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POINT
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Integrating Diversity into Distance Research for Added Rigor, Parsimony, and Relevance

Tatiana Kostova[a] and Sjoerd Beugelsdijk[b]

[a]University of South Carolina; [b]University of Groningen

ABSTRACT The management of cross-national differences is of central concern in international business (IB) and international management (IM). Thus, it is not surprising that the concept of distance which captures such differences has received much attention in this field. Lumineau, Hanisch, and Wurtz, in their Point article, seek to strengthen distance research by challenging one of its key assumptions – country level homogeneity – and advancing an alternative view of country differences based on the notion of diversity. We concur with their critique of the homogeneity assumption and with the general idea of bringing in the concept of diversity. However, our approach to this goal is substantially different. Instead of *replacing* distance with a diversity-based conceptualization, as they seem to propose, our emphasis is on *integrating* diversity into current distance research. Moving beyond critique and high-level conceptualizing, we provide a usable roadmap for *incorporating* diversity into distance research both theoretically and empirically. Specifically, we introduce a new construct of intra-country diversity that captures the condition of within-country differences, and then, explain how it can be used to enrich distance models, illustrating our approach with several key IB/IM topics. Empirically, we use available cross-cultural data to illustrate how to account for different degrees and patterns of intra-country diversity in distance research. Overall, our approach aims at building on, not negating, existing distance research, increasing its rigor and relevance through the concept of diversity, and helping scholars incorporate diversity into their work by providing concrete guidelines and examples.

Keywords: distance, diversity, intra-country diversity, parsimony

INTRODUCTION

We applaud Lumineau, Hanisch, and Wurtz for raising the important issue of intra-country diversity which has been mostly ignored in distance research, and for offering

interesting ideas of how diversity could and should be utilized in studies of cross-country differences. We too think that the literature on diversity can be very helpful for developing a more relevant and rigorous understanding of distance. However, we have some concerns about their overall thesis as well as some of the specifics in their approach. Overall, their proposal to substitute the distance construct with a diversity construct may cause confusion and disruption to already well-established and productive research. Instead, we propose a measured and disciplined *integration* of diversity into existing distance theory, where diversity can further enrich the construct of distance theoretically and empirically.

Recognizing that their goal was to challenge existing perspectives on distance and to propose alternatives, we are nonetheless concerned that their approach is both underspecified and too abstract. In our essay, we seek to advance the discussion by providing additional specificity around four critical areas. First, in our view Lumineau, Hanisch, and Wurtz apply the notion of diversity rather indiscriminately to all types of distance, and as such, do not provide clear boundary conditions to that application, an oversight that has practical consequences given the plethora of distance constructs used in IB/IM research. We suggest that the issue of intra-country diversity is more relevant for some types of distance than others. Second, unlike Lumineau, Hanisch, and Wurtz, who borrow the diversity construct primarily from the literature on teams (e.g., (Olson et al., 2007) and apply it broadly to distance research, we develop an alternative approach for employing diversity in the study of distance in IB/IM. Specifically, building on past work that has acknowledged within-country variation, we introduce a new construct – intra-country diversity and focus on two particular characteristics of diversity – degree and pattern –, which we suggest are most relevant to the discussion on distance. Third, we show how to theoretically integrate diversity into existing applications of distance illustrating such theorizing with two widely studied phenomena in IB/IM – liability of foreignness and cross-border transfer of practices. Fourth, we provide the reader with tools of how to empirically account for diversity in measurement of distance. Overall, we believe that Lumineau, Hanisch, and Wurtz have initiated a useful discussion on the importance of incorporating diversity into distance research, but that their approach is too generic, undifferentiated, underspecified, and somewhat extreme in their assessment of the value of the existing literature on distance. In contrast, our perspective builds on the strengths of past research and retains the core conceptualization of the distance construct, while acknowledging the potential value of diversity for explicating and specifying that construct further. We believe our approach is more comprehensive, rigorous, and actionable, and as such, holds more promise for strengthening distance research.

DISTANCE RESEARCH CRITIQUE FUNDAMENTALS

As Lumineau, Hanisch, and Wurtz summarize, distance is a core construct in IB/IM research (Zaheer et al., 2012). It has proliferated from the initial focus on psychic and cultural distance to other types, such as institutional, geographic, economic, and administrative and has been found to affect various phenomena of cross-country nature, such as location choice and firm internationalization (Belderbos et al., 2017; Berry et al.

2010; Hutzschenreuter et al., 2011; Johanson and Vahlne, 1977; Shenkar et al., 2008), legitimacy and liability of foreignness of MNCs (Kostova and Zaheer, 1999; Salomon and Wu, 2012; Wu and Salomon, 2016; Zaheer, 1995; Zhou and Guillén, 2016), transfer and diffusion of organizational practices within MNCs (Kostova, 1999; Kostova and Roth, 2002), foreign market entry mode (Estrin et al., 2009; Hennart and Larimo, 1998; Schwens et al., 2011; Xu and Shenkar, 2002), and integration of joint ventures and cross border acquisitions (Barkema et al., 1996), among many others (see Beugelsdijk et al., 2018a for an overview on cultural distance and Kostova et al., 2020 for an overview on institutional distance). Overall, distance research has been extremely impactful and productive for the IB/IM field, however, not without criticism. Most of the critique has been directed to cultural distance (Kogut and Singh, 1988) which continues to dominate the literature (Harzing and Pudelko, 2016).

Since the distance construct was introduced for the purposes of capturing cross-national differences, it has been conceptualized at the country and specifically at the two-country dyadic level and has implicitly assumed country level distinctiveness and intra-country homogeneity. Lumineau, Hanisch, and Wurtz are not the first to challenge the latter assumption of homogeneity, recognizing that there can be diversity within countries, which if not accounted for, may raise questions about the validity of distance studies altogether (e.g., Au, 1999; Caprar et al., 2015; Shenkar, 2001; Tung and Verbeke, 2010). Indeed, there is empirical evidence of substantial variation in the strength of national cultural norms (Gelfand et al., 2011) which sometimes may lead to greater within-country than between country cultural variation (Fisher and Schwartz, 2011).

Although this critique and the calls to account for intra-country diversity are well established (Beugelsdijk et al. 2017; Caprar et al., 2015; Dheer et al., 2015; Lenartowicz and Roth, 2001; Shenkar, 2001; Tung and Verbeke, 2010), they continue to be mostly that – a critique and a beginning of a conversation. To date, this has not been followed by more substantive and clarifying work to evaluate the seriousness of the problem and more importantly, to provide concrete ideas and guidelines on how to handle intra-country diversity theoretically and empirically (Dow et al., 2016; Venaik and Midgley, 2015). That is why we commend Lumineau, Hanisch, and Wurtz's effort to take the next step by redirecting the theoretical attention to the construct of diversity. This is timely and relevant. At the same time, we believe that the approach presented in their Point essay falls short in its effort to provide an actionable approach for IB/IM scholars to embrace diversity in distance research. Indeed, it may even have the unintended consequence of destabilizing the distance literature by causing confusion and offering little concrete guidance on how to resolve the points of critique.

SPECIFY BOUNDARY CONDITIONS – TYPE OF DISTANCE

Lumineau, Hanisch, and Wurtz fail to discuss the potential generalizability of their diversity-based ideas to other types of distance beyond cultural, which is important given the proliferation of the distance construct. Our view is that intra-country diversity might be an issue for many types of distance, but the way it manifests itself and needs to be handled would depend on the type. To start off, there are certain country differences that

are based on objective country indicators and, therefore, do not present any concerns for scholars using country level distance measures, for example geographic distance (which is usually measured as the distance between the capital cities of two countries) or legal distance (measured as binary difference in legal systems). For those, intra-country diversity becomes important only if a particular study focuses on certain parts of the country which may objectively differ in geography (e.g., investing in the Far East vs. the European regions of Russia), or possibly in political and legal systems (which would be rare).

The second category of distances that might need consideration of intra-country diversity are those that exhibit variance below the county-level but can be objectively measured at that level without needing to modify underlying theories. For example, some researchers have studied the institutional diversity in China by analysing different provinces in China (Chan et al. 2010; Deng et al., 2018; Zhong et al., 2019). While important to recognize in studies of institutional embeddedness of various IB/IM phenomena, this condition can be easily handled by using regional level institutional indicators without any changes to the theoretical argumentation. Examples of such types of distance might include administrative, economic, or linguistic distance, which are simply defined at the regional rather than the national level. Other ways of structuration of national environments, for example industry, can also introduce sub-national variation that needs to be accounted for, but again, the solution is simply changing the level of analysis and measurement from country to industry.

Diversity is of the greatest concern in types of distance that capture social and psychological contextual dimensions such as culture and certain types of institutions studied in the organizational institutionalism perspective (Kostova et al., 2020). For the latter, this is particularly true for the cognitive and normative institutional dimension that reflect social knowledge, norms, and internalized understandings of taken for granted social practices. The subjective element in those contextual dimensions introduces variation by individual or social group due to various experiences and interpretations, that could make country-level averages less meaningful. Bringing in diversity theory in distance research thus first and foremost requires a clear definition of the relevant distance aspects of interest.

To conceptualize diversity in the context of distance, we introduce a new construct that can facilitate the integration of diversity in distance research. We present our approach specifically for cultural distance but note that similar adjustments and extensions of distance models can be proposed for institutional or other types of distance.

RECONCEPTUALIZING DIVERSITY FOR DISTANCE RESEARCH

In our view, Lumineau, Hanisch, and Wurtz rely heavily on group-focused diversity research (Harrison and Klein, 2007) at the expense of other relevant work. They also apply Harrison and Klein's framework rather directly without the necessary adjustments to the cross-national context. Moreover, they discuss diversity (and implicitly distance) at multiple levels of analysis – individual, organizational, and country without theoretical justification. This is one of our biggest concerns because it seems to shape most of their Point Essay. The distance construct has been conceptually defined in the IB/IM

literature at the country dyad level. Adding other levels of analysis is inconsistent with the conceptual core of this construct and creates theoretical messiness, because of the multitude of different perspectives, theories, and explanations that operate at the various levels. As the authors themselves state, 'We suggest some theories to provide guidance and facilitate researchers work in the pursuit of these research directions' (p. 13). We offer an alternate approach. To capture the diversity condition, while at the same time staying true to the conceptualization of distance in the literature, we propose the construct of intra-country diversity.

Intra-Country Diversity

Diversity has been defined as 'the representation, in one social system, of people with distinctively different group affiliations of cultural significance', that is, differences that help distinguish one group from another (Cox et al., 1991, p. 6). The concept is applicable to any collective entity including teams, organizations, communities, and nation states. Diversity can relate to different characteristics of the entity such as demography, ethnicity, gender, functional expertise, and education (Riordan and Wayne, 2008). Here, we will use cultural distance and intra-country cultural diversity as an example; however, most of our views are applicable to other types of distance and diversity. We define intra-country diversity at the national level as the representation in one nation of people who hold different cultural values and norms, while still united by their citizenship in a particular nation state. This conceptualization allows us to build on a number of established theories including diversity theory (Thatcher and Patel, 2012; Van Knippenberg and Schippers, 2007; Williams and O'Reilly, 1998), the concept of faultlines (Lau and Murnighan, 1998), and the work on cultural tightness/looseness (Gelfand et al., 2006, 2011).

Intra-country diversity is naturally related to the notion of faultlines. The concept of faultlines initially introduced in the literature on team diversity (Thatcher and Patel, 2012; Van Knippenberg and Schippers, 2007; Williams and O'Reilly, 1998) is applicable to any social entity that exhibits characteristics of diversity including whole societies. Faultlines are defined as hypothetical dividing lines that may split a group into clusters based on one or more attributes (Lau and Murnighan, 1998, p. 328). Most organizational behaviour diversity research on faultlines is based on gender, race, age and functional background (Joshi and Roh, 2009; Thatcher and Patel, 2012), although scholars have also explored faultlines resulting from differences in non-demographic personality traits (e.g., Molleman, 2005) and local versus global identity (Lee et al., 2018). This literature helps our theorizing on intra-country diversity, specifically questions like whether faultlines occur, where they are drawn, and how they affect social dynamics (Lau and Murnighan, 1998; Thatcher and Patel, 2012). For cultural diversity, faultlines result from differences in cultural values held by distinct subgroups within the same society (Zanutto et al., 2010).

The study of intra-country cultural diversity can also be informed by the work on national cultural tightness-looseness (Gelfand et al., 2006, 2011; Roos et al., 2015). Tight cultures (e.g., Japan) have strong social norms and a low tolerance for deviant behaviours while loose cultures (e.g., USA) have lenient practices and low conformity pressures.

Tight versus loose national cultures manifest themselves in strong versus weak every-day situations. 'Strong situations have a more restricted range of appropriate behavior, have high censuring potential, and leave little room for individual discretion. Weak situations place few external constraints on individuals, afford a wide range of behavioral options, and leave much room for individual discretion' (Gelfand et al., 2011, p. 1101). Theoretically, this literature can help us link intra-country cultural diversity to the presence and strength of cultural effects in a given society (Chua et al., 2015). Generally, homogeneous cultures (low intra-country cultural diversity) will tend to be tighter while heterogeneous cultures are more likely to be loose, and therefore, the cultural effects will be stronger in homogeneous cultures while possibly dissipating in very diverse (loose) cultures.

Degree of Intra-Country Cultural Diversity

Intra-country cultural diversity is not a binary construct but ranges from low to high. The degree of diversity is an important defining characteristic of the cultural profile of a given nation. It impacts a number of societal outcomes including state formation, the functioning of democracies, generalized trust, institutional effectiveness, and economic performance (Algan and Cahuc, 2010; Beugelsdijk and Klasing, 2016; Flora, 1999; LaPorta et al., 1999; Putnam et al., 1993). Culturally homogeneous societies tend to have well-specified boundaries and a population unified by shared values, while culturally diverse countries have less clearly defined boundaries and less cohesive populations, and even civil conflict in extreme cases of polarization (Desmet et al., 2017).

Both full homogeneity (all individuals share the same set of values) and full heterogeneity (each individual has a unique set of values) are not likely to exist. Absolute homogeneity is unlikely because individual values are the result of complex influences reflective of the idiosyncratic circumstances in which each individual is raised and socialized (Hofstede, 2001; Inglehart and Baker, 2000). Absolute heterogeneity is not likely either because of the processes of grouping and structuration (Giddens, 1984; Tajfel, 1981, 2010). Structuration occurs as a result of homophily whereby people tend to choose similar individuals as interaction partners, and in the process, they become even more similar (Byrne, 1971).

Pattern of Intra-Country Cultural Diversity

Although structuration always leads to some clustering, the extent to which distinct (cultural) subgroups will emerge in a given society varies across countries (Flache and Macy, 2011a, 2011b; Klemm et al., 2005). In some countries, clustering will be relatively low, resulting in less pronounced groupings of individuals, while in others, clusters will be more prevalent and distinct, forming clear subgroups. Accordingly, we propose two patterns of intra-country diversity – diffuse and clustered. Understanding the pattern of diversity in addition to its degree, could provide further insights into the cultural makeup of a country.

Countries exhibiting a diffuse diversity pattern have less faultlines and are relatively loose in Gelfand's terms (2006, 2011). In such settings individuals do not necessarily share the same values and if they do, they vary widely with regard to the centrality of

certain values to them. As a result, social norms are fewer and relatively weak as there is no absolute 'yardstick' to conform to. These are the most culturally heterogeneous countries. In the extreme case, national culture would be difficult to describe, define, articulate; hence, it becomes less relevant as an explanatory variable for behaviour. In contrast, clustered (cultural) diversity means that distinct groupings form within the national borders, each with its set of shared values and beliefs. Consistent with Harrison and Klein's (2007) typology of diversity in social groups, countries with clustered cultures differ based on separation (i.e., how far apart the cultural subgroups are) and disparity (i.e., the relative size and power of the different cultural subgroups).

Both separation and disparity create faultlines in clustered societies. Greater separation between cultural clusters imply different (and possibly opposing) values of the individuals from these clusters and lead to distinct social identities and well pronounced faultlines with potential for conflict based on in-group / out-group categorization. A larger distance between clusters means less sharedness of cultural values and norms, and consequently, a looser culture at the national level. If there is cultural tightness in such societies, it is likely to occur at the cluster level. Compared to the diffuse scenario, which is also loose at the national level, clustered cultures are likely to exhibit conflict and contestation between competing sets of cultural values.

Disparity between cultural clusters in a society means that some subgroups are larger than others. The values held by the larger groups are likely to dominate the overall values in the country. Such asymmetry results in stratification based on power and position between the cultural subgroups (Blau, 1977; Brickson, 2000; Durkheim, 1933). Since minorities have a greater need for affiliation and solidarity, they exhibit stronger self-categorization and identification with their group (Simon, 1992) and tend to favour subgroup over higher-level identification (O'Leary and Mortensen, 2009). In the presence of minorities, majorities too show a tendency to exaggerate within-group cohesion and between-group differences (Tajfel and Wilkes, 1963). Therefore, just like separation, disparity also leads to in-group / out-group categorizations and results in pronounced faultlines between the cultural clusters. Then, what may seem to be a national set of values and norms might in fact have been imposed by a cultural majority and be different from the culture of minority clusters.

THEORETICALLY INTEGRATING DIVERSITY INTO DISTANCE RESEARCH

Here, we illustrate how intra-country diversity can be incorporated theoretically into distance research through two widely studied topics in MNC management – legitimacy and liability of foreignness and cross-border transfer of practices, both of which have been linked to distance. For each, we discuss how the condition of intra-country diversity may modify the current theoretical models.

Legitimacy and Liability of Foreignness

Liability of foreignness (LOF) is defined as 'all additional costs a firm operating in a market overseas incurs that a local firm does not incur' (Zaheer, 1995, p. 343), also referred

to as the costs associated with being a stranger in a strange land. Liability of foreignness originates from various sources including MNC's limited knowledge and understanding of the local environment, discrimination by the host country government and nationals, and work style differences rooted in different national cultures of the home and host countries (DiMaggio, 1997; Verbeke et al., 2019; Zaheer, 1995). Foreignness leads to legitimacy challenges (Kostova and Zaheer, 1999) and increases the costs of doing business abroad (Slangen and Hennart, 2008). It is difficult for foreign firms to understand the host country institutional templates and to adopt legitimizing practices and structures (Salomon and Wu, 2012; Wu and Salomon, 2016). Host country legitimating actors have difficulty understanding and accepting the foreign firm (Kostova and Zaheer, 1999; Wu and Salomon, 2017).

Intra-country diversity can be argued to affect liability of foreignness and legitimacy challenges directly. The salience of foreignness and the severity of the legitimacy problem depend on the degree and pattern of the host country's intra-country diversity. They will be high in homogeneous and tight host cultures with strong social norms and enforcement mechanisms and low tolerance for non-conformity (Gelfand et al., 2006, 2011). As diversity increases, the distinctiveness of institutionalized patterns and the pressures for isomorphism decrease. Societies become more loose and accommodating of diversity. This is especially true for countries with a diffuse diversity pattern which are less likely to notice foreignness, to be concerned with the associated differences, and to discriminate against foreign entities. Therefore, MNCs will be less likely to experience liability of foreignness and legitimacy challenges. Clustered intra-country diversity cultures essentially represent a collection of homogeneous subcultures in one country; thus, the arguments for homogeneous cultures above would apply here as well, only at the level of the subculture. There is a key difference, however, between clustered and homogeneous cultures. In the clustered scenario, MNCs have a choice of which subculture to associate with through their locational decisions; some clusters might be culturally closer to the home country than others (e.g., segmentation strategy in marketing, Broderick et al., 2007; Ter Hofstede et al., 1999). To summarize:

> *Proposition 1*: The degree and pattern of host country intra-country diversity will affect MNC's liability of foreignness and legitimacy challenges. Specifically:
>
> *P1a*. The degree of host country intra-country diversity is negatively associated with MNC's liability of foreignness and legitimacy challenges.
>
> *P1b*. Diffuse host country cultures are associated with the lowest liability of foreignness and legitimacy challenges for MNCs.
>
> *P1c*. In clustered host country cultures, the MNC location strategy moderates the negative relationship between degree of intra-country diversity and liability of foreignness and legitimacy challenges.

Transfer of Organizational Practices

Internal cross-border transfer of organizational practices is critical for MNCs as it allows leveraging the knowledge and expertise they develop across markets (Kostova and Roth,

2002). The success of practice transfer depends on certain organizational as well as contextual factors including the socio-cultural and institutional environment in the host and home countries (Kostova, 1999). First, host country pressures on MNCs to adopt locally legitimate practices vary based on the extent to which such practices are clearly established. Some countries have strong traditions regarding certain practices, while others have less established and standardized ways of conducting different tasks. Countries also differ in the extent to which they pressure MNCs to adopt established practices; some are more coercive than others. Second, transfer success also depends on the distance between the home and host country (Kostova, 1999). Large distances present barriers to transfer because it is more difficult to make sense of local practices and to integrate them with the existing arrangements in the MNC. The tension between internal pressures from headquarters and external pressures from the host country constitute a major challenge in practice transfer and adoption by MNC subunits (Kostova and Roth, 2002; Kostova and Zaheer, 1999).

The degree and pattern of intra-country diversity further affects these processes. More homogeneous countries are likely to have well defined and institutionalized practices and strong social pressures on companies to follow them (Ghoshal and Bartlett, 1990). As different as such host country practices might be, at least there is a clear understanding of what is legitimate and culturally expected. In contrast, heterogeneity implies a variety of patterns of conducting different tasks and weaker pressures for isomorphism (Gelfand et al., 2006; Shin et al., 2017). In such countries, it is challenging to figure out what the expectations are, but at the same time this is not so critical for legitimacy and survival due to the looseness of the culture. Such ambiguity requires additional cognitive efforts to analyse and make sense of the environment, strategize on what needs to be adapted and to what extent, and maintain a discourse internally and externally to shape mutual perceptions about cultural differences and appropriateness (Moore, 2011; Salk and Brannen, 2000; Shenkar et al., 2008).

Transfer success will also be affected by the nature of the home country intra-country diversity. Homogeneous home environments mean more strict practices at the MNC parent organization, stronger internal isomorphic pressures on subunits and less willingness to allow for local adaptation and adoption of legitimate practices in the host country (Shin et al., 2017). Conversely, highly diverse home countries are likely to have less distinct institutionally derived practices and structures in the parent company and, therefore, more discretion for subsidiaries to consider adoption of templates from the host country. Combining home and host country diversity conditions will determine the actual balance between internal and external pressures and ultimately the outcome with regard to practice transfer (see Chua et al., 2015). For example, low diversity in both home and host countries are likely to create the biggest tension between internal and external pressures on the subsidiary, especially when the distance between the two countries is high (Shin et al., 2017). High diversity in both countries presents less tension between the two sides. This creates ambiguity with regard to the appropriate practices and gives subsidiary managers a lot of discretion and agency to decide which practices to adopt. A possible by-product of that scenario is that the adoption is likely to be motivated by efficiency and less by legitimacy and coercion, which in turn may lead to better performance outcomes.

Proposition 2: The degree and pattern of home and host countries intra-country diversity will affect the success of transfer of parent company organizational practices to subsidiaries in MNCs. Specifically:

P2a. The degree of home country diversity is negatively related to internal isomorphic pressures for practice transfer to subsidiaries.

P2b. The degree of host country diversity is positively related to transfer success.

P2c. Low diversity in both home and host countries will result in the highest tension between internal and external isomorphic pressures on subsidiaries leading to most difficult transfers.

P2d. High diversity in both home and host countries will present low internal and external isomorphic pressures on subsidiaries leading to substantial discretion and agency at subsidiary level with regard to practice transfer and adoption.

Although it is impossible to present a comprehensive account of all theoretical implications of diversity, these examples illustrate how one could incorporate the diversity construct to develop novel theoretical ideas and improve model specification in distance research.

EMPIRICALLY ACCOUNTING FOR DIVERSITY IN DISTANCE RESEARCH

Like all previous critiques of distance research around the homogeneity assumption, Lumineau, Hanisch, and Wurtz' do not provide clear empirical solutions of how to account for intra-country diversity. We propose a concrete methodology for incorporating diversity in measuring cross-national distance. We use cultural distance to illustrate our approach, but it can be extended to other relevant types of distance.

Typically, cultural distance is measured through indices capturing the cumulative difference across multiple cultural dimensions (be it Hofstede-based or Schwartz-based or GLOBE-based). The most widely used approach is the Hofstede-based Euclidean cultural distance index (Kogut and Singh, 1988) recently complemented with the Mahalanobis method (Berry et al., 2010; Mahalanobis, 1936). Both approaches assume intra-country cultural homogeneity (Beugelsdijk et al., 2018b).

Cultural Overlap Index

We propose a different approach moving away from comparing mean country scores on culture dimensions and toward a comparison of the entire distribution of culture values in two countries. The mean scores as well as the degree and pattern of diversity should all be considered when comparing countries. Specifically, we suggest using a cultural overlap index. This index measures cultural similarity, however, it is not simply the inverse of cultural distance; it incorporates a measure of intra-country diversity in addition to mean scores of cultural values in two countries.

Figure 1a–c present a graphical illustration of the two approaches – a traditional mean-based cultural distance measure and our proposed overlap measure. The figures show hypothetical distribution of cultural values for two countries under three different scenarios. The mean scores in both countries are the same in all three scenarios, yielding the same distance score of 2. The three figures, however, differ with regard to intra-country diversity. Figure 1a assumes intra-country homogeneity. In this case, a mean-based measure properly captures cultural distance. The situations depicted in Figure 1b and c imply intra country diversity. Diversity in country A is the same in both scenarios but diversity in country B is different – low in 1b and high in 1c. While the traditional cultural distance index stays the same in all three scenarios (score of 2), the overlap (and implicitly distance) varies due to the different distribution of values in the two countries.

Methodology

Calculating country overlap requires individual level data on cultural values, which may present a serious research challenge. Out of the three national culture frameworks commonly used in IB/IM – Hofstede (2001), Schwartz (1994, 1999), and GLOBE (House et al., 2004), the individual level data are only available for Schwartz through the Israeli Science Foundation (approximately 75,000 individuals in 71 countries). Hofstede individual-level data are destroyed. GLOBE does provide the mean, standard deviation, and sample size for each of the national cultural value dimensions but not all of its data are publicly available. An alternative source of data is the World and European Values Survey (WVS-EVS), which provides access to longitudinal individual-level data on norms, values and beliefs in more than 100 countries (World Values Survey, European Values Studies).[1] For our calculations of country overlap scores, we rely on Schwartz and GLOBE data as well as the WVS-EVS based replicated Hofstede scores (Beugelsdijk et al., 2015) as a substitute for the original Hofstede data.

Our overlap measure is derived from Cohen's *d*, a frequently used measure of statistical power (Cohen, 1988; Matsumoto et al., 2011). Technical details on this measure are provided in the Appendix. The overlap index ranges from 0 to 100 and unlike the traditional cultural distance index allows absolute interpretations. There are other methods for calculating overlap depending on the nature of the distribution (Anderson et al., 2010), but we use Cohen's *d* as an example – to show that diversity can be incorporated in measures of cross-national distance.

Cultural Overlap Scores

Table I presents bilateral cultural overlap scores for the three culture frameworks. The results show clear face validity; for example, the overlap score is 92 per cent between USA and Canada, but only 62 per cent between USA and China. They also reveal an interesting insight – that cultural values around the world may not be as divergent as implied by the distance narrative. Regardless of the particular framework used, the country overlap index in our study ranged between 40 and 94 per cent with a global average of approximately 70 per cent (73 per cent for Hofstede-replicated, 70 per cent for Schwartz, and 66 per cent for GLOBE). The overlap is even higher among countries from the same cultural cluster, for example it is 90 per cent in the Germanic cluster, 85 per cent in the
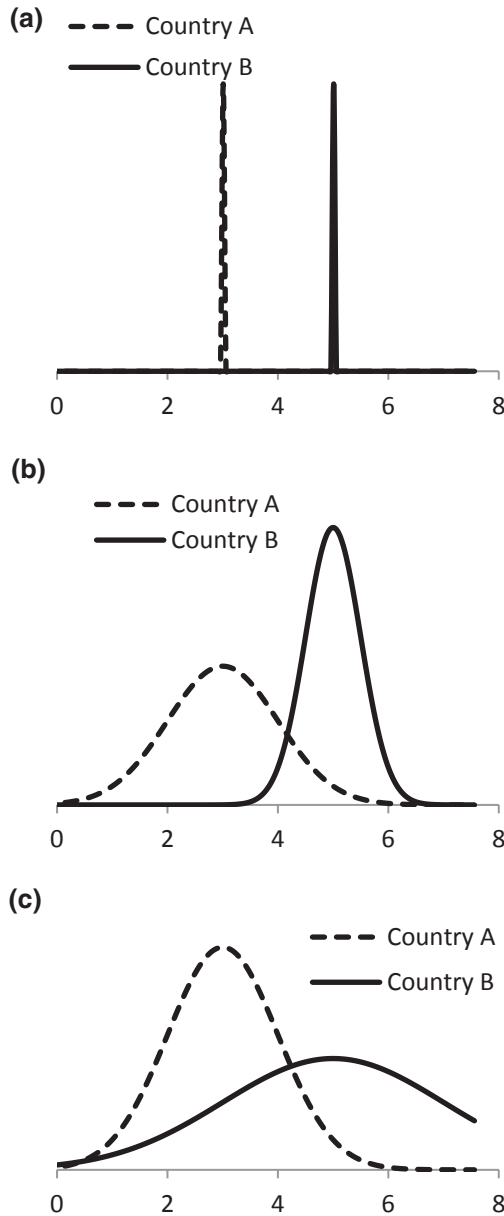
Figure 1. Illustrating the Difference between Cultural Overlap and Cultural Distance. (a) assuming homogeneity; cultural distance is 2, no cultural overlap. (b) assuming non-homogeneity: cultural distance is 2, cultural overlap is small. (c) assuming non-homogeneity: cultural distance is 2, cultural overlap is large

Anglo-Saxon cluster, and 83 per cent in the Latin American cluster. The question of what this found similarity means for culture and distance research is beyond the scope of our essay; however, we would note that it is consistent with previous work pointing to the higher within-country than between-country variation in cultural values (Fischer and Schwartz, 2011; Schwartz, 2014; Taras et al., 2016). We believe that the overlap index

Table I. Cultural overlap percentage scores (US as the home country)

Cultural Zone (Ronen and Shenkar, 2013)	Cultural Overlap Index Schwartz	Cultural Overlap Index GLOBE	Cultural Overlap Index Beugelsdijk et al' WVS-EVS Based Hofstede Replication
Anglo-Saxon	80 (5)	81 (5)	88 (5)
Nordic	71 (5)	69 (4)	77 (6)
Latin America	80 (6)	60 (8)	73 (13)
Eastern Europe	75 (14)	70 (7)	71 (22)
Far East	70 (11)	62 (7)	68 (11)

Note: The numbers in each row are not directly comparable as the samples of countries for which the overlap index can be calculated differs between cultural frameworks. Number of countries in each cultural zone is included in parentheses. The bilateral Overlap Index scores are available for all countries upon request.

is a reliable (inverse) measure of cross-country cultural distance that accounts for the diversity condition. It can be used as a stand-alone, or at a minimum, as an alternative measure of cultural distance to corroborate results based on traditional cultural distance indices.

ACTIONABLE GUIDELINES FOR INCORPORATING DIVERSITY INTO DISTANCE RESEARCH

Lumineau et al. (2021) proposed 3 × 3 framework summarizing a typology of diversity conditions underscores the multi-dimensional complexities in comparing countries. However, it falls short on equipping scholars with practical recommendations on *how to* approach distance-related studies. To address this need, we build on our expose above and offer several actionable guidelines. Specifically, we discuss whether intra-country diversity should be considered and integrated theoretically and empirically, and if so, what are the most suitable ways to do that. While this is not an exhaustive list, it provides some helpful insights. Based on the intra-country diversity conditions, we envision three possible scenarios.

First, some research settings may involve countries characterized by sufficiently homogeneous contextual conditions. In that case, it would not be necessary to consider the diversity construct in the theoretical model and it would be safe to attribute the empirical findings on contextual effects to the country. However, before deciding on this, researchers should ensure that the homogeneity assumption is in place. Testing for homogeneity is generally missing from the traditional distance literature. Under this scenario, using traditional distance explanations and measures is a valid approach but only after providing evidence of sufficient homogeneity.

The second scenario is when the homogeneity condition is violated but theoretically incorporated and empirically controlled for in the study. In this essay, we provided a set of guidelines for this case. We showed how intra-country diversity could be employed as a theoretical construct into models of interest to improve their validity and rigor. We

illustrated this approach for legitimacy and liability of foreignness (Kostova and Zaheer, 1999; Wu and Salomon, 2016, 2017; Zaheer, 1995; Zhou and Guillén, 2016), and transfer of organizational practices (Kostova, 1999; Kostova and Roth, 2002). For both, we showed how the degree and pattern of intra-country diversity could impact relevant outcomes. We believe our approach can serve as a template for incorporating intra-country diversity in a broader set of research questions.

Finally, a third theoretically possible scenario is when it is inappropriate to use national level scores as input in theorizing on and measuring the effects of distance as a result of extreme intra-country diversity or a diffuse diversity pattern. Under such circumstances it might be impossible to sufficiently account for intra-country diversity in a meaningful way and researchers should refrain from distance-based explanations for the phenomenon under study. Such a scenario clearly shows the limits of the distance construct and if ignored, would lead to the very serious problems highlighted by Tung and Verbeke (2010), Shenkar (2001) as well as Lumineau, Hanisch, and Wurtz' essay. Cross-national distance in this case cannot be part of the contextual explanation, even though country-level effects might be present, for example because of a clustered pattern of intra-country diversity (in which case the relevant distance is at the cluster level). But as these scenarios highlight, the presence of diversity does not mean that the distance construct as such becomes irrelevant.

In summary, we would recommend analysing the degree and pattern of intra-country diversity before deciding on the research approach to studying cross-country differences. The specific diversity conditions would determine the appropriate level of analysis (e.g., country vs. sub-region vs. relevant societal segment), theoretical adjustments necessary for the main model, and the use of diversity-based (cultural) overlap indices vs traditional (cultural) distance indices. These steps would improve the rigor and relevance of IB/IM research.

CONCLUSION

In this essay, we responded to Lumineau et al. (2021) forceful argument that distance research should recognize and find ways to deal with intra-country heterogeneity. We agree with this point. We also agree that the construct of diversity applied to the national context is a useful avenue that could bring some fresh ideas of how to achieve these goals. We believe, however, that Lumineau, Hanisch, and Wurtz's approach falls short in two critical areas. First, their contribution is a bit too general, abstract, and underdeveloped, and as such, does not provide sufficiently clear and useful guidelines for improving research. In our counterpoint essay, we have offered what we believe is a more refined and actionable approach.

We began with the argument that the distance construct is conceptually at the national level (i.e., country dyad level) and this is the appropriate level for theorizing, even when intra-country diversity is taken into consideration. We also suggested that diversity could be a relevant condition for other (non-cultural) types of cross-national distance studied in IB/IM (e.g., institutional, psychic). Then, we proceeded by presenting a theoretical foundation for this approach – reconceptualizing diversity in the context of national differences, specifying its dimensions of degree and pattern, and describing how they might

affect distance studies. We illustrated how the construct of intra-country diversity can be used for rigorous theory building on distance effects with the examples of liability of foreignness and practice transfer. We also provided a measurement methodology and data on diversity-based cross-country overlap index that could be used in place of traditional distance measures. Finally, we offered practical heuristics of how scholars should decide on which approach to use when they study cross-country differences.

Our second, and perhaps more important concern emanates from the Lumineau, Hanisch, and Wurtz's overall thesis in which they advocate for the wholesale substitution of diversity for distance in cross-national research. We strongly oppose this idea. While it may have some limitations, distance scholarship has offered important theoretical and empirical contributions to IB/IM research over the past five decades (Berry et al., 2010; Maseland et al., 2018; Shenkar, 2001) and has produced a number of useful findings on MNC internationalization, strategy, and management (Beugelsdijk et al., 2018a; Kostova et al., 2020). Jettisoning the distance construct and replacing it with the diversity construct as proposed by Lumineau et al. (2021) is extreme and unnecessary. The authors are right that such a plethora of domain specific new constructs and indices for individual, organizational, and institutional levels might lead to more comprehensive and precise operationalizations. But this comes at a very high price – the price of consistency, parsimony, continuity, and comparability between studies (Beugelsdijk et al., 2020). Our approach of building on existing distance research and perfecting it further by integrating diversity within established distance frameworks is more constructive. We should not be advocating for removing distance from the toolkit of IB/IM scholars. Table II summarizes the main differences between the Point and the Counterpoint essays.

We conclude with several thoughts that underscore the lasting interest in the notion of distance and the need to continue to develop this work. One central question concerns the importance of distance as a reality and an area of research – is it still relevant and critical for scholars to be focusing on differences, as it was for Johanson and Vahlne (1977) in their work on psychic distance in the 1970s or Kogut and Singh (1988) who introduced cultural distance in the 1980s? One could suggest that distance is losing its salience in international business given the truly globalized world. In fact, our own results show that cross-country cultural overlap averages 70 per cent and can go up to 90 per cent for countries from the same cultural cluster. But at the same time, this 90 per cent overlap might be misleading when it comes to national identity (Anderson, 1983; Norris and Inglehart, 2019), the socio-emotional meaning of feeling different – American, British or Australian (even though these countries belong to the same cluster). As Beugelsdijk and Mudambi (2013) suggest, it is instructive to distinguish between continuous and discrete notions of cross-country differences to capture what they call 'qualitative disjunctures in space'. The psychological meaning of belonging to a group, in this case a country, results in such a qualitative disjuncture based on the 'us versus them' categorization (Peterson et al., 2018; Stahl et al., 2010).

Distance research in our view has not caught up with these realities. Especially in the context of recent anti-globalization, nationalism, and polarization, scholars need to find ways to consider not only the objective differences between countries based on cultural, institutional and other indicators, but also the psychological underpinnings of perceived discrete distinctiveness and difference between social groups like nations or

Table II. Main differences between point and counterpoint

	Point essay	Counterpoint essay
1.	Drop distance as a single 'umbrella' construct and move towards differences of various types and multiple levels	Build on the rich distance literature to accommodate the diversity condition – theoretically and empirically – without throwing out the distance construct
2.	Apply a standardized notion of diversity across various types of cross-national distance	Consider the meaning of diversity for different types of cross-national distance and apply accordingly to incorporate the diversity condition
3.	Conceptualize diversity and differences (as opposed to distance) at the individual, organizational, and institutional levels of analysis. Employ various theories for each level of analysis	Stay true to the definition of distance exclusively at the country level. Adding and mixing other levels of analysis and types of diversity dilutes the construct and its meaning in IB/IM research
4.	Shift from considerations of cross-national distance to consideration of the three types of diversity (separation, variety and disparity). Employ various theories for each type of diversity	Employ the construct of intra-country diversity. Leverage diversity theory (separation, variety, disparity) by incorporating the notion of faultlines and tight-loose societies in distance theory. Provide examples of theorizing along these lines
5.	Use different operationalizations and measures depending on the particular combination of type of diversity (separation, variety, disparity) and level of analysis (individual, organizational, institutional)	Utilize the Country Overlap Index to measure cross-country distance while accounting for the intra-country diversity in the two countries

entities within a society, which can further exacerbate differences and lead to fragmentation and conflict both between and within nations. Our discussion of intra-country diversity, diversity levels and patterns, and particularly the theory of faultlines can be very relevant in these endeavours. Extending distance research in this direction might be a very promising future area of research. For now, we are offering an actionable framework and practical recommendations for incorporating intra-country diversity into distance research for more impactful and reliable contributions.

NOTE

[1] The WVS-EVS framework has a long history in social sciences (relating to General Social Survey and Rokeach) and builds on established constructs such as political ideology (Jost et al., 2009; Tomkins, 1963), morally debatable behaviour (Crissman, 1942; Harding and Phillips, 1986; Katz et al., 1994), and social capital and trust (Paxton, 1999); though increasing, it is not as intensely used in national culture research as Hofstede and GLOBE.

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APPENDIX

OVERLAP INDEX

Cohen's *d* is expressed as follows:

$$d = \frac{\bar{x}_{home} - \bar{x}_{host}}{s}$$

where

$$s = \sqrt{\frac{(n_{home} - 1)\, s.d._{home}^2 + (n_{host} - 1)\, s.d._{host}^2}{n_{home} + n_{host} - 2}}$$

Cohen defined *d* as the difference in mean scores *x* divided by *s*, the pooled standard deviation for two independent samples. Cohen's *d* is very close to Hedges' *g*, and both are frequently and often interchangeably used as measures of effect size. Hedges' *g* corrects for small samples, but in many cases delivers similar results, especially as sample size increases (McGrath and Meyer, 2006). Cohen's *d* can be used to calculate a measure of distributional overlap by using the estimates of distributional non-overlap associated with values of *d*. A conversion based on an idealized population (see pages 21–22 of Cohen, 1988) presents these estimates in percentage overlap (called U$_1$ by Cohen). The larger the value of Cohen's *d*, the lower the overlap. When *d* is zero, the overlap is 100 percent.

The overlap index has a minimum score of 0 and a maximum overlap score of 100. The idealized population distributions used to calculate the overlap index assume normality in the two distributions. Therefore, the overlap index works particularly well with continuous and normally distributed data. To test for its robustness, we have also calculated a second overlap index derived from Gibson and Vermeulen (2003). This alternative index works well for discrete data that are not necessarily normally distributed. Based on the data we describe below, the correlation between both overlap measures is 0.94 suggesting the overlap index presented here is robust (Further details are available upon request). It is important to emphasize that the proposed overlap index fulfils the required statistical criteria of symmetry, non-negativity, identity and triangle inequality (Dodge, 2006) which are necessary conditions for any index to be called a 'metric'.