Luoma and Martela, 2021; Nebus and Chai, 2014; Wang et al., 2023). According to Baack et al. (2015), it is crucial to understand the factors that shape individual-level perceptions, thereby gaining a better understanding of how and why they might deviate from the traditionally employed national-level indices. With our focus on the micro-mechanisms of managerial perception and cognition underlying firms' internationalization decisions, our study complements existing work, progressing towards a more complete microfoundational explanation (Ambos et al., 2025), relating managerial experience or demographic characteristics to firm internationalization choices (Nielsen and Nielsen, 2011; Santangelo et al., 2024; Tihanyi et al., 2000). Thirdly, from a methodological standpoint, this study advances a novel experimental design in research on international expansion on the role of managers' (mis) perceptions of distance in their internationalization strategies. To gauge managerial perceptions of institutional distance, we developed four scenarios (vignettes) in which host markets' institutional profiles (see Beugelsdijk et al., 2017) were balanced. We asked

managers to express their perceptions and likely decisions based on the institutional profiles depicted in each scenario. Using *a priori* perceptions of distance in an experimental setting can more efficiently facilitate the demonstration of causality (Dow et al., 2020). Therefore, the application of experimental methods can indeed benefit international strategy research by evaluating the internal validity of theories and establishing causality between other key concepts, thus generating new insights (Zellmer-Bruhn et al., 2016).

2. Theoretical background

2.1. A microfoundational view on distance and location choice

The literature on internationalization decisions has long focused on the firm and its strategic decisions, but more recently, IB researchers have started to look also at the underlying processes of individual and team decision-making that explain strategic steps by firms (e.g., Maitland and Sammartino, 2015; Eriksson and Tippmann, 2024). In this study, we aim to contribute to this microfoundational view of international business. Inspired by the work of Felin and colleagues (Felin and Foss, 2005; Felin and Hesterly, 2007; Felin et al., 2015), making a plea to include the individual in theory on strategy and organization, IB scholars have started to study the micro-processes “through which decision-makers influence MNE actions and outcomes” (Georgakakis et al., 2023: 514). Santangelo et al. (2024) argue that understanding the microfoundations of IB phenomena requires researchers to pay attention to the characteristics of individual decision-makers, including their cognitive and social capital, and individual biases. Previous studies have also highlighted that managers' social capital – particularly their network relationships – can influence internationalization decisions by providing access to market knowledge and other resources required for successful internationalization (Johanson and Vahlne, 2009; Puthusserry et al., 2020). While such network-based resources may shape how managers evaluate international opportunities, the present study focuses specifically on one key microfoundational mechanism: the cognitive processes through which managers interpret institutional differences between home and host markets. From this perspective, managers' assessments of foreign market attractiveness are shaped by the cognitive structures through which they process and interpret information about foreign environments. For example, Maitland and Sammartino (2015) showed that the international experience of individual managers influenced the breadth and depth of their cognitive maps and, through that, their judgment of the attractiveness of a new foreign market opportunity.

Kano and Verbeke (2019) identify bounded rationality and bounded reliability as the main microfoundational assumptions for organizational decision-making. Bounded rationality refers to the “scarcity of mind”, or limited capacity to process information, address complexity and make optimal choices” (Kano and Verbeke, 2019: 120). Bounded reliability refers to “scarcity of effort” for making optimal decisions, and can be intentional (i.e. opportunism), or unintentional; under the influence of changing circumstances or diffuse identity, managers may change their initial decisions. The complex and continuously changing situation in which international managers make decisions suggests that both bounded rationality and bounded reliability play a role in their perceptual processes (Georgakakis et al., 2023). In the current study, we focus on clarifying the micro-mechanisms (Ambos et al., 2025) of foreign location choices of firms, in particular, the different ways in which bounded rationality plays a role in the initial decisions of managers within firms. More specifically, we study how individual managers' perception of institutional distance influences the attractiveness of foreign markets.

Managers often face uncertainty stemming from their firms' institutional distance from foreign markets, as they may lack sufficient information to anticipate the challenges their firm could encounter in new and distant market environments. The foreign market poses additional business costs due to increased liability and legitimacy concerns (Liou et al., 2016; Slangen and van Tulder, 2009). A widely accepted assumption in the literature is that managers of firms seeking to expand their operations overseas are more drawn to foreign markets that they perceive as having institutions similar to those in their home market (Nordstrom and Vahlne, 1994). This is because it becomes easier for them to understand and manage the institutional idiosyncrasies in the respective market. This, in turn, lowers the level of uncertainty, as managers can transfer their knowledge of the home market to similar or “close” locations, thus resulting in a transfer of knowledge that potentially leads to improved performance (Chelariu et al., 2006; Luo and Peng, 1999; Maitland and Sammartino, 2015). Managers may experience different levels of uncertainty when comparing formal and informal institutional distance, as the former is more explicit than the latter (North, 1990). It is relatively more straightforward for managers to observe and interpret foreign countries' written laws and regulations than the unwritten and implicit norms of behavior governed by cultural differences (Aguilera-Caracuel et al., 2013; Meyer et al., 2009). Therefore, assessing how cultural differences impact business activities in foreign markets is a complex process for managers (North, 1990). This becomes even more challenging when it is done before experiencing actual activities in those markets and learning from them through hands-on experience (Johanson and Vahlne, 1977; O'Grady and Lane, 1996). Accordingly, one can argue that there may be variations in how formal and informal institutional regimes are perceived, leading to different impacts on strategic decision-making by managers (Meyer et al., 2009; Slangen and Beugelsdijk, 2010).

Foreign location choice relies on imperfect, ambiguous information and high uncertainty (Maitland and Sammartino, 2015) and is therefore subject to managers' bounded rationality. Unfamiliarity with a location's contextual factors can influence managers' perceptions of the host market relative to their firm's home market (Azar et al., 2024; Kraus et al., 2015). Perception is a critical process that helps people define their worlds and guides their behavior (Cook and Hunsaker, 2001). The stages of the perception process can be described as an information processing system in which information (i.e., stimuli) is first received from the environment, then selected and screened (i.e., filtered), organized, and interpreted, resulting in action or thought patterns (Hambrick and Mason, 1984; Mullins, 1999). Factors such as the perceiver's personal characteristics, the characteristics of the target (e.g., a foreign location), and the context in which the perceiver receives the stimuli may affect an individual's perceptions. Therefore, individuals in the same context or one individual in different contexts may perceive the same stimuli differently (Maitland and Sammartino, 2015). Nevertheless, research on international expansion by firms has often ignored individual managers' perceptions of uncertainty (Aharoni, 2010; Harzing, 2004;

Suh et al., 2008).

Although many organizational theories and practices are based on the assumption that managers accurately perceive their organizations' environments (Mezias and Starbuck, 2003), previous research has reported errors and biases in managers' perceptions of their firms' internal and external environments (Kahneman and Tversky, 1973; Kiesler and Sproull, 1982; Lant et al., 1992; Meier and O'Toole, 2013). This is critical since business success relies on the accuracy of information acquired by managers and their correct interpretation of it, i.e., accurate managerial perceptions (Gavetti, 2012; Mukherji et al., 2013; Pillai, 2010). Perceptual inaccuracy regarding the firm's environment may result in erroneous forecasts, missed opportunities, and ultimately increased costs or business failure (Orr and Scott, 2008; Sousa and Bradley, 2006). The success of a venture is dependent on the accuracy of the executive team's perceptions and assumptions before entering the foreign market (O'Grady and Lane, 1996). In an empirical study of Swedish exporters, Azar and Drogendijk (2019) found that the divergence of managers' perceptions of differences in foreign markets from "actual differences" resulted in a decline in firm performance. They suggested that "it is not, perhaps, 'distance' per se, or exclusively, which determines the firm's performance: the determinant is the degree of accuracy in managers' perceptions of distance." (p. 69).

2.2. The importance of managers' cognitive traits in strategic decision-making

Bounded rationality and cognitive limitations are suggested to influence the quality of managers' knowledge, perceptions, and strategic decisions (Pillai, 2010). Given the frequent challenges of incomplete information, managers often switch between rational and intuitive approaches, a process known as cognitive gear switching (Nowińska and Pedersen, 2024). This dynamic interplay between rationality and intuition stresses the key role managerial cognition plays in decision-making, where each manager's unique cognitive style becomes critical in influencing organizational strategic decision-making. Cognitive style is related to "the relatively stable mental structures or processes that people prefer when they perceive and evaluate information." (White et al., 2003, p. 64).

To explain how cognitive traits moderate the effect of managerial misperceptions, we draw on the cognitive appraisal theory. This theory argues that individuals evaluate and interpret external stimuli through appraisal processes, which determine how situations are perceived and responded to (Lazarus, 2013; Lazarus and Folkman, 1987). In the context of a firm's international expansion strategy, institutional distance constitutes an external stimulus that managers must interpret. Misperceptions of this distance, whether underestimation or overestimation, influence their initial perception of foreign markets. However, as cognitive appraisal theory suggests, the consequences of these misperceptions are not determined by the stimulus alone but by how managers appraise it. In other words, managerial cognitive traits moderate the strength of the relationship between misperceptions of distance and foreign market assessments.

In this research, we focus on the moderating effect of two of the most critical and relevant dimensions of Myers-Briggs Type Indicator (MBTI) cognitive styles: sensing-intuiting and judging-perceiving (Beyler and Schmeck, 1992; Gryskiewicz and Tullar, 1995; Jung, 1971; Power et al., 1999). Building on cognitive appraisal theory, these dimensions are particularly important because they consistently shape how managers interpret and respond to stimuli, influencing whether misperceptions lead to overly optimistic or overly pessimistic evaluations of foreign markets.

Sensing-intuiting and judging-perceiving dimensions are not only relevant cognitive styles in the organizational psychology field (Cools & Van den Broeck, 2007); they are also particularly relevant to international strategy research. Empirical studies in international strategy research have stressed the significant role cognitive traits play in shaping strategic decisions in relation to foreign location choice. For example, Maitland and Sammartino (2015) argue that managerial cognition acts as a lens through which managers interpret foreign market opportunities and risks. Cognitive traits shape managers' subjective perceptions of the environment, thereby guiding their decisions (Alomani et al., 2022; Foss et al., 2008). As a result, micro-mechanisms rooted in managers' cognitive traits can either amplify or attenuate perceived distance to a foreign market, thereby influencing the firm's strategic direction and actions (cf. Georgakakis et al., 2023).

First, the sensing-intuiting dimension relates to a manager's tolerance for ambiguity and risk propensity, both of which are critical in assessing foreign markets. Managers with a sensing style rely on concrete information and systematic analysis, which can improve their ability to accurately assess institutional differences. As a result, they are more likely to prefer stable environments and tend to favor projects with lower risk (Mitroff and Kilmann, 1975). In contrast, managers with an intuiting style are more likely to rely on abstract reasoning, tolerate uncertainty, and exhibit overconfidence (Lai et al., 2017). Therefore, they are more likely to pursue potentially risky projects (Henderson and Nutt, 1980). From a cognitive appraisal perspective, this dimension reflects how managers evaluate certainty versus uncertainty, a central aspect of appraisal processes highlighted by Watson and Spence (2007). In this sense, the sensing-intuiting orientation shapes whether managers interpret misperceived institutional distance as a manageable risk or an acceptable uncertainty, which in turn affects the outcomes of such misperceptions.

Second, the judging-perceiving dimension reflects a manager's decisiveness and adaptability in decision-making. Judging managers, characterized by their structured and proactive approach, are better equipped to mitigate the adverse effects of misperceptions by conducting more thorough risk assessments. They are also more likely to feel they have sufficient information to make informed decisions and tend to perceive lower risk in a given situation (Nutt, 1984; White et al., 2003). Perceiving managers, on the other hand, prioritize access to critical information before making a decision (Gryskiewicz and Tullar, 1995; White et al., 2003) and therefore tend to delay decision-making when faced with uncertainty, thereby amplifying the negative effects of over- or underestimations (White et al., 2003). Accordingly, managers with a judging style are likely to be better able to correct under- or overestimations of the institutional distance between their home and host countries.

3. Hypotheses development

3.1. *The impact of managerial misperception of institutional distance on foreign location choice*

Research on the relationship between institutional distance and foreign location choice remains largely inconclusive (Bailey, 2018; Zhang et al., 2023). Although it is often assumed that foreign markets that are perceived as being institutionally similar to the home market are considered more attractive to the managers (Nordstrom and Vahlne, 1994), there is a strand of research disputing this on the premise that encountering stronger competition in institutionally close markets can make those markets less attractive for firm internationalization (O'Grady and Lane, 1996). Closeness can create difficulties in establishing a clear basis for differentiation, whereas distance can bring about unique opportunities in terms of first mover advantages, or in the case of cross-border acquisitions, targets in distant markets might provide companies with access to routines and repertoires that could enhance the firm's performance (Evans and Mavondo, 2002; Morosini et al., 1998). Others point to the methodological confusion as an underlying reason for such inconclusive results (Kraus et al., 2015).

In this study, we argue that underestimating or overestimating institutional distance can influence strategic decisions regarding foreign location choice. Underestimation occurs when the managers' accuracy errors regarding institutional differences (such as formal and informal institutions) are on the lower side (Pillai, 2010), i.e., managers' assessments of differences are lower than they actually are. This phenomenon is known as the "psychic distance paradox" (O'Grady and Lane, 1996), highlighting how managers tend to underestimate the degree of adaptation required when entering markets they perceive as similar or close to their home market. This tendency can lead managers to overlook cultural differences and institutional disparities, resulting in an overly optimistic assessment of the foreign market. Further, the underestimation of institutional disparities between countries may explain why firms experience adverse performance effects. For instance, institutional differences may harm a firm's reputation or relationships, requiring additional resources to compensate for such a loss (Orr and Scott, 2008).

Pillai (2010) suggests that managerial misperceptions are more likely in the direction of overestimation than underestimation. Overestimation occurs when managers' accuracy errors regarding institutional differences are on the higher side, i.e., managers' assessments of differences are higher than they actually are. Overall, overestimating country differences can be related to uncertainty, potentially driving managers to redundant information searches or misjudging the firm's potential to commit to new markets through more aggressive internationalization decisions, resulting in lower firm performance (Barkema and Drogendijk, 2007). Based on the above arguments, we posit the following hypotheses:

Hypothesis 1a. Managers who underestimate the formal and informal institutional distance between their home and a foreign market will likely assess the foreign market more favorably for potential investment.

Hypothesis 1b. Managers who overestimate the formal and informal institutional distance between their home and a foreign market will likely assess the foreign market less favorably for potential investment.

3.2. *The moderating role of managers' sensing vs intuiting cognitive style*

Managers with an intuiting style are more likely to develop hubristic bias due to their higher ambition and greater tolerance for uncertainty (Luoma and Martela, 2021). As a result, they may overlook the complexities involved in evaluating foreign markets, both with respect to formal and informal institutional distance (Lai et al., 2017). In particular, they may underestimate the challenges posed by differences in culture, language, business practices, and regulatory environments between their home and foreign markets. This underestimation can lead them to perceive the foreign market as overly favorable and less challenging than it actually is, thereby increasing their propensity to invest. Such managers are also likely to underrate the importance of planning and risk assessment when entering foreign markets, believing that their vision and intuition alone are sufficient to ensure success. This neglect can result in insufficient consideration of the critical role of institutional distance and its impact on the internationalizing firm. In contrast, managers with a sensing style tend to adopt a more balanced approach to risk-taking. As a result, they are better able to assess situations objectively, showing less tendency to overestimate or underestimate institutional distance.

Further, research shows that managers with an intuiting style are prone to overconfidence in their investment decisions (Dutta et al., 2016). In the psychology literature, this form of overconfidence is referred to as the "difficulty effect", whereby individuals are more likely to pursue challenging tasks because they perceive themselves as better able to handle difficult tasks than easier ones (Picone et al., 2014). Consequently, such managers may choose to invest substantial financial resources in a foreign market, often favoring full-ownership entry modes (Lai et al., 2017). In contrast, managers with a sensing style tend to avoid taking unnecessary risks and prefer less challenging tasks that can be implemented more realistically. These managers are able to analyze situations more impartially, exhibiting less tendency to overestimate or underestimate institutional distance.

Moreover, managers with an intuiting style may tend to enter foreign markets more rapidly (Li et al., 2023) because they have confidence in their decision-making abilities and believe they can handle any challenges that arise. While rapid market entry can lead to increased market share, it may also result in underestimating the time and effort required to adapt to institutional differences, fostering an overly optimistic view of the foreign market. In contrast, managers with a sensing style typically exhibit a more balanced perception, enabling them to make objective decisions regarding the pace of foreign market entry. This balanced perspective also allows them to better navigate complexities arising from over- or underestimation of institutional distance.

Based on the above arguments, we posit the following hypotheses:

Hypothesis 2a. The positive effect of formal and informal institutional distance underestimation on managers' assessment of the foreign market being favorable for potential investment weakens when they have a more sensing cognitive style.

Hypothesis 2b. The negative effect of formal and informal institutional distance overestimation on managers' assessment of the foreign market being favorable for potential investment is alleviated when managers have a more sensing cognitive style.

3.3. The moderating role of managers' judging vs perceiving cognitive style

Individuals with a judging cognitive style are characterized by orderliness, self-discipline, and adherence to rules (Beyler and Schmeck, 1992). In the context of this research, managers with a judging style are likely to adopt a more methodical approach when assessing the institutional differences between home and host markets. This approach enables them to integrate more objective risk assessments and strategic planning into the decision-making, thereby mitigating the negative effects of overestimating institutional distance and tempering the positive effects of underestimating institutional distance on foreign location choice.

In contrast to managers with a perceiving cognitive style, managers with a judging style tend to view uncertain environments as more controllable and desirable for future investments (White et al., 2003). They believe they can exert greater control over the outcomes of their decisions and are better able to envision a concrete sequence of actions leading to desired outcomes. Indeed, managers with a judging style are relatively more adept at adapting to turbulent environments than at creating and innovating (Gryskiewicz and Tullar, 1995). This adaptive implementation capability is particularly valuable when navigating formal and informal institutional differences, as it allows judging managers to handle institutional complexities more effectively, thereby enhancing the assessment of foreign markets. By combining structured planning and adaptive execution, these managers can adopt a balanced approach that mitigates the negative effects of over- or underestimating institutional distance in foreign market evaluations.

Moreover, managers with a judging style seek closure through settled and fixed options rather than open-ended alternatives (Kale and Barnes, 1992). In the context of foreign market entry, such managers are better equipped with focused, analytical thinking, allowing them to allocate resources and prioritize initiatives that align with their strategic objectives (Li et al., 2018). This approach enables more effective decision-making. When assessing the institutional distance between home and host countries, judging managers are less likely to act without carefully considering potential negative consequences. Instead, they may adopt a staged approach, allocating resources incrementally as they acquire knowledge about the foreign institutional environment. By managing resource allocation in this measured way, judging managers are better able to mitigate the risks associated with over- or underestimating institutional distance and perceive foreign markets more accurately.

Based on the above arguments, we posit the following hypotheses:

Hypothesis 3a. The positive effect of formal and informal institutional distance underestimation on assessing the foreign market more favorably for potential investment weakens when managers have a more judging cognitive style.

Hypothesis 3b. The negative effect of formal and informal institutional distance overestimation on assessing the foreign market less favorably for potential investment is alleviated when managers have a more judging cognitive style.

4. Methodology

4.1. Research setting

We employ an experimental vignette¹ methodology (EVM) approach to test the causal relationship between underestimated and overestimated institutional distance (i.e., the perceived institutional distance and its estimated distance from the 'actual' institutional distance between two countries) and the appraisal of a foreign market as more or less attractive for the firm's future investment. While experiments have emerged as a popular methodology in subject matters related to the wider business and management literature (van Aaken et al., 2022; Hsueh et al., 2023; Xiao et al., 2022), their application to the international strategy field is still underrepresented (Aharoni et al., 2011; Leung et al., 2005; Zellmer-Bruhn et al., 2016). Experiments are considered valuable methodological tools since they allow researchers to demonstrate that the cause (i.e., independent variable) precedes the outcome (dependent variable). As such, common methodological pitfalls such as reverse causality can be avoided (Zellmer-Bruhn et al., 2016). Overall, this study brings together ideas from classical experiments and the survey methodology; that is, the adopted EVM approach combines the high external validity of traditional surveys (due to their multivariate measurements) with the high internal validity of experimental designs (due to manipulation and random assignment) (Aguinis and Vandenberg, 2014; Atzmüller and Steiner, 2010).

Our research setting is applied in the context of Chinese managers. The decision to focus our research on China is not random. China has been one of the most dynamic markets for IB activity, consistently among the most popular destinations and sources of inward and outward foreign investment activity (Buckley et al., 2018; Hitt and Xu, 2016). This has, as a consequence, motivated IB researchers to raise questions about the application or validity of traditional IB theories in such a dynamic context (Buckley et al., 2018). Another distinctive characteristic of Chinese firms is that their internationalization strategies often reflect a dual emphasis on strategic asset-seeking in developed economies and resource or market-seeking in emerging and developing markets, specifically in Asia and

¹ The term 'vignette' refers to "a short, carefully constructed description of a person, object, or situation, representing a systematic combination of characteristics" (Atzmüller and Steiner, 2010).

South America (Ramasamy et al., 2012). This means that Chinese firms' expansion into markets characterized by diverse institutional backgrounds is not an unknown territory for Chinese managers, whose role as decision-makers over their firm's internationalization strategy has been indicated as crucial (Surdu et al., 2018).

A professional online panel provider, Qualtrics, was hired to recruit our sample respondents and distribute the online survey. Collaboration with online panel providers, such as Qualtrics and Amazon Mechanical Turk, is rising in academic research (Chatterji et al., 2016; Fung et al., 2020; Petrenko et al., 2016). Such providers offer quick access to a wide array of respondents globally, while their highly professional standards guarantee reliable and effective data collection. For a respondent to be considered appropriate for their inclusion in our experiment, they would need relevant experience in deciding on a foreign location. This is to ensure representativeness, i.e., our design captures important elements of real-life judgement situations (Aiman-Smith et al., 2002; Aguinis and Bradley, 2014). Therefore, the inclusion criteria we set for identifying respondents were: first, having a managerial role in a firm; and second, having previous experience in international business. These criteria were operationalized through mandatory screening questions within the Qualtrics panel recruitment system, and only respondents who confirmed both criteria were allowed to access the survey. Individual links were sent via Qualtrics in 2019 to a panel of 579 randomly selected respondents who met the above criteria; of these, 208 agreed to participate in our study (i.e., 52 for each of the four scenarios, which is well above the minimum recommended number of subjects for each scenario) (cf. Cohen et al., 2007; Gall et al., 1996). At the end of the survey, participants completed 39 standardized items designed to assess their cognitive styles (Keirse and Bates, 1984; White et al., 2003). Further details are provided in the following sections. All participants first received information on data confidentiality and procedures, as well as general details about the research structure and their roles in the task, to establish a standard framework for the experiment (Olsen, 2008). However, we did not communicate the institutional distance misperception on foreign location choice to the participants due to the experimental nature of the study and to prevent self-selection bias.

4.2. Screening and data quality procedures

The final sample ($N = 208$) had a mean age of 34.37 years ($SD = 6.47$; range = 26–58) and an average of 8.82 years of international experience ($SD = 4.30$; range = 1–17), confirming substantial managerial maturity and relevant international decision-making exposure of the participants. To further ensure data quality, we used individual survey links that could only be accessed once, preventing duplicate participation. Participants were randomly assigned to one of the experimental conditions using the survey platform's randomization function, ensuring that unmeasured characteristics did not systematically correlate with treatment conditions (Zellmer-Bruhn et al., 2016). To ensure respondents paid attention and responded thoughtfully, we conducted a pilot study with 20 randomly selected participants. We calculated the median time to complete the questionnaires and then introduced a time check, set to 1/3 of the median, which automatically terminated responses completed in less than 1/3 of the median time, thereby filtering out inattentive or low-effort responses. Because participation occurred anonymously via the panel provider and links expired upon completion, individual post-participation debriefing was not feasible. Instead, we ensured transparency *ex ante* and minimized risk through non-deceptive materials and standard consent procedures.

4.3. Experimental design

Four scenarios (vignettes) were created where the institutional profiles of the foreign markets, in comparison to those of the home market (China), were carefully balanced ('manipulated'). Institutional economics was employed to develop specific institutional profiles for each scenario, classifying institutions into formal and informal (Kostova et al., 2020).

The first scenario depicted a market with an institutional profile identical to that of China, encompassing both formal and informal institutions. The second scenario portrayed a market identical to China in terms of informal institutions but completely divergent in terms of formal institutions. The third scenario illustrated a market completely distinct from China in terms of informal institutions but identical to China in terms of formal ones. Finally, the fourth scenario delineated a market with an institutional profile that was entirely dissimilar to China in both formal and informal institutions (refer to Table 1). We formulated the four scenarios based on existing literature on "distance" and drew from previous IB studies that have integrated experimental designs (e.g., Baack et al., 2015; Yildiz and Fey, 2016). Representativeness was secured by developing the scenarios as realistically as possible (Aiman-Smith et al., 2002) in cooperation with a Chinese manager, a Chinese academic, and two senior expert academics. At first, we identified the primary markets that Chinese firms typically invest in, including both developed and developing nations. Next, we gathered secondary information about each market's formal and informal institutions. In the next step, we chose as many markets as potentially fit our scenarios (at least two markets for each scenario). Finally, based on these markets' characteristics, we developed the scenarios. To mitigate the issue of self-selection bias (Olsen, 2008), we did not mention any names of the markets in the scenarios, so respondents' perceptions and decisions were formed only by the institutional profiles. The scenarios, along with the corresponding questions, were first created in English. We hired a professional translator to convert them into Chinese to ensure accurate interpretation. A Chinese academic reviewed the Chinese version of the scenarios for minor adjustments before translating them back into English to verify that the terminology used in both languages corresponded. We asked our respondents to share their perceptions and expected decisions based on the information presented in each scenario. The full text of the four scenarios can be accessed in the Appendix. This reproduces verbatim the standard introduction and the four vignettes exactly as presented to participants (English translation is shown; the Chinese version is available upon request).

To develop the four institutional profiles, we drew on national culture as the proxy for the markets' informal institutions (Hofstede et al., 2002; Peng et al., 2009; Slangen and van Tulder, 2009). Accordingly, we provided an account of the informal institutions of each

Table 1
Institutional Profiles in scenarios.

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Informal institutions	Close ^a (=1)	Close (=1)	Distant (=5)	Distant (=5)
Formal Institutions	Close (=1)	Distant (=5)	Close (=1)	Distant (=5)

Note.

^a Distance (similarity/dissimilarity) to China (home market).

market. We ensured they were equitable, based on Hofstede's definitions and descriptions of the four original dimensions of national culture: power distance (PDI), individualism (IND), masculinity (MAS), and uncertainty avoidance (UAI). We focused on China's national cultural characteristics (based on Hofstede's score² for the above four dimensions) to decide whether the target market is institutionally similar or different from China. To refine our selection of target markets, we initially estimated the average value of each dimension across all the countries featured in Hofstede's study. Then, we identified institutionally close markets, which are characterised by high levels of Power Distance Index (PDI) and Masculinity (MAS) but low levels of Individualism (IND) and Uncertainty Avoidance Index (UAI) (Hofstede et al., 2002).

Regarding formal institutions, we relied on extant research (Holmes et al., 2013; Marano et al., 2016) and focused on what managers perceive as the most relevant institutions (Abdi and Aulakh, 2012; Holmes et al., 2013; Marano et al., 2016). Then, we described and balanced the markets' formal institutions on legal, political, and economic institutions. We focused on the home market's formal institutional characteristics about the stability of its political structure, the ideology of the national government, consumer protection legislation, and business ownership legislation, as a basis to decide whether the target market is institutionally similar or different from the home market. Following prior research (Child and Marinova, 2014), we defined China as a country with a relatively stable political structure. On the other hand, China is often cited as a country with lower standards of consumer protection and business ownership laws. The political system in China is dominated by one party. For scenario development, an institutionally similar market was defined as one with a relatively stable political structure. Specifically, this refers to a government system based on one dominant party where consumer rights and business ownership are not well protected. When evaluating economic institutions, we consider two key factors: per capita gross domestic product (GDP) and the level of demand for goods and services (Evans et al., 2008; Ghemawat, 2001). According to the International Monetary Fund, China is a developing country with a per capita GDP = 9770 current USD (World Bank, 2018). Thus, to develop different scenarios, we identified a market closely related to the institution, where GDP per capita is less than 10,000 USD, and there is a high demand for goods and services in general.

4.4. Variables

4.4.1. Dependent variable

We use three items to measure the inclination of managers to choose a foreign market for an investment (Malhotra et al., 2009). We asked respondents to indicate the extent to which they would a) describe the foreign market overall as an opportunity, b) label the venture (i.e., expansion to the foreign market) as something positive, c) assess whether the future looks promising for selling the product in that foreign market (1 = to a small extent, 5 = to a great extent). The outcome variable, *Foreign market attractiveness*, is the average score of all the three components above of the assessment of a foreign market. To assess the validity and reliability of our dependent variable, we performed a confirmatory factor analysis. Our factor analysis (principal component factors) applied to the three components of the above items produced one factor with an eigenvalue equalling 2.027, an AVE equalling 0.675, and a Cronbach's alpha equalling 0.760.

4.4.2. Independent variables

To measure underestimated and overestimated institutional distance, we used a) objective information on the strength or weakness of formal and informal institutions as described in each of the four scenarios, and b) subjective information, as this is documented by the respondents' perceptions after assessing their assigned scenario.

4.4.3. Institutional distance, as explained by the four scenarios

The study's experimental design produced four different scenarios, each simulating a different setting regarding the extent of similarities or differences in formal and informal institutional distance. Based on the profile depicted in each scenario, we transferred the scenarios into the scales corresponding to our perceived measures (with 1 = totally the same and 5 = totally different). This enabled us to calculate the differences between objective (i.e., based on the four scenarios) and subjective (based on respondents' perceptions) measures of institutional distance, i.e., under/overestimation of institutional distance (see Table 1). The first scenario describes a market with an institutional profile that is totally similar to China's in terms of both formal and informal institutions. In terms of scales, formal and informal institutional distance were given the value 1 in line with our measures for perceived institutional distance. The second scenario describes a market totally similar to China regarding informal institutions but totally different regarding formal institutions. Therefore, informal institutional distance was given the value 1, while formal institutional distance was given the

² The scores for China are PDI = 80, IND = 20, MAS = 66 and UAI = 30.

value 5. The third scenario describes a market totally different from China regarding informal institutions but totally similar regarding formal institutions. Regarding scales, informal institutional distance was given the value of 5 and formal institutional distance was given the value of 1. Finally, the fourth scenario describes a market with an institutional profile totally different from China's in terms of both institutional dimensions. Therefore, both formal and informal institutional distance were given the value 5.

4.4.4. Respondents' perceptions of institutional distance

With regards to perceived institutional distance, upon reading their respective scenario, respondents were asked to fill in a questionnaire (as described previously), which included questions related to how respondents assess the formal and informal institutional distance between their home country (i.e., China) and the country which was described in the given scenario. Regarding formal institutional distance, the respondents were asked to assess (based on a 1-5 scale, with 1 indicating that the countries are totally the same and 5 suggesting that they are totally different) to what extent they perceive the country as described in the scenario, as similar or different from China for the following items: Stability of political structure; Ideology of national government; Consumer protection legislation; Business ownership legislation; Size of the economy (in terms of GDP per capita); and Level of demand for goods and services. The factor analysis generated a single factor with an eigenvalue of 3.514, an AVE of 0.585, and a Cronbach's alpha of 0.857. To measure Informal institutional distance, the respondents were asked to assess (again based on a 1-5 scale) to what extent they perceive the country, as described in the scenario, as similar or different from China concerning the following items: Degree of inequality among people; Salary range between the highest and lowest paid in organizations; Importance of equality before the law; Recognition of a right to privacy; Freedom of the press; Respect for individual freedom; Openness to change and innovation; Tolerance of differences (e.g., religious, political, and ideological); Reliance on rules to govern behavior; Importance of caring for others; Importance of material success; and Degree to which women are expected to be assertive and ambitious. The factor analysis created a single factor with an eigenvalue of 5.334, an AVE of 0.444, and a Cronbach's alpha of 0.884.

4.4.5. Calculation of underestimated and overestimated institutional distance

The previously described measures of objective vs. subjective formal and informal institutional distance allow us to estimate our independent variables. Therefore, we calculate four independent variables to measure the misperception of (either underestimating or overestimating the extent of) formal and informal institutional distance. Specifically, we use a spline function to construct the directional (institutional underestimation and overestimation) distance variables (see, for example, [Carpenter and Sanders, 2002](#); [Greve, 2011](#); [Konara et al., 2022](#)).

We partition *institutional distance* (formal and informal) into two directional vectors to correctly capture the effect of these two directions (underestimation and overestimation) of *institutional distance*. *Underestimated institutional distance* captures the distance in the upward direction; that is, when actual (objective) formal/informal institutional distance is greater than perceived formal/informal institutional distance, the variable takes the absolute value of that distance. When actual formal/informal institutional distance is equal to or smaller than perceived formal/informal institutional distance, it takes the value of zero. For example, if the actual formal institutional distance is 5 and the perceived formal institutional distance is 3, the underestimated formal institutional distance takes the value 2. On the other hand, if the actual formal institutional distance is 1 and the perceived formal institutional distance is 3, the underestimated formal institutional distance takes the value 0.

In contrast, *overestimated institutional distance* captures the distance in the downward direction; that is, when perceived formal/informal institutional distance is greater than actual formal/informal institutional distance, the variable takes the absolute value of that distance. When perceived formal/informal institutional distance is equal to or smaller than actual formal/informal institutional distance, it takes the value of zero. For example, if the perceived formal institutional distance is 5 and the actual formal institutional distance is 2, the overestimated formal institutional distance takes the value of 3. If the perceived formal institutional distance is 2 and the actual formal institutional distance is 3, the overestimated formal institutional distance takes the value of 0. In our dataset, the underestimated formal institutional distance measure varies from 0 to 3.83, and the overestimated formal institutional distance measure varies from 0 to 4. Also, the underestimated informal institutional distance measure ranges from 0 to 3.58, and the overestimated informal institutional distance measure ranges from 0 to 3.75.

4.4.6. Moderating variables

To measure the two cognitive styles of managers, namely sensing (vs intuiting) and judging (vs perceiving), we drew on Jung's theory of psychological type. We operationalized the relevant items to measure cognitive style, which are appended in the Keirsey Temperament Sorter ([Keirsey and Bates, 1984](#); [White et al., 2003](#)). To measure sensing (vs intuiting) cognitive style, we used 19 items/questions with answers taking the value 1 (answer corresponding to being more sensing) or 0 (answer corresponding to being more intuiting). From these 19 items, after considering the confirmatory factor analysis results, we retained 9 items, as we removed items with measurement model loadings of less than 0.40. To measure the judging (vs perceiving) variable, we used 20 items/questions with answers taking the value 1 (answer corresponding to being more judging) or 0 (answer corresponding to being more perceiving). From these 20 items, we managed to retain 8 since items with measurement model loadings of less than 0.40 were deleted. The items and their respective loadings are appended in the Appendix ([Table A1](#)).

4.4.7. Control variables

We used four control variables that we drew from our survey. First, we control for managerial age, which typically influences managers' perceptions and strategic choices ([Barker and Mueller, 2002](#); [Hambrick and Mason, 1984](#)). During the survey, we measured managerial age as the responding manager's age ([Hsu et al., 2013](#)). The average managerial age in our sample is approximately 35

years, indicating that the selection of managers who participated in the study was relatively young. We also control for the experience each manager brings into their decision-making process. In this regard, we use two experience-related variables: international experience and professional experience. International experience is a count variable measured as a manager's years of international experience (Magnusson and Boggs, 2006). Our sample's average number of managerial international experience is approximately 9 years. Professional experience is calculated as a manager's number of years of overall work experience. Finally, we control for the managers' preferred entry mode into the foreign market. This corresponds to the respondents' preferred mode of entry, which reflects the scenario they were given to assess. We operationalized this as a binary variable that takes the value 1 in case of a high commitment (equity) entry mode (i.e., sales offices and manufacturing subsidiaries) and the value 0 in case of a low commitment (non-equity) entry mode (i.e., direct exporting; sales agent and licensing/franchising) (Pan and Tse, 2000).

4.5. Method of analysis

To test our hypotheses, we employed an ordinary least squares (OLS) model as it best aligns with the nature of our dependent variable, foreign market attractiveness, which is a scale variable. We estimated our models using STATA v.15. Further, the experimental design of our study calls for clustering of our standard errors. Since the treatment (i.e., the task of each manager to provide their assessment based on a given scenario) is assigned at the scenario (group) level, we clustered standard errors by the assigned group (Abadie et al., 2017). Table 2 provides a detailed description of all the variables used in our study. Finally, Table 3 provides definitions, examples, and observed ranges for all four types of institutional distance misperception that were described previously.

5. Results

Table 4 presents the descriptive statistics, and Table 5 presents the pairwise correlations of the variables. We use the rule of thumb to rule out the possibility of multicollinearity, which claims that pairwise correlations above the threshold of 0.7 should be flagged as a potential concern. In Table 5, only two correlations are close to or above the threshold of 0.7. These are the pairwise correlations between overestimated and underestimated formal institutional distance and between overestimated and underestimated informal institutional distance. In response to these high correlations and the generated high variance inflation factors, we have tested the underestimated formal and informal institutional distance (Table 6) separately from the overestimated formal and informal institutional distance (Table 7). On both occasions, the highest VIF score is below the threshold of 5.0, the most common cut-off point for the indication of multicollinearity (Hair et al., 1998).

We utilized formal and informal institutional distance constructs as a manipulation check. Specifically, we investigated whether the

Table 2
Variable names and short definitions.

Variable	Definition
Foreign market attractiveness	The average score of the following three Likert-type questions: a) To what extent would you describe the market overall as an opportunity? b) To what extent would you label the venture as something positive? c) To what extent would you feel the future looks promising for selling the product in this market?
Underestimated formal institutional distance	The perceived underestimated formal institutional distance captures the distance in the upward direction, that is when actual distance is higher than perceived distance. When actual formal institutional distance > perceived formal institutional distance the variable takes the absolute value of that distance. When actual formal institutional distance = < perceived formal institutional distance it takes the value of zero.
Overestimated formal institutional distance	The perceived overestimated formal institutional distance captures the distance in the downward direction, that is when perceived distance is higher than actual distance. When perceived formal institutional distance > actual formal institutional distance the variable takes the absolute value of that distance. When perceived formal institutional distance = < actual formal institutional distance it takes the value of zero.
Underestimated informal institutional distance	The perceived underestimated informal institutional distance captures the distance in the upward direction, that is when actual distance is higher than perceived distance. When actual informal institutional distance > perceived informal institutional distance the variable takes the absolute value of that distance. When actual informal institutional distance = < perceived informal institutional distance it takes the value of zero.
Overestimated informal institutional distance	The perceived overestimated informal institutional distance captures the distance in the downward direction, that is when perceived distance is higher than actual distance. When perceived informal institutional distance > actual informal institutional distance the variable takes the absolute value of that distance. When perceived informal institutional distance = < actual informal institutional distance it takes the value of zero.
Sensing (vs intuiting)	A composite measure which draws on a subset of the 70-item Keirsey Temperament Sorter that measures cognitive style (Keirsey and Bates, 1984). The confirmatory factor analysis resulted in 9 out of 19 items being retained. These were used for the creation of the sensing variable. More information is presented in the appendix.
Judging (vs perceiving)	A composite measure which draws on a subset of the 70-item Keirsey Temperament Sorter that measures cognitive style (Keirsey and Bates, 1984). The confirmatory factor analysis resulted in 8 out of 20 items being retained. These were used for the creation of the judging variable. More information is presented in the appendix.
International experience	The manager's number of years of international experience.
Professional experience	The manager's number of years of professional experience.
Age	The age of the manager at the time of the survey.
Entry mode	The manager's preferred mode of entry in the foreign market. This is a binary variable taking the value 1 in case of a high commitment entry mode (i.e., sales offices or manufacturing subsidiaries) and the value 0 in case of a low commitment entry mode (i.e., direct exporting; sales agent, or licensing/franchising).

Table 3
Institutional distance misperception.

Type of perceived distance	Definition	Example	Observed Range (Dataset)
Underestimated Formal	Objective distance > Perceived distance; absolute value of difference; otherwise, 0.	Objective = 5, Perceived = 3; Value = 2. Else, Value = 0.	0 to 3.83
Underestimated Informal	Objective distance > Perceived distance; absolute value of difference; otherwise, 0.	Objective = 5, Perceived = 2; Value = 3. Else, Value = 0.	0 to 3.58
Overestimated Formal	Perceived distance > Objective distance; absolute value of difference; otherwise, 0.	Perceived = 5, Objective = 1; Value = 4. Else, Value = 0.	0 to 4.00
Overestimated Informal	Perceived distance > Objective distance; absolute value of difference; otherwise, 0.	Perceived = 4, Objective = 1; Value = 3. Else, Value = 0.	0 to 3.75

Table 4
Descriptive statistics.

		Mean	Std. dev.	Min	Max	VIF	Skewness	Kurtosis
1	Foreign market attractiveness	4.07	0.68	1.25	5.00	-	-1.37	5.59
2	Underestimated formal institutional distance	1.00	1.24	0.00	3.83	1.96	0.87	2.35
3	Overestimated formal institutional distance	0.83	1.00	0.00	4.00	1.95	0.88	2.67
4	Underestimated informal institutional distance	1.06	1.20	0.00	3.58	2.62	0.56	1.76
5	Overestimated informal institutional distance	0.94	1.07	0.00	3.75	2.51	0.64	2.05
6	Sensing	0.84	0.20	0.00	1.00	1.28	-1.77	6.12
7	Judging	0.91	0.17	0.13	1.00	1.28	-2.32	8.42
8	International experience	8.82	4.30	1.00	17.00	1.11	-0.16	1.70
9	Professional experience	17.60	11.40	1.00	31.00	1.25	-0.26	1.39
10	Age	34.37	6.47	26.00	58.00	1.31	1.11	3.89
11	Entry mode	0.67	0.47	0.00	1.00	1.03	-0.73	1.54

Table 5
Correlation table.

		1	2	3	4	5	6	7	8	9	10	11
1	Foreign market attractiveness	1.00										
2	Underestimated formal institutional distance	0.17	1.00									
3	Overestimated formal institutional distance	-0.21	-0.68	1.00								
4	Underestimated informal institutional distance	0.00	0.16	-0.05	1.00							
5	Overestimated informal institutional distance	-0.08	-0.09	0.05	-0.77	1.00						
6	Sensing	0.06	-0.10	0.08	0.00	-0.03	1.00					
7	Judging	0.09	0.00	0.00	0.13	-0.08	0.44	1.00				
8	International experience	0.11	-0.01	-0.09	0.05	-0.08	-0.01	0.05	1.00			
9	Professional experience	-0.09	0.03	-0.06	0.04	-0.02	0.12	0.07	-0.03	1.00		
10	Age	0.11	0.03	-0.04	0.09	-0.06	-0.09	-0.01	-0.20	-0.40	1.00	
11	Entry mode	0.17	0.08	-0.10	-0.04	0.04	0.04	0.08	0.05	-0.05	-0.05	1.00

Note: Correlations above |0.11| are significant at the 10% level. Although the pairwise correlation between Underestimated informal institutional distance and Foreign market attractiveness is indicated as zero, in reality this arises from the variable's directional coding, not from a substantive absence of association. This is because half of the observations on this variable are mechanically zero (please see methodology for the construction of distance variables), thus compressing its variance and attenuating any bivariate correlation with Foreign Market attractiveness.

participants' perceived formal and informal institutional distance in the first scenario (low formal and informal institutional distance) differs significantly from that of the three scenarios characterized by relative distance concerning formal or informal institutions. The one-way ANOVA test results show that the perceived formal institutional distance between the Scenario 1 group and the other groups is statistically significant ($M_{\text{Formal1}} = 3.01$, $M_{\text{Formal2}} = 3.22$, $F = 2.91$, $p = 0.000$). We obtained a similar outcome for the perceived informal institutional distance between the Scenario 1 group and the other groups ($M_{\text{Informal1}} = 3.11$, $M_{\text{Informal2}} = 3.13$, $F = 1.42$, $p = 0.067$). Therefore, we can conclude that the manipulations were successful.

Table 6 presents the results of the OLS regression analysis on the effect of underestimated formal and informal institutional distance on managers' appraisal of the foreign market. Model 1 shows that underestimated formal institutional distance has a positive and statistically significant effect on managers' appraisal of the foreign market ($b = 0.094$, $p = 0.007$). However, the impact of underestimated informal institutional distance on managers' appraisal of the foreign market is not statistically significant ($b = -0.028$, $p = 0.984$). The results regarding the underestimated formal and informal institutional distance on managers' appraisal of the foreign market provide partial support for H1a. Table 7 (Model 4) presents the results of the OLS regression analysis on the effect of

Table 6

OLS regression analysis on the effect of underestimated perceived institutional distance on foreign market attractiveness.

	Model 1			Model 2			Model 3		
	coef.	p-val	std. err.	coef.	p-val	std. err.	coef.	p-val	std. err.
Formal institutional distance	0.094	<i>0.007</i>	(0.018)	0.147	<i>0.043</i>	(0.059)	0.092	<i>0.201</i>	(0.094)
Informal institutional distance	−0.028	<i>0.984</i>	(0.006)	−0.038	<i>0.645</i>	(0.074)	0.419	<i>0.986</i>	(0.080)
Sensing	0.216	<i>0.278</i>	(0.164)	0.278	<i>0.446</i>	(0.317)	0.147	<i>0.373</i>	(0.141)
Judging	0.215	<i>0.549</i>	(0.319)	0.202	<i>0.628</i>	(0.376)	0.507	<i>0.137</i>	(0.251)
Formal institutional distance x Sensing				−0.064	<i>0.176</i>	(0.058)			
Informal institutional distance x Sensing				0.011	<i>0.915</i>	(0.094)			
Formal institutional distance x Judging							0.004	<i>0.968</i>	(0.093)
Informal institutional distance x Judging							−0.482	<i>0.005</i>	(0.081)
International experience	0.022	<i>0.094</i>	(0.009)	0.022	<i>0.082</i>	(0.009)	0.022	<i>0.098</i>	(0.009)
Professional experience	−0.002	<i>0.677</i>	(0.005)	−0.002	<i>0.677</i>	(0.005)	−0.003	<i>0.632</i>	(0.005)
Age	0.014	<i>0.152</i>	(0.008)	0.014	<i>0.174</i>	(0.008)	0.013	<i>0.187</i>	(0.008)
Entry mode	0.207	<i>0.084</i>	(0.081)	0.205	<i>0.087</i>	(0.082)	0.210	<i>0.100</i>	(0.089)
Constant	2.846	<i>0.013</i>	(0.528)	2.806	<i>0.010</i>	(0.480)	2.680	<i>0.009</i>	(0.442)
R-squared	0.098			0.098			0.109		

Notes: 208 observations; Robust standard errors in parentheses; p-values in italics; one-tailed tests for hypothesized variables; two-tailed tests for controls.

Table 7

OLS regression analysis on the effect of overestimated perceived institutional distance on foreign market attractiveness.

	Model 4			Model 5			Model 6		
	coef.	p-val	std. err.	coef.	p-val	std. err.	coef.	p-val	std. err.
Formal institutional distance	−0.130	<i>0.001</i>	(0.011)	−0.357	<i>0.007</i>	(0.067)	−0.340	<i>0.020</i>	(0.098)
Informal institutional distance	−0.038	<i>0.065</i>	(0.018)	−0.052	<i>0.267</i>	(0.073)	−0.713	<i>0.002</i>	(0.092)
Sensing	0.218	<i>0.244</i>	(0.151)	0.042	<i>0.856</i>	(0.212)	0.203	<i>0.220</i>	(0.132)
Judging	0.177	<i>0.617</i>	(0.319)	0.165	<i>0.643</i>	(0.322)	−0.884	<i>0.019</i>	(0.192)
Formal institutional distance x Sensing				0.260	<i>0.016</i>	(0.069)			
Informal institutional distance x Sensing				0.012	<i>0.441</i>	(0.074)			
Formal institutional distance x Judging							0.228	<i>0.062</i>	(0.108)
Informal institutional distance x Judging							0.732	<i>0.002</i>	(0.093)
International experience	0.017	<i>0.207</i>	(0.010)	0.017	<i>0.195</i>	(0.010)	0.014	<i>0.273</i>	(0.010)
Professional experience	−0.004	<i>0.581</i>	(0.006)	−0.004	<i>0.584</i>	(0.006)	−0.004	<i>0.531</i>	(0.006)
Age	0.012	<i>0.290</i>	(0.009)	0.012	<i>0.281</i>	(0.009)	0.010	<i>0.379</i>	(0.010)
Entry mode	0.207	<i>0.108</i>	(0.091)	0.200	<i>0.116</i>	(0.091)	0.223	<i>0.096</i>	(0.093)
Constant	3.242	<i>0.011</i>	(0.577)	3.410	<i>0.013</i>	(0.642)	4.329	<i>0.002</i>	(0.430)
R-squared	0.108			0.112			0.143		

Notes: 208 observations; Robust standard errors in parentheses; p-values in italics; one-tailed tests for hypothesized variables; two-tailed tests for controls.

overestimated formal and informal institutional distance on managers' appraisal of the foreign market. Model 4 shows that overestimated formal institutional distance has a negative and statistically significant effect on managers' assessment of the foreign market ($b = -0.130$, $p = 0.001$). Further, the effect of overestimated informal institutional distance on managers' appraisal of the foreign market is also negative and statistically significant ($b = -0.038$, $p = 0.065$). The results regarding the overestimated formal and informal institutional distance on managers' assessment of the foreign market fully support H1b.

Model 2 (Table 6) tests the moderating effect of managers' sensing skills on the relationship between underestimated formal and informal institutional distance and managers' appraisal of the foreign market. Neither interaction effect under Model 2 is statistically significant; therefore, H2a is not supported. Model 5 (Table 7) tests the moderating effect of managers' sensing skills on the relationship between overestimated formal and informal institutional distance and managers' appraisal of the foreign market. Of the two interaction effects under Model 5, only this between overestimated formal institutional distance and sensing is positive and statistically significant ($b = 0.260$, $p = 0.016$). We, therefore, find partial support for H2b under this model. Fig. 1 depicts that sensing abilities in managers can alleviate the negative effect of overestimated formal institutional distance on the appraisal of the foreign market.

Model 3 (Table 6) tests the moderating effect of managers' judging skills on the relationship between underestimated formal and informal institutional distance and managers' appraisal of the foreign market. The findings partially support H3a, as only the interaction between underestimated informal institutional distance and judging skills is negative and statistically significant ($b = -0.482$, $p = 0.005$). We proceed to the graphic illustration of the predictive margins by drawing on the relative estimates of this model. Specifically, Fig. 2 shows that judging abilities in managers can indeed weaken the positive effect of underestimated informal institutional distance on the appraisal of the foreign market.

Finally, Model 6 (Table 7) tests the moderating effect of managers' judging skills on the relationship between overestimated formal and informal institutional distance and managers' appraisal of the foreign market. The findings support H3b as both interaction effects

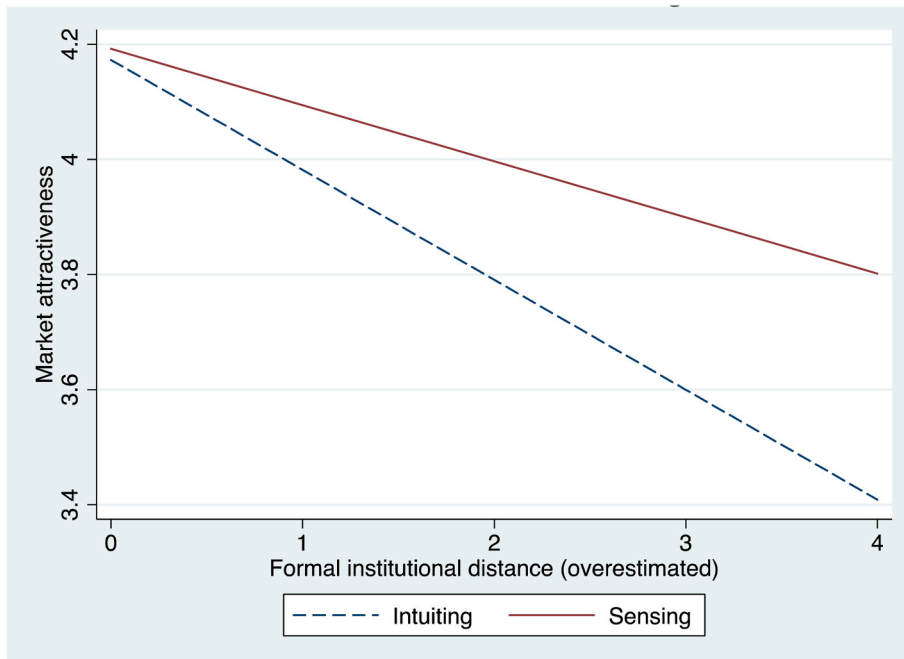


Fig. 1. The moderating effect of intuiting/sensing on the relationship between overestimated formal institutional distance and foreign market attractiveness.

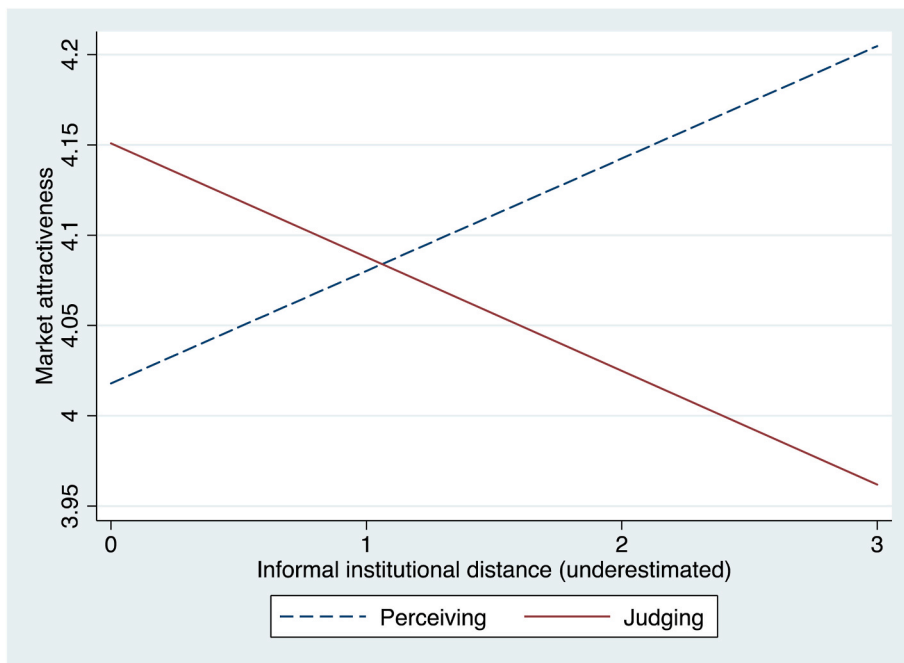


Fig. 2. The moderating effect of judging/perceiving on the relationship between underestimated informal institutional distance and foreign market attractiveness.

are positive and statistically significant. Specifically, the interaction effect between overestimated formal institutional distance and judging is positive and statistically significant ($b = 0.228$, $p = 0.062$). At the same time, the interaction effect between overestimated informal institutional distance and judging is also positive and statistically significant ($b = 0.732$, $p = 0.002$). Figs. 3 and 4 present the graphic illustration of the predictive margins of the aforementioned interaction effects.

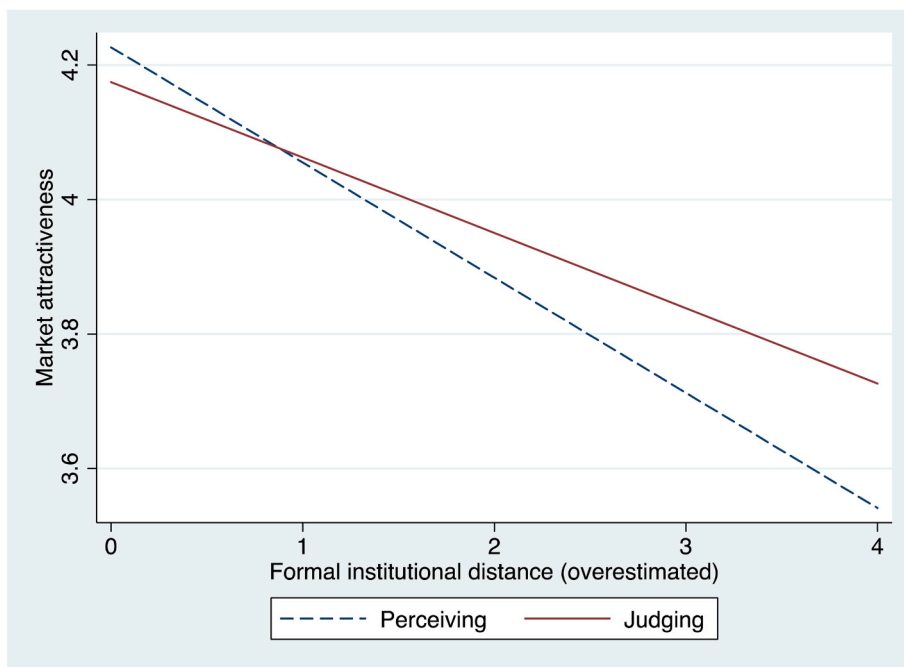


Fig. 3. The moderating effect of judging/perceiving on the relationship between overestimated formal institutional distance and foreign market attractiveness.

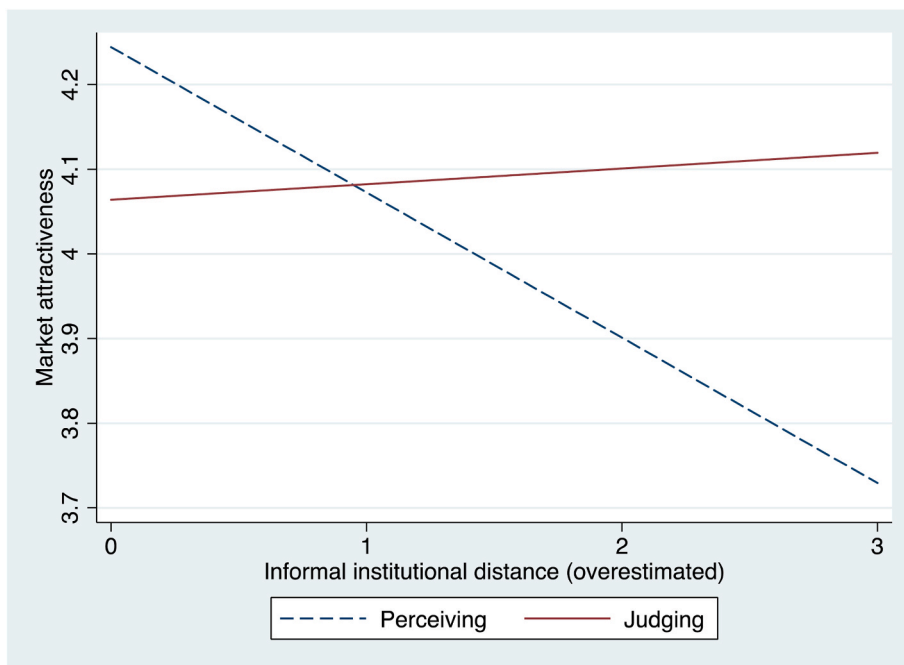


Fig. 4. The moderating effect of perceiving/judging on the relationship between overestimated informal institutional distance and foreign market attractiveness.

5.1. Sensitivity tests

To assess the sensitivity of our estimates to various factors that may condition the effectiveness of our estimates, we decided to proceed to a few robustness tests. First, to mitigate the concern of non-normality arising due to several key variables being right-

skewed (see Table 4), we re-estimated the focal model with a gamma generalized-linear specification and a log link, which is an error structure designed for strictly positive, skewed outcomes (Manning and Mullahy, 2001). The dependent variable (Market Attractiveness) was left in its original level form since the gamma-log link corrects the skewness within the model, so no external transformation is required. To keep every observation, Age was inverse-hyperbolic-sine transformed, and the two proportion-bounded moderators were ε -logit transformed, while all other variables entered unchanged. Tables A2 and A3 in the appendix present the results of the gamma GLM estimator. As far as H1a and H1b are concerned, the direct effect narrative remains intact after switching from OLS to the gamma GLM. Under underestimation, the gamma model strengthens the evidence for a positive formal effect. Under overestimation, both modelling approaches agree that larger perceived distances (formal or informal) negatively impact market attractiveness, with significance levels actually improving in the distribution-robust gamma framework. As for the moderating effects, across both underestimation and overestimation contexts, the sign and significance pattern of the interactions are highly consistent between the conventional OLS and the distribution-robust gamma GLM. Some differences, however, emerge (e.g., the attenuation of the effect of Overestimated formal institutional distance $\times$ Judging), yet not in a fashion that completely changes the OLS moderating roles of sensing and judging. Therefore, we argue that the main model's estimates remain largely consistent regardless of the presence of skewness for some of the model's key variables. Second, we test whether the application of moderators is subject to potential discriminant validity. To verify that sensing and judging are distinct constructs and not facets of a single latent trait, we compared one- and two-factor measurement models using maximum-likelihood estimation on the full item pool. Results indicate that the two-factor solution improves log-likelihood from -725.95 to -627.06 and reduces AIC from 1529.90 to 1408.11 . The likelihood-ratio test favors the use of two factors in the model as $LR \chi^2(38) = 197.8$ ($p < 0.001$). This confirms that Sensing and Judging can be modelled separately in the moderation analyses.

6. Discussion

Our research aims to improve our understanding of the reasons behind the notable disparities observed in how managers perceive the distance between countries. This is crucial since managerial misperceptions of such differences have been suggested to play a significant role in decision-making and influence strategic outcomes (Azar and Drogendijk, 2019; Weber et al., 2020). These misperceptions are expressions of bounded rationality, claimed to be especially important for managers making strategic decisions in a complex international environment (Rugman et al., 2011; Georgakakis et al., 2023). Our study was motivated by the need to shed light on these critical issues and provide insights to help managers make more informed decisions on internationalization. In particular, our study informs the microfoundational view on international business (Ambos et al., 2025; Santangelo et al., 2024), focusing on the perceptual and cognitive underpinnings of managers' assessment of market attractiveness for firm expansion. The findings of our study suggest that misjudging institutional differences in a foreign country—whether through overestimation or underestimation—can lead to inaccurate assessments of a foreign market's attractiveness.

In addition, we find that managers' cognitive styles can, to some extent, moderate this influence. In particular, managers with stronger sensing tendencies are able to better mitigate the negative effects of overestimating formal institutional distance when evaluating a foreign market. Furthermore, our results show that managers' judging tendencies weaken the effects of underestimating informal institutional distance as well as overestimating both formal and informal institutional distance on their evaluation of a foreign market. In sum, our study demonstrates that managers' cognitive styles play an important role in explaining how misperceptions of distance to foreign markets—both overestimations and underestimations—shape internationalization decisions.

6.1. Research contributions

We argue that this study makes significant theoretical and methodological contributions for at least four reasons. First, it advances understanding of the micro-mechanisms underlying firms' strategic location choices. By focusing on the perceptual and cognitive foundations of managers' assessments of market attractiveness for firm expansion, we contribute to addressing several core questions within the microfoundations literature (see Santangelo et al., 2024). In particular, our study addresses *who–what* questions by highlighting how managers' misperceptions, combined with their cognitive styles, shape firm-level decisions. It also contributes to *why–how* questions by illuminating the mechanisms that link individual-level processes to firm-level outcomes. In the light of Ambos et al. (2025) modular approach to microfoundations, our study offers a mono modular explanation, examining the micro-mechanisms of under/overestimation of institutional distance by individual managers and the role of cognitive styles in their assessments of foreign markets. Yet, our findings contribute to developing a complete microfoundational explanation in combination with abundant existing research on firms' internationalization choices (see Ambos et al., 2025), in particular studies offering explanations of influence-mechanisms (e.g. firm strategy or experience influencing the effects of managerial characteristics, see Boustanifar et al., 2022) and aggregation-mechanism modules (e.g. knowledge sharing processes and decision making as in Mäkelä et al., 2012). Second, our study contributes to understanding the causal effect of distance misperceptions on foreign location choice. Our study is the first empirical examination of the under/overestimation of institutional distance and its impact on managerial decision-making. By uncovering the role of distance misperceptions, we contribute to the literature on institutional distance and foreign location choice. Specifically, we extend existing research on distance misperceptions in international business (Azar and Drogendijk, 2019; Weber et al., 2020) as well as research focusing on the diverging effects of institutional distance (Batsakis et al., 2023; Konara and Shirodkar, 2018). Through these findings, we show that misperceptions of institutional distance constitute a real challenge for internationalizing firms and IB managers, highlighting the need for greater attention to how their adverse effects on firm performance can be mitigated.

Thirdly, this study adds to the ongoing discussion on the contingent role of managerial cognitive traits and biases in shaping IB managers' perceptions and knowledge when entering and operating in foreign markets (e.g., [White et al., 2003](#)). We extend the work by [Maitland and Sammartino \(2015\)](#), who studied managers' mental structures grounded in individual experience in relation to internationalization decisions, by investigating the influence of managers' cognitive styles. Our findings demonstrate that a better understanding of the factors shaping individual-level perceptions (i.e., cognitive traits) is essential for explaining how and why managers may deviate from objectivity and how such deviations influence foreign location choices. Drawing on cognitive appraisal theory ([Lazarus, 2013](#); [Watson and Spence, 2007](#)), our findings show that managerial cognitive styles influence how managers appraise uncertainty and interpret misperceived institutional distance. Specifically, a judging cognitive style, as opposed to a perceiving style, appears to facilitate more analytical thinking in strategic decision-making. This study extends prior research by linking cognitive styles to the impact of misperceptions on managers' strategic decisions, providing insight into how individual-level cognitive traits shape firm-level outcomes.

Finally, from a methodological standpoint, this study advances a novel experimental design that can benefit IB research, particularly in evaluating the internal validity of IB theories and establishing causality between other IB concepts ([Zellmer-Bruhn et al., 2016](#)). By developing four scenarios (vignettes) to gauge managerial perceptions of institutional distance, we have demonstrated the effectiveness of using experimental methods to evaluate the causal effects of distance misperceptions. We invite future research in IB to use this methodology, especially in relation to questions related to managerial perception and behavior ([Baack et al., 2015](#); [Yildiz and Fey, 2016](#)).

6.2. Limitations and future research directions

Like any other research, our work also has limitations that may inspire future work in this area. We set up our experiments using vignettes, while other research designs can investigate similar questions, such as choice experiments in a lab setting. Similarly, researchers could study managers in the course of their decision-making process (see, for example, [Maitland and Sammartino, 2015](#); [Williams and Grégoire, 2015](#)) and look for linguistic cues related to overestimation or underestimation of differences to foreign markets in discussions of entry opportunities or market appraisal. Further, we have studied individual managers' perceptions and cognitive styles, while management teams often make such internationalization decisions. Future work may, therefore, be inspired to investigate how team decision-making influences the mechanisms we have shown here: for example, how do processes like groupthink or group polarization ([Whyte, 1989](#)) influence managers' (mis-) perceptions of distance to foreign markets and market appraisal? While this study focuses on the cognitive mechanisms, international strategic decisions are also shaped by managers' social and human capital. Specifically, managers' network ties may provide access to information about foreign markets and thereby influence their assessments of international opportunities ([Johanson and Vahlne, 2009](#); [Puthuserry et al., 2020](#)). Future research could therefore explore how managerial cognition interacts with network ties or other forms of social capital in shaping perceptions of institutional distance and foreign location choice. In addition, while our study focuses on the role of bounded rationality in initial location decisions, over- and underestimation of institutional distance may potentially offset bounded reliability effects when managers adjust their misperceptions based on improved information or accumulated experience. Such adjustments may, in turn, influence location choices at later stages of internationalization. Future research could design studies to examine the interrelationships between these key assumptions ([Kano and Verbeke, 2019](#)). Another limitation of this research is that the experiment did not account for specific foreign investment motives, such as strategic asset-seeking versus resource- or market-seeking motives. Incorporating these motives could provide more nuanced insights into how managerial misperceptions shape foreign location choices. Future research could expand the experimental scenarios to examine how managerial misperceptions interact with specific investment motives in influencing foreign location decisions. Finally, researchers seeking to replicate our study in contexts other than China should adapt the vignettes to balance formal and informal institutional distances in relation to their specific setting. In this regard, the exact wording of our vignettes is not directly replicable; however, the dimensions used to represent formal and informal distance are generalizable, as they are grounded in the literature on institutional distance and have validity beyond China. Notably, to enhance the representativeness and external validity of our findings, we collected data from managers with relevant experience, specifically those holding managerial roles and with prior international business exposure.

6.3. Practical implications

The findings of this study have several practical implications for managers and decision-makers, particularly those navigating the complexities of foreign market entry and international strategic planning, such as IB development managers, export managers, foreign subsidiary managers, and executives responsible for decisions on firm international expansion. First, senior executives and managers should be better informed and educated about the dynamics and accuracy of institutional distance to reduce the risk of misperceptions when making foreign location decisions. To mitigate such misperceptions, managers could consider strategies such as investing in cross-cultural training programs, relying on systematic analytical processes and expert advice, and hiring executives with substantial international experience. These approaches can help managers navigate the challenges posed by misperceived institutional differences, enabling more informed decisions that promote business growth and reduce the risk of performance pitfalls. Second, managers involved in strategic decision-making are encouraged to develop cognitive flexibility. By reflecting on their decision-making styles—whether sensing versus intuiting or judging versus perceiving—managers can achieve a more balanced combination of intuition and evidence-based planning, ultimately leading to more effective strategic outcomes. Training and executive development programs designed to enhance cognitive abilities, such as critical thinking and problem-solving skills, can facilitate this process. For

instance, assessing the personality traits of international business development executives or candidates for such roles can be integrated into organizational human resource management practices. Additionally, managers can be incentivized to cultivate cross-cultural communication skills, enabling more effective engagement with stakeholders from diverse backgrounds. Third, our findings underscore the importance of conducting rigorous analysis and meticulous field research before making critical managerial decisions. This includes performing thorough quantitative and qualitative assessments of institutional differences between markets, which can enhance decision-making, mitigate potential risks, and identify opportunities associated with operating in foreign markets. Additionally, managers should consider the potential impact of institutional differences on both local and foreign operations. Misperceptions of institutional distance can exacerbate challenges in areas such as marketing, logistics, human resources, and R&D. Managers who balance intuition with objectivity are better positioned to develop effective strategies for navigating these challenges.

6.4. Conclusion

This study underscores that institutional distance remains a critical consideration in international business decision-making. Importantly, our findings demonstrate that misperceptions of institutional distance can have serious consequences for business growth, highlighting the need for managers to cultivate a balance of cognitive flexibility and objectivity. Effectively navigating institutional distance and making informed decisions requires a combination of strategic foresight, analytical rigor, and cultural sensitivity. Consequently, IB managers should deepen their understanding of institutional differences between home and host countries to support effective strategic decision-making and foster organizational growth. Overall, these findings make a meaningful contribution to the literature on institutional distance and foreign location choice while offering valuable directions for future research.

CRedit authorship contribution statement

Goudarz Azar: Conceptualization, Data curation, Formal analysis, Funding acquisition, Investigation, Methodology, Project administration, Writing – original draft, Writing – review & editing. **Georgios Batsakis:** Conceptualization, Formal analysis, Investigation, Methodology, Writing – original draft, Writing – review & editing. **Rian Drogendijk:** Conceptualization, Methodology, Writing – original draft, Writing – review & editing. **Carlos M.P. Sousa:** Conceptualization, Writing – original draft, Writing – review & editing.

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APPENDIX

Table A1
Measurement of managerial cognitive style variables

<i>Sensing - Intuiting</i>	Loading	<i>Judging - Perceiving</i>	Loading
1. I am more (a) realistic (b) philosophically inclined	0.56	1. I am more comfortable (a) setting a schedule (b) putting things off	0.44
2. I am usually more interested in (a) specifics (b) concepts	0.47	2. I am more comfortable with work (a) contracted (b) done on a casual basis	0.55
3. I prefer to work with (a) practical information (b) abstract ideas	0.52	3. I prefer things to be (a) neat and orderly (b) optional	0.45
4. I am more frequently (a) a practical sort of person (b) an abstract sort of person	0.50	4. I am more comfortable with (a) final statements (b) tentative statements	0.56
5. I am drawn to (a) accurate perception (b) concept formation	0.44	5. Is it preferable mostly to (a) make sure things are arranged (b) just let things happen	0.44
6. I am more drawn to (a) substantial information (b) credible assumptions	0.41	6. It is my way more to (a) get things settled (b) put off settlement	0.52
7. I feel (a) more practical than ingenious (b) more ingenious than practical	0.55	7. I am more prone to (a) schedule events (b) take things as they come	0.56
8. I pride more in myself a (a) good sense of reality (b) good imagination	0.51	8. I am a person that is more (a) routinized (b) whimsical	0.58
9. I am more drawn to (a) fundamentals (b) overtones	0.61		
Cronbach's alpha = 0.74; Construct Reliability (CR) = 0.76; AVE = 0.26; Eigenvalue = 3.18		Cronbach's alpha = 0.72; Construct Reliability (CR) = 0.74; AVE = 0.27; Eigenvalue = 2.89	

Notes: Items with measurement model loadings of less than 0.40 are not reported; Although the AVE is below the conventional .50 threshold, composite reliability exceeds .70, indicating satisfactory internal consistency. (Fornell and Larcker, 1981) note that AVE is a conservative criterion of convergent validity and that reliability alone may suggest adequate construct validity even when AVE falls below .50. In this study, constructs are operationalized as composite scale scores and are not estimated within a full structural equation modelling framework; accordingly, AVE serves as a conservative diagnostic indicator rather than a strict identification requirement. Given the dichotomous nature of the personality indicators, which tend to attenuate inter-item correlations and factor loadings, the lower AVE is not unexpected. Taken together, the composite reliability estimates, factor loadings, and theoretical coherence of the measures suggest acceptable convergent validity.

Table A2

Gamma Generalized Linear Model on the effect of underestimated perceived institutional distance on foreign market attractiveness

	Model A2.1			Model A2.2			Model A2.3		
	coef.	p-val	std. err.	coef.	p-val	std. err.	coef.	p-val	std. err.
Formal institutional distance	0.023	<i>0.000</i>	(0.004)	0.029	<i>0.000</i>	(0.005)	0.017	<i>0.007</i>	(0.007)
Informal institutional distance	−0.005	<i>0.989</i>	(0.002)	−0.002	<i>0.845</i>	(0.002)	0.028	<i>0.001</i>	(0.009)
Sensing	0.005	<i>0.066</i>	(0.003)	0.008	<i>0.064</i>	(0.004)	0.004	<i>0.115</i>	(0.003)
Judging	0.001	<i>0.831</i>	(0.005)	0.001	<i>0.877</i>	(0.006)	0.006	<i>0.000</i>	(0.001)
Formal institutional distance x Sensing				−0.002	<i>0.002</i>	(0.001)			
Informal institutional distance x Sensing				−0.001	<i>0.235</i>	(0.001)			
Formal institutional distance x Judging							0.001	<i>0.903</i>	(0.001)
Informal institutional distance x Judging							−0.007	<i>0.000</i>	(0.002)
International experience	0.005	<i>0.022</i>	(0.002)	0.005	<i>0.011</i>	(0.002)	0.005	<i>0.021</i>	(0.002)
Professional experience	−0.001	<i>0.622</i>	(0.001)	−0.001	<i>0.619</i>	(0.001)	−0.001	<i>0.554</i>	(0.001)
Age	0.003	<i>0.071</i>	(0.002)	0.003	<i>0.091</i>	(0.002)	0.003	<i>0.087</i>	(0.002)
Entry mode	0.049	<i>0.006</i>	(0.018)	0.049	<i>0.006</i>	(0.018)	0.050	<i>0.017</i>	(0.021)
Constant	1.180	<i>0.000</i>	(0.115)	1.175	<i>0.000</i>	(0.113)	1.166	<i>0.000</i>	(0.096)
Log pseudolikelihood	−499.79			−499.78			−499.74		

Notes: 208 observations; Robust standard errors in parentheses; p-values in italics; one-tailed tests for hypothesized variables; two-tailed tests for controls.

Table A3

Gamma Generalized Linear Model on the effect of overestimated perceived institutional distance on foreign market attractiveness

	Model A3.1			Model A3.2			Model A3.3		
	coef.	p-val	std. err.	coef.	p-val	std. err.	coef.	p-val	std. err.
Formal institutional distance	−0.032	<i>0.000</i>	(0.004)	−0.038	<i>0.000</i>	(0.006)	−0.035	<i>0.001</i>	(0.011)
Informal institutional distance	−0.012	<i>0.033</i>	(0.006)	−0.011	<i>0.040</i>	(0.006)	−0.057	<i>0.000</i>	(0.004)
Sensing	0.005	<i>0.105</i>	(0.003)	0.004	<i>0.065</i>	(0.002)	0.004	<i>0.146</i>	(0.003)
Judging	0.001	<i>0.889</i>	(0.006)	0.001	<i>0.894</i>	(0.006)	−0.008	<i>0.017</i>	(0.003)
Formal institutional distance x Sensing				0.002	<i>0.013</i>	(0.001)			
Informal institutional distance x Sensing				−0.000	<i>0.849</i>	(0.001)			
Formal institutional distance x Judging							0.000	<i>0.411</i>	(0.002)
Informal institutional distance x Judging							0.009	<i>0.000</i>	(0.001)
International experience	0.004	<i>0.133</i>	(0.003)	0.004	<i>0.129</i>	(0.003)	0.003	<i>0.197</i>	(0.002)
Professional experience	−0.001	<i>0.521</i>	(0.001)	−0.001	<i>0.519</i>	(0.001)	−0.001	<i>0.439</i>	(0.001)
Age	0.003	<i>0.210</i>	(0.002)	0.003	<i>0.221</i>	(0.002)	0.002	<i>0.299</i>	(0.002)
Entry mode	0.050	<i>0.012</i>	(0.020)	0.050	<i>0.013</i>	(0.020)	0.052	<i>0.015</i>	(0.021)
Constant	1.272	<i>0.000</i>	(0.128)	1.277	<i>0.000</i>	(0.135)	1.343	<i>0.000</i>	(0.106)
Log pseudolikelihood	−499.75			−499.74			−499.68		

Notes: 208 observations; Robust standard errors in parentheses; p-values in italics; one-tailed tests for hypothesized variables; two-tailed tests for controls.

Full text of scenarios

Standard Introduction

Assume you are a new managing director of a Chinese medium-sized company (with 50 employees and an average annual revenue of 150 million Yuan) operating in the IT industry. It is headquartered in Beijing. The company was established five years ago and is expanding rapidly, with a 10 percent growth rate. The company had a successful experience in overseas business last year. Therefore, the company is seeking other potential foreign markets in which to sell its product. This expansion will cost money, and the company requires financing for such a venture.

Scenario 1

The target country has a relatively stable political structure, and its government system is based on one dominant party. The country's consumer market is large and complex, and it is difficult to keep up with consumer protection and property protection. The target market is a fast-growing economy with an estimated average GDP of 9000 USD (according to the 2018 data). The level of

household consumption expenditure (percentage of GDP) in this market has increased substantially in recent years but still has a certain distance to approach the level of developed countries.

The target market is characterized by a relatively low degree of equality among people and unbalanced salary payments in organizations. In the past few years, the legal system has been gradually developed and strengthened, but the phenomenon of 'equality before the law' is still not the primary concern in the society. People are generally not highly concerned about differences (e.g. religious, political, and ideological) and are not specifically reliant on rules to govern behavior. Individual freedom, the right to privacy, and freedom of the press are not highly important or respected. There is a high level of openness to technological change and innovation in the market. Material success is relatively important. Subject to the continuation of tradition in the country's history, women's status is relatively low. The company has relatively strong ties with government agencies, local social networks, and local communities in the target market.

Scenario 2

The target market has a very stable political structure, with a pluralist governmental system based on a majority vote. Consumer and property rights are highly protected in the market. The target market is a developed economy with an estimated average GDP of 43,000 USD (according to the 2018 data). The level of household consumption expenditure (percentage of GDP) in this market is very high.

The target market is characterized by a relatively low degree of equality among people and unbalanced salary payments in organizations. In the past few years, the legal system has been gradually developed and strengthened, but the phenomenon of 'equality before the law' is still not the primary concern in the society. People are generally not highly concerned about differences (e.g. religious, political, and ideological) and are not specifically reliant on rules to govern behavior. Individual freedom, the right to privacy, and freedom of the press are not highly important or respected. There is a high level of openness to technological change and innovation in the market. Material success is relatively important. Subject to the continuation of tradition in the country's history, women's status is relatively low. The company has relatively strong ties with government agencies, local social networks, and local communities in the target market.

Scenario 3

The target market has a relatively stable political structure, and its government system is based on one dominant party. The country's consumer market is large and complex, and it is difficult to keep up with consumer protection and property protection. The target market is a fast-growing economy with an estimated average GDP of 9000 USD (according to the 2018 data). The level of household consumption expenditure (percentage of GDP) in this market has increased substantially in recent years but still has a certain distance to approach the level of developed countries.

The target market is characterized by a high degree of equality among people and fair salary payments in organizations. Equality before the law is highly appreciated. People are generally concerned about differences (e.g. religious, political, and ideological) and are highly reliant on rules to govern behavior. Individual freedom, the right to privacy and freedom of the press are very important and highly respected. There is a relatively low level of openness to technological change and innovation in the market. Material success is not very important and women in the market are not expected to be assertive and ambitious. The company has relatively weak ties with government agencies, local social networks, and local communities in the target market.

Scenario 4

The target market has a very stable political structure, with a pluralist government system based on a majority vote. Consumer and property rights are highly protected in the market. The target market is a developed economy with an estimated average GDP of 43,000 USD (according to the 2018 data). The level of household consumption expenditure (percentage of GDP) in this market is very high.

The target market is characterized by a high degree of equality among people and fair salary payments in organizations. Equality before the law is highly appreciated. People are generally concerned about differences (e.g. religious, political, and ideological) and are highly reliant on rules to govern behavior. Individual freedom, the right to privacy, and freedom of the press are very important and highly respected. There is a relatively low level of openness to technological change and innovation in the market. Material success is not very important, and women in the market are not expected to be assertive and ambitious. The company has relatively weak ties with government agencies, local social networks, and local communities in the target market.

Data availability

Data will be made available on request.

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Goudarz Azar is a Professor of Strategy and International Business and Head of Department of Strategy, Leadership and Operations at Middlesex University, Faculty of Business and Law, in London. Goudarz joined Middlesex University in February 2024 and prior to that worked as Divisional Lead at Brunel University London. He has a BSc in Engineering, MSc in Business Administration and PhD in International Business. Goudarz is a member of the editorial board of *Management International Review* and the *European Journal of International Management*. His research interests include Distance (institutional, cultural, and psychic distance) in International Business, Foreign Location Choice and Innovation Management.

Georgios Batsakis is a Reader in International Business at Brunel Business School in London, and an Associate Professor of International Business at Alba Graduate Business School in Athens. His research focuses on internationalization processes and foreign market entry strategies of multinational enterprises. He has published in leading international business and general management scholarly journals, such as the *Journal of International Business Studies*, *Journal of World Business*, *Global Strategy Journal*, *British Journal of Management*, and *Journal of Product Innovation Management*. In 2022 he was included in the Poets&Quants' Best 40-Under-40 Business School Professors in the world and in the top 10% of scholars in the area of business and management (based on research interest score) by ResearchGate.

Rian Drogendijk is a full professor of International Business, with a chair in Internationalization Strategy. Her research interests center on international expansion strategies of companies, integration of sustainability strategies in multinationals, and communication, learning and political processes in multinational (and multi-cultural) organizations. She has published in leading journals in her domain of interest, including the *Journal of International Business Studies*, *Journal of World Business*, *Business & Society*, *International Business Review* and *Management International Review*. Rian is an Associate Editor of the *Global Strategy Journal* and a member of the editorial review boards of the *Journal of International Business Studies*, *Journal of World Business*, and *Long Range Planning*. She has served as President of the European International Business Academy (EIBA) and as Chair of the Global Strategy interest group in the Strategic Management Society.

Carlos M. P. Sousa is Professor of Marketing and Business Strategy at Molde University College (MUC). He received his PhD from the University College Dublin (Ireland). Prior to joining MUC, he was a Full Professor of Marketing at Durham University (UK) and Lecturer of Marketing at University College Dublin (Ireland) and was visiting professor at universities in Australia, Brazil, Chile, Ireland, Italy, Portugal, Spain, and the UK. Carlos' research interests are in the area of international marketing, international business strategy, innovation management, and services marketing. He has published his work in leading journals, including: *Research Policy*, *Journal of Product Innovation Management*, *R&D Management*, *Journal of International Marketing*, *Journal of World Business*, *Global Strategy Journal*, *British Journal of Management*, *Journal of Business Research* and more. He is currently an Associate Editor for the: *International Marketing Review*, *Journal of Business Research* and *Journal of International Marketing* and sits on the Editorial Review Board of the *Journal of International Business Studies* and *Industrial Marketing Management*.