

**MODERATING EFFECT OF PSYCHIC DISTANCE ON THE  
RELATIONSHIP BETWEEN MARKET ENTRY STRATEGIES AND  
PERFORMANCE OF MULTINATIONAL CORPORATIONS IN KENYA**

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**ABSTRACT**

**Purpose of the Study:** The aim of this study was to examine the influence of psychic distance on the relationship between market entry strategies and organisational performance of multinational corporations in Kenya. The specific objective was to establish the influence of psychic distance on the relationship between market entry strategies and organisational performance.

**Study Methodology:** The study used descriptive cross-sectional research design and collected data using questionnaire after testing its reliability and validity.

**Results and Findings:** The study established that psychic distances moderates the relationship between market entry strategies and organisational performance. The results reveal that  $R^2$  improved from 48.1 to 50.3 percent on financial performance and from 64.0 percent to 65.4 on non-financial performance. The study based on perceived distances suggests that organisations need to advertise one's country in a host market in order to increase exposure and liking and therefore reduce the perceived differences.

**Conclusion:** The results findings makes a contribution to theory development, policy and marketing practice in relation to the effect of psychic distance on the relationship between market entry strategies and organizational performance. The study suggests that there is room for further research using longitudinal design and using group discussion to get more information from the respondents.

**Key words:** *Market Entry Strategies, Psychic Distance, Organisational Performance.*

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**1.1 INTRODUCTION**

Many companies no longer compete within national borders but are increasingly becoming committed to operating in foreign markets due to significant growth opportunities (Sousa & Lages, 2011). These changes can affect firm's performance due to their influence on the association

between mode of market entry and organisational productivity (Couerdacies, De Santis & Aviat, 2009). Moreover, there is a need to identify how perceived differences for the host and home country markets influence the mode of market entry and firm performance.

The mode of entry determines the resources that the firm can dedicate to its foreign operations, the risk that the firm can bear and the degree of control the firm can exercise over its foreign market activities (Zekiri & Angelova, 2011)

Dowling *et al.* (2011) define psychic distance as the perceived difference between the environment of the firm's foreign country and home country environment. Dikova (2009) noted that psychic distance results from differences in local consumer preferences, culture and business systems between the home country and foreign country. The perceived distance between a foreign and a home market greatly determines the way companies communicate, collaborate, or trade, and this distance only works to the advantage of markets that are closer to the home country.

Performance management seeks to transform the mission, vision, and ideas of management teams into actionable strategies that can undergo measurement, corrections or modifications (Rolnicki, 2011). According to Lusthaus *et al.* (2002), expression of performance of organisations is evident through financial stability, relevance, efficiency, and effectiveness, and it is affected by external environment, internal environment, and its underlying capacity.

Multinational corporations (MNCs) refer to those entities with headquarters in a given country which still carry out businesses in different markets located abroad. MNCs must operate from a given central office that allows them to carry out coordination of how their goods and service move. Rugman and Collins (2009) assert that MNCs seek to do business globally essentially because of the fact that they aspire to provide to the diverse needs of clients.

## **1.2 Objective of the Study**

The objective of the study was to determine the moderating effect of psychic distance on the relationship between market entry strategies and organisational performance of the multinational companies operating in Kenya.

## **2.1 LITERATURE REVIEW**

### **2.2 Theory of Location Advantage**

As argued by Hessels (2008), the location advantage theory discusses the market entry strategies, which largely have ramification on the organizational performance. This theory implies that firms originating from locational advantageous countries would develop strong competitive advantages based on the resources abundant in their home countries, and will become dominant global players in the industries in which their home country is comparatively advantageous (Dunning, 2001).

According to Yang *et al.* (2011), the location of a business determines the success of that business in terms of attracting investment. Natural business location offers significant benefits such as cheap means of production, availability of raw materials, and nearness to potential markets. Location theory attempts to account, in a consistent and logical way, for the distribution and location of economic activity in space and for the manner in which the various facets of economic activity are interrelated. The theory has been criticized due to its assumption that factors of production are immobile between countries (Bradley, 1991).

However, artificial location advantages exists that comprises of the infrastructural developments such ICT, public service, transport and the statutory mandates such as financial climate regulations, tax policies, and governmental regulations. Ottaviano and Puga (2012) argued that these factors are in terms of differences in policies, endowments, and technologies. Kosure (2015) observed that the various components of location advantage are essential in enabling businesses to set foot in new markets. The theory of location advantage is applicable in this study because it discusses the influence of psychic distance and the approaches that the MNCs apply as a means of selecting the appropriate mode of entry to new markets.

### **2.3 Market Entry Strategies, Psychic Distance and Organizational Performance**

Sharma and Sallis (2006) conducted a study and established that firms dealing in services employ dissimilar approaches of entering new markets and this pegs on the extent of the risk in that given market. Further, firms consider psychic distance before entering new markets, whereby firms employ low entry modes when the psychic distance is high and employ high control entry modes when the psychic distance is low,(Hennart & Lavino, 1998). The assertion by Hennart and Lavino (1998) on the psychic distance is empirically supported by other scholars such as Zaheer *et al.* (2012); Evans and Mavondo (2002); Malhotra, Sivakumar and Zhu (2009). Hollensen (2007) argued that firms prefer to do exports to countries that are psychically close to their home countries. The argument is that high psychic distance hampers prospective firms from gathering market information from distance markets as pointed out by Eriksson, Johanson and Majgaard (1997).

Existing studies such as Sousa and Lengler (2009); Evans and Mavondo (2002) noted the existence of a significant relationship between perceived psychic distance and performance; however, this assertion contradicts the previous assumptions. On the same breadth, there exist studies on the association between psychic distance, strategies of market entry and performance of firms.

### **3.1 RESEARCH METHODOLOGY**

The study used a descriptive cross-sectional design that involves collection of data at a single point in time (Zikmund, 2003). The study population for this research encompassed MNCs operating in the republic of Kenya. According to the Kenya Association of Manufacturers (KAM, 2011), there are 213 multinational corporations operating in Kenya.

The study sample size calculated using the formula for finite population as proposed by Yamane (1967).

$$n = \frac{N}{1+N(e^2)}$$

Where:

n= desired sample size

N= Population

e = margin of error at 5% (standard value of 0.05)

The sample size for the study was:

$$n = 213$$

$$1 + 213(0.05)^2 = 139$$

Three employees per organization were targeted from these 139 firms. Stratified sampling was used to establish proportionate sample from each stratum then sample selection from each strata

was done using simple random sampling. The respondents were the top management (the Country director, Marketing Director and Operations Manager). Secondary and primary data was used in the study. The questionnaire was used to solicit primary data.

#### **4.1 DATA ANALYSIS, INTERPRETATIONS AND DISCUSSIONS**

The results of the KMO and Bartlett's Test for psychic distance are summarized in Table 1

**Table 1: Psychic Distance KMO Sampling Adequacy and Bartlett's Sphericity Tests**

<b>KMO and Bartlett's Test</b>	<b>Statistics</b>
Kaiser-Meyer-Olkin Measure	.765
Bartlett's Chi- Square	2284
Bartlett's df	253
Bartlett's Sig.	.000

Source: Primary data

Table 1 show that the KMO statistic for psychic distance was .765 which was significantly greater than the critical level of significance of the test which was set at 0.5. In addition to the KMO test, the Bartlett's Test of Sphericity was also significant (Chi-square = 2284.022 with 253 degree of freedom, at  $p=0.000 < 0.05$ ). These results provide an excellent justification for further statistical analysis to be conducted.

Factor analysis was conducted on the items describing psychic distance and results recorded in Table 2.

**Table 2: Psychic Distance Factor Loadings**

<b>Item</b>	<b>Factor loadings</b>
<b>Perceived geographical differences</b>	
We have a shared boundary in this country with our parent company country	.691
There is a short geographical distance from our parent company country to this country	.631
There is time related risk when shipping goods from our parent company country port to Mombasa port	.795
When our staff visit parent company country our company incurs substantial freight expenses	.777
We have a number of immigrants and visitors from this country to our parent company country	.886
We have a number of immigrants and visitors from parent company country in this country	.867
<b>Perceived cultural difference</b>	
We have similar national language in this country as our parent company country	.696
We speak similar business language with our parent company country	.641
This country regularly plays same sports with our parent company country	.845
We have closer historical and colonial ties in this country with our parent company country	.917
We use similar alphabet letters in this country as in our parent company country	.860

The level of education of our managers in this country is the same as the one found in our parent company country managers	.887
We have similar religions in this country and in our parent company country	.839
We have similar form of government in this country as in our parent company country	.817
We sell same standardized products in this country and our parent country	.653
We sell different products(adaptations) in this country from the ones sold in our parent country	.708
<b>Perceived economic difference</b>	
Our parent company country uses same currencies as the one used in this country	.750
We have same level of development in this country as our parent company country	.846
This country and our parent company country belong to the same economic group/membership	.939
The level of corruption in our parent company country is the same as the one found in this country	.877
The marketing structure in this country is the same as in our parent company country	.701
We have strong commercial ties in this country with our parent company country	.709
We use same technology in this country as the one in our parent company country	.715

Source: Primary data

The results in Table 2 indicate that “This country and our parent company country belong to the same economic group/membership” had the highest coefficient of 0.939 and that “There is a short geographical distance from our parent company country to this country” had the lowest coefficient of 0.631.

In general, factor analysis conducted on all the items describing psychic distance yielded a coefficient of more than 0.5; hence, they were retained for further analysis.

#### 4.2 Measures of Psychic Distance

The sub-constructs of psychic distance were perceived geographical differences, perceived cultural difference and perceived economic difference. Twenty three items (23) items were used to measure psychic distance. Respondents were asked to respond to items measuring psychic distance. Responses were given on a five-point Likert scale where 1=not at all; 2=to a small extent; 3=to a moderate extent; 4=to a large extent; 5=to a very large extent. The scores for ‘large extent’ and ‘very large extent’ were lumped together, the scores for moderate extent were explained individually, and the scores for ‘a small extent’ and ‘not at all’ were also explained separately. Respondent’s views about these sub-constructs were sought and the ratings presented. The results were measured using mean scores and coefficient of variation as presented in Table 3. For purposes of this study, the coefficients of variation ratings were determined as 0 to 25% very good, 26 to 50% good, 51 to 75% fair and 76 to 100% poor.

**Table 3: Summary Scores for Measures of Psychic Distance**

<b>Psychic distance</b>	<b>Mean Scores</b>	<b>Std Dev</b>	<b>CV (%)</b>
<b>Perceived geographical differences</b>			
We have a shared boundary in this country with our parent company country	1.82	1.10	61
There is a short geographical distance from our parent company country to this country	1.90	1.09	57
There is time related risk when shipping goods from our parent company country port to Mombasa port	3.03	1.22	40
When our staff visit parent company country our company incurs substantial freight expenses	3.27	1.32	40
We have a number of immigrants and visitors from this country to our parent company country	2.76	1.51	55
We have a number of immigrants and visitors from parent company country in this country	2.74	1.33	49
<b>Average</b>	<b>2.59</b>	<b>1.26</b>	<b>49</b>
<b>Perceived cultural difference</b>			
We have similar national language in this country as our parent company country	2.65	1.51	57
We speak similar business language with our parent company country	3.22	1.37	43
This country regularly plays same sports with our parent company country	2.70	1.43	53
We have closer historical and colonial ties in this country with our parent company country	2.68	1.50	56
We use similar alphabet letters in this country as in our parent company country	2.72	1.51	56
The level of education of our managers in this country is the same as the one found in our parent company country managers	3.03	1.30	43
We have similar religions in this country and in our parent company country	2.96	1.39	47
We have similar form of government in this country as in our parent company country	2.89	1.44	50
We sell same standardized products in this country and our parent country	3.38	1.36	40
We sell different products(adaptations) in this country from the ones sold in our parent country	2.93	1.37	47
<b>Average</b>	<b>2.92</b>	<b>1.42</b>	<b>49</b>
<b>Perceived economic difference</b>			
Our parent company country uses same currencies as the one used in this country	2.12	1.26	60
We have same level of development in this country as our parent company country	2.13	1.19	56
This country and our parent company country belong to the same economic group/membership	1.96	1.23	63



The level of corruption in our parent company country is the same as the one found in this country	1.91	1.20	63
The marketing structure in this country is the same as in our parent company country	2.77	1.30	47
We have strong commercial ties in this country with our parent company country	3.64	1.23	34
We use same technology in this country as the one in our parent company country	3.35	1.09	33
<b>Average</b>	<b>2.55</b>	<b>1.21</b>	<b>50</b>
<b>Overall</b>	<b>2.72</b>	<b>1.31</b>	<b>49.9</b>

Source: Primary data

Table 3 indicates that the most influential construct of psychic distance influencing organisational performance is perceived geographical differences with a coefficient of variation (CV) of 49%, mean score of 2.59 and standard deviation of 1.26. However, perceived economic difference with a coefficient of variation (CV) of 50%, an average mean score of 2.55 and average standard deviation of 1.21 is the least influential construct of psychic distance in influencing organisational performance.

From these results, perceived geographical differences, perceived cultural difference and perceived economic difference are good sub constructs of psychic distance in explaining organizational performance. This is explained by an overall mean score response of 2.72 and CV results of 49.9%.

### 4.3 Moderating Effect of Psychic Distance and Organizational Performance

The study objective was set to determine whether the relationship between market entry strategies and organisational performance is significantly moderated by psychic distance. The moderating effect is tested in terms of how the effect of independent variable on dependent variable changes when a moderator is introduced. Moderating effect of psychic distance was tested using both financial performance and non-financial performance parameters. To establish the moderating of effect psychic distance using financial performance parameters, the following hypothesis was formulated:

**H<sub>1a</sub>:** *There is significant Moderating Effect of Psychic distance on the Relationship between Market Entry Strategies and financial organisational performance*

The first step involved testing the influence of market entry strategies on organizational performance. The second step tested the effect of predictor variables (Market entry strategies and psychic distance) on criterion variable (organizational performance). In the third step, an interaction term (computed as the product of standardized values for Market entry strategies and psychic distance) was introduced and tested for its effect on organization performance (financial parameters). Moderation is established if the effect of interaction on organizational performance in the third step is significant. Regression results are presented in Table 4.

**Table 4: Regression Results for Moderating Effect of Psychic Distance and Financial Performance**

Model Summary							
Model		R	R Square		Adjusted R Square	Std. Error of the Estimate	
1	Market entry strategies	.692	.450		.445	15.18698	
2	Market entry strategies Psychic distance	.694	.481		.459	15.22772	
3	Market entry strategies Psychic distance, and MES*MCD	.707	.503		.487	14.81076	
ANOVA							
Model			Sum of Squares	df	Mean Square	F	Sig.
1	Market entry strategies	Regression	13807.836	1	13807.836	59.866	.000
		Residual	25601.526	111	230.644		
		Total	39409.363	112			
2	Market entry strategies Psychic distance	Regression	14814.632	2	7407.316	33.129	.000
		Residual	24594.731	110	223.588		
		Total	39409.363	112			
3	Market entry strategies Psychic distance, and MES*PD	Regression	15499.272	3	5166.424	23.552	.000
		Residual	23910.091	109	219.359		
		Total	39409.363	112			
Coefficients							
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
		B	Std. Error	Beta			
1	(Constant)	-44.081	8.951		-4.924	.000	
	Market entry strategies	17.839	2.306	.592	7.737	.000	
2	(Constant)	-47.904	8.996		-5.325	.000	
	Market entry strategies	13.774	2.970	.457	4.637	.000	
	Psychic distance	5.395	2.543	.209	2.122	.036	
3	(Constant)	31.903	46.044		.693	.490	
	Market entry strategies	6.663	1.936	.221	3.442	.026	
	Psychic distance	17.520	5.213	.679	2.820	.031	
	MES*PD	5.751	2.255	1.429	2.550	.043	
Model 1 Predictors (Constant) Market entry strategies							
Model 2 Predictors: (Constant) Market entry strategies and Psychic distance							
Model 3 Predictors: (Constant) Market entry strategies and Psychic distance and Interaction term.							
Dependent Variable: Organizational Performance (using financial performance parameters)							

Source: Primary data

**Key: MES=Market entry strategies, PD=Psychic distance**

The regression results in Table 4 are explained in this section. In step one; organizational performance (measured using financial parameters) was regressed on market entry strategies. The

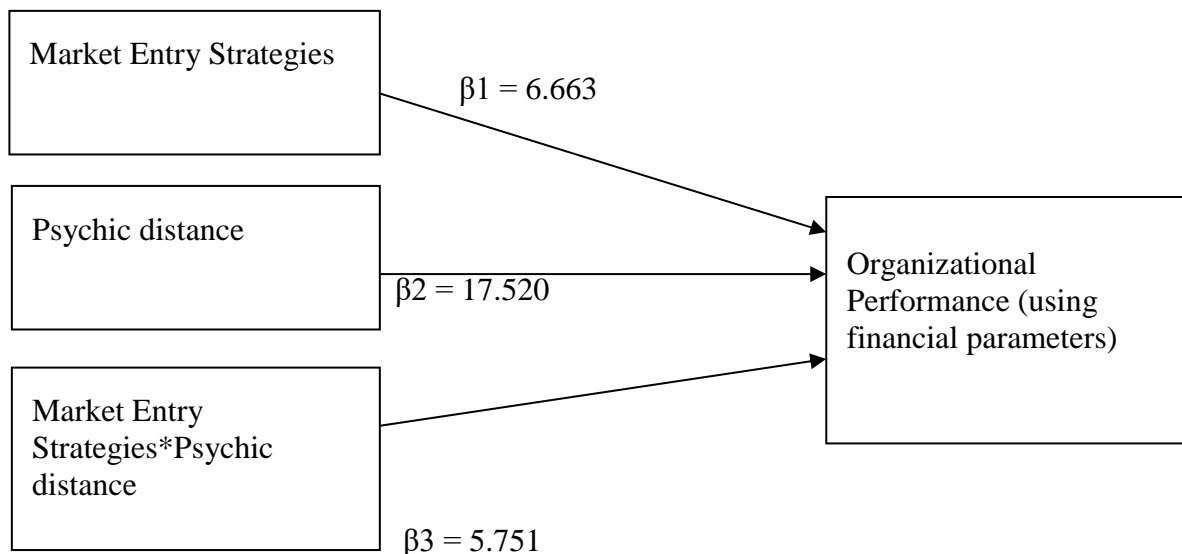


results indicate that market entry strategies accounts for 45.0 percentage change in financial performance ( $R^2=.450$ ,  $P<0.05$ ). The overall model was significant ( $F= 59.866$ ,  $\beta_1= 17.839$ ,  $P< 0.05$ ). The beta coefficient implies that one unit change in market entry strategies is associated with 17.839 change in financial performance. The results in the first step were all significant.

The moderator, psychic distance was added in step two. The introduction of the moderator, psychic distance, significantly improves the influence of market entry strategies on organizational performance measured using financial parameters from 45.0 percent to 48.1percent. Market entry strategies and psychic distance together explain 48.1 percent of change in organization performance. The overall model was statistically significant ( $F= 33.129$ ,  $P<0.05$ ). Similarly, the beta coefficients for market entry strategies and psychic distance ( $\beta_1=13.774$ ;  $\beta_2=5.395$ ) respectively were statistically significant.

In step 3, the interaction term was introduced in the regression model. All the variables, market entry strategies and psychic distance and the interaction term (Market entry strategies\* psychic distance) were entered in the regression model. The results reveal that  $R^2$  improved from 48.1percent in step two to 50.3percent in step three. The overall model in step 3 yielded results that indicate that the interaction was statistically significant ( $F=23.552$ ,  $P<0.05$ ). The beta coefficients for market entry strategies and psychic distance and the interaction term were statistically significant ( $\beta_1=6.663$ ;  $\beta_2=17.520$ ;  $\beta_3=5.751$ ).

The result implies that psychic distance moderate the relationship between market entry strategies and organizational performance (measured using financial parameters). This means that changes in psychic distance strengthens the relationship between market entry strategies and organizational performance. Figure 1 contains the path diagram illustrating the moderating effect of psychic distance.



**Figure 1: Moderation Path Diagram for the Effect of Psychic Distance and Financial Performance**

Source: Primary data

The substituted regression equation for estimating the moderating effect of psychic distance on the relationship between market entry strategies and organizational performance measured using financial parameters is as follows:

$$FP_3 = \beta_0 + \beta_{21}MES + \beta_{22}PD + \beta_{23}MES*PD + \epsilon$$

$$FP_3 = 31.903 + 6.663MES + 17.520PD + 5.751MES*PD$$

Where:

$FP_3$  = Organizational Performance (using financial performance parameters)

MES = Market entry strategies

PD = Psychic distance (Moderator)

MES\*PD = Interaction Term

$\epsilon$  = Error Term

The regression equation suggests that a unit change in market entry strategies causes an increase of 6.663 in organizational performance measured using financial parameters. A unit change in psychic distance causes an increase of 17.520 in the organizational performance. Further, a unit change in the interaction of market entry strategies and psychic distance causes an increase of 5.751 in organizational performance.

The results therefore provided evidence in support of the hypothesis that psychic distance moderates the relationship between market entry strategies and financial performance.

To establish the moderating of effect psychic distance using non-financial performance parameters, the following hypothesis was formulated:

**H<sub>1b</sub>:** *There is significant influence of Psychic Distance on the Relationship between Market Entry Strategies and non-financial organisational performance*

The study established the moderating of effect *psychic distance* using non-financial performance parameters. The moderating effect was tested using stepwise regression analysis proposed by Baron and Kenny (1986). The first step involved testing the influence of market entry strategies on organizational performance using non-financial performance parameters. The second step tested the effect of predictor variables (Market entry strategies and *Psychic Distance*) on criterion variable (organizational performance). In the third step, an interaction term (computed as the product of standardized values for Market entry strategies and *Psychic Distance*) was introduced and tested for its effect on organization performance (measured using non-financial performance parameters). Moderation is established if the effect of interaction on organizational performance in the third step is significant. Relevant regression results are presented in Table 5.

**Table 5: Regression Results for Moderating Effect of Psychic Distance and Non-Financial Performance**

Model Summary							
Model		R	R Square		Adjusted R Square	Std. Error of the Estimate	
1	Market entry strategies	.741	.549		.545	.44976	
2	Market entry strategies Psychic distance	.800	.640		.634	.40346	
3	Market entry strategies Psychic Distance, and MES*PD	.809	.654		.644	.39753	
ANOVA							
Model			Sum of Squares	df	Mean Square	F	Sig.
1	Market entry strategies	Regression	27.301	1	27.301	134.961	.000
		Residual	22.454	111	.202		
		Total	49.755	112			
2	Market entry strategies Psychic Distance	Regression	31.849	2	15.924	97.826	.000
		Residual	17.906	110	.163		
		Total	49.755	112			
3	Market entry strategies Psychic distance, and MES*PD	Regression	32.530	3	10.843	68.614	.000
		Residual	17.226	109	.158		
		Total	49.755	112			
Coefficients							
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
		B	Std. Error	Beta			
1	(Constant)	.971	.265		3.664	.000	
	Market entry strategies	.793	.068	.741	11.617	.000	
2	(Constant)	.714	.243		2.943	.004	
	Market entry strategies	.520	.080	.486	6.488	.000	
	Psychic Distance	.363	.069	.396	5.286	.000	
3	(Constant)	-1.802	1.236		-1.458	.148	
	Market entry strategies	1.164	.320	1.087	3.634	.000	
	Psychic distance	1.085	.355	1.184	3.060	.003	
	MES*PD	.181	.087	1.268	2.075	.040	
Model 1 Predictors (Constant) Market entry strategies							
Model 2 Predictors: (Constant) Market entry strategies and Psychic distance							
Model 3 Predictors: (Constant) Market entry strategies and Psychic distance and Interaction term.							
Dependent Variable: Organizational Performance (using non-financial performance parameters)							

Source: Primary data

**Key: MES=Market entry strategies, PD= Psychic distance**

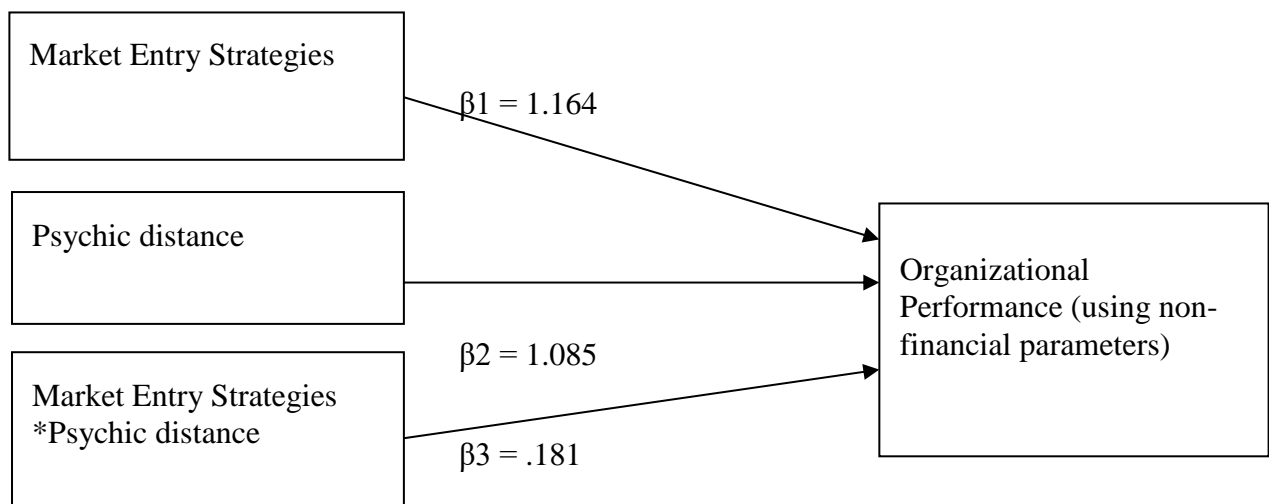
The regression results in Table 5 are explained in this section. In step one; organizational performance (measured using non-financial parameters) was regressed on market entry strategies.

The results indicate that market entry strategies accounts for 54.9 percentage change in non-financial performance ( $R^2=.549$ ,  $P<0.05$ ). The overall model was significant ( $F= 134.961$ ,  $\beta_1=.793$ ,  $P< 0.05$ ). The beta coefficient implies that one unit change in market entry strategies is associated with .793 changes in non-financial performance. The results in the first step were all statistically significant.

The moderator (psychic distance) was added in step two. The introduction of the moderator, psychic distance, significantly improves the influence of market entry strategies on organizational performance measured using non-financial parameters from 54.9 percent to 64.0 percent. Market entry strategies and psychic distance together explain 64.0 percent of the variance in non-financial performance. The overall model was statistically significant ( $F= 97.826$ ,  $P<0.05$ ). Similarly, the beta coefficients for market entry strategies and psychic distance ( $\beta_1=.520$ ;  $\beta_2=.363$ ) respectively were statistically significant.

In step 3, the interaction term was introduced in the regression model. All the variables, market entry strategies and psychic distance and the interaction term (Market entry strategies\* psychic distance) were entered in the regression model. The results reveal that  $R^2$  improved from 64.0 percent in step two to 65.4 percent in step three. The overall model in step 3 yielded results that indicate that the interaction was statistically significant ( $F=68.614$ ,  $P<0.05$ ). The beta coefficients for market entry strategies and psychic distance and the interaction term were statistically significant ( $\beta_1=1.164$ ;  $\beta_2=1.085$ ;  $\beta_3=.181$ ).

The result implies that psychic distance moderate the relationship between market entry strategies and organizational performance (measured using non-financial parameters). This means that changes in psychic distance strengthens the relationship between market entry strategies and non-financial performance. Figure 3 contains the path diagram illustrating the moderating effect of psychic distance on the relationship between market entry strategies and non-financial performance.



**Figure 3: Moderation Path Diagram for the Effect of Psychic Distance and Non-Financial Performance**

Source: Primary data

The substituted regression equation for estimating the moderating effect of psychic distance on the relationship between market entry strategies and organizational performance measured using non-financial parameters is as follows:

$$NFP_3 = \beta_0 + \beta_{21}MES + \beta_{22}PD + \beta_{23}MES*PD + \epsilon$$

$$NFP_3 = -1.802 + 1.164MES + 1.085PD + .181MES*PD$$

Where:

NFP<sub>3</sub> = Organizational Performance (using non-financial performance parameters)

MES = Market entry strategies

PD = Psychic distance (Moderator)

MES\*PD = Interaction Term

$\epsilon$  = Error Term

The regression equation suggests that a unit change in market entry strategies causes an increase of 1.164 in organizational performance measured using non-financial parameters. A unit change in psychic distance causes an increase of 1.085 in non-financial performance. Further, a unit change in the interaction of market entry strategies and psychic distance causes an increase of .181 in non-financial performance. The results therefore provided evidence in support of the hypothesis that psychic distance moderates the relationship between market entry strategies and non-financial performance.

Overall, the study results support the hypothesis (**H1**) that psychic distance moderates the relationship between market entry strategies and organisational performance.

## **5.1 CONCLUSIONS**

### **5.1.1 Moderating Effect of Psychic Distance and Organisational Performance**

The objective was to establish the influence of psychic distance on the relationship between market entry strategies and organisational performance. The study hypothesised that there is a significant influence of Psychic distance on the Relationship between Market Entry Strategies and Organisational Performance using financial performance indicators (**H<sub>1a</sub>**). It was also hypothesized that there is a significant influence of psychic distance on the relationship between market entry strategies and Organisational Performance measured using non-financial performance indicators (**H<sub>1b</sub>**).

Based on the hypothesis that there is a significant influence of Psychic distance on the Relationship between Market Entry Strategies and Organisational Performance using financial performance indicators (**H<sub>1a</sub>**), it was found that market entry strategies accounts for 45.0 percentage change in financial performance. In step 2, the moderator (psychic distance) and market entry strategies together explain 48.1 percent of the variance in organization performance measured using financial indicators. In step 3, the interaction term was introduced in the regression model. All the variables, market entry strategies and psychic distance and the interaction term were entered in the regression model. The results reveal that R<sup>2</sup> improved from 48.1 percent in step two to 50.3 percent in step three. The results therefore provided evidence in support of the hypothesis that psychic distance moderates the relationship between market entry strategies and financial performance.

On the hypothesis that there is a significant influence of psychic distance on the relationship between market entry strategies and Organisational Performance measured using non-financial

performance indicators ( $H_{1b}$ ), it was found that market entry strategies accounts for 54.9 percentage change in non-financial performance. In step 2, the moderator (psychic distance) and market entry strategies together explain 64.0 percent of the variance in non-financial performance. In step 3, the interaction term was introduced in the regression model. All the variables, market entry strategies and psychic distance and the interaction term were entered in the regression model. The results reveal that  $R^2$  improved from 64.0 percent in step two to 65.4 percent in step three. The results therefore provided evidence in support of the hypothesis that psychic distance moderates the relationship between market entry strategies and non-financial performance.

The sub-constructs of psychic distance were perceived geographical differences, perceived cultural difference and perceived economic difference. Descriptive statistics showed that perceived geographical differences, perceived cultural difference and perceived economic difference are good sub constructs of psychic distance in explaining organizational performance. This is explained by an overall mean response of 2.72 and coefficient of variation results of 49.9%. The study established that the relationship between market entry strategies and organisational performance is positive and significantly related. There was a significant change in the coefficient of determination after moderation. The study concludes that psychic distance influences the relationship between market entry strategies and organisational performance.

The limitations of the study include measuring organizational performance using both financial and non-financial parameters from both primary and secondary data might compromise the actual results of the study than when only non-financial or financial indicators from either primary or secondary data are adopted. This is because some information relies on respondents' perception and opinions. Another limitation was that the study adopted cross sectional research design this approach involved collecting data at a single point in time. The shortcoming of such design is that it does not detect causal effects of variables. However, a longitudinal approach would have provided a better assessment of the relationship between the study variables. The limitations however did not affect the overall design and the outcome of the study. The study suggests that future research studies using longitudinal research design may be adopted. Longitudinal research studies unlike cross section research studies will allow the use of data in examining the influence of psychic distance on the relationship between market entry strategies and organisational performance over time. The study also recommends further research be conducted to find out if psychic distance influence on the relationship between market entry strategies and organisational performance changes with industry that is, does the effect and direction of psychic distance on the relationship change with industry?. In addition, comparative studies should be done on multinationals corporations from Asia versus the ones from Europe and America and note if there is any significant difference on the influence of psychic distance on the relationship between market entry strategies and organisational performance of these two groups of MNCs.

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